

Exhibit K

MEMORANDUM

DATE: April 4, 2017

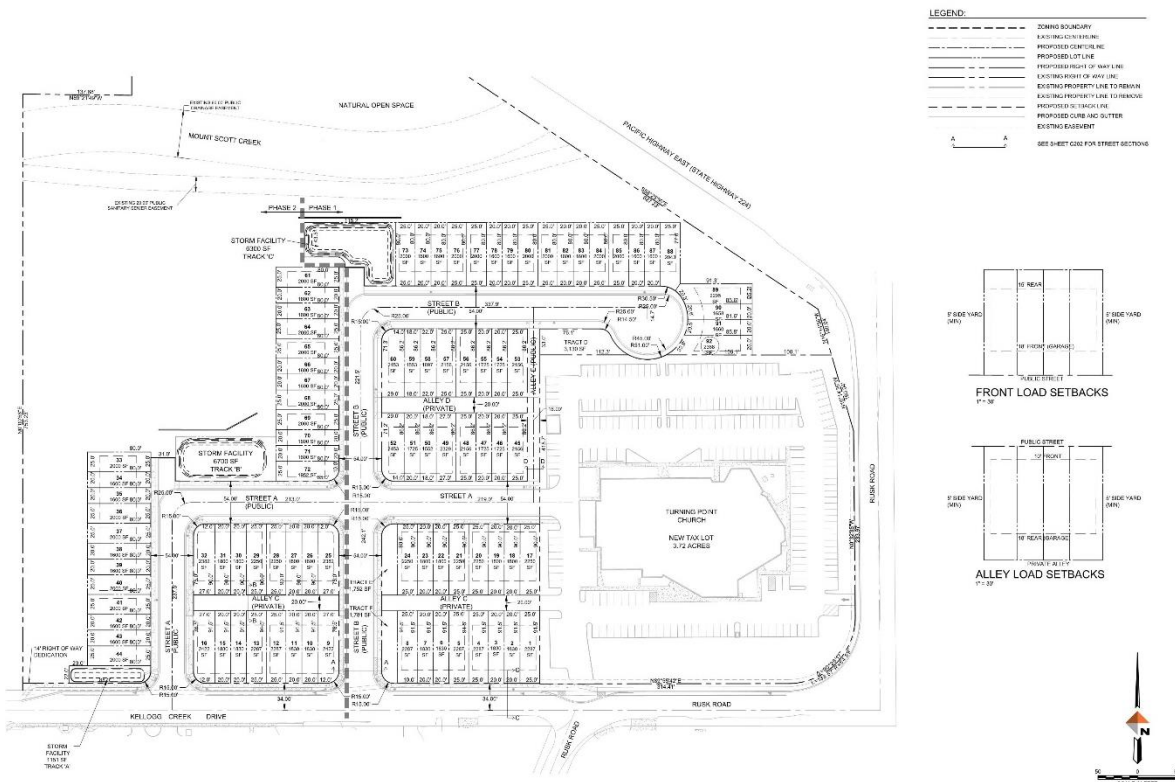
To: Serah Breakstone
DOWL

FROM: Jerry Johnson
JOHNSON ECONOMICS, LLC

SUBJECT: Review of Proposed Development in Context of Milwaukie's Housing Needs Analysis

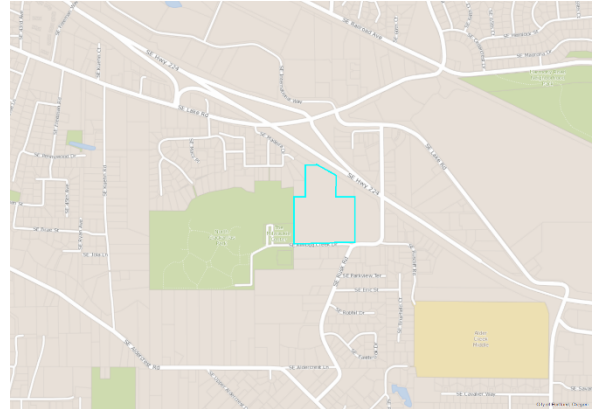
Johnson Economics has been asked to review a proposed 92-unit residential development program in Milwaukie, Oregon. This review addresses the program and the degree to which it is consistent with the findings of the City's Housing Needs Analysis and Strategies reports (August 2016).

The development site is at the intersection of SE Rusk Road and SE Kellogg Creek. Zoning on the site is currently R-10 and R-3.





The location of the site provides excellent access and visibility from Highway 224, as well as access to the North Clackamas Park, Alder Creek Middle School, the Clackamas Aquatic Center, and employment concentrations along Highway 224 and I-205 Corridors. While proximate to single family residential concentrations to the south and west, the site is separated by topography and environmental corridors, limiting the impact on these properties from new development.



The proposed development program would include approximately 92 units, which would be delivered in four rowhouse building modules. The development would include alleys for access into attached garages for approximately half of the units, with the remainder front-loaded. The units are expected to offer three bedrooms and two and a half baths with one car garages. The townhome configuration of the project will allow the development to provide these family friendly units at a price point that would be unobtainable with a lower density detached single family development.

DEMOGRAPHIC AND HOUSING TRENDS

The Housing Needs Analysis (HNA) discussed future housing types, and the increasing role that attached residential forms are expected to play in the metropolitan area's housing market. The region has adopted policies to encourage increased density of land uses within the UGB, as well as to encourage infill and redevelopment over time. As noted in the City's HNA:

The continuing constraints of the UGB, along with the region's planning framework and policies, create an atmosphere in which individual jurisdictions are likely to see an increasing share of attached housing types (from townhomes to large complexes) in order to accommodate projected demand.

In the Portland Metro area, there is evidence that growth and rising housing costs in central Portland is causing spillover effects across the region. Adjacent cities such as Milwaukie now provide an attractive lower-cost alternative for younger households. Milwaukie is an attractive established community, with good transportation connections to other parts of the Metro area.

The millennial generation is emerging as the dominant demographic group impacting entry-level residential housing, similar to what is being proposed. This generation grew up in a time of generally rising economic prosperity in the 1980s and 1990s, but many find themselves at a disadvantage in the current economy. Quality entry-level jobs have been scarce since the recession, while average student debt has risen sharply. Incomes for people younger than 35 have fallen over the last decade, meaning that this generation is starting from behind.

While many millennials currently reside in rental housing in the urban core, they will be less well-positioned to afford central city housing as they change life-stages and seek ownership opportunities and room for families. In the urban core, where many prefer to live, single-family homes will be scarce and expensive. While childless millennials may continue to accept smaller multi-family units in order to remain in their preferred neighborhoods, many will find many urban options either too constrained or too expensive. This is expected to create opportunities for close-



in suburbs. Based on observed trends, this generation appears to be more accepting of living in denser types of housing, such as attached single-family, even with children. Townhomes will likely represent a larger share of for-sale starter homes, as an attached product allows for a lower price point.

The City of Milwaukie has a significant employment base, and is a net-importer of labor from the remainder of the metropolitan area. There are an estimated 12,400 jobs in the city of Milwaukie, and an estimated 9,100 Milwaukie residents in the labor force. As of 2014, the Census estimates that over 11,700 employees commute into the city from elsewhere. This significant commute pattern indicates that locally-employed workers are not finding appropriate housing options within the City.

The general trends identified in the HNA for the City of Milwaukie include:

- As demand increases, prices rise, and remaining land within the UGB is developed, denser forms of development and creative reuse of parcels through infill and redevelopment become more economically viable. This is increasingly the case for developed parts of the Metro area such as Milwaukie, which offer few opportunities for large-scale development of single-family subdivisions.
- Milwaukie is likely to be attractive to 20-something residents seeking relatively affordable living near transportation options and employment centers. Some in this generation are already starting young families and will be well into middle age during the 20-year planning period. More of these households may move from areas like central Portland to communities like Milwaukie for affordable housing, more space, and schools.

HOUSING NEEDS ANALYSIS FINDINGS

The HNA provided a projected profile of future housing demand through 2036. That profile indicated that 68.8% of the projected demand for ownership housing units would be for units priced below \$380,000. This is a price point that is increasingly difficult for developers to hit with a detached residential product, and building for that market will require an expanding role for middle housing products such as townhomes. While the HNA found a significant existing stock of detached single family homes in that price range, recent escalation trends have significantly diminished that stock. Over time, we expect that the City will have very limited opportunities to purchase detached single family housing at affordable price ranges.

As noted in the HNA, the types of housing that Milwaukie and other Metro communities should expect to see going forward will include more attached housing types and increased density overall. This is due to the developed nature of Milwaukie within its current city boundary and limited ability to expand into undeveloped areas. This trend also reflects the region-wide policy to house most future growth within the current UGB.

While the City of Milwaukie has an estimated remaining residential capacity of 2,919 units, only 17.5% of this capacity is on vacant land. The remainder is theoretical redevelopment capacity.

The HNA includes strategies related to realizing the potential of infill and redevelopment site in lower medium density residential zones which are scattered throughout the city. The subject site was identified in the HNA as likely to redevelop. This type of development, often called “infill” development is key to the City of Milwaukie’s ability to meet the housing needs of future residents – people who work and/or want to live in Milwaukie in the future.



SUMMARY

The proposed development is consistent with the observed trends in the residential market, and is expected to deliver a product that is consistent with identified market demand. The subject site is particularly well suited for this type of development, with proximate parks and open space to complement the limited yard space provided in a townhome configuration. We would expect the project to have appeal to a cost-sensitive starter family market, which will value the local amenity mix as well as proximity to employment and commercial services.

The development is requesting a Planned Development approval, which would allow for flexibility to deal with the site and natural resources. The site is split zoned, with portions zoned either R-10 or R-3. The R-10 zoning has a minimum lot size of 10,000 square feet, and would yield few units. Even under a duplex scenario, the zoning would require 14,000 square feet per duplex. The R-3 zoning allows for 3,000 square foot lots sizes, but with the level of natural resource on the site a development would not be able to meet minimum density. As zoned, any development on the site would necessarily be at a price point that would not be responsive to the local demand.

The proposed townhome development would allow for family-oriented unit at a price point that meets identified demand, and can provide workforce housing. It would help realize and expand the City's housing capacity, increasing housing options for local residents as well as locally-employed households.