



East Hayden Island Plan Market Study

October 2007



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1.0 TARGET MARKET ANALYSIS

Based upon the patronage of existing businesses, Hayden Island's location within the region, its competitive assets and proposed redevelopment activity, the Hayden Island Market Area is a 12-mile radius from the I-5/Hayden Island Drive intersection, illustrated on the map below. For comparative purposes, data is presented for the Portland-Vancouver MSA, Hayden Island and the Market Area in the demographic, commercial and residential analyses that follow.

Hayden Island Market Area

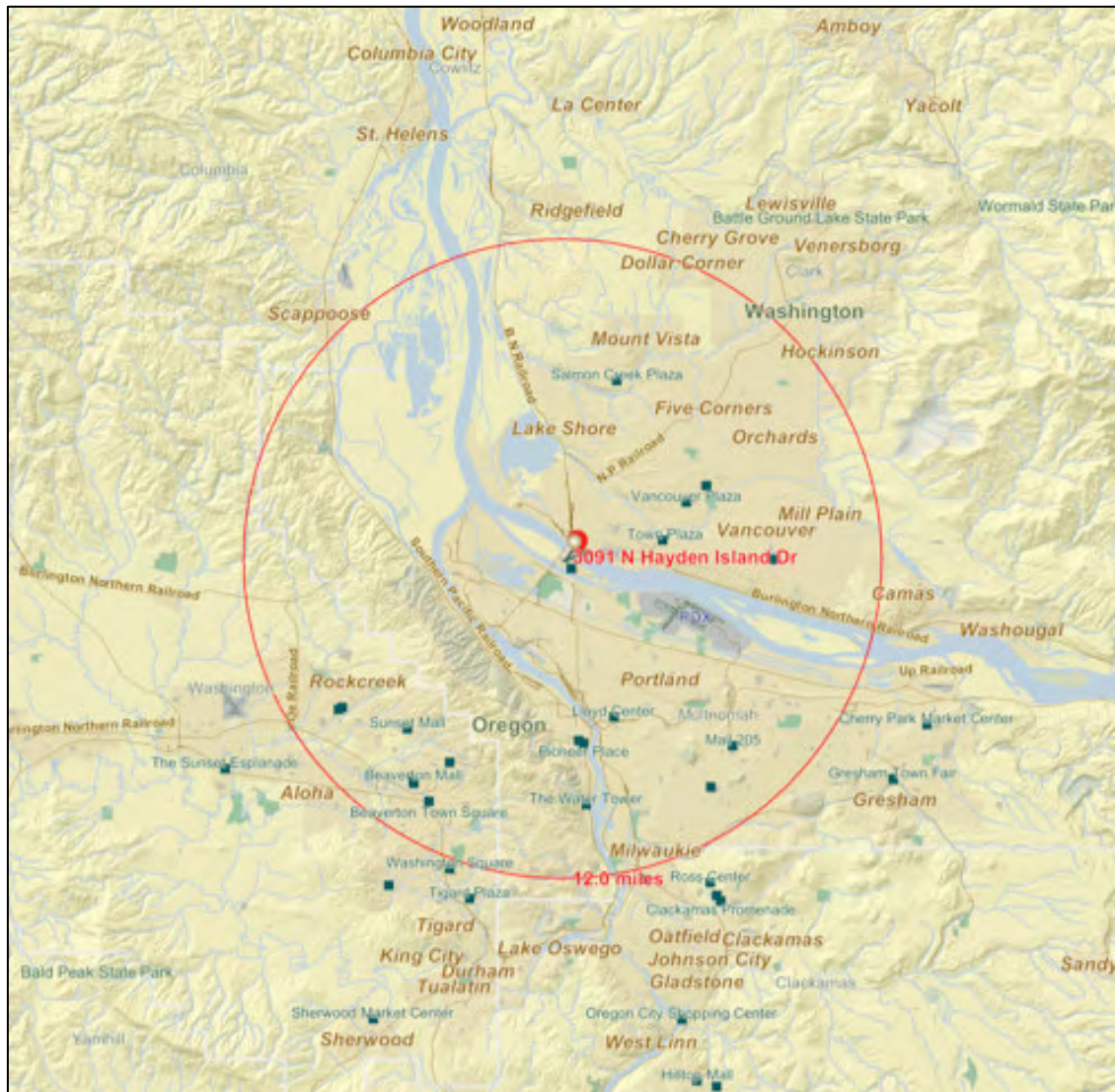
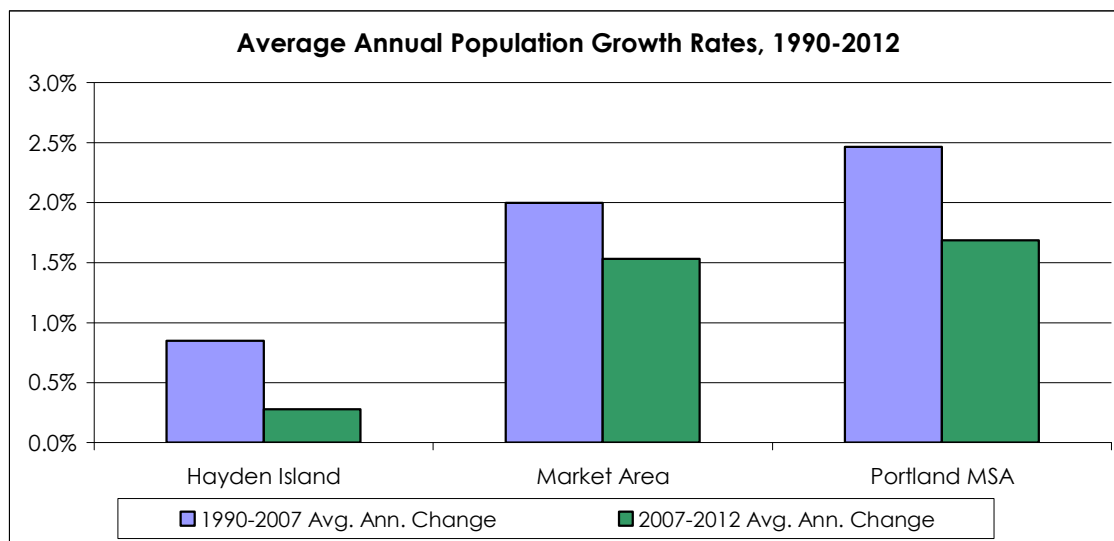


EXHIBIT 1.01 Population

Hayden Island's population of 2,155 (estimated 2007) is projected to grow at a modest rate compared to the larger Market Area and the Portland MSA overall.

Geographic Area	Avg. Ann. Change 1990-2007				Avg. Ann. Change 2007-2012		
	1990	2007 (Estimate)	Number	Percent	2012 (Forecast)	Number	Percent
Hayden Island							
Population	1,883	2,155	16	0.85%	2,185	6	0.28%
Households	1,070	1,241	10	0.94%	1,256	3	0.24%
Avg. Household Size	1.76	1.74			1.74		
Market Area							
Population	779,086	1,043,794	15,571	2.00%	1,123,791	15,999	1.53%
Households	321,657	425,617	6,115	1.90%	456,982	6,273	1.47%
Avg. Household Size	2.38	2.41			2.42		
Portland MSA							
Population	1,523,741	2,162,868	37,596	2.47%	2,345,078	36,442	1.68%
Households	592,507	830,829	14,019	2.37%	899,164	13,667	1.64%
Avg. Household Size	2.53	2.56			2.57		

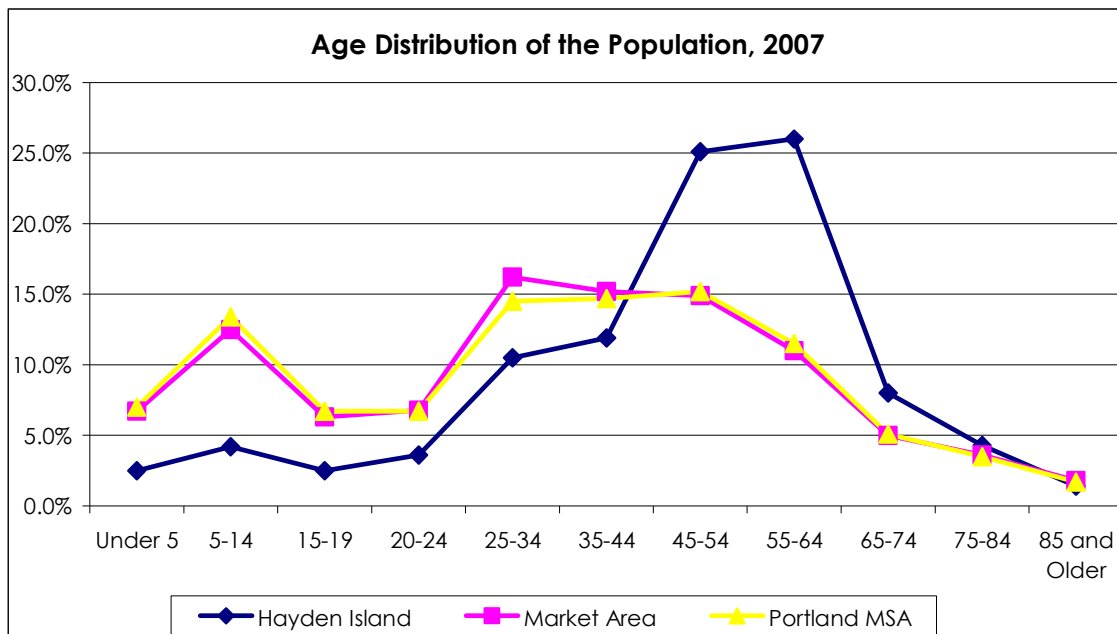


Source: ESRI BIS, Marketek, Inc.

EXHIBIT 1.02
Age

Hayden Island's population is considerably older than the Market Area or MSA's, with a median age of 51.5 years.

Age Category	Hayden Island	Market Area	Portland MSA
Under 5	2.5%	6.7%	7.0%
5-14	4.2%	12.5%	13.4%
15-19	2.5%	6.3%	6.7%
20-24	3.6%	6.8%	6.7%
25-34	10.5%	16.2%	14.5%
35-44	11.9%	15.2%	14.7%
45-54	25.1%	14.9%	15.2%
55-64	26.0%	11.0%	11.5%
65-74	8.0%	5.0%	5.1%
75-84	4.3%	3.6%	3.5%
85 and Older	1.4%	1.8%	1.7%
Total	2,155	1,043,794	2,162,868
Median Age	51.5	35.9	36.2

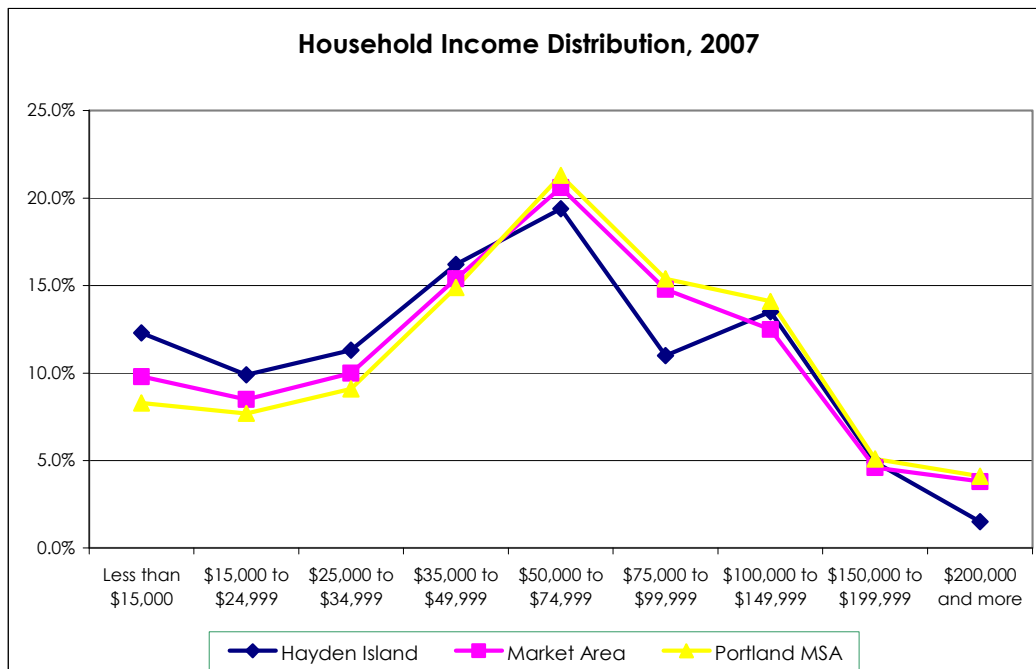


Source: ESRI BIS, Marketek, Inc.

**EXHIBIT 1.03
Median Household Income**

Hayden Island households are less affluent than those of the Market Area and MSA.

Income	Hayden Island	Market Area	Portland MSA
Less than \$15,000	12.3%	9.8%	8.3%
\$15,000 to \$24,999	9.9%	8.5%	7.7%
\$25,000 to \$34,999	11.3%	10.0%	9.1%
\$35,000 to \$49,999	16.2%	15.4%	14.9%
\$50,000 to \$74,999	19.4%	20.6%	21.3%
\$75,000 to \$99,999	11.0%	14.8%	15.4%
\$100,000 to \$149,999	13.5%	12.5%	14.1%
\$150,000 to \$199,999	4.9%	4.6%	5.1%
\$200,000 and more	1.5%	3.8%	4.1%
Total	1,241	425,617	830,829
Median Household Income	\$50,260	\$56,294	\$60,579



Source: ESRI BIS

EXHIBIT 1.04 Lifestyle Characteristics

The lifestyle characteristics of Hayden Island residents reflect the diversity of the population: mid-to-upper income empty nesters and retirees or pre-retirees who enjoy a simple, relatively quiet life. By contrast, the 12-mile Market Area is significantly more varied with over a dozen different lifestyles, only the largest groups represented below.

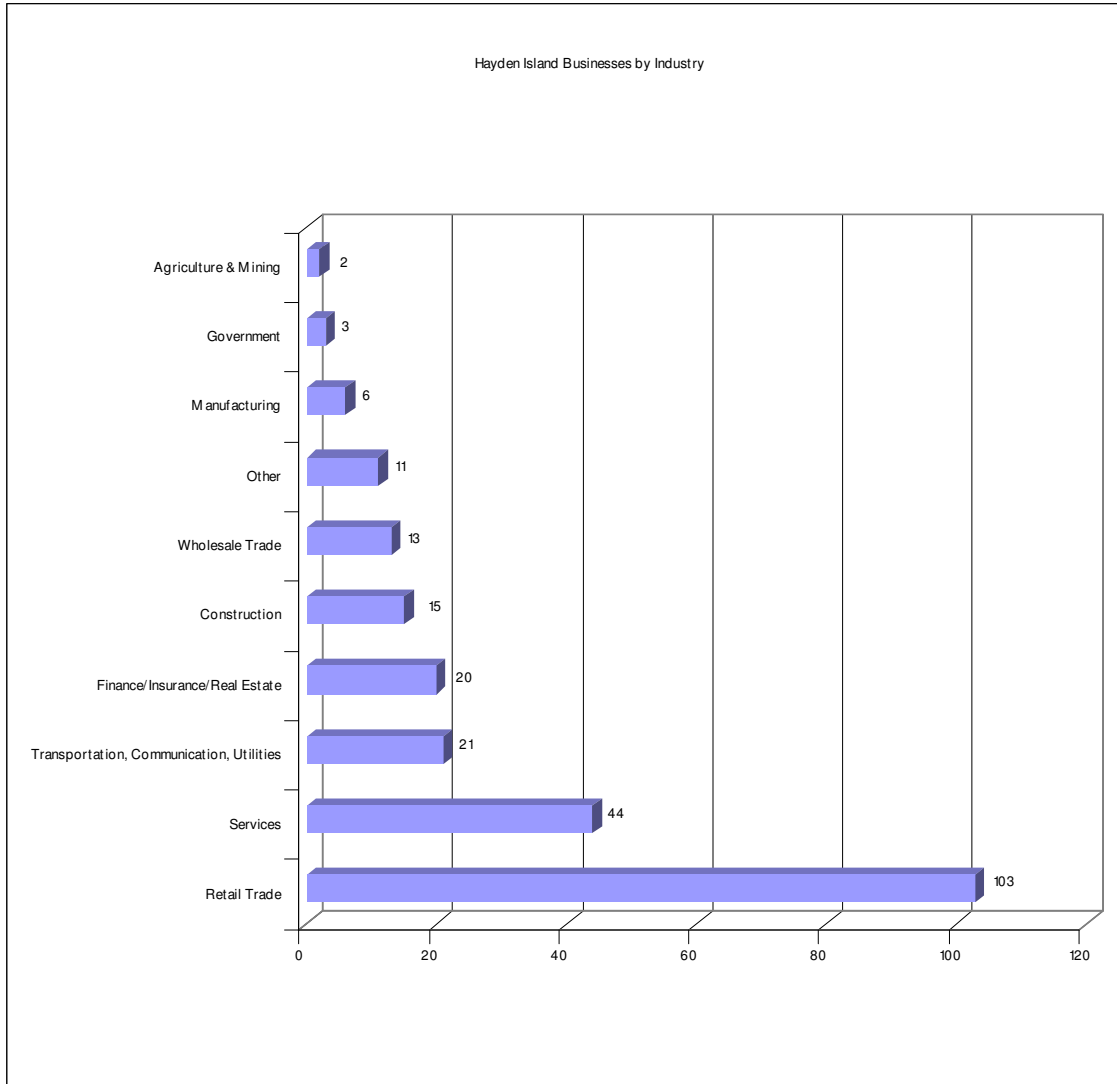
Hayden Island						Consumer Purchases/Preferences
	Market Segment	Percent of Households	Household Type	Median Age	Median Income	
1	Senior Sun Seekers	52.7%	Married couples	51	\$35,300	Retired or facing retirement, these households take car trips and invest time and money in improving their homes. Leisure activities include watching TV, renting videos and DVDs, playing bingo, gambling and fishing.
2	In Style	47.3%	Married couples without children	45	\$67,800	Well-educated professional couples who may live in the suburbs but enjoy the amenities of the city. They travel frequently for business and pleasure, own mutual funds and contribute to 401-K accounts. Enjoy dining out and shopping at stores such as Anne Taylor and Nordstrom.
Total		100.0%				

Hayden Island Market Area						Consumer Purchases/Preferences
	Market Segment	Percent of Households	Household Type	Median Age	Median Income	
1	Main Street, USA	19.1%	Family Mix	36	\$51,200	These fairly well-educated consumers tend to purchase software, savings certificates, home improvement items and prescription medication. Civic-minded, they often attend public meetings and work as volunteers.
2	Old and Newcomers	8.2%	Single Persons/ Shared Households	37	\$40,400	Households are often in transitional mode, either starting careers or retiring. Older members consult with financial planners and are health-conscious. Younger members typically enjoy movies and college football games.
3	Metro Renters	6.9%	Singles	34	\$52,300	A young market whose members spend primarily on themselves. Purchases include ski/workout clothing, designer clothes and imported wine/beer. Favorite stores are Bloomingdales, Banana Republic and Macy's.
4	Metropolitans	6.8%	Married couples/ Singles	37	\$57,600	Singles and childless couples with a busy, urban lifestyle. Do yoga, listen to jazz and visit museums. Travel frequently for business and pleasure.
5	Aspiring Young Families	5.5%	Family Mix	30	\$47,200	Live in start up homes or town homes, nearly half are renters, spend their discretionary income on their children and homes. Enjoy eating out, movies, and playing sports.
Total		46.5%				

Source: ESRI BIS, Marketek, Inc.

EXHIBIT 1.05
Business and Employee Market

An estimated 238 businesses operate on Hayden Island employing 2,952 persons. The retail sector employs the majority of the island workforce, 1,654 or 56%. Employees working on Hayden Island are an important captive market for retail and service businesses, as they come to the island on a daily basis throughout the year and are in close proximity to retail, restaurant and service establishments. Market research conducted by the Building Owners and Managers Association of America demonstrates that office workers (as one segment of the workforce) spend between 10 and 15 percent of their expendable income near their places of work.



Source: ESRI BIS, InfoUSA, Marketek, Inc.

EXHIBIT 1.06 Visitor Market

Attractions near Hayden Island generate significant visitor traffic from throughout the metro area and well beyond as illustrated in attendance figures below. The visitor market is an important contributor to retail, restaurant and service businesses on the island.

Facility/Attraction	Visitor/User Count	Market Characteristics	Needs/Interests
Portland Expo Center 330,000 sq. ft. 100 events/yr 225 event days/yr	500,000 attendees 150,000 exhibitors	25% out of metro area	Transit connectivity Restaurants Adjacent quality hotels
Portland International Raceway 86,000 seats 135 events/yr >400 event days/yr	400,000 spectators 20,000 competitors	23% out of metro area* 3.2 persons/party \$425 spending per visit	
Fort Vancouver Nat'l Historic Site	450,000 visitors	Mixed market: families, couples, regional, national, international	Recreation, history, culture, dining
Hayden Island Marinas	2,932 boat slips** 70% annual occupancy	85-90% metro area 12 visits annually	Convenience goods Restaurants

Source: Marketek, Inc.

*PIR Economic Impact Analysis, 2005

**excluding floating homes

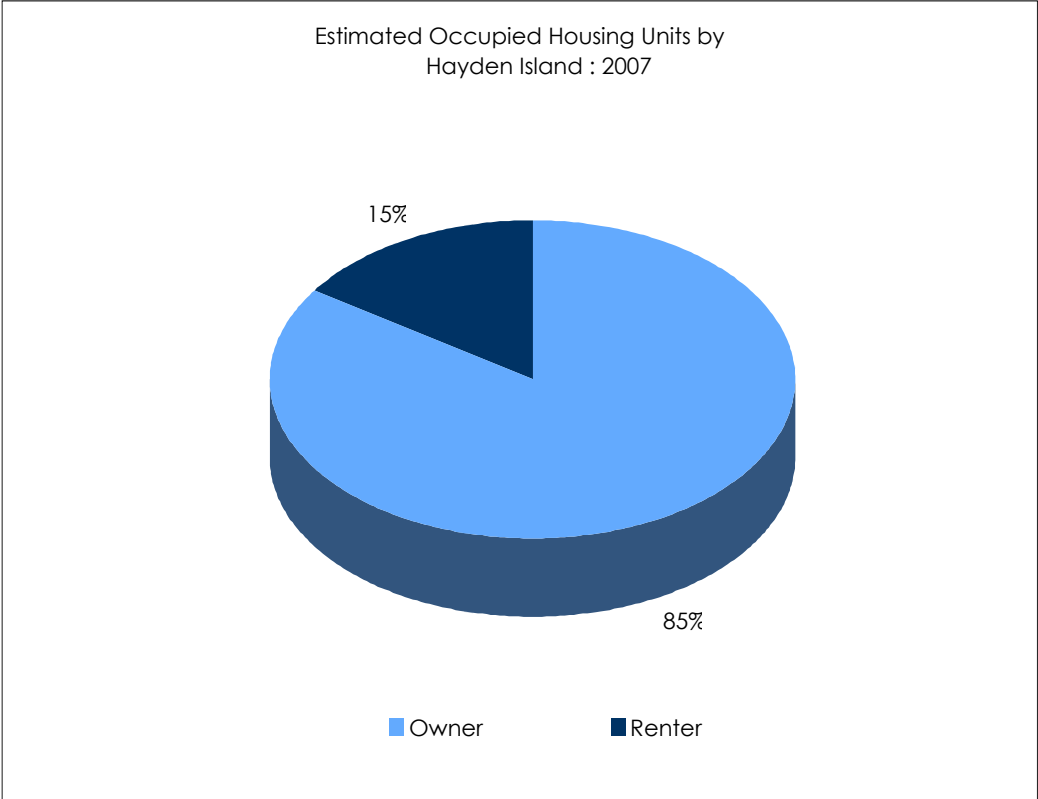
2.0 RESIDENTIAL MARKET ASSESSMENT

What follows is an overview of residential development opportunities and issues, a synopsis of existing housing on Hayden Island and an analysis of potential housing demand over the next decade.

Residential Development	
Opportunities	Issues
Regional accessibility	Family market impeded by price, perception of schools, lack of amenities/parks
Rental properties are noticeably absent	Lack of distinctive neighborhood/community identity
Developers creating/proposing quality investments	Noise overlay limits development locations
Unique waterfront and view locations	Rezoning needed for future development
Attached units selling for below Portland market average; affordable	Extremely limited supply of rental housing is a barrier to living on Hayden Island for many
Mixed-income housing can be supported	Varying housing types (e.g., floating homes, manufactured homes, condos) are tightly clustered, segmenting rather than unifying residents
Geographic constraints have the potential to foster compact, small town atmosphere	I-5 offers the only entrance/exit
Diversity of existing housing types expand opportunities for variety of new development	Abundance of manufactured/mobile homes

EXHIBIT 2.01
Housing Tenure

Most of the 1,241 occupied housing units on Hayden Island are owner-occupied, narrowing options for renters. The restricted supply of rental product impacts Hayden Island's ability to accommodate households who are not yet ready for ownership, and potentially limiting economic diversity on the island.

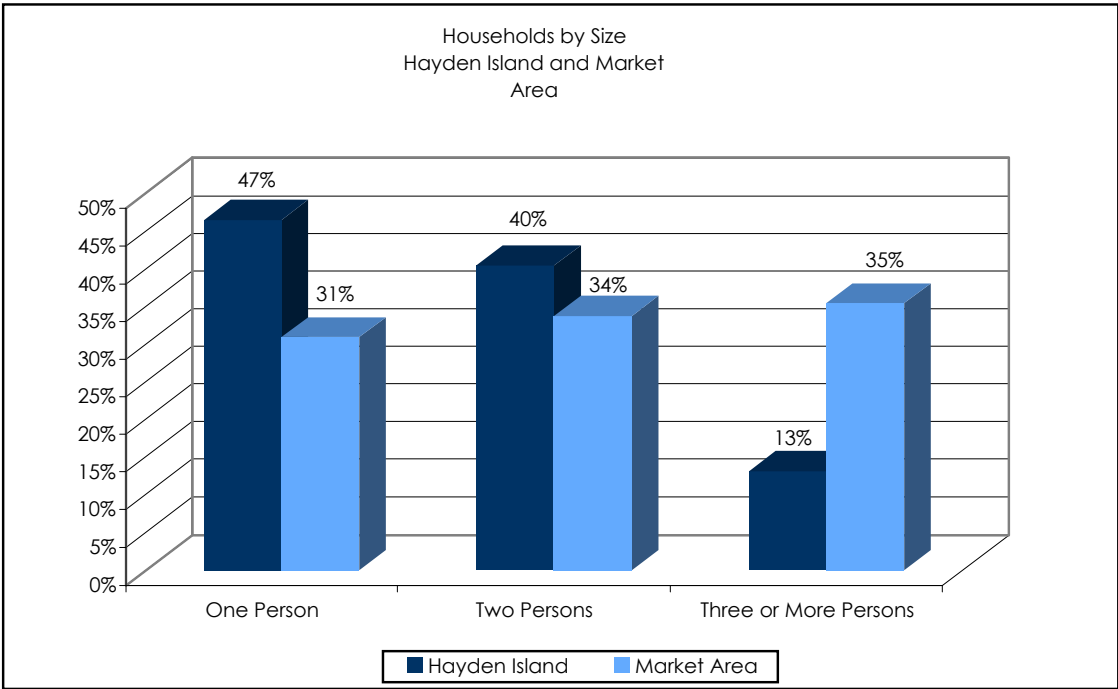


Source: ESRI Business Information Services



EXHIBIT 2.02
Household Size

A relatively high share of one- to two-person households supports Hayden Island's image as an empty nester/retiree community. Average household size is estimated at only 1.74 persons, far below the Market Area's estimated 2.41 persons per household. (See map on page 1.) Interviews for this research revealed that dissatisfaction with the school district and a shortage of recreation facilities are among the reasons why Hayden Island does not currently appeal to families with children. In addition, many believe floating homes are not conducive to families with young children because of the risks of living on the water.



Source: ESRI Business Information Services

EXHIBIT 2.03 Unit Type

Attached product, manufactured homes and ‘other’ unit types (particularly floating homes) heavily dominate Hayden Island’s housing supply, clearly differentiating it from the surrounding Market Area. The prevalence of manufactured homes on the Island – accounting for more than one-third of total occupied housing units – is a potentially challenging issue: supporting economic diversity among residents but consuming valuable land. Reportedly, the occupancy at the Hayden Island Mobile Home Park is consistently high.

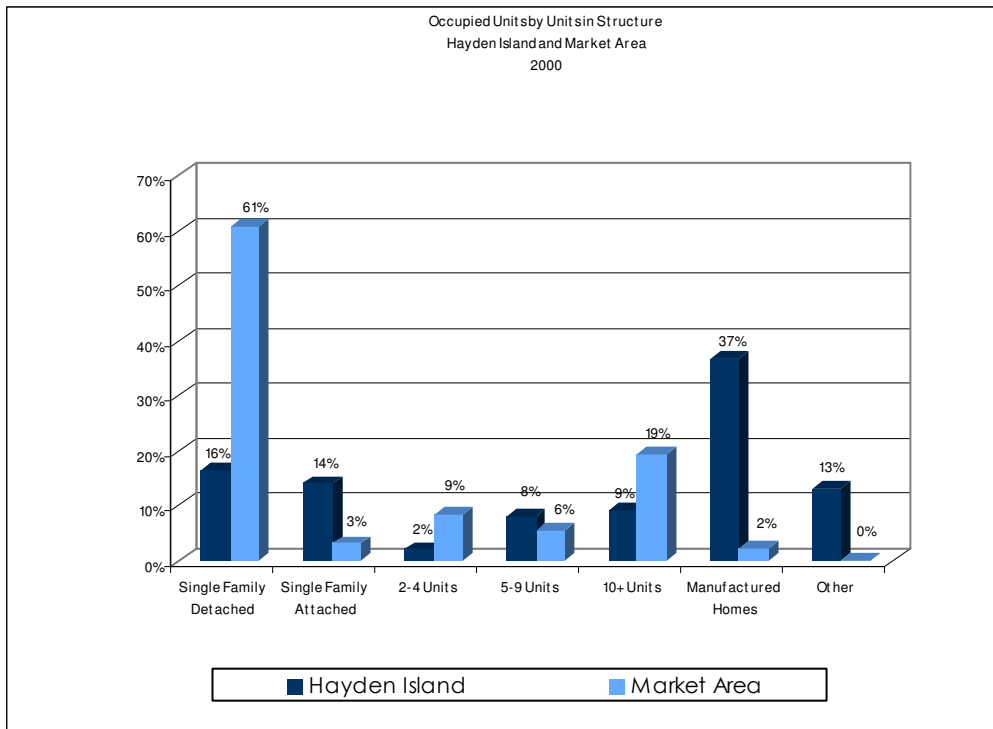
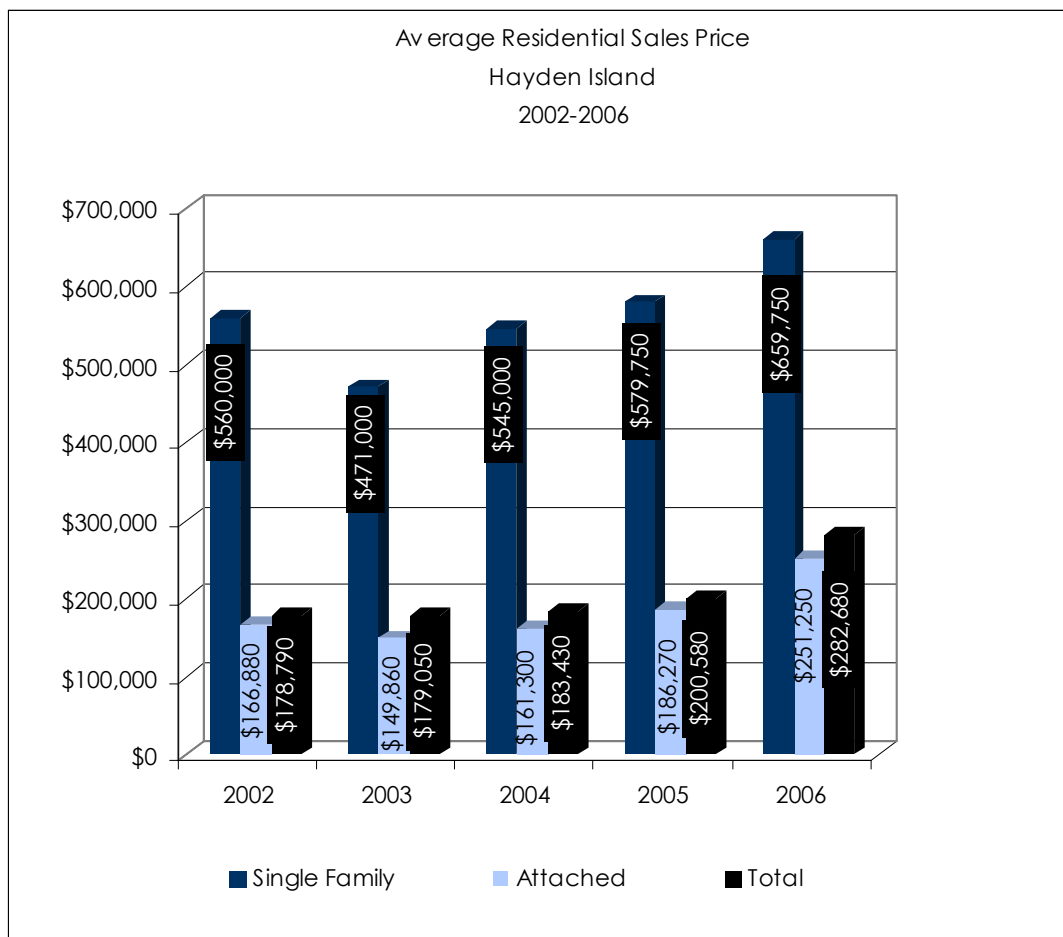


EXHIBIT 2.04
Single Family and Attached Sales Transactions: 2002-2006
Hayden Island

Residential sales transactions on Hayden Island have been steadily increasing, averaging 42 sales annually between 2002 and 2006 (excluding sales of houseboats and manufactured homes). While attached product represents a vast majority (94%) of sales during this time, prices of detached single family homes were roughly three times that of attached product. In terms of price per square foot, however, single family and attached product are more closely aligned: \$251 and \$220 per square foot, respectively, in 2006. Manufactured and floating homes are considered personal property and their sales are not recorded in the same manner as real estate.



Note: Does not include mobile homes or houseboats.

Source: Metro Data Resource Center – RLIS Lite February 2007 and E.D. Hovee & Company, LLC.

EXHIBIT 2.04a
Summary Of Selected Condominium Projects
Fall 2007
Hayden Island

Two significant waterfront condo developments have come on the Hayden Island market in the last year. Salpare is effectively still under construction with a number of pre-sold units. These top quality sites and projects appeal to a middle-upper to upper income market. With the current oversupply of condominiums in the Portland market, sales have been slower than originally anticipated.

Development (Year Opened) <i>Unit Type</i>	Total Units	Unit Price Range		Unit Size Range		Price/SF	Sales	
		From	To	From	To		Total	/Mo
Salpare Bay (2008) Tomahawk Island Drive Mid-rise Concrete Structure Mid-rise Building	204	\$600,000	\$2,250,000	950	3,488	\$642	25	1.2
First two of four phases are underway. Phase one is expected to be complete in 11 to 12 months. Approximately 25 units have sold, primarily to persons in their 50's and 60's. Located on a 25-acre Columbia River site. Broke ground in 2005. One-, two- and three-bedroom units. Construction of the marina is almost complete, offering 194 slips for boats 30' to 60' and a 100' super slip. Clubhouse, fitness center, private beach, secure parking. A restaurant is planned for the project.								
Waterside Condominiums (2007) N Hayden Island Dr @N Janzen Dr Mid-rise Building Concrete and Wood Frame	84	\$400,000	\$1,100,000	1,600	2,300	\$385	34	1.5
Columbia River/Portland/Vancouver views. Prices based on orientation to water and level. All units have some water views. Eleven units are currently occupied. One-story suites. Unit amenities include: custom fireplaces, slate terraces, hardwood in kitchen and entry, triple pane windows and crown molding. 30' to 60' boat slips; side slips to accommodate 110' to 300' boats. Secure car and bike parking. Community room and fitness center.								

Source: Marketek, Inc.

EXHIBITS 2.05a-c
Potential Demand: Methodology

Statistical demand analyses were performed for the Market Area to estimate the potential market depth for market rate and affordable for-sale and rental product. The two main sources of demand for housing are new household growth and existing households in turnover. New households and households turning over are qualified by income and propensity to rent or own. Households in turnover are also qualified by 'lifestyle' characteristics to account for the share of Market Area households who would be most interested in Hayden Island's unique setting. The analyses use the average annual increase in population beginning with the 2007 estimated household base and a projected 2007-2017 average annual increase in new households.

In estimating demand for for-sale product, affordable units are defined as households with incomes between 50% and 80% of Portland's Family Median Income (FMI)

established by HUD. See Exhibit 2.05a. Households with incomes below 50% of FMI are unlikely to have sufficient income to qualify for home ownership programs. Market rate households include those with incomes above 80% of FMI. See Exhibit 2.05b.

Potential demand estimates for affordable rental product include households with incomes at or below 60% of the FMI. A large share of public subsidies to support affordable rental housing such as the Section 8 program and Low Income Housing Tax Credit (LIHTC) program target households with incomes below 60% of FMI. Market rate households are defined as those with incomes above 60% of FMI, up to \$70,000.

Adjustments for income overlap and family size are accounted for in both the for-sale and rental demand analyses. Even though these analyses use finite numbers, their end result (i.e., potential market capture) should be interpreted as an approximation of market depth that is balanced with the results of an analysis of the competitive supply.

Exhibit 2.05a

2007 MAXIMUM INCOME LIMITS BY HOUSEHOLD SIZE

Portland-Vancouver-Beaverton MSA

FMI = \$63,800

Annual Income	Efficiency:					
	Household Size					
% of FMI	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person
50% of FMI	\$23,750	\$27,150	\$30,550	\$33,950	\$36,650	\$39,400
60% FMI	\$28,500	\$32,600	\$36,650	\$40,750	\$44,000	\$47,300
80% of FMI	\$38,000	\$43,450	\$48,900	\$54,300	\$58,650	\$63,000

Source: Department of Housing and Urban Development

Exhibit 2.05b

POTENTIAL ANNUAL DEMAND ANALYSIS FOR OWNER UNITS
Residential Market Area and Hayden Island
2007-2017

New Household Demand		
	50% to 80% FMI	Market Rate
Annual New Households (1)	6,504	6,504
Owner Propensity (2)	66%	66%
Number	4,293	4,293
Income Qualified (3)	25%	60%
Number	1,073	2,576
Hayden Island Capture	0.5%	0.5%
Subtotal	5	13
Annual New Household Demand	18	
Demand from Turnover		
	50% to 80% FMI	Market Rate
Total Households (1)	425,617	425,617
Owner Propensity (4)	60%	60%
Number	255,370	255,370
Income Qualified (5)	26%	57%
Number	66,396	145,561
Turnover Rate (6)	12%	12%
Number	7,968	17,467
Target Market Adjustment (7)	25%	25%
Number	1,992	4,367
Hayden Island Capture	0.5%	0.5%
Subtotal	10	22
Annual Demand from Turnover	32	
TOTAL ANNUAL DEMAND	50	

1. ESRI BIS

2. Estimated proportion of housing units that are owner occupied in the Portland/Vancouver MSA.

3. Estimated proportion of MSA households with annual incomes between \$23,750 and \$63,000 for "50% to 80% FMI units and above \$38,000 for "Market Rate" units. Adjusted for overlap.

4. Estimated proportion of Market Area housing units that are owner occupied.

5. Estimated proportion of Market Area households with annual incomes between \$23,750 and \$63,000 for "50% to 80% FMI units and above \$38,000 for "Market Rate" units. Adjusted for overlap.

6. Estimate of the proportion of owner households that turnover within a 12 month period.

7. Based on Tapestry data, estimated proportion of existing Market Area households who would prefer to live in a more urban than rural setting.

Sources: Marketek, Inc.; Census 2000; ESRI BIS

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Exhibit 2.05c

POTENTIAL ANNUAL DEMAND ANALYSIS FOR RENTER UNITS
Residential Market Area and Hayden Island
2007-2017

New Household Demand		
	Up to 60% FMI	Market Rate
Annual New Households (1)	6,504	6,504
Renter Propensity (2)	34%	34%
Number	2,211	2,211
Income Qualified (3)	28%	29%
Number	619	641
Hayden Island Capture	0.5%	0.5%
Subtotal	3	3
Annual New Household Demand	6	
Demand from Turnover		
	Up to 60% FMI	Market Rate
Total Households (1)	425,617	425,617
Renter Propensity (4)	40%	40%
Number	170,247	170,247
Income Qualified (5)	31%	29%
Number	52,777	49,372
Turnover Rate (6)	48%	48%
Number	25,333	23,698
Target Market Adjustment (7)	25%	25%
Number	6,333	5,925
Hayden Island Capture	0.5%	0.5%
Subtotal	32	30
Annual Demand from Turnover	61	
TOTAL ANNUAL DEMAND	68	

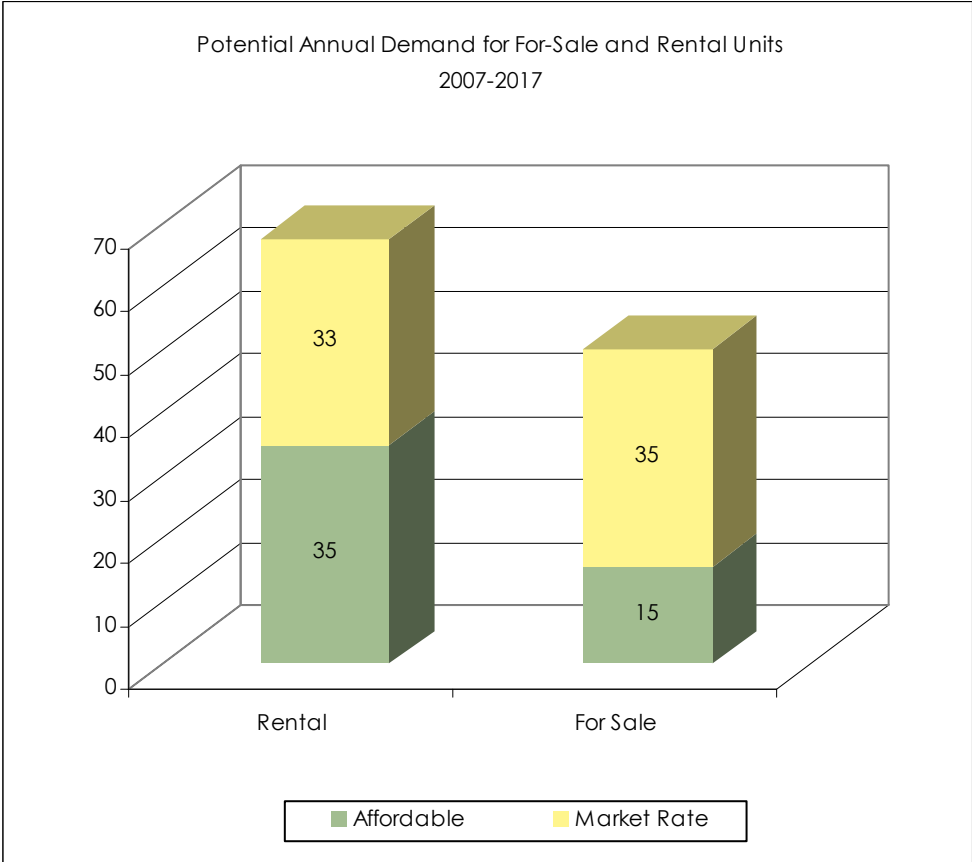
1. ESRI BIS
2. Estimated proportion of housing units that are renter occupied in the Portland/Vancouver MSA.
3. Estimated proportion of MSA households with annual incomes less than \$47,300 for "Up to 60% FMI" units; between \$28,500 and \$70,000 for "Market Rate" units. Adjusted for overlap.
4. Estimated proportion of Market Area housing units that are renter occupied.
5. Estimated proportion of Market Area households with annual incomes less than \$47,300 for "Up to 60% FMI" units; between \$28,500 and \$70,000 for "Market Rate" units. Adjusted for overlap.
6. Estimate of the proportion of renter households that turnover within a 12 month period.
7. Based on Tapestry data, estimated proportion of existing Market Area households who would prefer to live in a more urban than rural setting.

Sources: Marketek, Inc.; Census 2000; ESRI BIS;

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EXHIBIT 2.06
Potential Demand for For-Sale and Rental Units: 2007-2017

Based on an evaluation of the surrounding housing market, planned and proposed physical improvements in and around Hayden Island, the potential of integrating a variety of uses within and adjacent to new housing development, we estimate that over the next ten years, approximately 500 affordable and market rate for-sale units and 676 affordable and market rate rental units could be absorbed on Hayden Island. This level of demand would entail a potential capture of only 0.5% of total Market Area demand for affordable and market rate for-sale and rental housing within the 2007-2017 period. Combined, there is potential demand for 1,176 for-sale and rental housing units on Hayden Island between 2007 and 2017, 43% ownership and 57% rental.



3.0 RETAIL MARKET ASSESSMENT

The Portland MSA retail market is comprised of approximately 43.8 million square feet (SF) of space in 580 regional, community and neighborhood shopping centers, (Source: CB Richard Ellis). For perspective, Jantzen Beach SuperCenter is made up of 350,000 SF of enclosed mall space and is surrounded by 419,000 SF of freestanding big box tenants including Target, Home Depot and CompUSA to name a few. There is roughly an additional 80,000 SF of retail/restaurant space on Hayden Island, the bulk of which focuses on dining and convenience goods such as grocery, coffee stands and gas. With about 850,000 SF of retail space, Hayden Island houses approximately 1.9% of total existing retail space in the metro area.

Throughout the metropolitan area, retail construction underway will add another 1.3 million square feet of space in 2007. Among the major developments are Cascade Station at PDX (650,000 SF) and Bridgeport Village Center expansion in Tualatin. Vacancies are estimated at 5.2% with asking rents averaging \$19.67/SF, (Marcus & Millichap). Out-of-state investors are actively targeting single-tenant properties particularly for fast-food restaurants.

In Vancouver, plans were recently halted for a \$215 million lifestyle retail center on the former Evergreen Airport site due to major tenants withdrawing, among other factors. Some brokers believe that there is currently a general slow down in new retail construction that is expected to continue into 2008. One exception that will draw from Hayden Island and beyond is the Fred Meyer shopping center in the Officers Row area slated for completion in spring 2008. The store is promoted as a cutting edge, more upscale center than any other the retailer has undertaken. Adjacent to the 65,000 square foot Fred Meyer center will be approximately 20,000 SF of restaurant, banking and related site pads. Another Vancouver retail expansion underway is the \$40 million Westfield center near I-205 and Rt. 500, upgrading to include an outdoor lifestyle district.

In this section, competitive retail conditions are reviewed followed by an analysis of demand for retail space within the Hayden Island Market Area and on Hayden Island proper.

Retail Development	
Opportunities	Issues
Jantzen Beach SuperCenter redevelopment: updated format, higher quality tenants, greater market penetration, enhanced attractor	Highway interchange area only commercial focal point; additional nodes needed to attract tenants and create synergy
Regional accessibility and regional retail hub	At present, retailers/restaurants want highway exposure
Growing local and visitor markets	Small H.I. resident population limits community services and location of convenience retail
Waterfront sites offer potential unique dining/retail experience	Congestion directly impacts retail sales
Unique, specialty retail gaps to be filled	Limited community-serving retail

EXHIBIT 3.01
Retail Supply/Demand Balance 2007: Hayden Island

A comparison of retail supply (estimated from actual retail sales) and potential demand based solely on the expected amount spent by residents of Hayden Island, indicates a surplus of sales in every retail category. In essence businesses are 'importing' sales from shoppers who live beyond Hayden Island, including visitors, employees and other metro area residents. While it is apparent that the Jantzen Beach mall and big box retailers draw from a large market (10-15 mile radius), the figures below serve to illustrate that restaurants and community-serving, convenience businesses are also highly dependent on a large market to succeed.

NAICS	Demand (Spending Potential)	Supply (Retail Sales)	Difference Leakage (Surplus)
Hayden Island			
442: Furniture & Home Furnishings Stores	\$1,002,552	\$9,133,584	(\$8,131,032)
443: Electronics & Appliance Stores	\$883,152	\$10,568,999	(\$9,685,847)
444: Building Materials, Garden Equip. & Supply Stores	\$1,009,390	\$16,079,432	(\$15,070,042)
445: Food & Beverage Stores	\$6,048,624	\$38,688,786	(\$32,640,162)
446: Health & Personal Care Stores	\$1,065,927	\$3,024,063	(\$1,958,136)
448: Clothing & Clothing Accessories Stores	\$1,718,195	\$7,105,577	(\$5,387,382)
451: Sporting Goods, Hobby, Book & Music Stores	\$529,302	\$14,422,694	(\$13,893,392)
452: General Merchandise Stores	\$4,328,424	\$40,365,755	(\$36,037,331)
453: Miscellaneous Store Retailers (florist, office supplies, gift stores, etc.)	\$546,267	\$4,180,523	(\$3,634,256)
722: Food Services & Drinking Places	\$4,251,244	\$11,324,993	(\$7,073,749)
Total Leakage			\$0

Source: ESRI BIS, Marketek, Inc.

EXHIBIT 3.01a Retail Hierarchy

To further illustrate retail demand and location factors, two models of retail hierarchy are presented below comparing the relative size, geographic draw and market area requirements of common retail formats.

		Neighborhood Store	Main Street	Town Center	Shopping District		
		(Convenience Retail)	(Convenience Center)	(Neighborhood Center)	(Regional Center)	(Lifestyle Center)	(Mall)
Robert Gibbs Model	Size	3,000 to 5,000 sf	10,000 to 25,000 sf	100,000 to 175,000 sf	300,000 to 500,000 sf	200,000 to 500,000 sf	1.0 to 1.5 million sf
	Total Number of Shops	1 shop	5 to 6 shops	varies	varies	varies	varies
	Trade Area	1/4 to 1/3 mile	1/2 to 1 mile	2 to 3 miles	5 to 7 miles	5 to 7 miles	10 to 15 miles
	Population Needed	750 homes	1,500 homes	5,000 homes	25,000 homes	250,000 homes	125,000 homes
	Neighborhoods Served	1	3 to 4	6	50	200	250
	Net Density Needed*	6 du/acre	3 du/acre	0.62 du/acre	0.5 du/acre	5 du/acre	0.62 du/acre
Seth Harry Model	Size	800 to 5,000 sf	15,000 to 25,000 sf	40,000 to 100,000 sf	300,000 to 850,000 sf		
	Siting	Local street	Arterials	Arterials	Arterials		
	Trade Area	1/4 to 1 mile	0.5 to 1.5 miles	1.5 to 3 miles	5 to 15 miles		
	Population Needed	500-2,000	1,000 to 3,000	8,000 to 20,000	50,000 to 100,000		
	Typical Tenants	Convenience Store	Dry Cleaner Shoe repair Drugstore Café Real Estate Pizza Small market	Supermarket (essential) Small hardware Video	Home improvement Department store	"Lifestyle" retail Ann Taylor Pottery Barn Banana Republic Crate & Barrel Borders Abercrombie & Fitch William Sonoma Talbots	Department stores Smaller tenants

*Net density includes all land within a geographic area, including non-residential space such as streets, schools, parks, industry, etc.

Source: Conference for New Urbanism; Marketek, Inc

EXHIBIT 3.02
Retail Supply/Demand Balance 2007: Market Area

In analyzing retail supply and demand for Hayden Island's greater Market Area (12-mile radius), it is also evident that retailers are generally satisfying and exceeding potential demand from area residents. The result is a surplus of sales in all retail categories except building materials/garden supplies where a positive difference or a leakage of \$32.4 million in sales is evident, with demand outpacing supply. Business opportunities may exist in this category within the Market Area. Again, bear in mind this data only reflects potential spending from local shoppers.

NAICS	Demand (\$pending Potential)	Supply (Retail Sales)	Difference Leakage (Surplus)
Hayden Island Market Area			
442: Furniture & Home Furnishings Stores	\$352,333,206	\$371,315,790	(\$18,982,584)
443: Electronics & Appliance Stores	\$320,570,914	\$408,338,706	(\$87,767,792)
444: Building Materials, Garden Equip. & Supply Stores	\$362,686,108	\$330,217,614	\$32,468,494
445: Food & Beverage Stores	\$2,087,189,562	\$2,095,936,087	(\$8,746,525)
446: Health & Personal Care Stores	\$321,514,153	\$486,949,276	(\$165,435,123)
448: Clothing & Clothing Accessories Stores	\$567,402,015	\$832,846,343	(\$265,444,328)
451: Sporting Goods, Hobby, Book & Music Stores	\$153,796,638	\$492,224,321	(\$338,427,683)
452: General Merchandise Stores	\$1,993,627,434	\$2,409,959,972	(\$416,332,538)
453: Miscellaneous Store Retailers (florist, office supplies, gift stores, etc.)	\$165,582,100	\$400,756,079	(\$235,173,979)
722: Food Services & Drinking Places	\$1,675,145,192	\$1,761,298,231	(\$86,153,039)
Total Leakage			\$32,468,494
Estimated Supportable Square Footage			231,918

Source: ESRI BIS; Marketek

EXHIBIT 3.03
Future Retail Opportunities: Greater Market Area

Future population growth in the greater Hayden Island Market Area will generate increased demand for retail. Potential sales and supportable square feet for the 2007 – 2017 time frame are calculated below for key retail and service categories. By 2012, the net gain among all retail categories is 2.9 million square feet and by 2017, an additional 3.1 million square feet can potentially be supported by population increases in the Market Area.

Merchandise or Service Category	Per Household Expenditure	*Target Sales (\$/SF)	2007 Retail Potential		2012 Retail Potential		2017 Retail Potential	
			Sales	Space (SF)	Sales	Space (SF)	Sales	Space (SF)
Apparel	\$2,416	\$209	\$1,028,141,706	4,919,338	\$1,103,908,568	5,281,859	\$1,185,257,998	5,671,091
Home Furnishings	\$1,630	\$199	\$693,891,907	3,486,894	\$745,026,894	3,743,854	\$799,929,551	4,019,746
Home Improvement	\$1,138	\$140	\$484,152,957	3,458,235	\$519,831,648	3,713,083	\$558,139,176	3,986,708
Misc. Specialty Retail	\$2,186	\$216	\$930,533,541	4,308,026	\$999,107,363	4,625,497	\$1,072,733,763	4,966,360
Shoppers Goods			\$3,136,720,111	16,172,493	\$3,367,874,474	17,364,293	\$3,616,060,487	18,643,906
Grocery	\$9,777	\$390	\$4,161,189,310	10,669,716	\$4,467,839,897	11,456,000	\$4,797,084,761	12,300,217
Health & Personal Care	\$1,121	\$365	\$477,184,756	1,307,355	\$512,349,939	1,403,698	\$550,106,123	1,507,140
Convenience Goods			\$4,638,374,066	11,977,072	\$4,980,189,836	12,859,698	\$5,347,190,884	13,807,357
Restaurants	\$3,819	\$263	\$1,625,610,082	6,181,027	\$1,745,406,190	6,636,525	\$1,874,028,978	7,125,585
Entertainment	\$465	\$90	\$198,001,285	2,200,014	\$212,592,596	2,362,140	\$228,259,008	2,536,211
Personal Services	\$1,092	\$151	\$464,596,424	3,076,798	\$498,833,935	3,303,536	\$535,594,095	3,546,981
Total			\$10,063,301,968	39,607,404	\$10,804,897,031	42,526,193	\$11,601,133,453	45,660,041
Five Year Net Gain					\$741,595,064	2,918,789	\$796,236,422	3,133,848

* Target sales are based on the Urban Land Institute, "Dollars and Cents of Shopping Centers."

Sources: ESRI BIS; Urban Land Institute; Marketek, Inc.

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EXHIBIT 3.04 Hayden Island Retail Opportunities

Hayden Island's ability to capture or absorb existing and new retail demand within the Market Area (Exhibit 3.02) is dependent on numerous factors including congestion relief, developable land, active marketing, the success of Jantzen Beach SuperCenter and changes in retail supply in other locations with the market area.

The capture rates assigned in the exhibit below are conservative estimates that assume a positive development environment and also take into account Hayden Island's existing share of retail and population within the Market Area. Supportable square feet of demand are converted to an approximate number of stores in each merchandise/service category, using average store sizes provided by the Urban Land Institute.

Merchandise/Service Category	2007		2012		2017		2007-2017		
	Existing Unmet Demand		Market Area Demand		Market Area Demand		Supportable Space	Average Store Size	Supportable Stores
	Capture	Sq Ft	Capture	Sq Ft	Capture	Sq Ft	Sq Ft	Sq Ft	Number
Shoppers Goods									
Apparel	NA	0	3%	10,876	4.5%	17,515	28,391	3,960	7
Home Furnishings	NA	0	3%	7,709	4.5%	12,415	20,124	5,365	4
Home Improvement	1%	2,319	3%	7,645	4.5%	12,313	22,278	13,200	2
Misc. Specialty Retail	NA	0	3%	9,524	4.5%	15,339	24,863	3,780	7
Subtotal	1%	2,319	3%	35,754	4.5%	57,583	95,656		19
Convenience Goods									
Grocery	NA	0	1.5%	11,794	2%	16,884	28,679	51,495	1
Health & Personal Care	NA	0	1.5%	1,445	2%	2,069	3,514	10,920	0
Subtotal	NA	0	1.5%	13,239	2%	18,953	32,193		1
Restaurants	NA	0	5%	22,775	6%	29,344	52,119	3,025	17
Entertainment	NA	0	5%	8,106	6%	10,444	18,551	21,250	1
Personal Services	NA	0	2%	4,535	3%	7,303	11,838	1,800	7
Total	1%	2,319	3%	84,409	4%	123,627	210,356		45

Source: ESRI; Urban Land Institute; Marketek, Inc.

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EXHIBIT 3.05
Visitor Market Impacts: Multnomah County & Hayden Island, 2005

In addition to demand from the Market Area population, the visitor market is an important contributor to Hayden Island's business base. Supporting out of town visitors are a total of 1,251 guest rooms at eight nearby lodging facilities: Red Lion, Marriott Courtyard, Best Western, Holiday Inn Express, Days Inn, Motel 6, Oxford Suites and Portlander Inn. This represents approximately 6.6% of the total rooms in the Portland market (18,694).

Multnomah County's tourism expenditures were estimated at \$2.35 billion in 2005, according to Dean Runyan Associates. Growth in County visitor spending has averaged 6.2% annually since 1991, above the state average of 5.8%. Analysis of Multnomah County visitor spending by various commodities reveals that of total spending (excluding air travel and lodging), retail purchases comprise 17.4%; grocery spending accounts for 4.4%; eating out, 28%; and ground transportation/gas, 41%.

Marketek estimates conservatively that Hayden Island may be able to capture 3% of total visitor spending county-wide in selected commodity categories: retail sales, food & beverage and grocery. It is estimated that Hayden Island can capture approximately 1% of ground transportation/gas and arts, entertainment and recreation-related spending. This estimate is based upon insights from existing business owners and EXPO Center and Portland International Raceway (PIR) managers, visitor counts, a 2005 PIR economic impact analysis and perceptions of visitor 'pull.' Over time, with increased commercial density, a renovated Jantzen Beach mall and additional restaurant/retail facilities, Hayden Island's share of visitor market spending should increase.

Commodity Purchased	(\$ Mil)	% of Total	Hayden Island	
			Capture	(\$ Mil)
Food & Beverage	\$325	28.0%	3.0%	\$9.8
Food Stores	\$51	4.4%	3.0%	\$1.5
Ground Trans & Gas	\$477	41.1%	1.0%	\$4.7
Arts, Entertainment, Recreation	\$106	9.1%	1.0%	\$1.1
Retail Sales	\$202	17.4%	3.0%	\$6.1
Total Spending at Destination	\$1,161	100.0%		\$23.1

Source: Dean Runyan, Marketek, Inc.

EXHIBIT 3.06
Hayden Island Visitor Retail Opportunities, 2007-2017

Marketek prepared a straight line projection of Hayden Island's potential visitor spending in selected categories using the county-wide 6.2% average annual rate of growth and the capture rates by commodity assigned in Exhibit 3.05. With this assumption, visitor spending in restaurant, grocery and retail should total \$19.6 million in 2007, increasing to \$26.4 million by 2012 and \$35.8 million in 2017. The commensurate demand for store and restaurant space is also projected over that time period with a total demand for an additional 57,776 square feet in these selected categories. This demand is above and beyond the potential demand generated during the same time period by the local market of 210,356 square feet, (Exhibit 3.04).

Retail Category	Target Sales (\$/SF)	2007		2012		2017	
		Spending	Space (SF)	Spending	Space (SF)	Spending	Space (SF)
Food, Beverages & Restaurants	\$327	\$11,050,000	33,792	\$14,930,000	45,657	\$20,170,000	61,682
Grocery	\$390	\$1,690,000	4,333	\$2,290,000	5,872	\$3,090,000	7,923
Retail	\$216	\$6,880,000	31,852	\$9,200,000	42,593	\$12,560,000	58,148
Total		\$19,620,000	69,977	\$26,420,000	94,122	\$35,820,000	127,753
Five Year Net Gain				\$6,800,000	24,145	\$9,400,000	33,631

Source: Marketek, Inc., Urban Land Institute

4.0 OFFICE MARKET OVERVIEW

Within the five-county Portland Metro area, office market vacancies stood at 11.55% at the end of the 2nd quarter of 2007. Vacancy rates are gradually trending upward as absorptions are down. Construction is moderate with addition of seven new office buildings, adding almost 500,000 SF to be completed in 2007 (Source: CB Richard Ellis.). As is true in metropolitan areas across the nation, Portland's suburban vacancy rates (14.4%) are significantly higher than the central business district (8.5%). The Lloyd Center market has a vacancy of 6.9% with average asking lease rates of \$23.31. Airport Way has a 10.5% vacancy rate and average asking rates of \$16.69. Another comparable of interest to Hayden Island is Vancouver, WA with vacancy of 13% and average lease rate of \$20.49.

Local brokers/management companies report that Hayden Island is a 'tough sell' for traditional office users such as professional service firms. Traffic congestion is the number one barrier to office leasing. Area realtors also note that most office prospects are looking for smaller spaces in the 500-1,000 SF range as well as moderate interest in small office suites. No executive suites are available on Hayden Island.

Hayden Island has one traditional office property, Hayden Island Plaza, a Class B 42,596 SF property that is currently 97% occupied. Rents average \$17/SF with all services. Occupants are largely financial, insurance and real estate professionals, many of whom reside on the island. A small amount of neighborhood commercial office space exists near the Safeway center. In addition, Hayden Island Business Park has flex space buildings available for warehouse-office-light manufacturing or related uses. Thirty-one tenants operate a wide variety of businesses ranging from auto-related support and distribution to furniture-making and even a church. Five buildings on nearly ten acres offer 162,000 SF of space. At present, five spaces are available (8.3% of total) ranging in size from 1,982 SF to 5,615 SF with rents from \$12.12/SF (NNN) to \$14.28/ SF (NNN).

Future office expansion will be dependent on job growth, residential expansion, developable land, and the ultimate reduction of traffic congestion, making Hayden Island a convenient location to do business between Portland and Vancouver with easy airport access. Assuming job growth and the ability to address key issues, Marketek estimated future office market demand. Using Hayden Island's current employment base of 2,952 and the Oregon Employment Department's projected rate of average annual employment growth per sector (1.6%) for Multnomah County, a straight line projection was used to estimate possible future employment growth and potential office demand. By 2012, Hayden Island's job base could grow to 3,197 and could further expand to 3,461 by 2017. Applying standard office space user ratios and the existing distribution of jobs on the island results in an estimated potential demand of 18,920 SF of new office space by 2012 with an additional demand of 20,640 SF by 2017.

Health care services/offices are noticeably absent from the business mix on Hayden Island and are keenly desired by local residents. The American Dental Association estimates that one dentist per 1,712 population base can be reasonably supported. The National Research Council estimates that a population of 2,257 persons is needed for every general practitioner physician. Health care providers may well be a target business for the island particularly as the residential base expands. However, a broader geographic market is likely needed to truly support these services as families have many influences on their choice of medical providers. Additionally, doctors and specialists tend to cluster close together for the economic synergies and referrals allowed.

5.0 INDUSTRIAL MARKET OVERVIEW

According to a July 2007 Grubb & Ellis report, the Portland industrial market is experiencing the lowest vacancy rate in twenty years. By all accounts, there is substantial demand for industrial space in the Portland metro area with particular pressure on the central city where brokers and business are often willing to pay a premium for multi-modal access.

The largest industrial sector, distribution/warehouse with over 100 million square feet of inventory, is also the most constrained with a vacancy rate of 4-5%. Up to 2.0 million SF of new speculative industrial space will be completed in 2008, but is expected to be rapidly absorbed.

Portland's industrial market is closely linked to activity at the Port of Portland and global trade. Even with a general economic slowdown expected, no surplus is anticipated in Portland due to the existing tight market and limited supply.

In 2002 and 2004, a combined total of 4,000 acres was added to the Urban Growth Boundary and is rapidly being absorbed. In June 2007 Metro completed an industrial land inventory identifying 1,905 tax lots with 9,294 buildable acres inside the Metro UGB. The overwhelming majority of lots are small, with a median size of 3.4 acres.

East Hayden Island has one large industrial site, the 38-acre Portland Auto Auctions on the western edge adjoining the railroad line. While over time the existing tenant may relocate, the site will likely be coveted for other light industrial uses—flex space, warehouse/distribution, business park or similar development. The Columbia Crossings properties are also currently zoned industrial, totaling 21 acres of developable land. Because of their location in close proximity to residential and water-recreation uses, these sites are less likely to remain industrial over the long term.