

To: City Council
 From City Manager, Nathan Cherpeski
 Subject: Friday Update
 Date: July 22, 2016



Calendar

Here is the calendar as provided to me by the Departments.

Date	Time	Event	Location
July 25, 2016	7:00 P.M.	Planning Commission Work Session - CDO Review	City Hall Annex- Council Chambers
July 26, 2016	4:00 P.M.	Council Work Session - Discussion of Medical Marijuana Processing/Manufacturing Facilities Regulations	City Hall Annex- Council Chambers
August 1, 2016	6:00 P.M.	City Council Work Session - Airport Leasing Policies and update	City Hall Annex - Conference Room
August 1, 2016	7:00 P.M.	City Council Meeting	City Hall Annex- Council Chambers
August 15, 2016	6:00 P.M.	City Council Work Session - Mead & Hunt Presentation on recent FAA rule changes	City Hall Annex - Conference Room
August 15, 2016	7:00 P.M.	City Council Meeting	City Hall Annex- Council Chambers

City Manager

Main and Esplanade -

The City with community partner assistance recently completed a Housing Study and Market Analysis to better gauge the demand for new downtown housing. The Downtown Association has hosted a series of workshops sharing the benefits of converting vacant upper-story building space into new residential units. Repurposing older buildings for residential use has been a national trend and catalyst for traditional downtowns and adding new downtown residents has shown to be critical to creating dense and diverse Main Streets. The study is a key piece to the due diligence on the proposed project at Main and Esplanade.

To more accurately measure downtown housing demand, both for adaptive reuse and new construction, the City contracted with economic consultant Leland Consulting to complete the shared Housing Study and Market Analysis. Both studies were funded through the EPA Community-Wide Assessment grant the City received in coalition with

Klamath County and SCOEDD in 2015. Surveys of renters and community members were a primary source of information for the study.

While the reports' analyses document both market positives and deterrents for creating new rental stock, the Housing Study Executive Summary shows an unaddressed supply and expected construction need of 75 to 127 new multi-family housing units over the next 5 years. The need for additional quality rentals has been echoed through conversations with numerous area employers. *According to building permit records, the subsidized 36-unit Iris Glen project built in 2009 was the most recent noteworthy rental complex constructed.*

An excerpt from the study is below and the housing study and marketing studies are attached. We will also be posting on the City Website.

Given the poor quality rental stock in the city and the lack of new and modern apartments, there appears to be a mismatch in the rental market whereby there are too few desirable rental properties for mid to top-of market consumers. Brokers confirmed that they are turning away potential renters because the few acceptable rentals for this market segment are always full.

For this reason, there appears to be an opportunity in the market for new and different rental product. Urban style rentals, that is apartments that are in or near a downtown, have an urban design, and that are close to urban amenities such as cafes, breweries, and restaurants, do not currently exist in Klamath Falls. A

Economic Development – At my recent conference we heard from Leland Consulting. The firm, who recently completed our housing study, does work around the country for both public and private clients. They specialize in economic studies, area planning, and real estate. In speaking about recent projects in Albuquerque New Mexico and several other locations she said a new trend is appearing in industrial areas with regards to the priorities of large companies looking to expand or build new facilities.

The key for industrial land development has always been freight mobility. How easy is it to get freight in and out of an area? They are now seeing a different set of priorities. Driven primarily by a need to attract talent, successful industrial areas are now including trails, coffee shops, eateries, and small retail. Her statement was that the need to attract talent was so great, that freight mobility was now third on the list of needs behind amenities and community attractiveness.

Those statements would have been akin to economic development heresy a few years ago. While there is still some collective skepticism, she made a compelling case. As the property owners of Tech Hills begin looking to develop that area, I think we will see this playing out in real time. I don't know that these priority rankings are true for smaller regional or local businesses; however, the need to attract and retain talent will be necessary for all levels of business. We see this here locally with the recognition of the need to retain the talent that is graduating each year at Oregon Tech.

Airport

We had a very successful open house with PenAir on Thursday. Now that they will be here, it is essential that we get the flying public to use the service. PenAir begins flying to/from Portland on October 5, 2016. There is a promotional sale going on now for flights to Portland. To get tickets, go online to either www.penair.com or www.alaskaair.com.

Here is the flight schedule:

Routing	Departure Time	Arrival Time	Frequency
Klamath Falls – Portland	6:40 AM	8:00 AM	Mon – Fri
Portland – Klamath Falls	1:00 PM	2:20 PM	Mon – Fri
Klamath Falls – Portland	2:50 PM	4:10 PM	Mon – Fri
Portland – Klamath Falls	5:00 PM	6:20 PM	Mon – Fri
Klamath Falls – Portland	11:00 AM	12:20 PM	Sat/Sun
Portland – Klamath Falls	5:00 PM	6:20 PM	Sat/Sun

The FAA Reauthorization Bill was signed into law last week which means the Airport should be receiving FAA grants to complete two projects; the \$8.5M Taxiway B Improvement project and a \$200,000 Modoc Wetland Improvement project. With the City Council approvals at the last meeting, the two projects are expected to get underway in early August.

Legal/Code Enforcement - We are working on getting our website up with more information on housing and blight issues in the community. We hope to better inform our citizens about our efforts to address blight. More to follow.

Memorandum

Date April 29, 2016
To Joe Wall, Management Assistant to the City Manager of City of Klamath Falls
CC: Carrie Rackey, Associate/Project Manager, Stantec
From Alisa Pyszka, Senior Associate, Leland Consulting Group
Matthew Craigie, Associate, Leland Consulting Group
Subject Klamath Falls Market Analysis
Project Klamath Falls Brownfields

People Places Prosperity

Revitalizing Downtowns
Creating Partnerships
Targeting Real Estate Success
Shaping Financial Strategies
Strengthening Community
Enabling Sustainability & Livability
Making Cities Work

EXECUTIVE SUMMARY

Klamath Falls was hit significantly hard by the recent recession. While most of the state has rapidly gained in job growth, the city is just now seeing gains. As revealed in the data and discussions with community business leaders, the city seems poised to turn economically. As community efforts continue to focus on downtown redevelopment and engaging the highly sought after talent base emerging from Oregon Tech, the City will realize a significant shift from past trends. As indicated in the following analysis, there is an opportunity to invest in downtown housing, which is a critical component to engage and keep this highly sought talent base that will fuel future job growth.

610 SW Alder Street
Suite 1008
Portland Oregon
97205-3611
503.222.1600

INTRODUCTION

A coalition of the City of Klamath Falls, Klamath County, and the South Central Oregon Economic Development District was awarded a Brownfield Community Wide Assessment (CWA) grant by the U.S. Environmental Protection Agency (EPA) in 2015. The overall focus of the grant is to identify and provide environmental assessments of brownfield properties throughout Klamath County. A brownfield is defined by EPA as a property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. An environmental assessment can be a critical first step in redeveloping a brownfield.

Brownfields are frequently identified in downtown areas of a community as these areas were developed for commercial and industrial uses prior to environmental regulations and development of best management practices for handling hazardous substances and petroleum products. As part of the grant-funded project, the coalition has defined a focus area within the City of Klamath Falls downtown core that warrants a detailed study of redevelopment opportunities due to its density of brownfields and high level of visibility. This area is the focus of an Area Wide Plan (AWP) to conduct research, planning, and development of implementation strategies to advance brownfield revitalization efforts. In order to evaluate the most effective implementation strategies, the coalition conducted a market study to evaluate downtown Klamath Falls focus area properties and potential uses that will supported by the market to generate sustainable redevelopment.

Figure 1 - Area Wide Plan Study Area Map



Source: Stantec

Leland Consulting Group (LCG) has been hired by Stantec Consulting Services Inc. (Stantec), the coalition’s managing consultant for the EPA grant project, to prepare this market analysis that includes an evaluation of

current economic development trends, demographics, and market research that will help focus brownfield redevelopment efforts. The analysis will address the following questions and serve to guide the determination of implementation strategies for brownfield redevelopment.

Key Questions

- What are the existing economic factors that affect development opportunities in downtown Klamath Falls?
- What are the current demographics and demographic trends that affect opportunities in Klamath Falls?
- Which land uses, character, and scale are most appropriate for the downtown area and are supported by economic conditions?

ECONOMIC TRENDS

Economic development is critical to the health of all communities. However rural communities often face unique challenges overlooked by some urban communities such as a limited labor pool, ability to attract and retain young talent, and direct access to interstates. At the same time, the modern economy is shifting quickly. Companies such as Uber and Airbnb that were initially forming six years ago are now global household names and disrupting significant industries. It is impossible to predict the next market opportunity. For these reasons, we encourage communities to focus on defining and fostering the following key elements that encourage job growth in new markets while enhancing key assets serving the entire community.

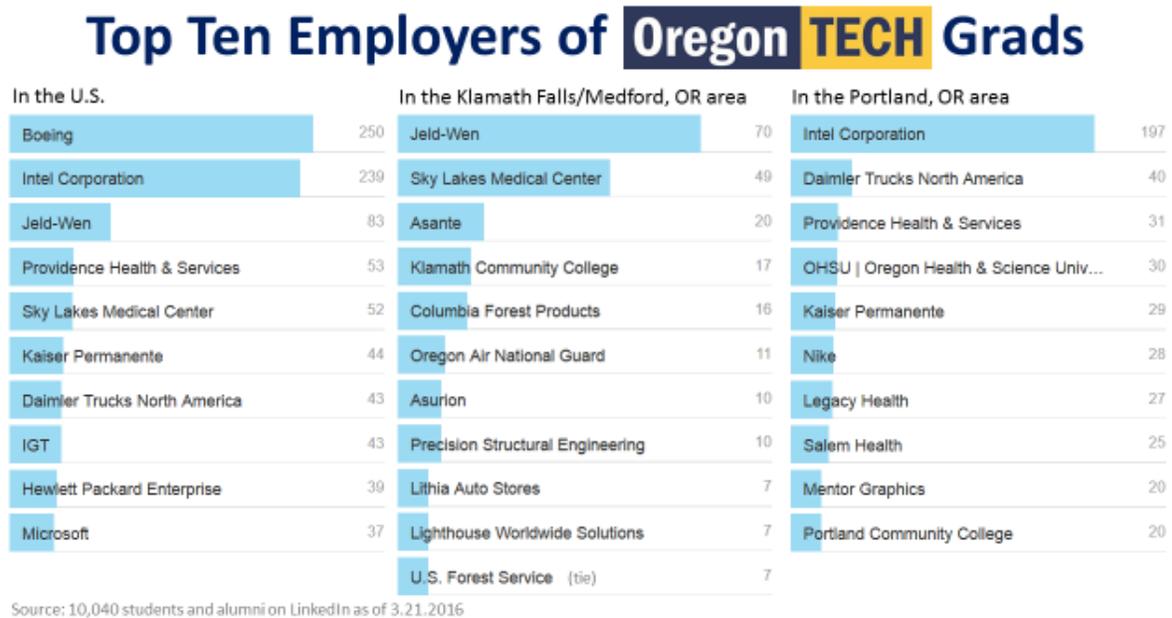
Talent

The national economy is becoming increasingly more talent-based than resource-based. As explained by Roger Martin, professor at the Rotman School of Management at the University of Toronto, creative jobs – i.e., positions requiring substantial independent judgment and decision making – were 16% of all jobs in 1960, doubling to 33% by 2010. In addition, science, technology, engineering, and mathematics (STEM) workers are increasingly in demand and in short supply especially in the private sector needing software developers, petroleum engineers, data scientists, and those in skilled trades¹.

Oregon Tech is the only technical university in the Pacific Northwest, providing Oregon with roughly 700 prepared, career-ready graduates each year. 75% of Class of 2014 completed degrees in Engineering, Technology and Healthcare, leading to positions with companies listed below. Oregon Tech is a critical asset to the Klamath Falls community as it creates the talent that is in top demand for business across the country and locally.

¹ *STEM crisis or STEM surplus? Yes and yes, Bureau of Labor Statistics, May 2015*

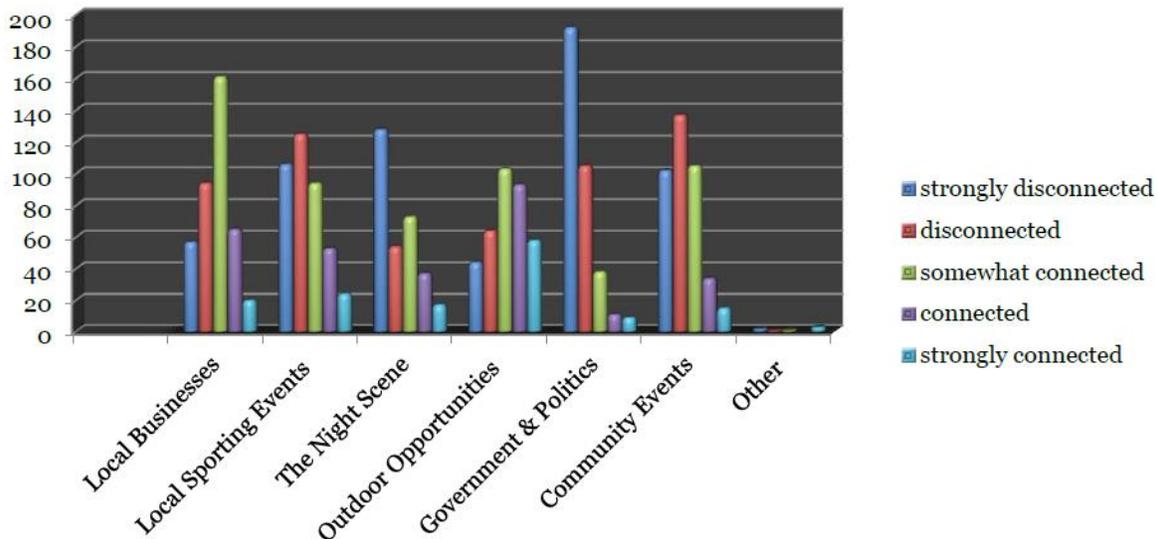
Figure 2 - Oregon Tech Graduate Employers



Source: Oregon Tech

Fostering an environment that engages and retains this Oregon Tech talent base is key to the future growth of the community. There is a significant opportunity to enhance engagement with the student population. Results from a recent survey by Oregon Tech students shows that they do not feel strongly connected to the broader community.

Figure 3 - Survey Results of Oregon Tech Students - Do you feel connected to the following aspects of the Klamath Falls Community?



Source: Natalie Ross, Oregon Tech Student

Innovation

New businesses account for nearly all net new job creation and almost 20 percent of gross job creation. Furthermore, companies less than one year old have created an average of 1.5 million jobs per year over the past three decades². People generally start businesses in the places they are already located, and many of the resources they access are at the local or regional level.

As rural communities often struggle with a limited labor pool and retaining young talent, recruiting new companies to the area is often a challenge. To offset this challenge, fostering an environment that encourages companies to grow from the ground up is a critical strategy to implement. Furthermore, an entrepreneurial culture not only serves to create new jobs, but it provides an environment that supports “trailing spouses”: a person who follows his or her life partner to another city because of a work assignment. For hospitals or schools in rural areas, this is often an important subject in recruiting new talent. Providing a supportive outlet for the trailing spouse can serve as one way to offset this concern.



El Gaucho Collective

Klamath Falls is fortunate to have emerging opportunities that support innovation across several industries. Continuing to support and promote all of these areas is important for growth opportunities:

² *The Importance of Young Firms for Economic Growth, Kaufman Foundation, September 13, 2015*

- *The El Gaucho Collective* is a new co-working space located downtown that was started by Oregon Tech graduates. According to Thomas Klemz, co-founder and software developer, he wanted to stay in Klamath Falls because of the great location, access to the outdoors, and cost of living compared to Seattle or San Francisco. Running his own company out of the Collective allows him to do that, while also living downtown and walking to work.
- *South Town Center* is a small industrial flex center attracting small industrial businesses that align with the Klamath Falls culture and take advantage of the low cost of operations. One company has grown to such an extent that it must find a larger location.
- *Tech Hills Business Park* is an emerging opportunity to align industry with Oregon Tech talent and research. The business park is adjacent to the university and has infrastructure and sites ready to develop. Currently located in the Park is New Earth Life Sciences Inc. and Smith Bates Printing and Design.

Figure 4 - Emerging Opportunities in Klamath Falls



Source: Leland Consulting Group

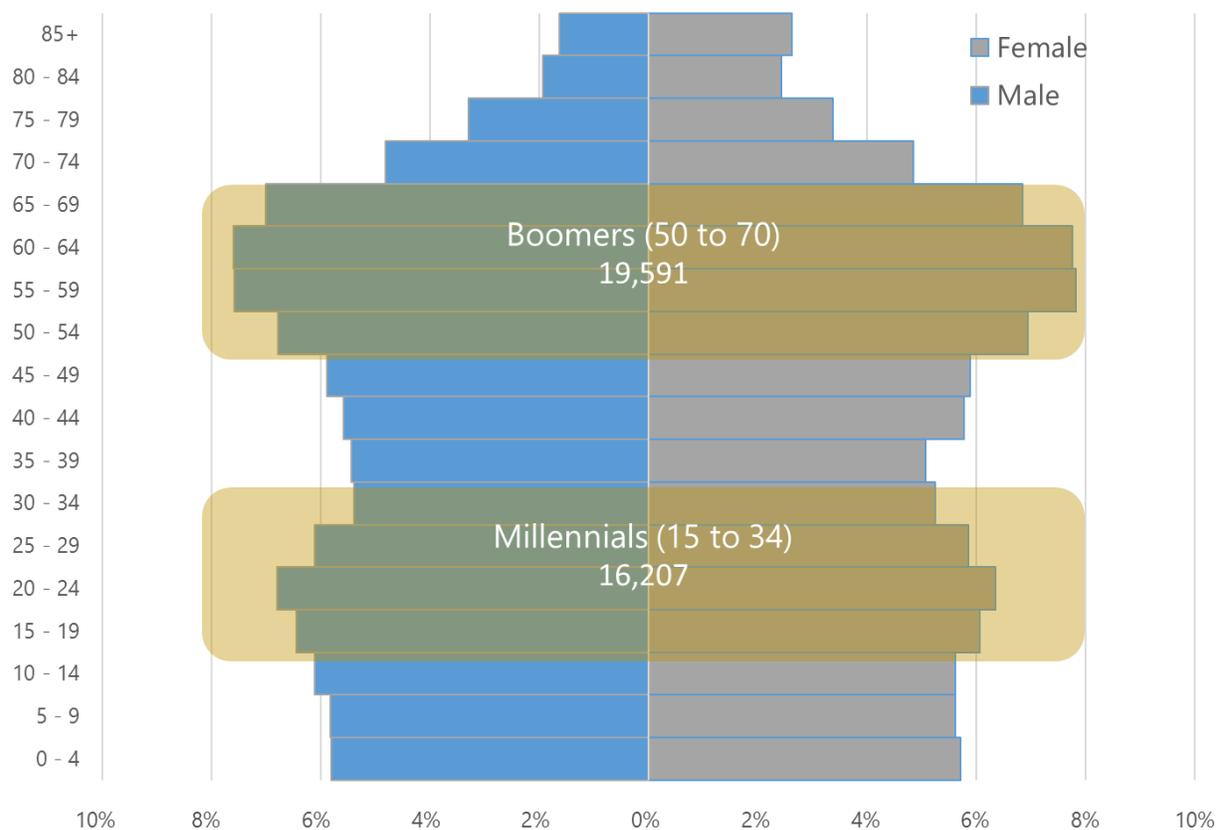
In addition to these physical places of innovation, there are existing programs within the region to spur new ideas and provide the skills for entrepreneurs to thrive:

- *Klamath IDEA (Inspire Development – Energize Acceleration)* provides support to entrepreneurs for startup, business expansion, product development and commercialization—with the long-term goal of sustainable job creation in Klamath County. Klamath IDEA brings education, economic development, private business, financial institutions, municipal, county, and state governments together with entrepreneurs, innovators, and successful businesses to accelerate job creation and promote marketable commodities to expand the local and state economy.
- *The Catalyze Klamath Falls Challenge* is a new program through Oregon Tech that aims to support business ideas and/or fledgling entrepreneurial activity from any field of study that produces a new idea, product, or service that could become a thriving business in Klamath Falls and has the potential for job growth in rural Oregon. The Challenge awards cash prizes, membership to El Gaucho, and services from Klamath IDEA to generate new companies like last year’s winner Grovolution: an agricultural technology company that created the Portable Environment for Agriculture or "P.E.A. pod", which is designed to grow food in almost any environment on the planet.

DISTINCT PLACE

Communities that are thriving today are those that develop, retain, and attract talent. As identified above, in demand talent is generally defined as 20-35 years olds that are college-educated, especially those with STEM degrees. In addition, high-tech skills through associate degrees or training are in demand for skilled manufacturing positions. The desired 20-35 year demographic is comprised of “Millennial” generation made up of approximately 76 million people – the largest demographic group our Country has seen. As indicated below, the Millennials are the second largest percentage of the population within Klamath Falls County. Klamath Falls’ demographics reveal a larger than expected population of Millennials; however, over time, their numbers diminish. These are likely Oregon Tech students who move away after graduation.

Figure 5 - Population Pyramid, Klamath County 2015



Source: U.S. Census, Leland Consulting Group

As this generation grows and shapes our talent-based economy, it is important to understand what motivates them and the communities they choose in such a highly mobile environment. The emerging trend of the last five years suggests that the Millennial generation prefers an urban lifestyle, which is also increasingly attractive to retiring Baby Boomers – the second largest generation in the Country. Such an environment includes the following elements:

- **Job Base.** Talent moving to a new community wants to know that there are other opportunities if the job that brought them there does not work out.

- *Simple Commute.* Millennials are not defined by the automobile, and the majority do not want to drive if they don't have to. As reported in Urban Land Institute (ULI) Emerging Trends 2016, miles traveled by car for those people 34 years old or younger are down 23 percent. Locally, the average miles travelled by any mode – walking, driving, biking, or taking transit – is the lowest for Millennials.
- *Urban Lifestyle.* They prefer density with alternative transportation modes and retail nearby, which provides alternatives to owning a car.
- *Entertainment.* Millennials are looking for ample amenities, especially restaurants and access to outdoor recreation.
- *Open and Supportive Culture.* They embrace social or ethical causes³ and communities that are more diverse, accepting, and open are more attractive.

These same elements are reiterated in a recent forum of Oregon Tech graduates for the “Community Nesting Project”. A few excerpts focused on downtown development are highlighted below. The complete summary is provided as Attachment A.

What can be done to entice you to stay after graduation?

- Make more downtown housing
- Downtown student housing
- Transportation – bike infrastructure
- Food trucks
- Less chain restaurants
- Summer Market, have more events offered year wide, so students can be more participative while they are living here and going to school.

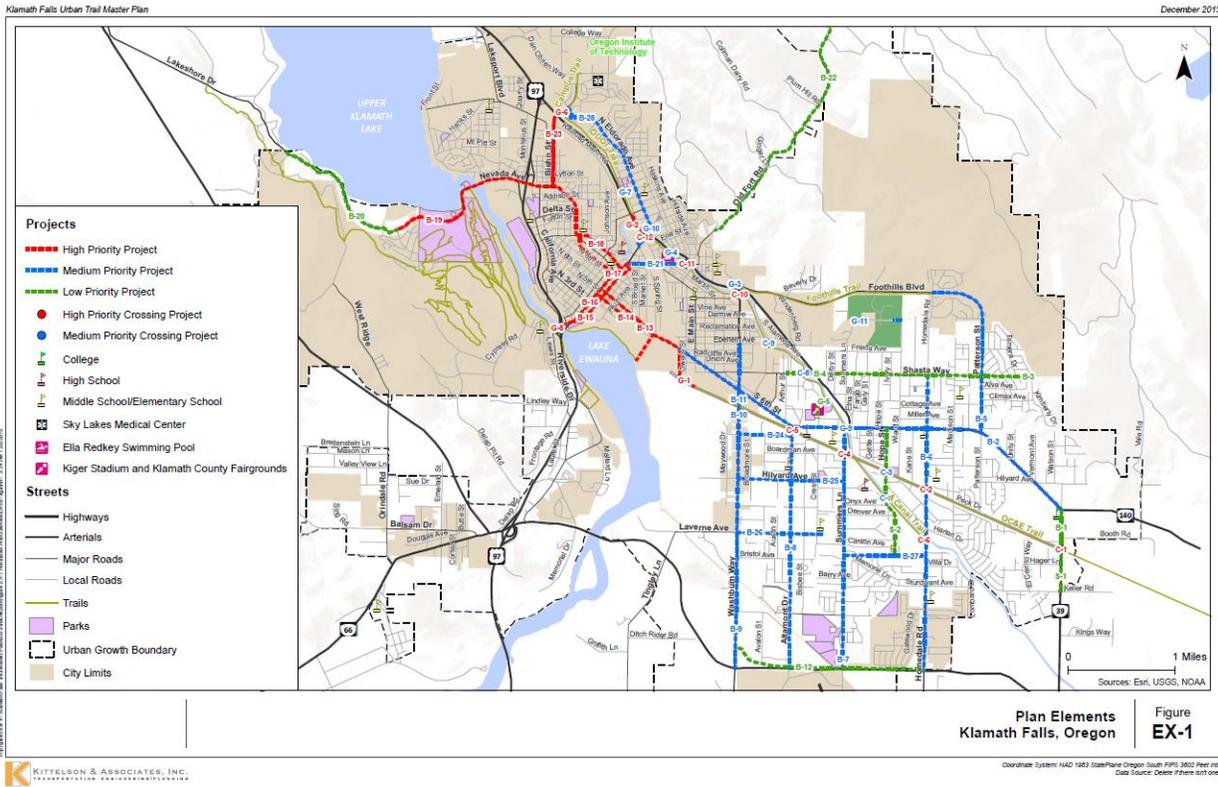
Klamath Falls is fortunate to have a distinct downtown that has the foundation to provide many of the elements that will entice talent to stay in the community. Positive aspects that should be developed further include:

- A significant historic building stock;
- A Main Street that leads directly to a stunning waterfront;
- Direct connections between adjacent residential neighborhood and downtown (no barriers such as an arterial road or highway);
- Grocery store along 9th Street that was recently vacated.

A first step important step in revitalizing the downtown will be the adoption and implementation of the Urban Trail Master Plan proposed by Kittelson and Associates, Inc. that identifies bicycle facilities on Main, Klamath, 9th, and 11th as high priorities. Such infrastructure allows for desired alternative transportation modes and supports a more active downtown environment.

³ *Brookings Institute, 11 Facts about the Millennial Generation, June, 2014*

Figure 6 - Klamath Falls Urban Trail Master Plan



Source: Kittelson and Associates

CONNECTIONS

One significant aspect of the ever shifting economy is the increasing need for connections: both physically and among organizations. All economies, dating back to the Silk Road in Asia thousands of years ago, have depended on freight routes and the ability to move goods. This aspect of connection now includes the important element of sharing ideas via broadband infrastructure. In order to thrive in a modern economy, communities cannot become isolated, nor can they work in isolation. All communities are facing increasing challenges ranging from workforce training, poverty, affordable housing and job creation. Leveraging support and resources from all organizations is increasingly important to solve such complex issues.

Klamath Falls is somewhat limited in this important element of economic development in that it does not have direct access to Interstate 5, with the closest connection approximately 65 miles away. Fortunately, after a three years without commercial air service, it has just been announced that daily commercial flights to Portland will resume later this year. A State delegation of U.S. Senators and Representatives were successful in passing legislation to bring back service to the community. The community and state leaders were fully aware, that bringing commercial air service back to Crater Lake-Klamath Regional Airport is a vital aspect to growing the local economy.

As the issue of physical connections is addressed at a federal level, the community is focused on building internal engagement and inspiration through the Blue Zone program, which encourages changes to communities that lead to healthier options. The program is intended to bring residents, worksites, schools,

restaurants, grocery stores, and government together to improve the quality of life for everyone. Throughout the process of interviewing community stakeholders for this analysis, we were impressed by the fact that each person was not only aware of this program, but overwhelmingly supportive and excited by the prospects of collaboration it fostered. The Blue Zone program is a significant and positive focal point for the community.

AREA ANALYSIS

Study Area

Klamath Falls is located in Southern Oregon east of the Cascade Mountain Range. This city is a 4 ¾ hour drive from the Portland metropolitan area. Air service is currently unavailable, however there are daily commuter flights from Medford and air service will be returning in late 2016. Medford is approximately an hour and a half drive to the west of Klamath Falls.

Figure 7 - Klamath Falls Location in Oregon

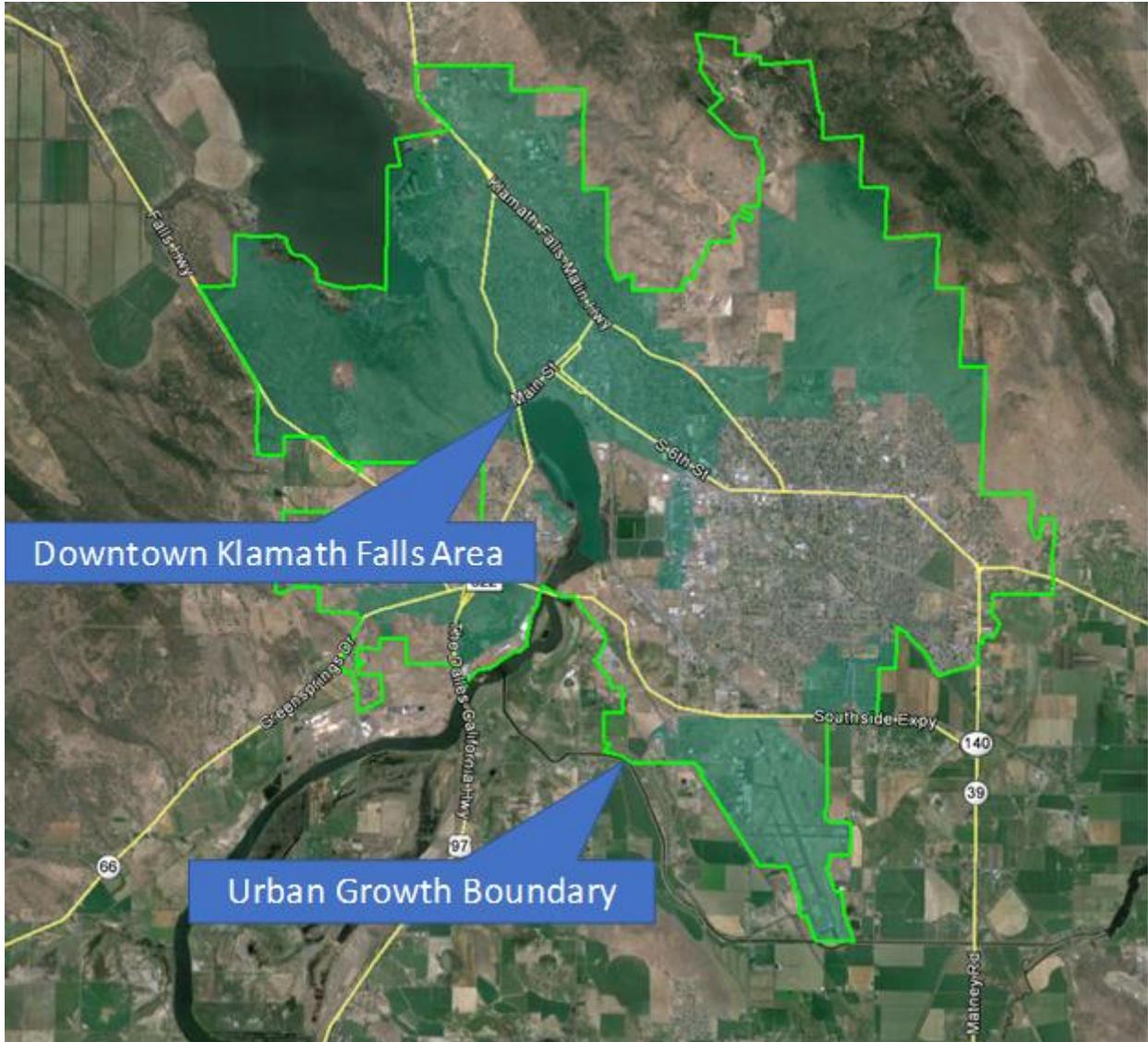


Source: Google Earth, Leland Consulting Group

Klamath Falls is the largest city in Klamath County and its population makes up over 30 percent of the County's population. The unincorporated area adjacent to Klamath Falls and within the Klamath Falls Urban

Growth Boundary contains a similarly sized population. Combined Klamath Falls and the unincorporated area contain over 60 percent of Klamath County's population⁴.

Figure 8 - Klamath Falls Area

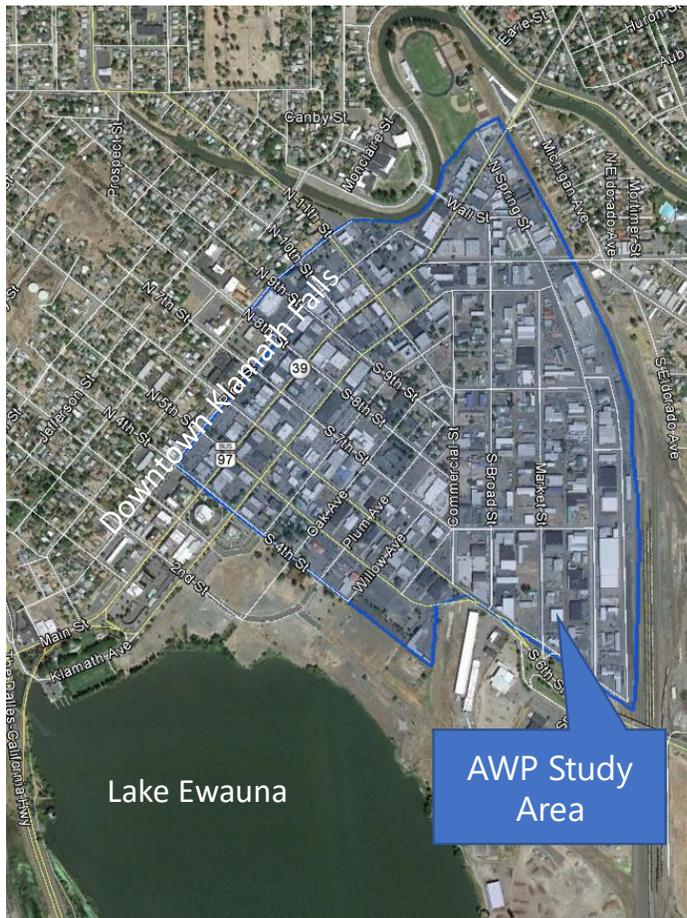


Source: Google Earth, Leland Consulting Group, (City boundary shaded green)

Downtown Klamath Falls, and the study area for this project, is located just north of Lake Ewauna, and south of the Crater Lake Parkway. As highlighted in an earlier section, the AWP study area incorporates the northern section of downtown, along with the industrial area just to the east of the downtown area.

⁴ US Census

Figure 9 - Downtown Klamath Falls and AWP Study Area



Source: Leland Consulting Group, Stantec, Google Earth

Klamath Falls Population Growth

Klamath Falls is expected to experience modest growth in the near to long term. The population within Klamath Falls Urban Growth Boundary (which includes a sizeable unincorporated area) grew from 41,541 people in 2000 to 42,567 people in 2010 with an overall average annual growth rate of 0.2 percent⁵. Portland State University’s Population Research Center, the preeminent demographic institute in the state of Oregon, projects that the Klamath Falls metropolitan area will continue to grow at a rate of 0.3 percent per year through the year 2035. The projections are much lower than overall statewide growth. The research predicts that Klamath County will grow by 25.4 percent through the year 2040, compared to the statewide growth projection of 58 percent during the same period.

Recent historical population growth has largely been from in-migration. Using Internal Revenue Service (IRS) data as a proxy, households are moving from nearby Oregon counties as well as populous counties in the state of California. Some of the top origin counties for in-migrants to Klamath County in the years 2012 and

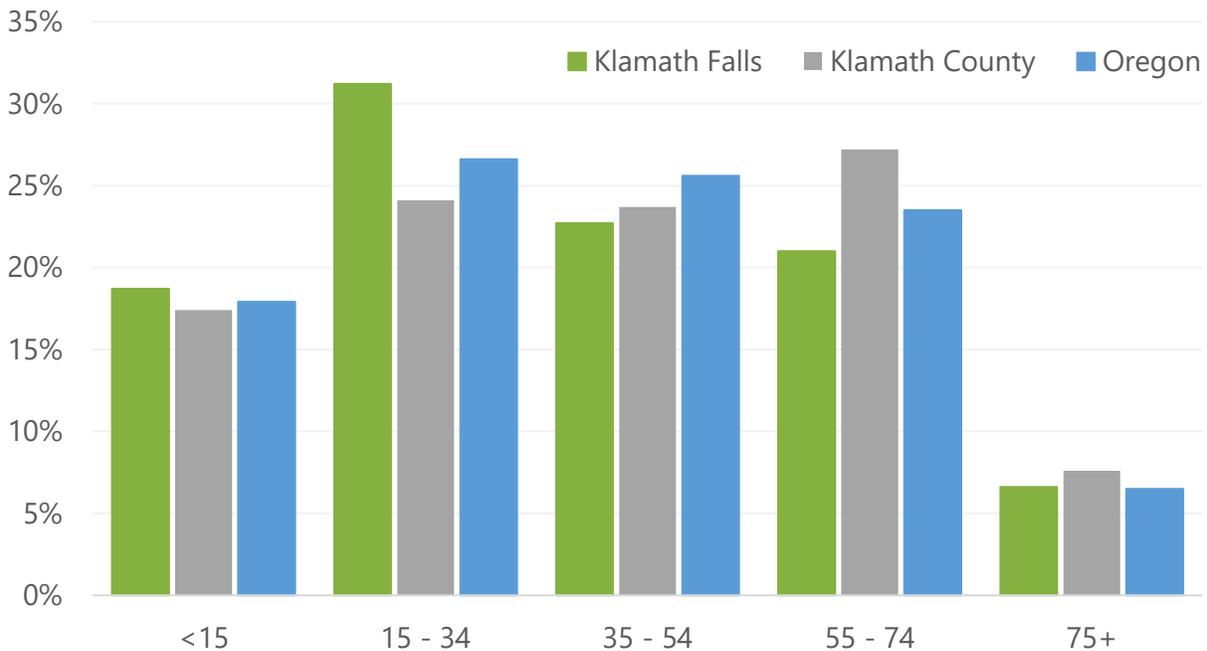
⁵ Coordinated Population Forecast 2015 through 2065, Klamath County, Population Resource Center, PSU, June 2015

2013 (the latest data available) are: Jackson, Deschutes, Lane, and Washington counties in Oregon and Siskiyou County in California⁶.

Demographics

Klamath Falls is a city of approximately 21,000 people as of the 2015 that has seen modest population growth over the past 20 years. The city has a much larger Millennial cohort than the county, likely due to the influx of Oregon Tech students, and it is growing faster than the county. Klamath Falls is also increasing in diversity; like the county and state, the city has a growing Latino population.

Figure 10 - Population by Age Comparison (2015)

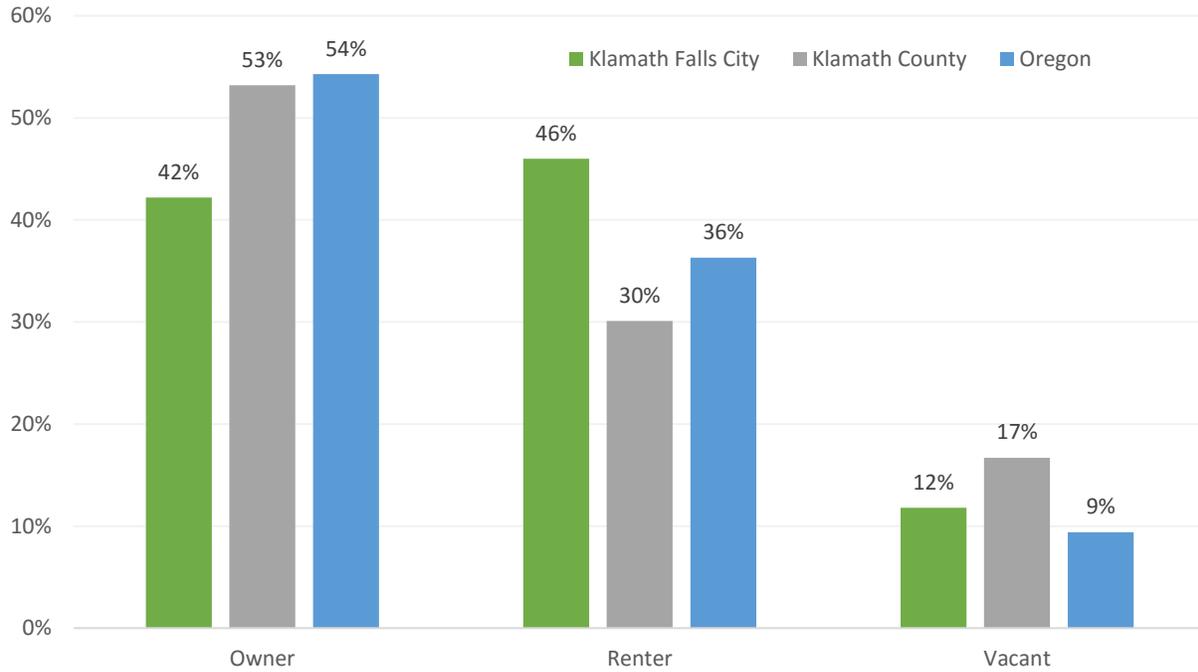


Source: ESRI, Leland Consulting Group, 2015

Figure 10 shows the age distribution of the city, county and state. In most age brackets, Klamath Falls compares well, but in general, the population skews younger indicating perhaps that retired people are not attracted to the area or are moving out of the area. But overall, Klamath Falls has positive workforce numbers.

⁶ IRS Tax Stats, <https://www.irs.gov/uac/Tax-Stats-2>

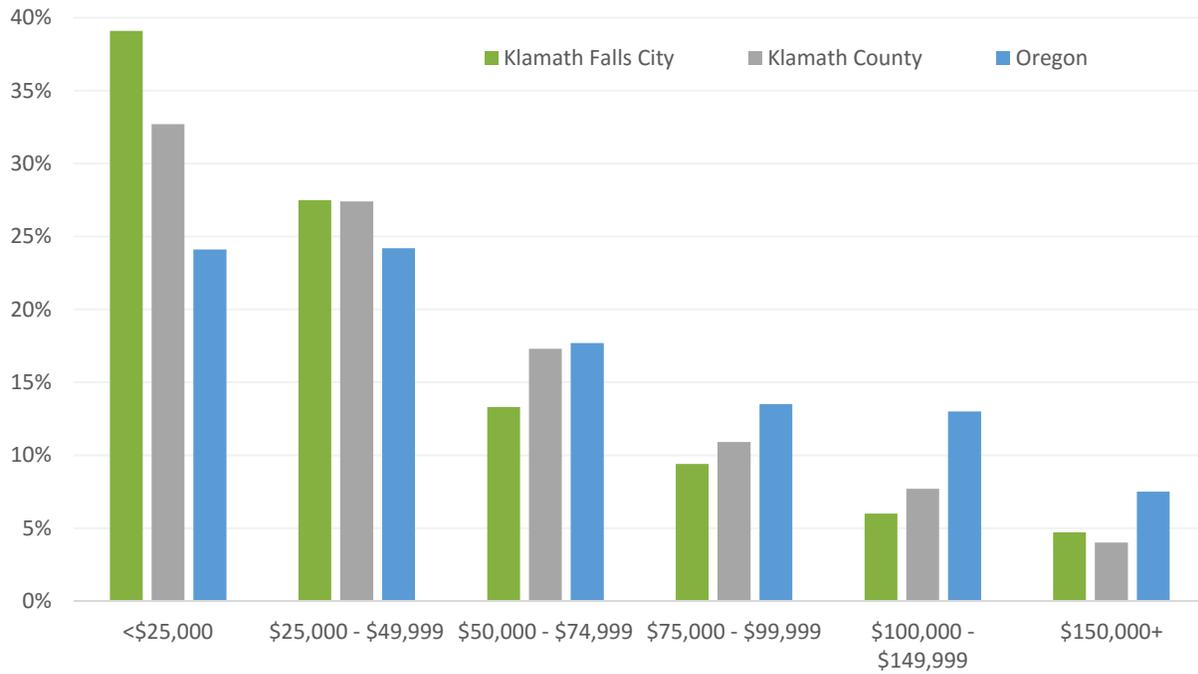
Figure 11 Housing Tenure, 2015



Source: ESRI, Leland Consulting Group, 2015

Figure 11 illustrates housing tenure through ownership, renting, and vacancies. Klamath Falls has less home ownership than the county and state and significantly more renters. This aligns with the demographic trend of a higher proportion of households earning less than \$25,000 annually and much fewer households earning more than \$50,000 per year as indicated in the following figure. The vacancy rate is likely due to second homes, not simply abandoned houses or houses sitting on the market waiting to sell. Klamath Falls has a robust real estate market with low vacancy rates and houses typically take about three months to sell.

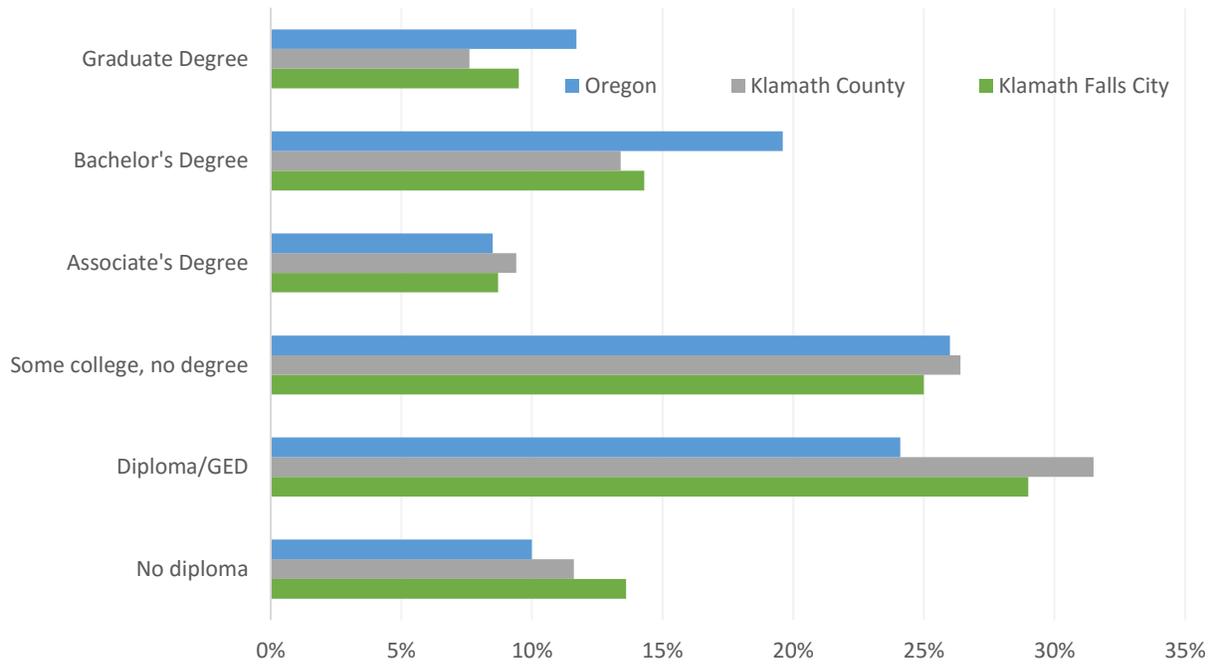
Figure 12 Households by Income, 2015



Source: ESRI, Leland Consulting Group, 2015

Klamath Falls’ household income distribution is not typical of either the county or the state. It has significantly more households earning less than \$25,000 annually and much fewer households earning more than \$50,000 per year. Household income is linked to educational attainment and the types of jobs that are available and may be skewed by the city’s student population.

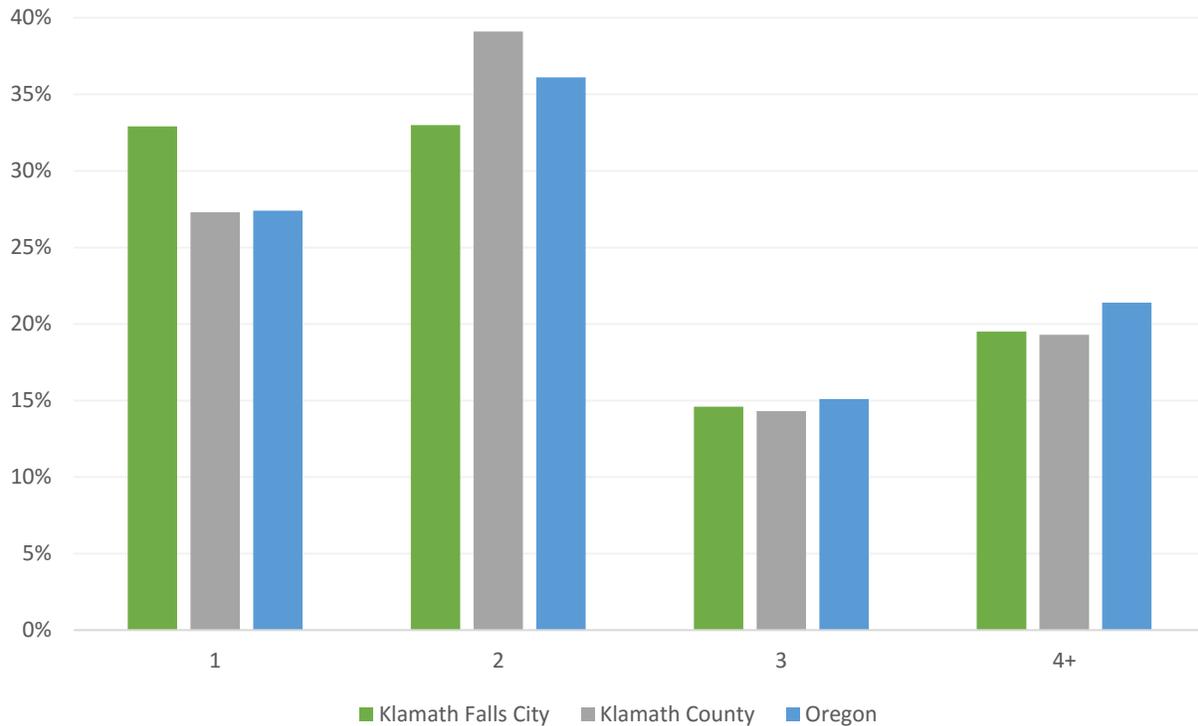
Figure 13 Education, 2015



Source: ESRI, Leland Consulting Group, 2015

Klamath Falls has a higher portion of the population who have earned high school diplomas, but also exceeds the state and county in adults who have no diploma. Many residents have some college or have earned an Associate’s degree, but the city falls behind the state in bachelor’s degrees and graduate degrees. The gap between “some college” and “bachelor’s degree” may be representative of Oregon Tech students who earn their degrees, then move away.

Figure 14 Household Size



Source: ESRI, Leland Consulting Group, 2015

Klamath Falls has a disproportionate share of single-person households compared to the county and state. This could be both young student households or older people living alone as trends are on the rise for both. The city has fewer two-person households than the county and state, but compares well in larger households.

Lifestyle Segments

Tapestry segments are a series of demographic categories (also called psychographic profiles) developed by ESRI, a national third-party demographic information provider. Tapestry segments can give a more nuanced understanding of Klamath Falls' unique demographic characteristics by describing a population based on its lifestyles, attitudes, purchasing patterns, and interests. The benefit of Tapestry segments is that they go beyond raw numbers to describe groups of people in everyday language, combining data from many sources such as the U.S. Census Bureau, Bureau of Labor, and other private sector data sources. The figure below provides a brief overview of the top five segments in Klamath Falls by percentage of households. Klamath Falls' five Tapestries, that together represent 76.1 percent of the city's population, are highlighted below.

Rank	Tapestry Segment	Percent Klamath Falls Households	Percent U.S. Households
1	Set to Impress	39.8%	1.4%
2	In Style	16.3%	2.3%
3	Old and Newcomers	8.3%	2.3%
4	Small Town Simplicity	6.0%	1.9%
5	Hardscrabble Road	5.7%	1.2%

Source:
ESRI, 2016

The following descriptions explain in brief detail characteristics that define each of Klamath Falls' top five Tapestries. Each description provides insight regarding the rental, home ownership and income distribution indicated in the above figures.



Set to Impress (39.8 percent). Apartment dwellers that are working hard to move up in the world. Three quarters of this group are renters. Many work in the service industry while attending college classes. Although incomes are lower than average this group is better educated than the general population.



In Style (16.3 percent). Childless couples that are actively involved in the arts, travel, and reading. Home ownership and savings rates are high. These households are typically older than average and have already planned for retirement.



Old and Newcomers (8.3 percent). Primarily single-person households, with some couples. Average household size is small at 2.11 people. These households are on a budget and usually trying to launch a career or are retired. They care about the environment and are price aware. They are more likely to be renters, and age isn't always apparent from their choices.



Small Town Simplicity (6 percent). Young families and senior households that prefer small town lifestyles. This group is frugal and they carry little debt. Predominantly an older and single market, unemployment levels are high and labor force participation is low.



Hardscrabble Road (5.7 percent). This multicultural group is primarily a family market. This group works in service, manufacturing, and retail trades. A majority of this group are renters, but prefer to rent single family homes, or duplexes over apartment units in larger buildings.

Klamath Falls Demographic Snapshot

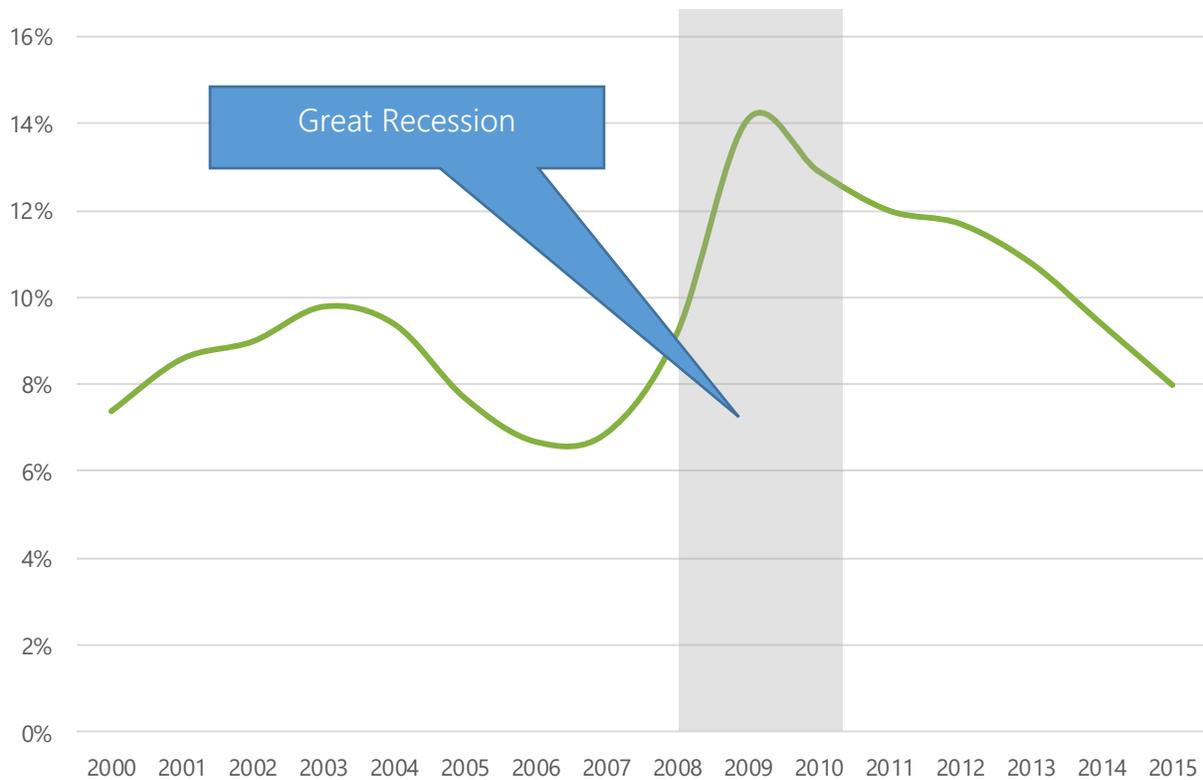
- Klamath Falls grew at a slower rate than the State or Oregon, between 2000 and 2010. During this period Klamath Falls grew by 2.9 percent, and Oregon grew by 13 percent.
- Klamath Falls has an average percentage of its population living in one or two-person households. Over 65 percent of Klamath Falls' population lives in one or two-person households versus 64 percent in the whole state of Oregon.
- Klamath Falls' population is generally younger than the State's with one of the largest age groups being Millennials, ages 15 to 34.
- Klamath Falls' average household size is slightly smaller than the state of Oregon as a whole. Klamath Falls' average household size is 2.3 versus 2.4 for all of Oregon.
- Klamath Falls' median household income is significantly lower than the State median, with the City at \$31,669 and the State of Oregon at \$51,627.
- About 46 percent of housing units in Klamath Falls are renter occupied. This is higher than the State's rate of only 36 percent renters. Klamath Falls also has a higher number of vacant homes with almost 12 percent of the housing stock vacant. This compares to Oregon's rate of vacant homes at 9.8 percent. These vacancies are likely second homes, not simply abandoned houses or houses sitting on the market waiting to sell. Klamath Falls has a robust real estate market with low vacancy rates and houses typically take about three months to sell.
- Klamath Falls' population has lower educational levels than that of the state of Oregon. Almost ten percent of the population over the age of 25 has no high school degree. This is comparatively lower than the State rate of six percent. The two geographies are similar in their populations that have a high school degree and/or some college education, at 25 and 26 percent, respectively. The populations again differ with the percentage of the population with higher degrees. Approximately 24 percent of Klamath Falls' population has a bachelor's degree or higher, versus Oregon's rate of over 30 percent for higher degrees.
- While Klamath Falls' population is fairly homogeneous at 82 percent white, over 14 percent of the population identifies as Hispanic (and can be of any race, including white).

AREA ECONOMIC ANALYSIS

Klamath Falls is the largest city in Klamath County, and is the seat for Klamath county government. As such, Klamath Falls is a regional hub for business and government for the Southern Oregon area east of the Cascade mountain range. Klamath Falls is also the location of Oregon Tech, Oregon’s premier public technical university, a large and active Air National Guard base, and the jumping off point for Oregon’s only National Park – Crater Lake National Park.

Long reliant on the timber industry and manufacturing, two industries that have shrunk considerably in the past 50 years, Klamath Falls has struggled to redefine its economy in the 21st century. Klamath County, of which the city of Klamath Falls makes up approximately 30 percent of the population, has typically experienced an unemployment rate higher than seven percent. During the Great Recession from 2008 to 2010, the unemployment rate shot up to over 14 percent. Since that time, employment numbers have been slowly improving. In 2015 the unemployment rate in Klamath County dipped below eight percent for the first time in over a decade⁷.

Figure 15 - Annual Unemployment Rate for Klamath County, Oregon

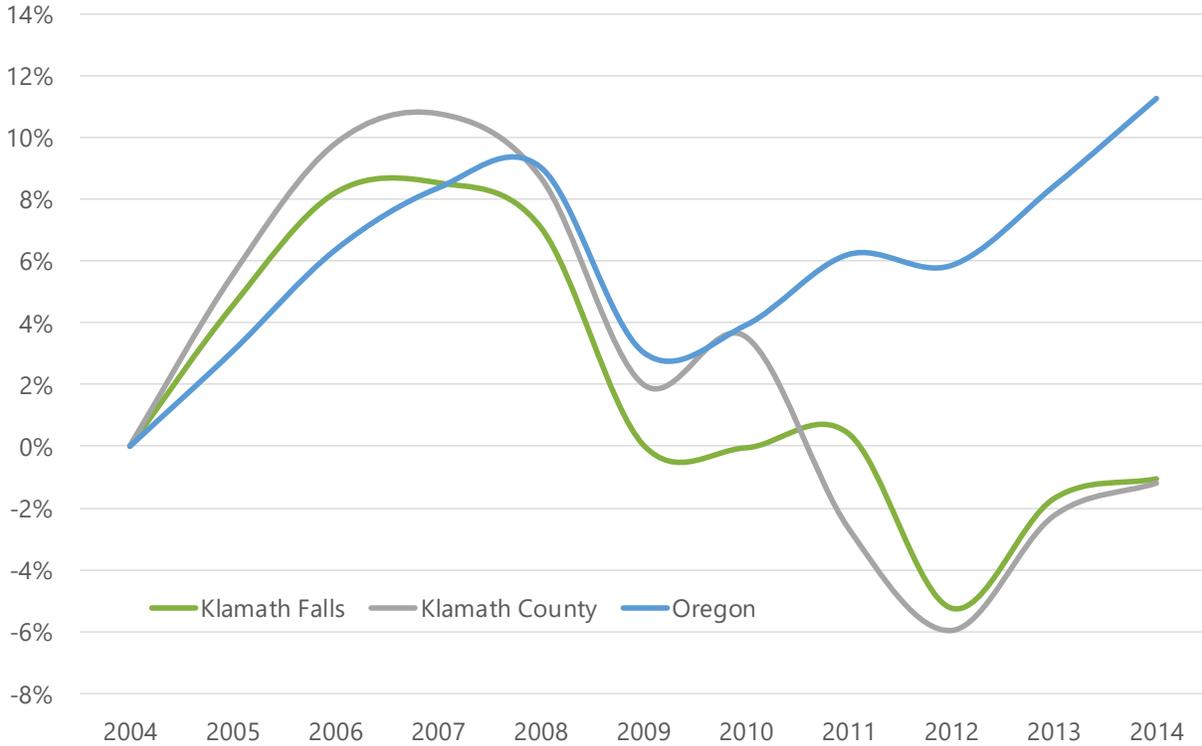


Source: (Annual, not seasonally unadjusted) Federal Reserve Economic Data, Leland Consulting Group

⁷ State of Oregon, Employment Department, Labor Market Information, January 2016

Compared to the state of Oregon however, both Klamath County and the City of Klamath Falls have performed poorly in regaining jobs lost during the Great Recession. As illustrated in the chart below, as of 2014, Klamath Falls job growth had yet to reach 2004 levels.

Figure 16- Employment Change (2004 to 2014)

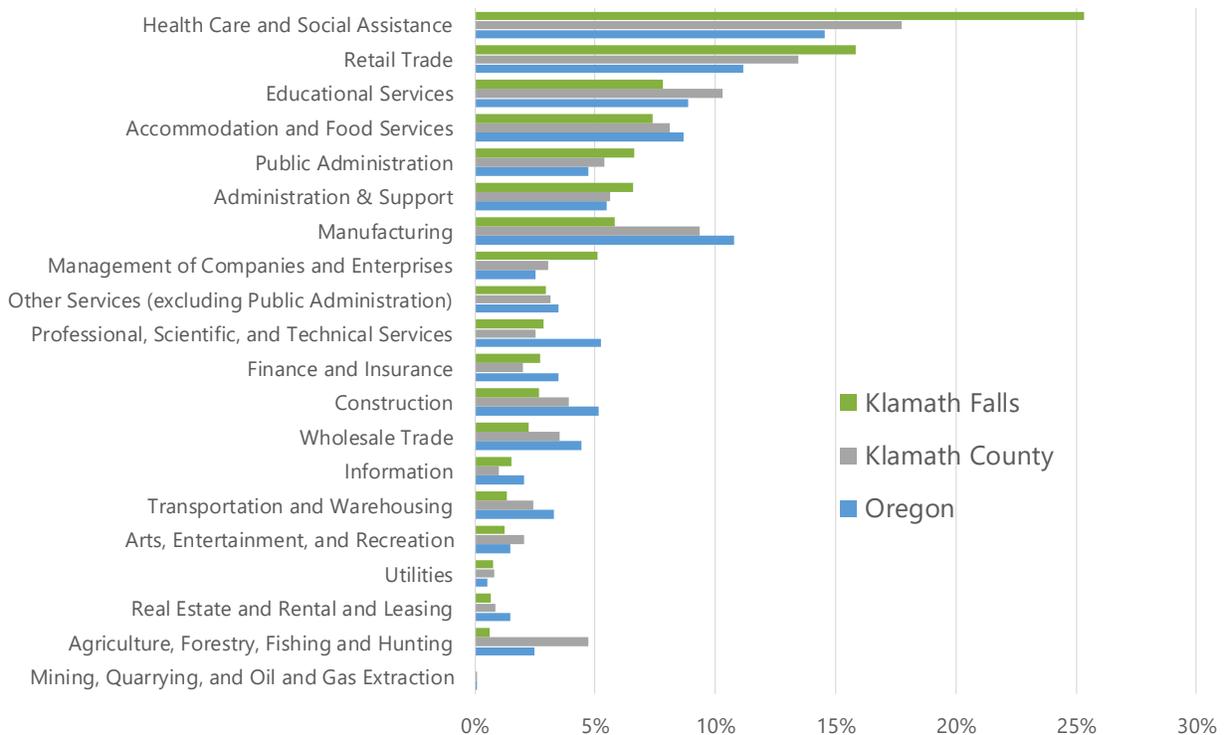


Source: US Census Bureau Longitudinal Employer-Household Dynamics, 2014

In 2015, Klamath County had 21,930 nonfarm jobs, a jump of 430 jobs over 2014. Recent job growth has taken place in the professional and business services, government, private educational and health services, and construction industries. In 2015 Klamath County lost jobs in the leisure and hospitality, manufacturing, and wholesale trade sectors⁸.

⁸ State of Oregon, Employment Department, Labor Market Information, January 2016

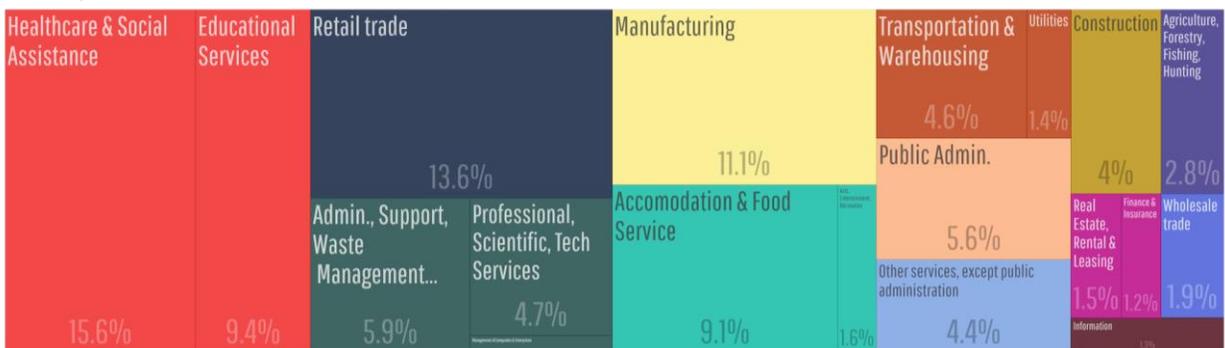
Figure 17 - Comparison of Percent Employment by Industry



Source: U.S. Census Bureau Longitudinal Employer-Household Dynamics, 2014

Recent figures show the city of Klamath Falls having over 11,000 primary jobs. The major employers include Sky Lakes Medical Center, Oregon Tech, Jeld-Wen (window and door manufacturer), Klamath Falls City School District, Collins Products (wood products), Fred Meyer, and Walmart.

Figure 18 - Klamath Falls Industry by Share of Employment

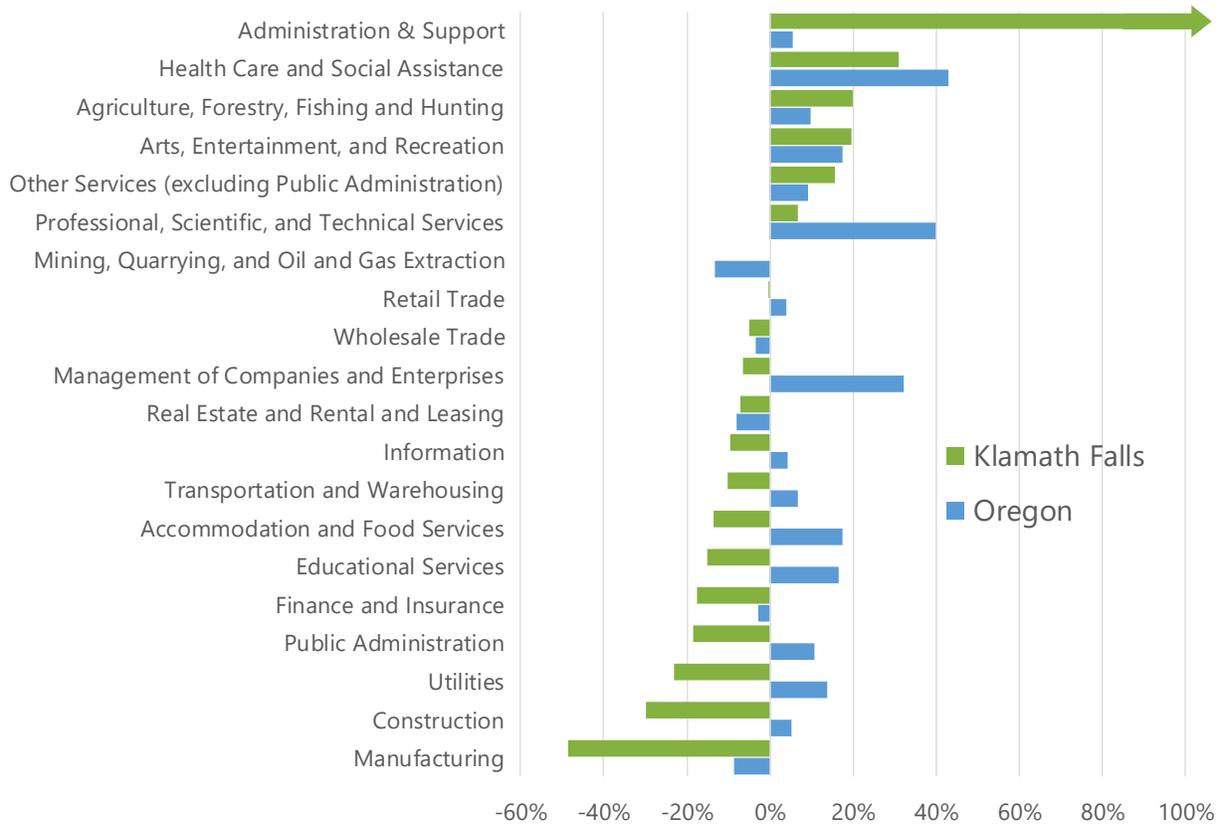


Source: U.S. Census, American Community Survey 5-Year Estimate

From the decade from 2004 to 2014, the city of Klamath Falls saw the greatest job growth in the administration and support sectors. Klamath Falls also saw job growth the in health care, arts and

entertainment, recreation, public administration, professional, scientific, and technical services sectors. The chart below illustrates the growth of job sectors in Klamath Falls with the entire state of Oregon.

Figure 19 - Comparative Growth in Employment Klamath Falls (2004 to 2014)



Source: U.S. Census Bureau Longitudinal Employer-Household Dynamics, 2014

Data shows that Klamath Falls’ economy is slowly improving. A couple of recent announcements outlined below will bolster this forward momentum of the local economy.

Oregon Tech, and other community partners, are promoting the opportunity of a 400-acre technology park called Tech Hills to be located just west of the university campus. With generous lot sizes, proximity to the university and the medical center, and some infrastructure already in place, this tech park could be a strong attractor for scientific and technical enterprises as continued efforts improve the workforce talent base.

The city has announced the return of regular air service to the city. Once the regulatory hurdles are overcome as expected by mid-year, PenAir will start daily flights to Portland International Airport. Air service is a crucial component to economic development as it greatly improves access to the community by potential investors from elsewhere.

These announcements, along with expansion of the F-15 Training program at the Kingsley Field Airbase, OHSU's Rural Health program, the Blue Zone Program, and the ongoing national economic recovery will continue to support Klamath Falls' economic growth into the near future.

Klamath Falls Economic Analysis Snapshot

- Klamath Falls' economy has been slowly improving since the recent recession and has really started to gain momentum in the past two years.
- Klamath Falls exceeds the State of Oregon in percentage of employment in recreation and agriculture and hunting. Jobs within these industries are tied to the unique outdoor assets within the County. There should be further consideration as to how to leverage this industry growth.
- Klamath Falls has seen a significant decline in manufacturing employment. In contrast, Klamath Falls has seen growth in professional, scientific and technical industry sectors.

MARKET ANALYSIS

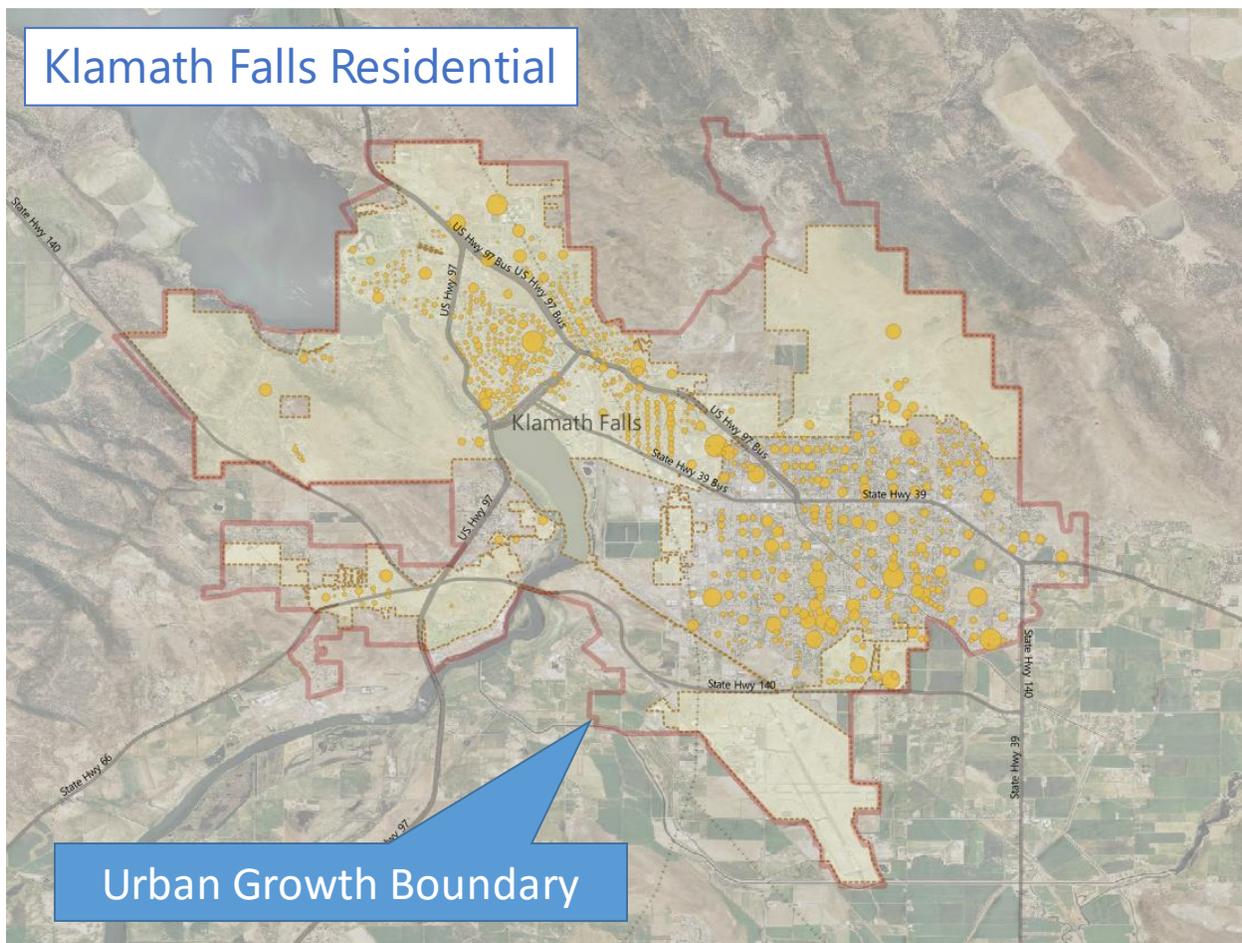
Klamath Falls' Residential Market

As of the last official census count, Klamath Falls had 9,595 housing units, a 6.5 percent increase from the 9,010 housing units Klamath Falls had during the 2000 census. More recent census estimates show Klamath Falls' housing stock continuing to grow, but at a modest pace.

The map below illustrates the relative census block population of the city of Klamath Falls and the surrounding area. Larger circles indicate higher populations in that census block, and smaller circles vice-versa.

The map shows that the population of Klamath Falls is concentrated primarily around (but not in) the downtown area, and that the unincorporated area (the unshaded area to the south east and inside the Urban Growth Boundary) contains a large portion of the metro area's population.

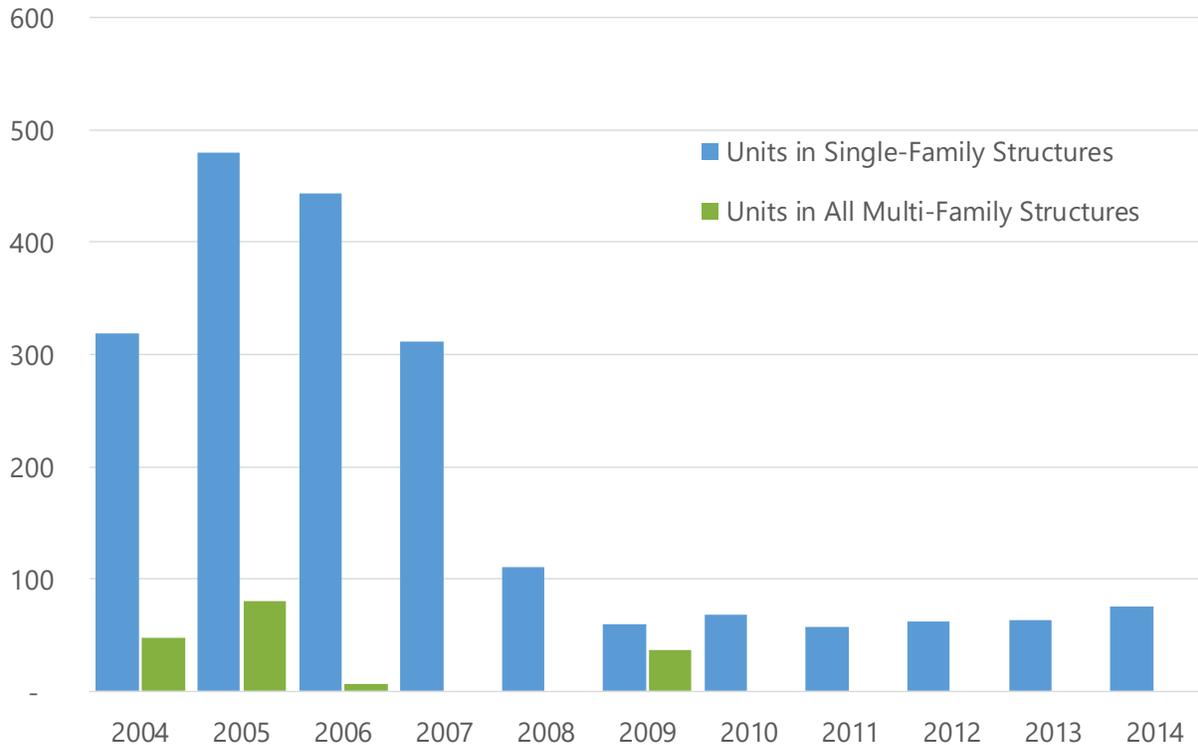
Figure 20 - Klamath Falls Comparative Residential Population by Block Group (2013)



Source: U.S. Census

Housing unit construction in Klamath County has dropped considerably from pre-recession levels, as illustrated in the chart below. Single-family housing unit permits have stabilized, although their numbers are much lower than pre-recession levels. With the exception of a couple of duplex projects, multifamily construction has been nonexistent since the last project delivery in 2009 – Iris Glen, a 37-unit subsidized housing project.

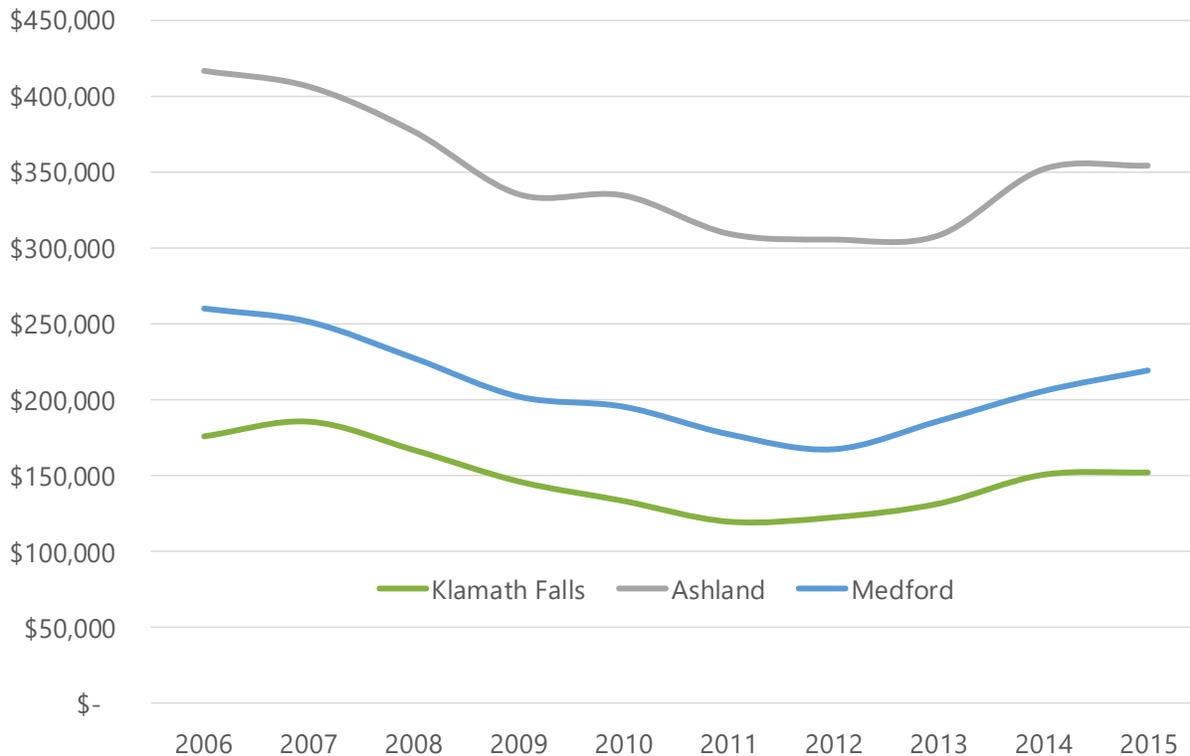
Figure 21 - Klamath County Housing Permits Issued (2004 to 2014)



Source: SOCDs, HUD permit database, 2015

Single-family home pricing has stabilized after a drop during the Great Recession. Average home prices have hovered around \$150,000 for the past two years. Compared to other Southern Oregon cities, home values in Klamath Falls are a magnitude lower. Median sold home prices in Ashland, for example, are over twice the value of the average home in Klamath Falls.

Figure 22 - Historical Median Sold Price for All Homes Comparison (2006 to 2015)



Source: Zillow Data Research

Residential rental rates in Klamath Falls are modestly priced. The rental stock in Klamath Falls is poor to average quality in general. As previously stated, there have been few multifamily deliveries to market in the past decade. Brokers mention that the lack of quality rental stock is a major detriment to their business, and that it is difficult to find appropriate rentals for mid to top-of-market renters. Anecdotally, it appears that most renters that can afford top-of-market rents stay at the Running Y Ranch, to the west of the city. Nonetheless, brokers describe \$1,200 per month as the absolute upper limit of the market due to the low average home prices with mortgage payments at this same price. However, this assumes all people renting would rather own a home. There may be a percentage of the population that does not want to own at any price and is willing to pay for well-designed downtown apartment. Higher-income people may choose to rent even if they could afford to own a home for many reasons. Rentals provide none of the hassles of home maintenance, are often located in downtown areas within walking distance of restaurants and retail, and provide greater flexibility if the renter's job is temporary or future job prospects are uncertain.

Given the poor quality rental stock in the city and the lack of new and modern apartments, there appears to be a mismatch in the rental market whereby there are too few desirable rental properties for mid to top-of market consumers. Brokers confirmed that they are turning away potential renters because the few acceptable rentals for this market segment are always full.

For this reason, there appears to be an opportunity in the market for new and different rental product. Urban style rentals, that is apartments that are in or near a downtown, have an urban design, and that are close to urban amenities such as cafes, breweries, and restaurants, do not currently exist in Klamath Falls. A

differentiated urban apartment building in the right location would therefore stand out in this market, and command a premium rent from consumers seeking that lifestyle.

Assuming a 20 to 30 percent premium over current market rents, based on reported demand and lack of new products downtown, market rates for rental housing could be expected to be at rates outlined below. That is, a well-designed and well-located new apartment would be expected to rent for prices significantly higher than the market average, which is dominated by older product in weaker locations.

Table 1 - Current Rents vs. Downtown Premium Rents

Unit Type	Current Average Rent	Downtown Premium Rent
Studio	\$500	\$600 – 650
1 bedroom	\$600	\$720 - 780
2 bedroom	\$875	\$1,050 – 1,140
3 bedroom	\$1,100	\$1,320 – 1,430

Source: Leland Consulting Group

These current and premium rental prices can be further translated into a rent per square foot model based on industry standards for various unit types. The unit sizes indicated below are conservative in size, but could be reduced as is generally seen with new urban market product with efficient layouts and proximity to nearby amenities.

Table 2 - Premium Rents to Rents per Square Foot per Month

Unit Type	Unit Size (SF)	Average Rent per Square Foot			
		\$1.00	\$1.10	\$1.20	\$1.30
Studio	500	\$500	\$550	\$600	\$650
1 bedroom	750	\$750	\$825	\$900	\$975
2 bedroom	1,000	\$1,000	\$1,100	\$1,200	\$1,300
3 bedroom	1,200	\$1,200	\$1,375	\$1,500	\$1,625

Source: Leland Consulting Group

The typical affordability criteria for rental housing is generally no more than 30 percent of gross income going to housing costs. Using this baseline assumption, the following range of incomes is necessary to support the anticipated downtown rental prices outlined above.

Table 3 - Required Incomes to Achieve Rents per Square Foot per Month

Unit Type	Unit Size (SF)	Average Rent per Square Foot			
		\$1.00	\$1.10	\$1.20	\$1.30
Studio	500	\$20,000	\$22,000	\$24,000	\$26,000
1 bedroom	750	\$30,000	\$33,000	\$36,000	\$39,000
2 bedroom	1,000	\$40,000	\$44,000	\$48,000	\$52,000
3 bedroom	1,200	\$44,000	\$50,000	\$55,000	\$60,000

Source: Leland Consulting Group, (Numbers rounded)

The chart below illustrates one portion of the Klamath County population that would be the target demographic for urban apartments – households with a householder (head of household) under the age of 44. Altogether there are currently over 9,000 households in the county in this age cohort. Furthermore, there are approximately 4,370 households of this age cohort that fall within the required income range outlined above.

Figure 23 - Households by Income of Householders under the Age of 44



Source: U.S. Census, ACS Population Survey 2009-2013, Leland Consulting Group

What portion of this population would choose to live a downtown lifestyle? Even if only five percent of this population would jump at the possibility of a downtown rental, that would mean well over 200 households currently within Klamath County seeking rental housing in downtown Klamath Falls.

Another target demographic for downtown housing would be seniors that are looking to downsize and move into walkable neighborhoods. There are 7,534 households in Klamath County with a householder over the age of 65. Approximately 3,623 have an income within the required range outlined in the tables above. This is most certainly an undercount of senior households that would be able to afford these apartments however. Many, if not most, seniors are retired from full-time positions and draw from pensions or retirement accounts instead of relying on employment income. The table below outlines this population.

Table 4 - Households by Income of Householders over the Age of 65



Source: U.S. Census, ACS Population Survey 2009-2013, Leland Consulting Group

Klamath Falls Commercial Real Estate Market

Retail

Klamath Falls has a locally sized retail sector⁹. While it would seem that the city would serve a larger market area given that it is the largest city in Southern Oregon east of the Cascade mountains, anecdotally it appears that consumers are willing to drive over an hour west to the Medford area for many shopping needs.

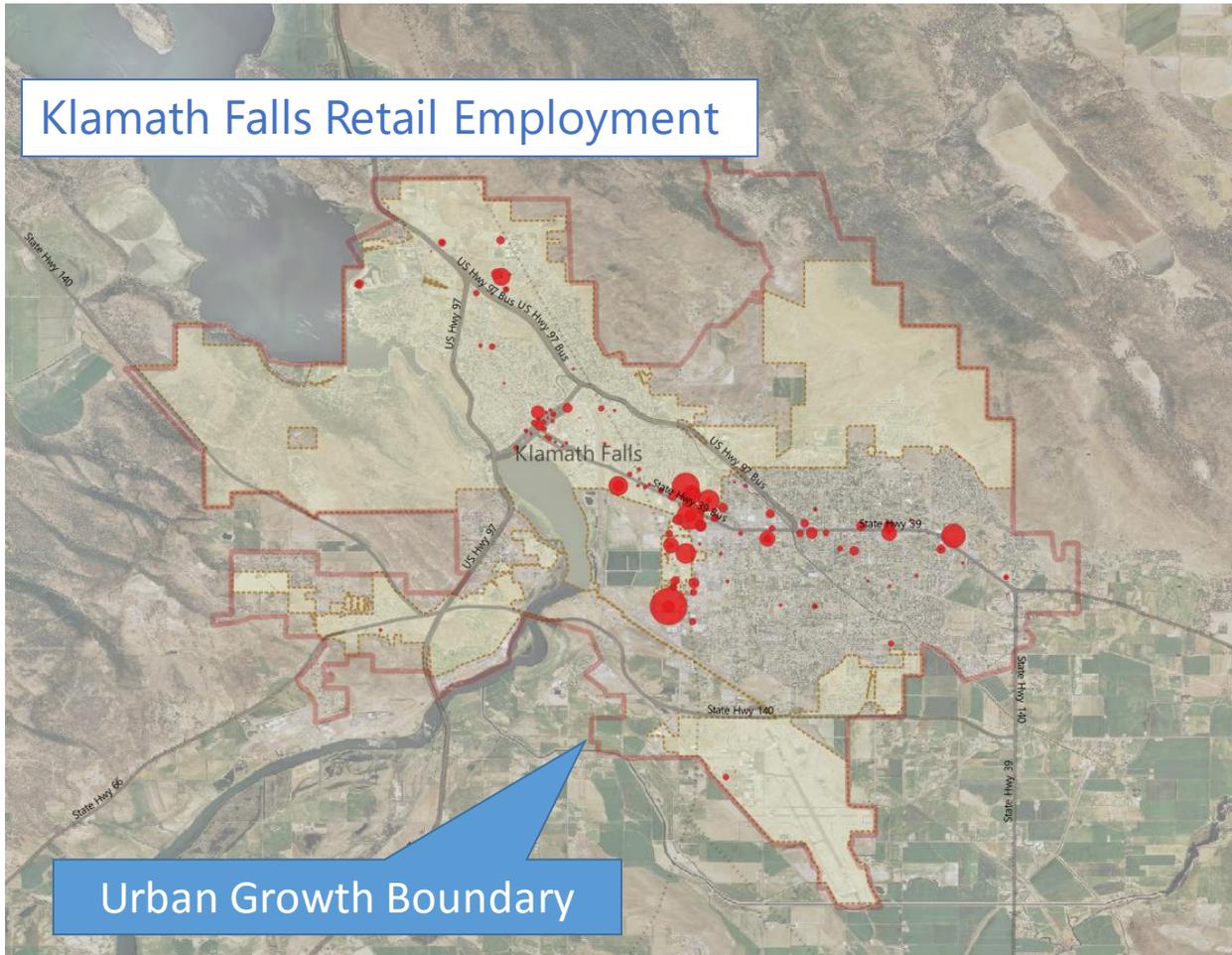
The market is small enough that large databases such as CoStar and LoopNet do not have significant enough number of data points in order to make sweeping market assumptions. Brokers describe retail rental rates between \$9 per square foot per year to \$15 per square foot per year on a modified gross lease structure¹⁰. The top of the retail market is represented by credit-tenant retail pad sites along Washburn Way and South 6th Street. These properties, with easily recognizable national franchises, pay rents in the mid-twenties per square foot per year. Generally, retail rents need to be in the low to mid \$20s per square foot per year range in order for new standalone retail development to be feasible.

The map below illustrates retail locations in the Klamath Falls area. Retail is clustered near the intersections of South 6th Street and Washburn way, in the downtown area, and near Oregon Tech to the north.

⁹ Retail sector here includes lodging and dining.

¹⁰ Modified Gross Lease Structures are lease contracts that stipulate that the tenant and the landlord split building operating costs such as utilities, landscaping, maintenance, property insurance, etc.

Figure 24 - Comparative Retail Employment by Block Group (2013)

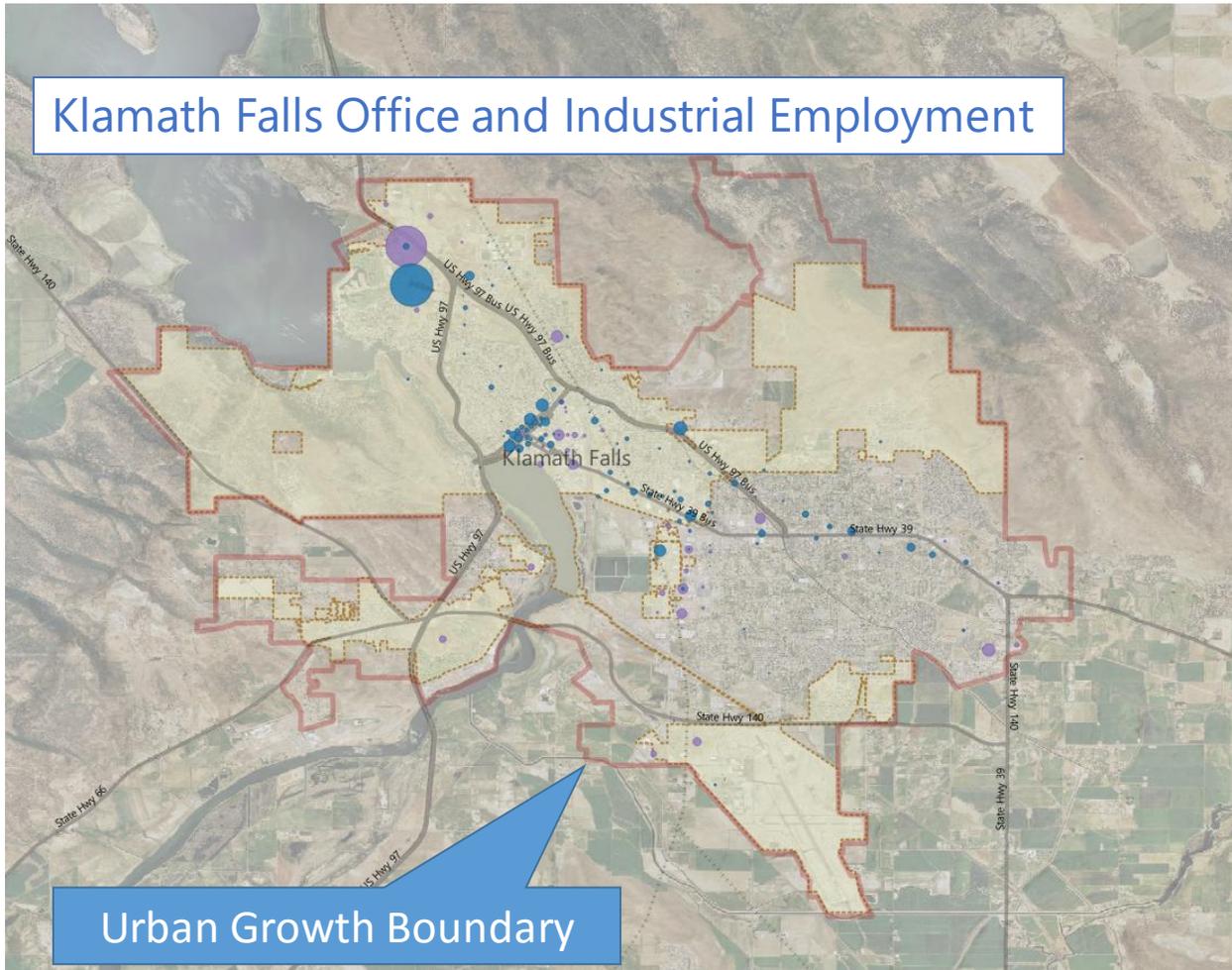


Source: U.S. Census, Leland Consulting Group, 2013

Office and Industrial

Similar to the retail market, the office market in Klamath Falls is a locally serving market. Office properties (in blue in the map below) are clustered in the downtown area, near Oregon Tech and, to a lesser extent, on South 6th Street. Industrial properties (in purple) are located near Oregon Tech to the north, just east of downtown, and in the unincorporated area to the east.

Figure 25 - Comparative Office and Industrial Employment by Block Group (2013)



Source: U.S. Census, Leland Consulting Group, 2013

Again, limited data is available, but it appears that Klamath Falls office rents range from as low as \$6 per square foot per year for a bare-bones space to \$16 per square foot on a full service lease structure¹¹. The table below illustrates office spaces currently on the market in downtown Klamath Falls.

¹¹ Full Service Lease Structures are lease contracts that stipulate that the landlord will pay all real estate related operating expenses.

Figure 26 - A Sample of Office Listings in Downtown Klamath Falls

Location	Asking Rate \$/SF (Annual)	Asking Rate Monthly	Size (SF)	Notes
107 S. 7th Ave	\$ 12.00	\$ 700	700	1st Floor location. Center of downtown. Two private offices. No dedicated parking
737 Main St	\$ 8.04	\$ 1,099	1,640	NN lease (tenant pays gas, electric, water/sewer, trash)
803 Main St	\$ 12.00	\$ 939	939	Modified Gross (Tenants reimbursables not clear from listing)
737 E Mains St	\$ 8.00	\$ 600	900	NN lease (tenant pays gas, electric, water/sewer, trash)
409 Pine St	\$ 15.90	\$ 1,150	868	Gross Lease, lots included (parking, receptionist)
426 Main St	\$ 6.00	\$ 1,325	2,650	Former Law Office

Source: Listings pulled from Craigslist/Klamath Falls, April 2016, <https://klamath.craigslist.org/>

Industrial properties appear to be primarily owner-user situations, with the South Town Center previously mentioned in this report being one of the notable exceptions. A few niche industries occupy much of the industrial space in town. These include timber processing and milling, algae processing and warehousing (a dietary supplement sourced from area lakes), and some manufacturing.

There appears to be significant capacity in the market for industrial growth. The contraction of the area economy during the late 20th century as the timber industry declined has left significant abundant industrial space. Once the new economy emerges, these properties will be redeveloped and reabsorbed into the market.

Commercial Real Estate Snapshot

- Klamath Falls has a modest retail sector with low to average rents
- The industrial sector is also small in size, with few investment properties
- There's opportunity and space for expansion of all commercial sectors

MARKET ANALYSIS CONCLUSION

Klamath Falls was hit significantly hard by the recent recession. While most of the state has seen rapid job growth, the city is just now seeing gains. As revealed in the data and discussions with community business leaders, the city seems poised to turn economically. As community efforts continue to focus on downtown redevelopment, and engaging the highly sought-after talent base emerging from Oregon Tech, the city will realize a significant shift from past trends. There is an opportunity to invest in downtown housing, which is a critical component to engage and keep this highly-sought talent base that will fuel future job growth.

In the typical evolution of downtown redevelopment, it is usually the rehabilitation of existing building stock that first emerges, as it is more cost effective than building new products. This activity is already underway. In time, investment in new product will follow. However, it is very rare that the first “catalytic” new project in downtown occurs without some form of public support. It will be important for the City to consider the development of an urban renewal district to leverage funds that strategically incentivize this critical private investment. Finally, continued support for alternative transportation improvements downtown will be important to the success of anticipated new private housing development.

Once housing becomes more vibrant, the retail amenities will follow. Then office.

A principle that also guided the analysis was how downtowns evolve over time from lower density, shorter buildings in early years to higher density and taller buildings in later years. While plans often visualize a downtown at full build out, complete with tall buildings and dense development, the reality is that such development does not happen overnight, but instead through incremental development of varying densities that intensify over time.

Redevelopment typically starts with rehabs, often supported through public incentives or public-private partnerships until rents rise to a level that can support new development on its own. As new buildings are built and the area gathers a critical mass of residents and businesses it begins to support more intense development and high-rise products. Early projects help demonstrate market potential that can support larger projects in the future. Early development not only creates “comps” to demonstrate the viability of development, but adding residents helps support retail and restaurants, thereby enhancing the street-level activity that is critical to creating a vibrant downtown environment.

Memorandum

Date May 20, 2016
To Joe Wall, Management Assistant to the City Manager of City of Klamath Falls
From Alisa Pyszka, Senior Associate, Leland Consulting Group
Matthew Craigie, Associate, Leland Consulting Group
CC Carrie Rackey, Associate/Project Manager, Stantec
Subject Klamath Falls Downtown Housing Analysis
Project Klamath Falls Brownfields

EXECUTIVE SUMMARY

The Klamath Falls rental housing market is in imbalance. Typical rental properties in Klamath Falls are single family homes in poor to fair condition and few multifamily apartment buildings have been delivered to the market in recent decades. Renters complain about the lack of quality apartments, and employers have voiced their difficulty in finding adequate rental housing for prospective employees.

This housing study summarizes this imbalance between the growing demand for rental housing in Klamath Falls and the lack of adequate supply of rental housing units. The study examines the recent history of supply of rental apartments not keeping up with demand and highlights key target populations within the area that area are good candidates for downtown rental housing. The demand analysis projects a five-year demand for rental apartment units to be between 75 and 127 units total. This equates to a demand of 15 to 35 apartment units per year.

Figure 1 - Klamath Falls Rental Apartment Demand Projection (Five-Year Range)

Demand Type	Conservative	Attainable
Unaddressed Supply	42	72
5-Year Projection	33	55
Total	75	127

Source: Leland Consulting Group

INTRODUCTION

The companion report to this study, the Klamath Falls Market Analysis, determined that there is a general market for downtown rental housing in Klamath Falls. This housing analysis provides a more detailed analysis of the economic factors, such as supply and demand, that influence the viability of rental housing in the Klamath Falls market area, including an in-depth look at the potential renter profile for downtown rental housing and the types of rental housing that can be anticipated at this stage of downtown redevelopment. The following key questions are addressed as part of this analysis.

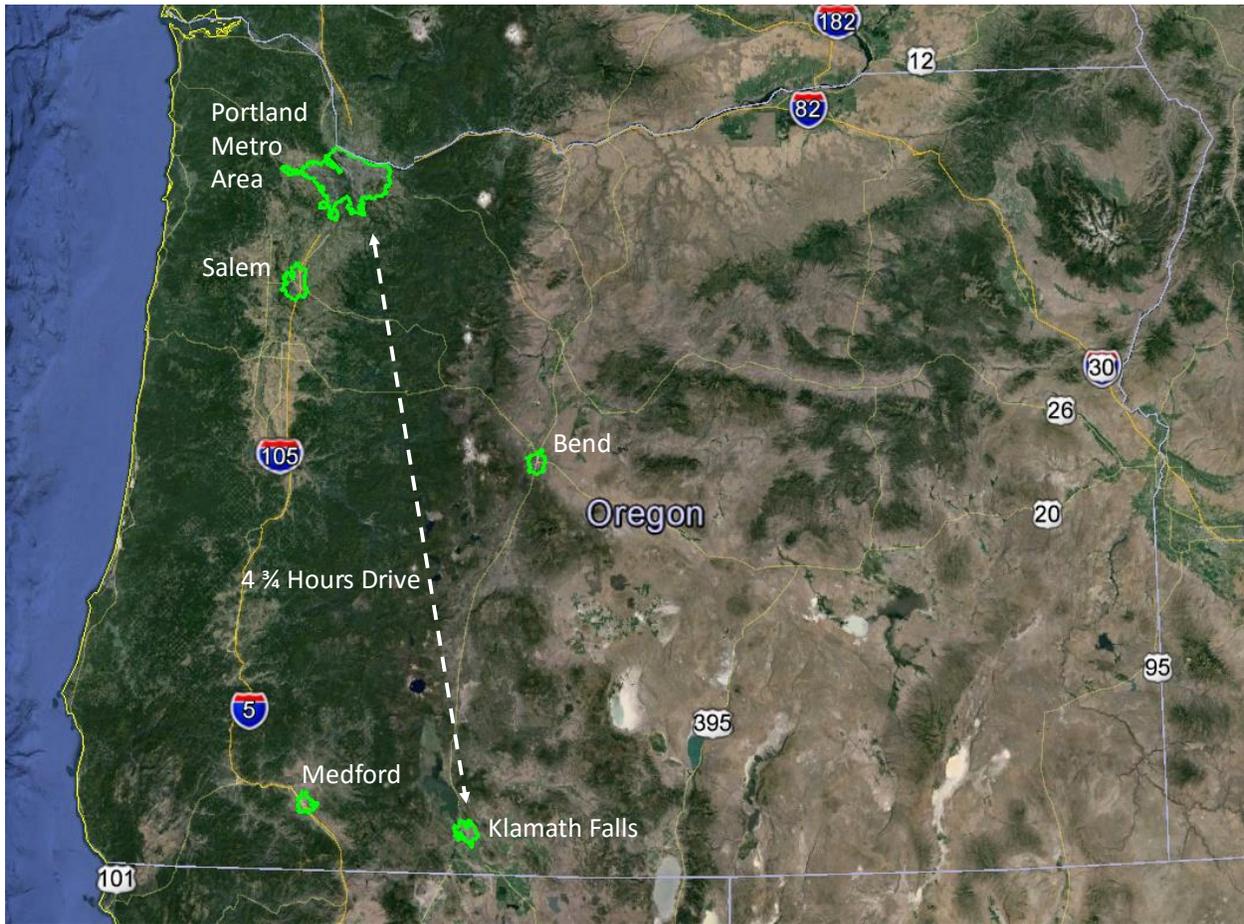
Key Questions

- What is the current state of the housing market in Klamath Falls?
- What is the nature of supply and demand for rental housing in the downtown area of Klamath Falls?
- Who does the demand for housing in downtown represent and what types of housing and housing features/amenities do they seek?
- What are achievable absorption and development targets for downtown housing?
- What are achievable rental rates for new downtown in Klamath Falls?

Study Area

Klamath Falls is located in Southern Oregon east of the Cascade Mountain Range. This city is a 4 ¾ hour drive from the Portland metropolitan area. Medford is approximately an hour and a half drive to the west of Klamath Falls.

Figure 2 - Klamath Falls Location in Oregon



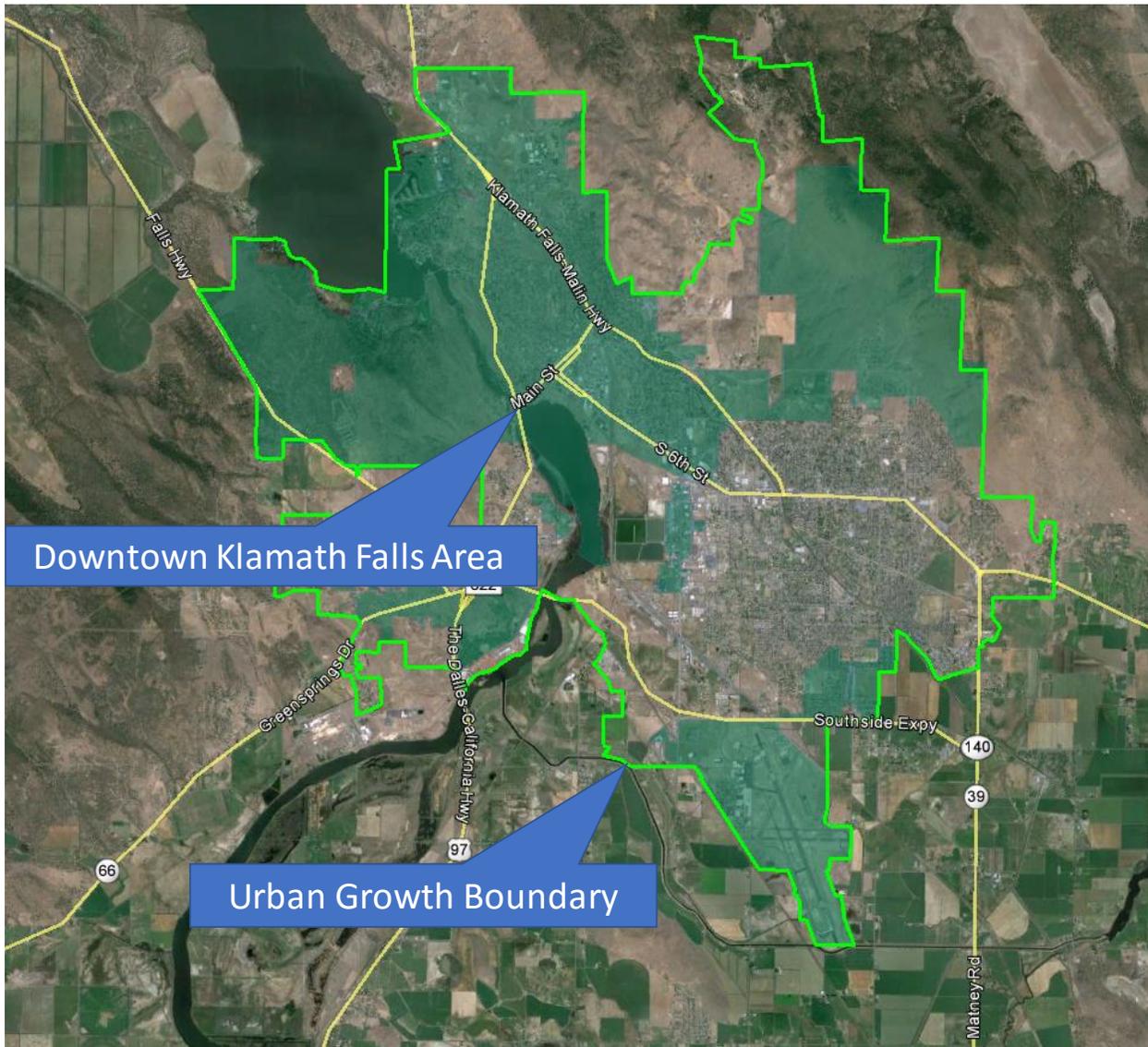
Source: Google Earth, Leland Consulting Group

Klamath Falls is the largest city in Klamath County and its population makes up over 30 percent of the County’s population. The unincorporated area adjacent to Klamath Falls and within the Klamath Falls Urban Growth Boundary contains a similarly sized population. Combined, Klamath Falls and the unincorporated UGB contain over 60 percent of Klamath County’s population¹.

The companion market analysis report to this housing analysis examines the demographics of the Klamath Falls area in more detail. This report will touch on demographics of the area, but should the reader seek a through discussion of local demographic statistics and trends, they should refer to the market analysis.

¹ US Census

Figure 3 - Klamath Falls Area



Source: Google Earth, Leland Consulting Group, (City boundary shaded green)

The wider study area for this analysis is all of Klamath County. Because the City of Klamath Falls and areas within the Klamath Falls urban growth boundary comprise a majority of the population and economic activity in the County, using Klamath County as a geographic area of analysis provides a more complete picture of the entire regional population that influences the Klamath Falls housing market. The majority of the analyses contained in this document have been conducted at this scale, unless otherwise noted.

Klamath Falls' Residential Market

This section will examine the economic factors that influence the Klamath Falls housing market and project the potential demand for downtown rental apartments.

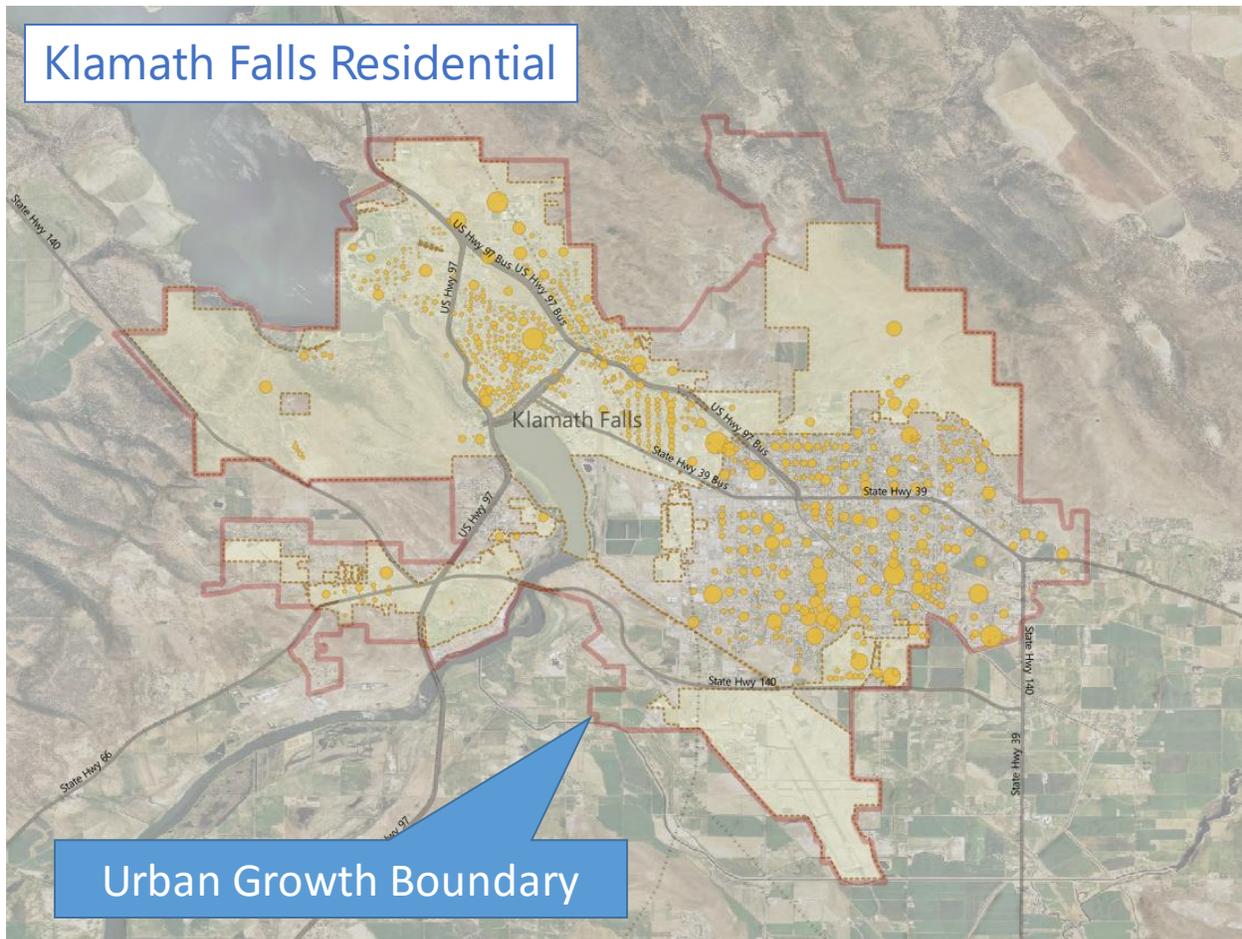
Klamath Falls' Housing Supply

As of 2010 census, Klamath Falls had 9,595 housing units, a 6.5 percent increase from the 9,010 housing units Klamath Falls had during the 2000 census. More recent census estimates show Klamath Falls' housing stock continuing to grow, but at a modest pace.

The map below illustrates the relative census block population of the city of Klamath Falls and the surrounding area. Larger circles indicate higher populations in that census block, and smaller circles vice-versa.

The map shows that the population of Klamath Falls area is concentrated primarily around (but not in) the downtown area, and also to the east and southeast in and around the unincorporated area inside the Urban Growth Boundary.

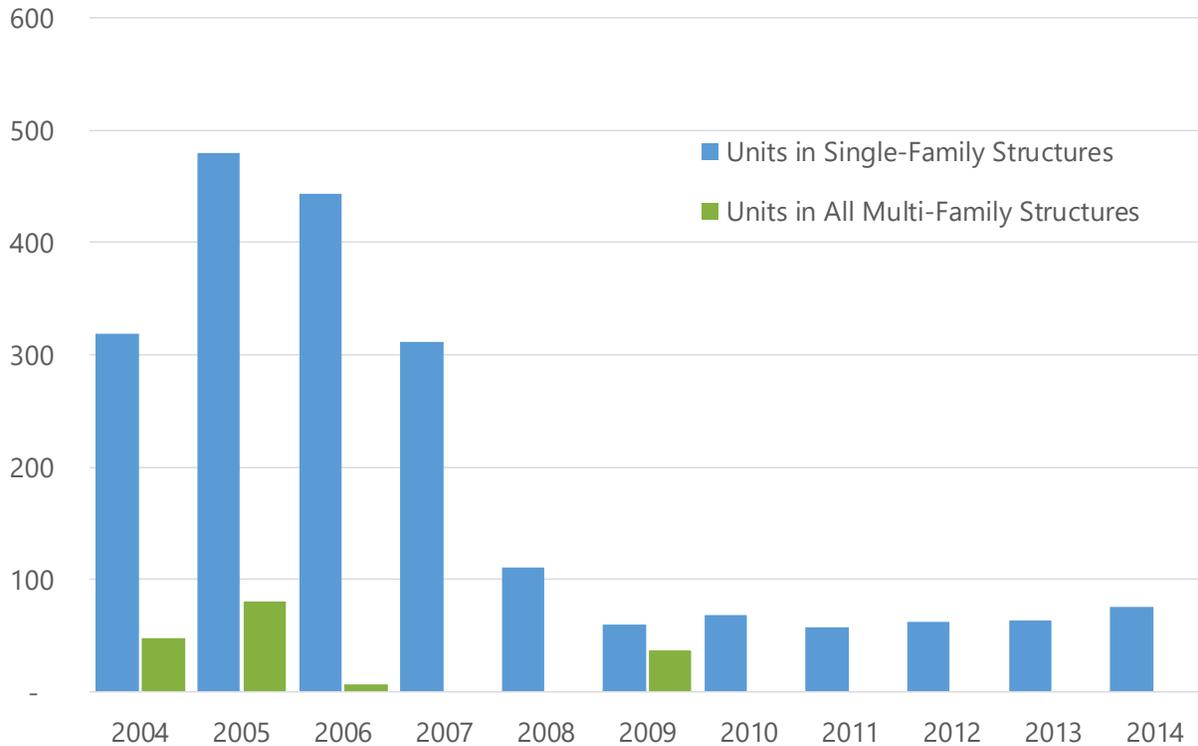
Figure 4 - Klamath Falls Comparative Residential Population by Block Group (2013)



Source: U.S. Census

Housing unit construction in Klamath County has dropped considerably from pre-recession levels, as illustrated in the chart below. Single-family housing unit permits have stabilized, although their numbers are much lower than pre-recession levels. With the exception of a couple of duplex projects, multifamily construction has been nonexistent since the last project delivery in 2009 – Iris Glen, a 37-unit subsidized housing project.

Figure 5 - Klamath County Housing Permits Issued (2004 to 2014)

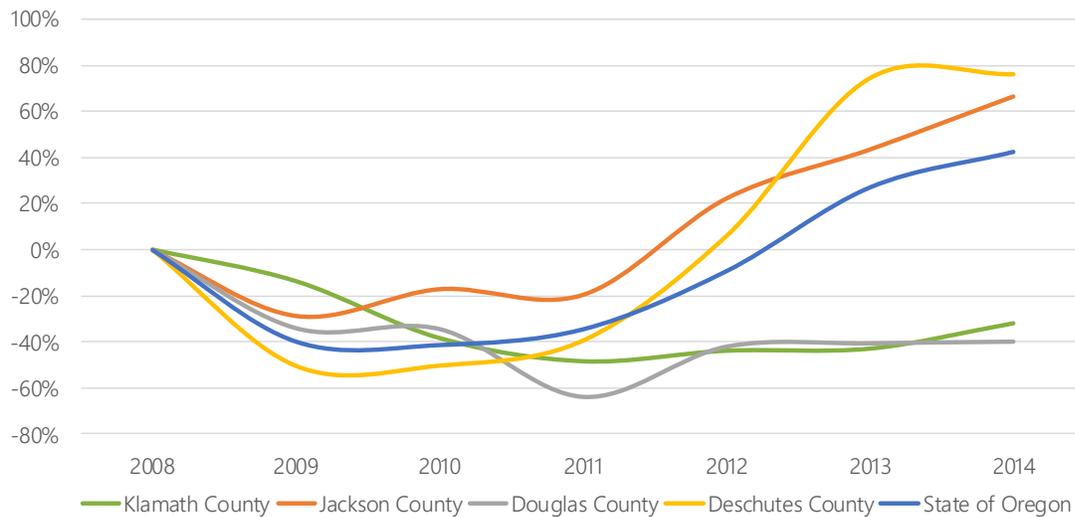


Source: SOCDS, HUD permit database, 2015

Compared to three of Klamath County’s neighboring counties² and the entire state of Oregon, Klamath County has not kept up with housing unit growth since the end of the recent recession. To be sure, other counties, such as Deschutes County have seen significantly more population growth than Klamath County in recent years, however Klamath County housing starts appear to not keep pace with internal housing turnover demand.

² Lake County, to the east of Klamath County, was not included in the analysis due to its small population.

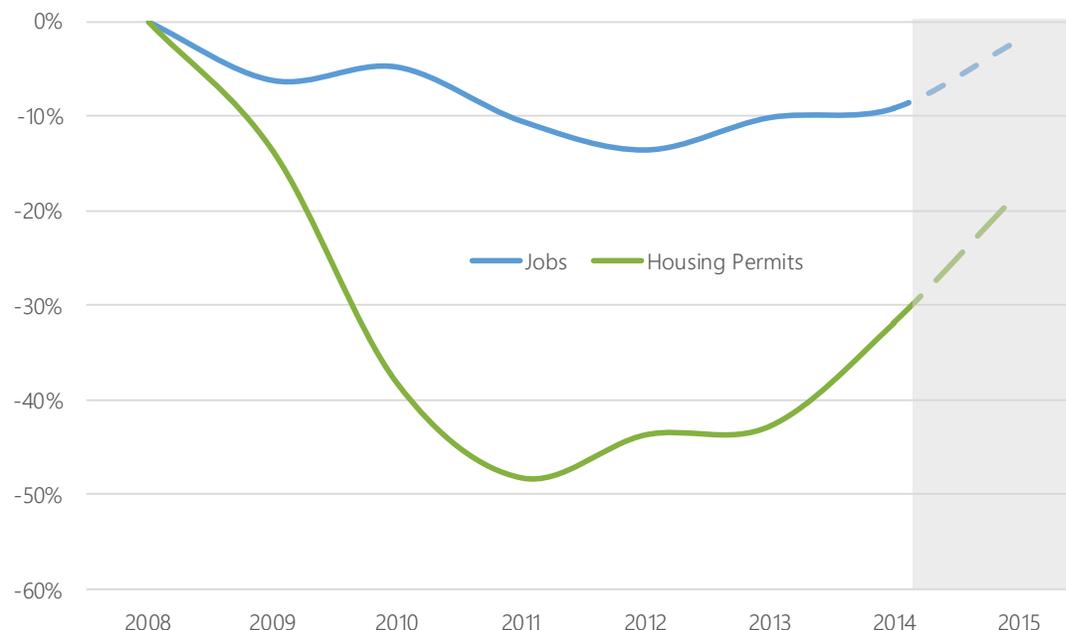
Figure 6 - Housing Permit Growth Comparison (2008 to 2014)



Source: SOCDS, HUD permit database, 2015

Comparing job and permit numbers in Klamath County shows that job numbers stabilized in 2012/2013 and has recently started to accelerate. Housing permit numbers took a larger dive during and after the recession, but has picked back up since 2013. While job numbers are close to pre-recession figures, housing permits have not completely recovered.

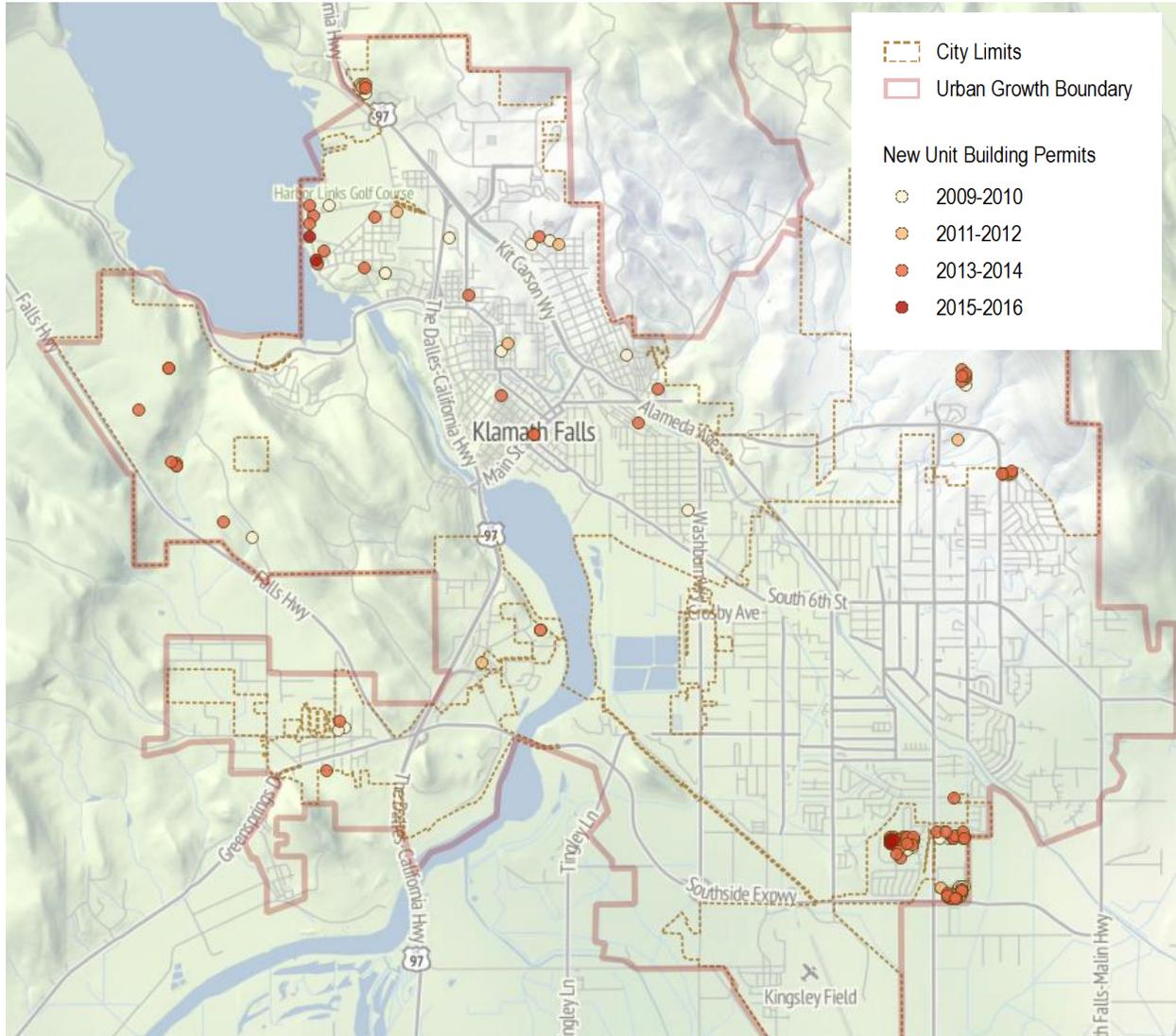
Figure 7 - Klamath County Housing Permit Growth compared with Job Growth



Source: SOCDS, HUD permit database, 2016, US Census Bureau Longitudinal Employer-Household Dynamics, 2014 (preliminary housing permit data for 2015)

Not only are the numbers of housing starts important, but what type of homes are being constructed and where they are being constructed. As mentioned previously, few multifamily properties have been delivered to market in the past decade. Examining City permit activity type and location, shows that housing growth has primarily taken place in the periphery of the Klamath Falls area and are, by and large, single family detached homes.

Figure 8 - Klamath Falls Housing Permits by Location (2009 to 2016)



Source: City of Klamath Falls, Leland Consulting Group (2016 data is preliminary)

This section has showed that housing supply has been slowly rebounding in the Klamath Falls area since the recession. However, supply additions still have not surpassed pre-recession levels, and deliveries to market are dominated by single family homes on the periphery of the metropolitan area.

Absent from the Klamath Falls’ housing market are newer, more compact, housing types in walkable areas – the types of home that Millennials and Boomers are actively seeking nationwide. The next section will examine demand for rental apartment housing in the Klamath Falls’ market generally, and downtown Klamath Falls more specifically.

Rental Apartment Demand

By examining household growth rates, one can determine the overall demand for homes in a market. Here we have projected the five-year³ demand for new homes in Klamath County. The chart below summarizes how Klamath County’s household growth rate of 0.46 percent annually will lead to a total five-year demand for 844 new homes, or 169 new homes per year. The reader should note that this projected demand figure is higher than the recent supply additions, which are less than 100 annually. This will likely create a “tight” housing market whereby there are too few homes to satisfy the number of home-shopping households.

Figure 9 – Klamath County Households and Household Growth Summary

Households 2015	32,756	Annual Growth Rate	0.46%
Households 2020	33,516		
Household Growth (2015-2020)	760	Adjustment for 2 nd homes, demolition, natural vacancy	11%
Adjusted Unit Requirement (2015-2020)	844	Percent Renter	35%

Source: US Census, Leland Consulting Group

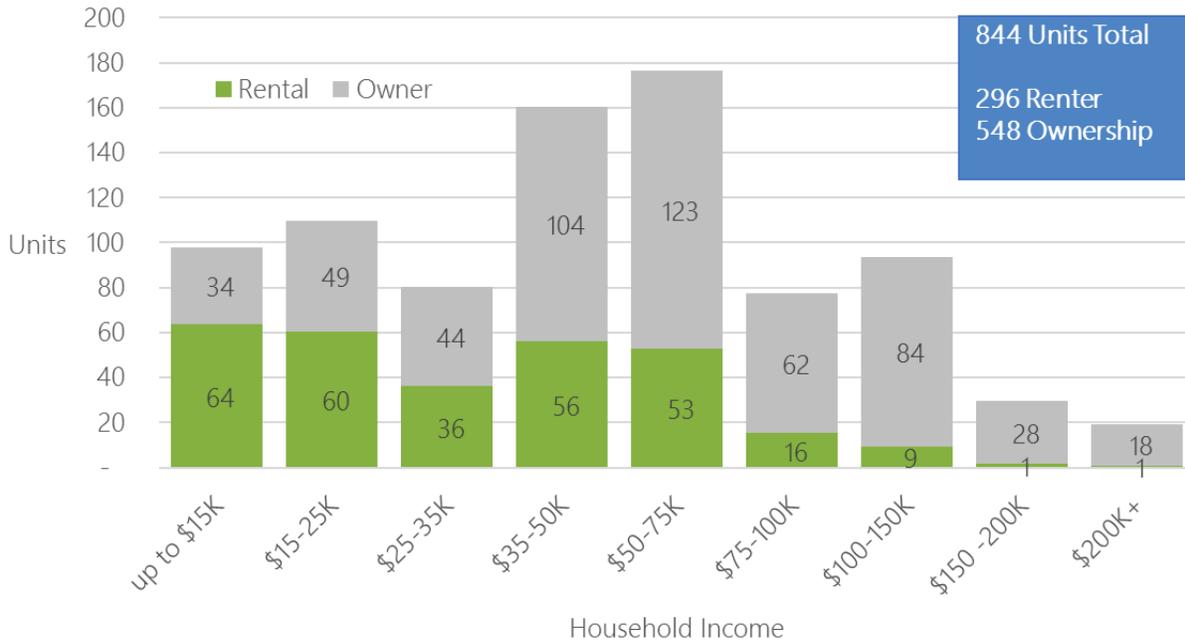
Using census data, the total demand for new homes can be further analyzed to determine how many of these housing units will likely need to be rental units and how many will be needed for ownership. Housing ownership rates in Klamath Falls, like the rest of the county, have been falling in recent decades, and conversely the portion of the housing stock that has been rented is on the rise. In 2010, 55 percent of Klamath County housing units were owner occupied, down from 59.3 percent in the year 2000⁴. The percentage of homes that are renter occupied in Klamath County has, in turn, been on the rise. Rental rates of housing units has gone from 27.9 percent in the year 2000 to 28.2 percent in 2010. It’s worth noting that there are a significant number of second homes and vacation rentals in Klamath County which puts downward pressure on the percentage of homes that are rented by non-seasonal households. Due to these trends, we have used the conservative total estimate of renter occupied housing units of 35 percent.

After accounting for second homes, demolition, and vacancy, and using the overall percentage of rental housing units of 35 percent, the five-year housing unit demand projection is broken up by the current population’s income brackets. Typically, the wealthier a household, the more likely that the household owns their home and vice versa. By applying rental rate estimates to each income bracket, we arrive at the demand for housing units by housing tenure for each bracket. Of the 844 total housing units needed to satisfy housing demand by the year 2020, we project that 296 of these units will need to be rental units, and 548 of these units will be for ownership. The chart below summarizes these findings.

³ For the five years 2015 to 2020

⁴ US Census

Figure 10 - Klamath County Five-Year Housing Demand by Income and Tenure



Source: US Census, Leland Consulting Group

Historically, approximately half of the renter occupied housing units in Klamath County have been single family homes, with the other half in rental apartments⁵. Projecting this split in the rental housing market forward means that approximately 148 units of the total five-year rental unit demand will be for rental apartments. This is likely an undercount of true future demand for rental apartments. As has been previously stated, there have been few apartments constructed in Klamath County in recent decades. Many renters who otherwise might choose to live in an apartment building may be renting single family homes due to lack of availability of suitable rental apartments.

Nevertheless, using the conservative estimate of 148 apartment units, the number is reduced further by income qualifications for market-rate products. As determined earlier, households with middle class incomes, those that generally range from low to mid-twenties (\$20,000 - \$25,000) to \$60,000 to \$75,000 per year are the projected demographic for renting market-rate apartments. At this income distribution, there is anticipated demand for 73 rental apartments within Klamath County over the next five years. Assuming that Klamath Falls is able to capture 50 to 80 percent of these units, it is anticipated that the City of Klamath Falls requires 34 to 55 apartment units over the next five years. The table below outlines these projections.

⁵ Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

Figure 11 - Klamath Falls Rental Apartment Five-Year Capture Rates

Annual Income Range	Approx. Rent Range	Trade Area Apartment Demand	Conservative Study Area Capture (units)	Attainable Study Area Capture (units.)
\$15-25K	\$375 - \$625	30	2	3
\$25-35K	\$625 - \$875	18	9	14
\$35-50K	\$875 - \$1,000	28	14	22
\$50-75K	\$1,000+	26	11	19
\$75-100K	\$1,000+	8	0	0
\$100-150K	\$1,000+	5	0	0
\$150 -200K	\$1,000+	1	0	0
over \$200K	\$1,000+	0	0	0
Totals		116	35	58

34 to 55 Rental Apartments Required to Satisfy Demand

Source: US Census, Leland Consulting Group

Unaddressed Supply and Total Demand for Rental Housing

As illustrated in the historical housing permit chart (Figure 5), there have been no new multi-family units constructed in Klamath County since 2009. The lack of any multi-family development in the past six years suggests that the “natural” annual growth in demand for apartments has gone unaddressed by local supply – shifting instead either to single family rental houses or passing over the county altogether for other nearby markets. Based on current growth and demographic information, the natural annual growth is approximately 7 to 12 units annually within the City. Therefore, the six year lack of supply of rental apartments translates into 42 to 72 units that are have not been addressed with local supply within the City of Klamath Falls.

In total, demand for rental apartments is a combination of the unaddressed supply and the five-year demand projection. On the conservative end of the spectrum, that is, if demographic pressures weaken and the City of Klamath Falls is not able to capture a significant portion of the rental housing demand, we project that the five-year total demand for apartment rental housing in Klamath Falls to be 75 housing units. If, on the other hand, demographic and populations continue to increase, and the City is able to capture a higher portion of area apartment rental demand, we project that a demand of 127 rental housing units in Klamath Falls is attainable. The table below summarizes this analysis.

Figure 12 - Klamath Falls Total Rental Apartment Demand Projection (Five-Year Range)

Demand Type	Conservative	Attainable
Unaddressed Supply	42	72
5-Year Projection	33	55
Total	75	127

Source: Leland Consulting Group

In such a supply-constrained situation such as Klamath Falls, renters are forced to choose housing that is inferior in quality or location to what they would actually select if it were available. Therefore, these renters

are highly likely to leave their current housing if a more suitable alternative is provided in the market. This local turnover, would further add to demand for apartment rental units in Klamath Falls.

Downtown Renter Profiles

No new apartment rental product has been built in downtown Klamath Falls since the 1930s. Currently, virtually all the demand from annual turnover and gross in-migration is taken care of by the existing stock of homes and apartments. There is significant opportunity to fulfill pent up demand with downtown housing based on current trends and specific opportunities within Klamath Falls as outlined below.

Why downtown?

People choose to live in downtowns for a variety of reasons. While demographic trends give an indication of the type of people that would consider living downtown, the actual choice of moving into an urban neighborhood is a lifestyle choice. Residents who move downtown are most commonly motivated by the following factors:

- Convenient access to shopping, parks, and other neighborhood amenities
- Shorter commutes
- Simplicity and reduced maintenance of urban housing products
- Social and entertainment opportunities

Who is moving downtown?

The following additional demand pools in Klamath Falls are likely to support new housing development in the downtown area.

- Klamath households who are considering leaving the area because available housing (or jobs) does not meet their needs
- Migrating non-Klamath households who pass over Klamath in their relocation choice because available housing (or jobs) do not meet their needs
- In-migrants to Klamath who settle on sub-optimal housing from the existing market
- Klamath households who move (turn over) to other sub-optimal Klamath housing in the existing market
- Newly formed Klamath households (coming-of-age or empty-nesting) who buy or rent suboptimal existing stock

Through stakeholder interviews and research, we have determined that of the existing pool of Klamath Falls households who are likely to seek new rental apartments in downtown Klamath Falls, there are six specific cohorts that are actively seeking quality rental apartments in walkable locations. The tables below identify and describe these groups.

Figure 13 - Klamath Falls Downtown Target Population Renter Profiles



Renter Profile:

Approx. Total Population:
 Average Income:
 Household Size:
 Approx. Population Age:
 Anticipated Rental Period:
 Opportunity:

OHSU Residents

20 (annual)
 \$50,000 - \$75,000
 1 to 2
 25-35
 Three Years
 Cascades East Family Medicine Residency Program is a community-based, three year training program administered through Oregon Health & Science University's School of Medicine. Residents receive first-rate, unopposed training in comprehensive rural family medicine at Sky Lakes Medical Center in Klamath Falls, Oregon.

Challenges:

Short tenure, proximity to medical center



Renter Profile:

Approx. Total Population:
 Average Income:
 Household Size:
 Approx. Population Age:
 Anticipated Rental Period:
 Opportunity:

Sky Lake Professionals

1,000
 \$35,000 - \$125,000
 1 to 2
 25-50
 one year to two years
 Sky Lakes Medical Center is a 176-bed hospital located in Klamath Falls, Oregon, United States. Sky Lakes is also a teaching hospital affiliated with Oregon Health & Science University Medical School through the Cascades East Rural Family Medicine Residency Program. The two hospital systems just announced a new project to build a 88,000 square foot collaborative health building. Due to start construction in 2017, the building will house training facilities for OHSU resident physicians, along with clinic and research space.

Challenges:

May be more likely to have families and want a single family home.



Renter Profile:

Approx. Total Population:
 Average Income:
 Household Size:
 Approx. Population Age:
 Anticipated Rental Period:
 Opportunity:

Kingsley Field Air Base Personnel (ANG Base)

80
 \$30,000 - \$85,000
 1 to 4
 20-45
 Six month to two years
 Kingsley Field, the Air National Guard base located in Klamath Falls, is home to the USAF's only F-15 fighter jet pilot training program. Kingsley employs 80 active duty personnel who serve at the base on two-year rotations. Pilots rotate in, typically from Luke Air Force Base, for a minimum 9 months of training before relocating to their next duty station. This creates a fairly stable demand for housing to accommodate both personnel, pilots, and their families.

Challenges:

Kingsley's basic allowance for housing (BAH) ranges from \$642 to \$855 per month.



Renter Profile:

Approx. Total Population:
 Average Income:
 Household Size:
 Approx. Population Age:
 Anticipated Rental Period:
 Opportunity:

Oregon Tech Students

2,500
 Varies (Student buying power is a combination of employment, scholarships and stipends, and family wealth)
 1 to 2
 18-25
 Eight months to one year
 Based on a survey in May, 2016, half of respondents (55 percent) like their current living arrangement, slightly fewer (45 percent) would prefer a different living arrangement. Most would like to live off campus or would prefer less expensive rent. They cite budget and availability as the primary reasons they are not able to have their preferred living arrangement, pointing out that either they earn too little income or rent is too high to afford the place they prefer and that the tight rental market does not offer the types of living arrangement they prefer

Challenges:

Based on survey information, students currently pay between \$500 - \$1,000 for rent.



Renter Profile:

Approx. Total Population:
 Average Income:
 Household Size:
 Approx. Population Age:
 Anticipated Rental Period:
 Opportunity:

Oregon Tech Graduates

700
 \$45,000 - \$65,000
 1 to 2
 21-27
 one to two years
 Oregon Tech graduates are highly skilled and quickly placed in technical jobs across the western US. Interviews and surveys show that over 60 percent of the students would like to stay in Klamath Falls if more job opportunities were available.
 Challenges: Need stronger job market, or perceived opportunities for job creation, within community.



Renter Profile:

Approx. Total Population:
 Average Income:
 Household Size:
 Approx. Population Age:
 Anticipated Rental Period:
 Opportunity:

Retirees (Oregon and California)

Estimated target population in the hundreds
 Varies (Retiree buying power can be a combination of employment income, pension or retirement income, social security, or other sources)
 1-2
 55-75
 one year to three years
 Through interviews with community stakeholders it was repeatedly noted that Californians often pass through Klamath Falls on a return trip from Bend. The visitors cite high costs and size of Bend as a deterrent and that Klamath Falls is far more appealing.
 Challenges: Having actual product for them to consider.

Source: Various sources including stakeholder interviews, online survey data, and primary research

Combined, these renter cohorts equal a large and growing group of potential downtown residents. As was highlighted in the supply section, there has been little to no recent downtown housing development. What types of downtown housing do these populations want? What unit standards or amenities are crucial factors for this market of renters? The next section will take a look at downtown and infill housing types that would be appropriate for the Klamath Falls market and these renter populations.

Downtown Residential Typologies

Downtown housing evolves as markets mature and grow. In recent decades, Klamath Falls has not seen much housing development in and around its downtown area, but as outlined in the previous sections, there appears to be pent up demand for housing in walkable urban areas. What types of housing would be appropriate to satisfy this demand? The table below outlines various types of downtown or infill housing “typologies” that could fit into downtown Klamath Falls. It should be noted that feasibility of these typologies is dependent on a number of factors, and each typology may not be appropriate or feasible at any given downtown location at this time.

Figure 14 - Downtown Residential Typologies

Small Lot Detached



10–18 units per acre
1 to 2 stories

Surface parking or attached or detached garages.

Construction Cost: \$100 - \$150 per SF
Rent Range: \$1.20 - \$1.50 per SF

Townhomes or Rowhomes



15–20 units per acre
2 to 3 stories

Surface parking or parking within each unit

Construction Cost: \$140 - \$160 per SF
Rent Range: \$1.30 - \$1.60 per SF

Garden/Low Rise



20-35 units per acre
2 to 3 stories

Surface garage or tuck under parking

Construction Cost: \$140 - \$185 per SF
Rent Range: \$1.30 - \$1.80 per SF

Mixed Use Residential



30-50 units per acre of residential with some
ground floor commercial space.
3 to 5 stories

Tuck under or structured parking.

Construction Cost: \$175 - \$200+
Rent Range: \$1.65 - \$2+ per SF

Upper Floor Residential/Adaptive Reuse



Various densities and parking arrangements depending on existing building stock

Construction Cost: Varies by property

Rent Range: \$1.30+ per SF

Source: Leland Consulting Group

Downtown Klamath Falls Rental Rates

Residential rental rates in Klamath Falls are modestly priced. The rental stock in Klamath Falls is poor to average quality in general. As previously stated, there have been few multifamily deliveries to market in the past decade. Brokers mention that the lack of quality rental stock is a major detriment to their business, and that it is difficult to find appropriate rentals for mid to top-of-market renters. Anecdotally, it appears that most renters that can afford top-of-market rents stay at the Running Y Ranch, to the west of the city.

Nonetheless, brokers describe \$1,200 per month as the upper limit of the market due to the low average home prices with mortgage payments at this same price. However, this assumes all people renting would rather own a home. There may be a percentage of the population that does not want to own at any price and is willing to pay for well-designed downtown apartment. Higher-income people may choose to rent even if they could afford to own a home for many reasons. Rentals provide none of the hassles of home maintenance, are often located in downtown areas within walking distance of restaurants and retail, and provide greater flexibility if the renter's job is temporary or future job prospects are uncertain.

Given the poor quality rental stock in the city and the lack of new and modern apartments, there appears to be a mismatch in the rental market whereby there are too few desirable rental properties for mid to top-of-market consumers. Brokers confirmed that they are turning away potential renters because the few acceptable rentals for this market segment are always full.

For this reason, there appears to be an opportunity in the market for new and different rental product. Urban style rentals, that is apartments that are in or near a downtown, have an urban design, and that are close to urban amenities such as cafes, breweries, and restaurants, do not currently exist in Klamath Falls. A differentiated urban apartment building in the right location would therefore stand out in this market, and command a premium rent from consumers seeking that lifestyle.

Assuming a 20 to 30 percent premium over current market rents, based on demand projections and lack of new products downtown, market rates for downtown rental housing could be expected to be at rates outlined below. That is, a well-designed and well-located new apartment would be expected to rent for prices significantly higher than the market average, which is dominated by older product in weaker locations.

Table 1 - Current Rents vs. Downtown Premium Rents

Unit Type	Current Average Rent	Downtown Premium Rent
Studio	\$500	\$600 – 650
1 bedroom	\$600	\$720 - 780
2 bedroom	\$875	\$1,050 – 1,140
3 bedroom	\$1,100	\$1,320 – 1,430

Source: Leland Consulting Group

These current and premium rental prices can be further translated into a rent per square foot model based on industry standards for various unit types. The unit sizes indicated below are conservative in size, but could be reduced as is generally seen with new urban market product with efficient layouts and proximity to nearby amenities.

Table 2 - Premium Rents to Rents per Square Foot per Month

Unit Type	Unit Size (SF)	Average Rent per Square Foot			
		\$1.00	\$1.10	\$1.20	\$1.30
Studio	500	\$500	\$550	\$600	\$650
1 bedroom	750	\$750	\$825	\$900	\$975
2 bedroom	1,000	\$1,000	\$1,100	\$1,200	\$1,300
3 bedroom	1,200	\$1,200	\$1,375	\$1,500	\$1,625

Source: Leland Consulting Group

Klamath Falls Downtown Housing Survey Summary

Leland Consulting Group circulated two online surveys targeted at understanding the demand for housing in downtown, what types of housing is needed, and what features or amenities would draw the most residents to downtown.

This survey was distributed to both the general community and Oregon Tech’s student community. The results were recorded separately in order to provide snapshots of two potentially different populations. The surveys were hosted in Survey Monkey in late April and early May 2016. They were shared through the Klamath Falls and Oregon Tech Facebook pages. The student survey was also shared via a school email list.

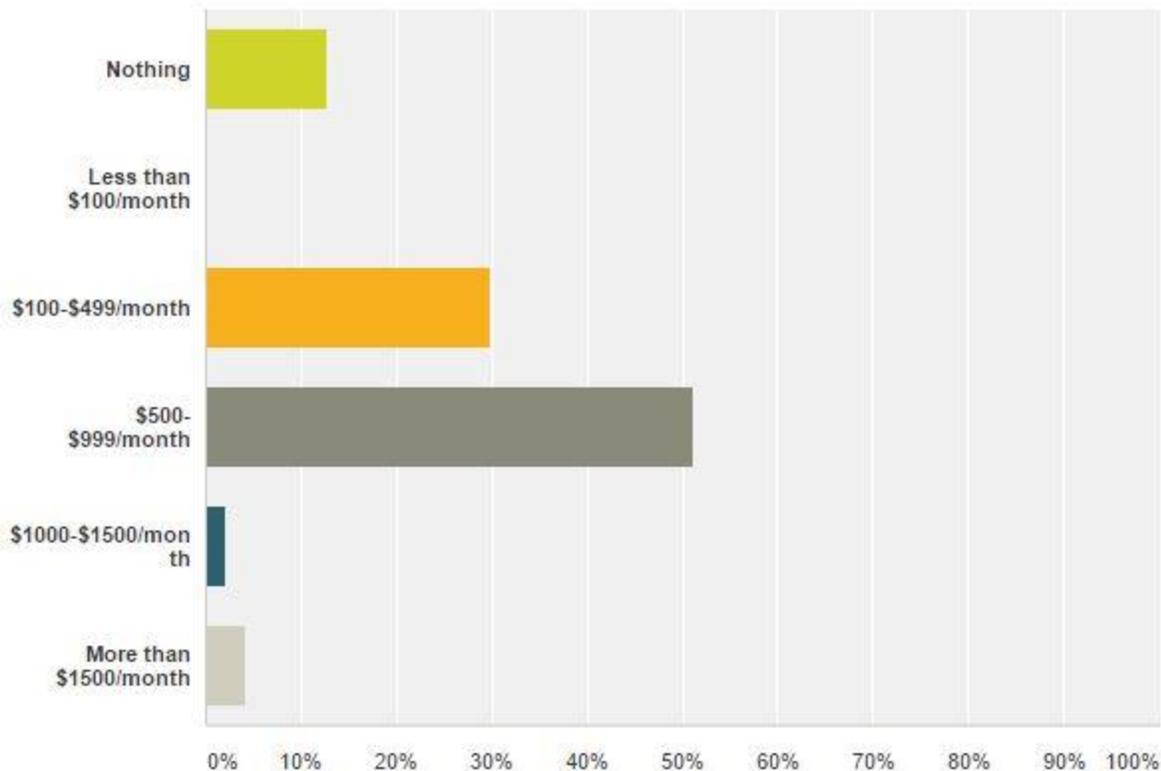
The first third of the survey focuses on living arrangement and housing costs. The next section asks questions about downtown and getting around town and the final section invites respondents to rank housing amenities.

Student Community Responses

The student survey received 48 responses. Most respondents (48 percent) rent a house off campus and nearly a third (29 percent) live in student housing on campus. An additional 10 percent live in an apartment

near campus. Most respondents (52 percent) pay \$500 to \$999 per month for rent and nearly a third (30 percent) pay \$100 to \$499 per month. An additional 13 percent pay nothing for rent. Half of respondents (50 percent) live with roommates and 21 percent live alone. An additional 15 percent live with a partner and child(ren).

Figure 15 - Student Survey Response Frequency - What do you pay for Rent?



Source: Leland Consulting Group

While half of respondents (55 percent) like their current living arrangement, slightly fewer (45 percent) would prefer a different living arrangement. Most would like to live off campus or would prefer less expensive rent. They cite budget and availability as the primary reasons they are not able to have their preferred living arrangement, pointing out that either they earn too little income or rent is too high to afford the place they prefer and that the tight rental market does not offer the types of living arrangement they prefer.

The primary reason for student respondents to go downtown is restaurants (61 percent), but many (14 percent) simply do not go downtown. In the open response to “where do you go for entertainment?”, half of respondents wrote that they often stay home or on campus rather than go downtown for entertainment. If they do venture off campus, it’s to see a movie in a theater or eat at a restaurant. Only a few respondents indicated they go outdoors or out of town for entertainment.

Commute

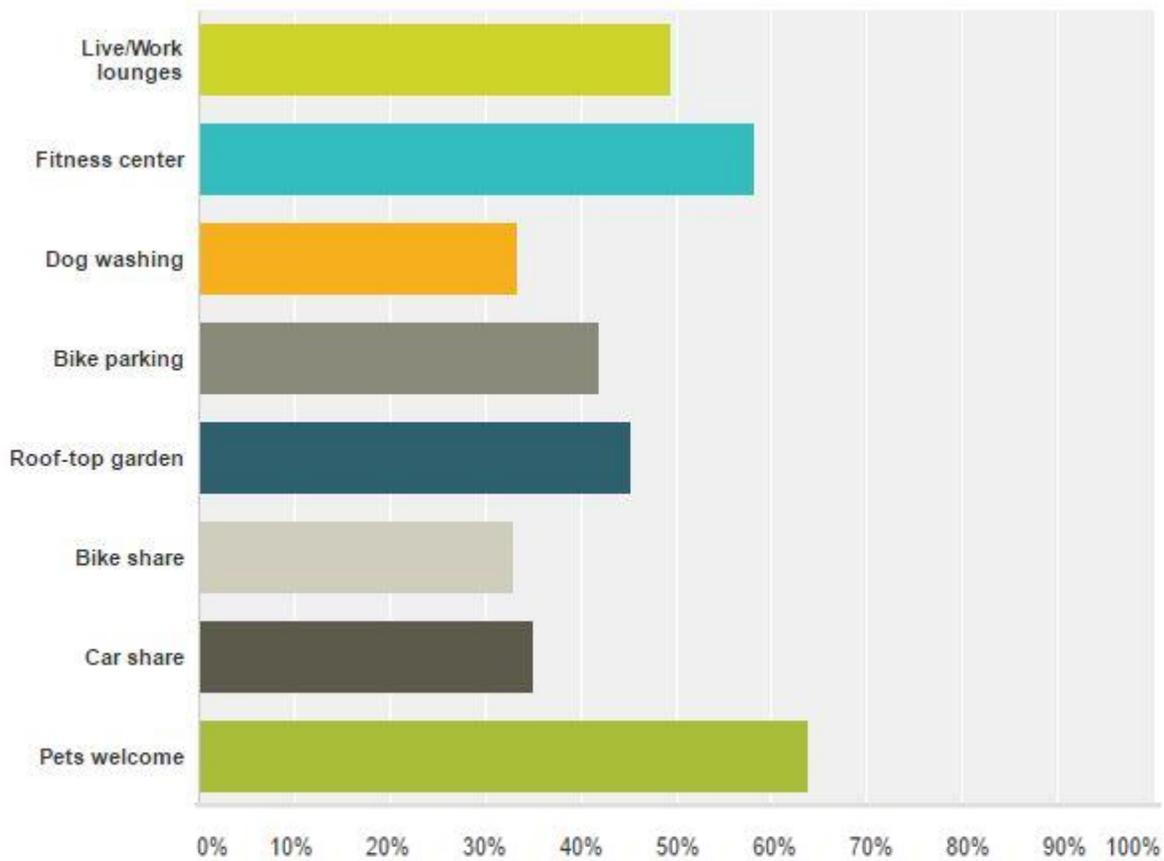
Most student respondents (66 percent) drive to school and 19 percent walk to school. Given the opportunity to indicate their preferred commuting method, 85 percent reported liking their current method. Those who would prefer a different method were divided on whether they’d rather drive or bike. Elaborating on what

prevents them from their preferred method, most indicated that distance from campus prevents them from biking.

Amenities

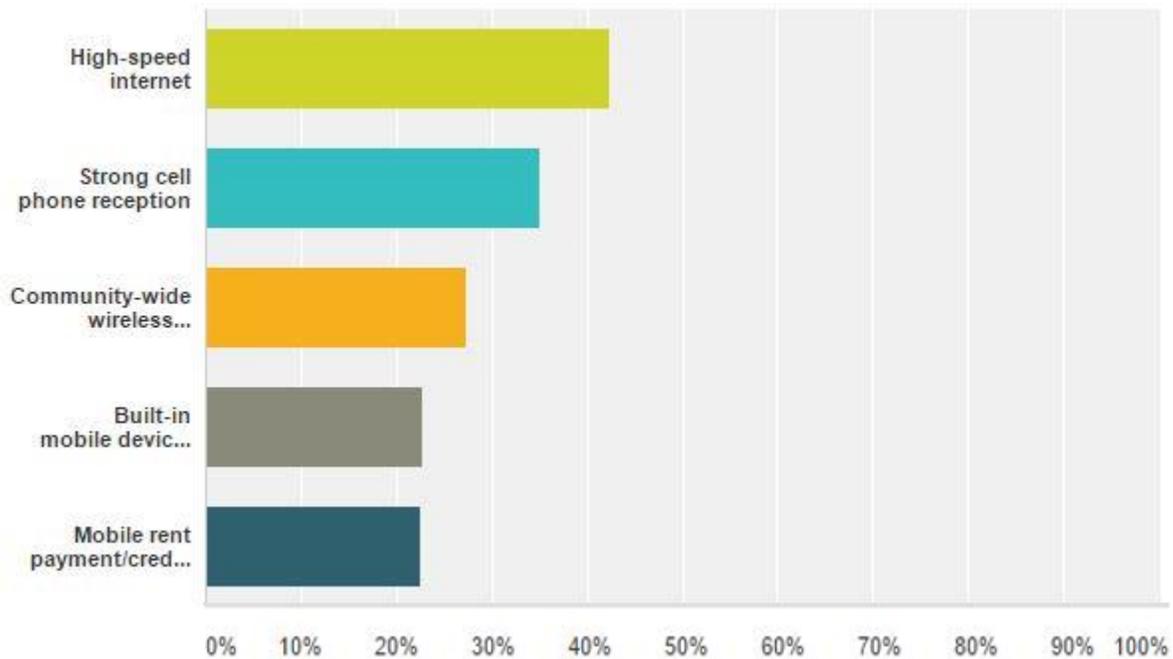
Regarding amenities, most student respondents (68 percent) ranked high-speed internet as the most important amenity, followed by built-in mobile device docking and charging stations (12 percent) and strong cell phone reception (10 percent). They also prioritized private bathrooms (60 percent), acoustic insulation (20 percent), and natural light (13 percent). They would prefer that an apartment building allow pets (53 percent), include a fitness center (15 percent), and have live/work lounges (13 percent). Nearby, they would like a grocery store (61 percent), dog park (23 percent), and transit stop within five blocks (10 percent).

Figure 16 - Student Survey Response Frequency - Building Amenity Preference



Source: Leland Consulting Group

Figure 17 - Student Survey Response - Technology Option Preference



Source: Leland Consulting Group

Write-Ins

Four students provided responses for the open response question at the end. All emphasized that Klamath Falls (and downtown in particular) needs better quality residential development that is safe and affordable.

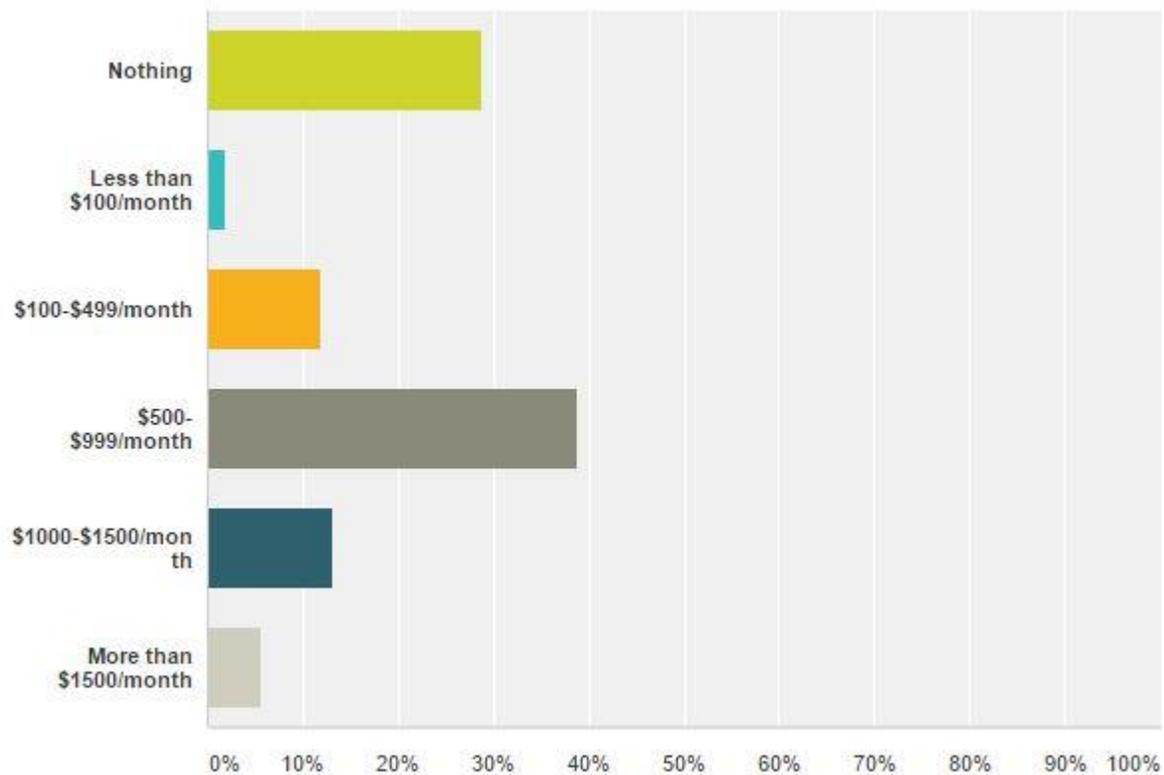
"I really hope nicer places to rent start popping up in Klamath. I've never seen so many poorly maintained, poorly insulated, and moldy houses as I have in this town. We were looking for places to live up to \$750 and not a single place was updated or worth the price. A lot of landlords are charging premium prices when they haven't put any work into the places. Looking for a place to live here was one of the worst experiences I've ever had and I can't wait to move out of where I am now."

General Community Responses

The general community survey received 171 responses. Most respondents (62 percent) own their homes while nearly a quarter (24 percent) are renting a house. Most respondents (39 percent) pay \$500 to \$999 per month and 29 percent indicated they pay nothing. This may be due to homeowners taking the question very literally, as rent is not the same as mortgage. An additional 13 percent of respondents pay \$1,000 to \$1,500 per month and 12 percent pay \$100 to \$499 per month. About a third of respondents (32 percent) live with a

partner and a quarter (25 percent) live with a partner and child(ren) while 18 percent live alone. Another 18 percent indicated they live with family, which may mean “partner with child(ren)” or that they are minors living with adult family members.

Figure 18 - Community Survey Response Frequency - What do you pay for rent?



Source: Leland Consulting Group

Three quarters of respondents (76 percent) like their current living arrangement, but a quarter (24 percent) would prefer something else. Mostly, they would prefer to own their own house or move to a house from their apartment, but they would also prefer a better quality home. Several indicated they would prefer to live in “a more urban area” or a more walkable neighborhood. A large majority of respondents cited money as the reason why they don’t live where they would prefer – either their incomes or the cost of rent. Some pointed out that housing availability is limited and several noted that available housing is not of good quality, nor is it in safe areas.

Commute

The primary reason for general community respondents to go downtown is restaurants (34 percent), but nearly a quarter (24 percent) chose “other,” writing in responses such as work, specific businesses, Third Thursday, banking, and “all of the above.” Shopping is the second most popular reason to go downtown at 11 percent of respondents. In the open response to “where do you go for entertainment?”, approximately a third listed the outdoors, a slightly fewer listed dining and movies. Several go out of town or downtown and enjoy live performances.

A large majority of community respondents drive a car (85 percent) and most like their commuting method (80 percent). Those who would prefer another method are fairly equal in wanting to bike or walk.

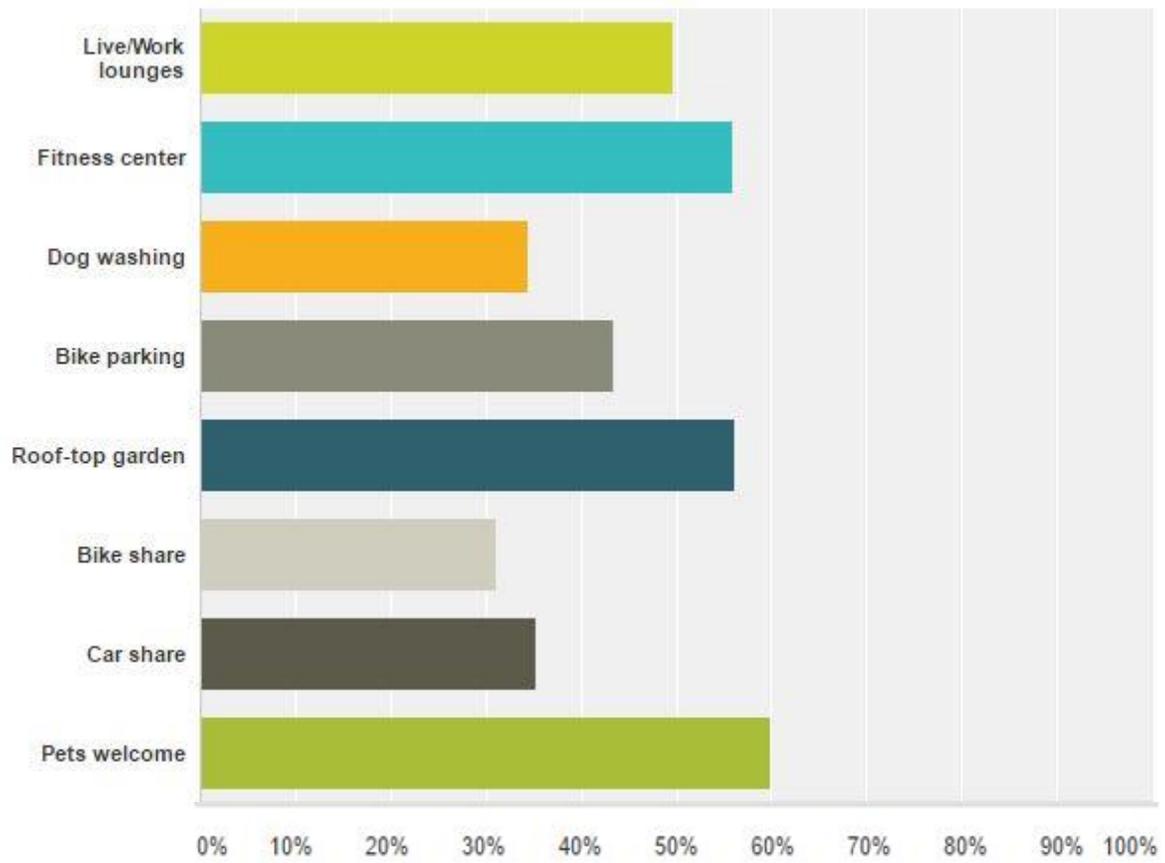
"Though I usually commute by car I have walked to and from work and enjoy doing so. I also previously walked to the downtown grocery store while it operated."

Most respondents cited lack of infrastructure as their deterrent, noting the need for sidewalks and bike lanes. Several also pointed out that they live too far from their destinations to bike or walk and a couple shared that coordinating with children would add hours to their commutes if they didn't use cars.

Amenities

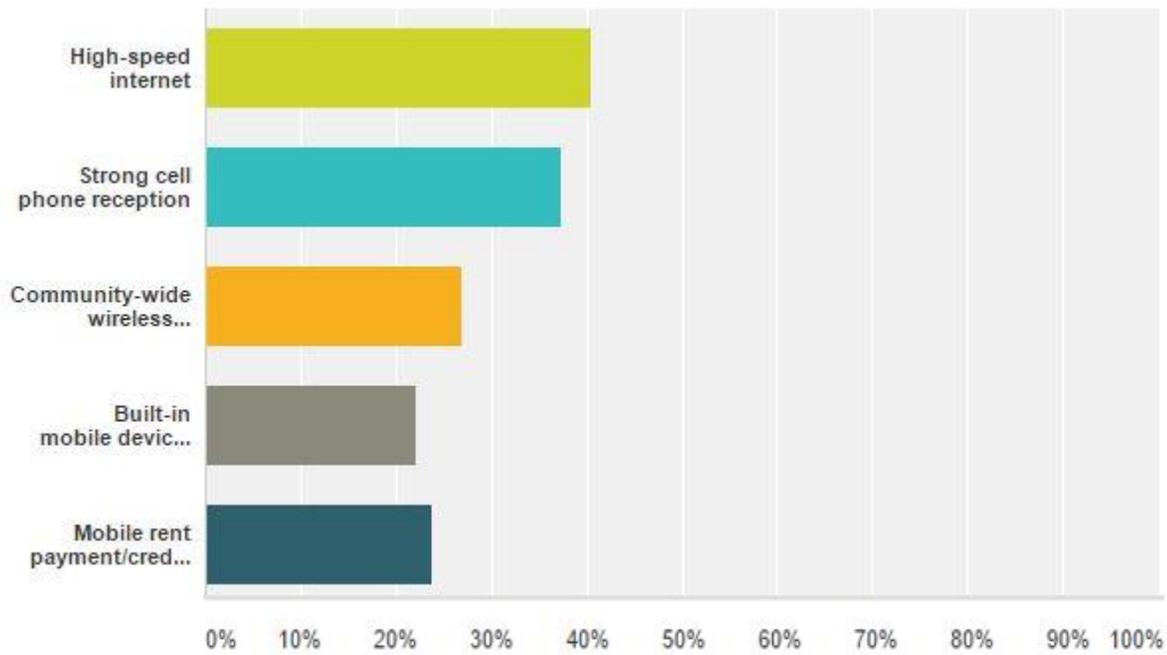
Regarding amenities, most respondents (48 percent) ranked high-speed internet as the most important amenity, followed by strong cell reception (28 percent) and mobile rent payment/credit cards (13 percent). Like students, they also prioritized private bathrooms (61 percent), natural light (12 percent) and acoustic insulation (10 percent). Also like students, they prefer that an apartment building accept pets (52 percent) and have a fitness center (16 percent), but would rather have roof-top gardens (14 percent) than live/work lounges. Overwhelmingly, they want a grocery store nearby (75 percent) and would also like restaurants (9 percent) and a dog park (8 percent).

Figure 19 - Community Survey Response Frequency - Building Amenity Preference



Source: Leland Consulting Group

Figure 20 - Community Survey Response - Technology Option Preference



Source: Leland Consulting Group

Write Ins

Write in responses cover a wide variety of topics. There were 50 in total, though some commented on the quality of the survey, not the content. The most common theme was the need for a grocery store downtown in order for any kind of residential development to be viable. Several people were complimentary of the revitalization efforts and could see the benefit of it, but many pointed out that downtown doesn't feel safe yet, citing drug use and homelessness as safety concerns.

"I employ many young professionals and while I don't fit the demographics described for these housing projects many of them would want to live and recreate downtown."

"Downtown has incredible potential. We have two lakes and a river within the city limits. If we turned these resources into clean, well-organized recreational resources for biking running, spending time with families, kayaking, fishing, sailing, etc. we would become one of the better recreational destinations this side of the Cascades."

KLAMATH FALLS DOWNTOWN HOUSING ANALYSIS

CONCLUSION

This study has shown that there is a need for more rental housing in Klamath Falls. There are a number of growing demographic groups in Klamath Falls that are strong candidates for quality rental housing in a walkable and urban areas. These groups range from Oregon Tech students, to Sky Lakes Medical professionals, and military staff from Kingsley Field. Together these groups form a strong base of demand for apartments.

The supply and demand analysis illustrated the gap between an existing supply of, and the growing demand for, rental apartments in Klamath Falls. The demand analysis projected a five-year demand for rental apartment units to be between 75 to 127 units total. This equates to a demand of 15 to 35 apartment units per year.

Figure 21 - Klamath Falls Rental Apartment Demand Projection (Five-Year Range)

Demand Type	Conservative	Attainable
Unaddressed Supply	42	72
5-Year Projection	33	55
Total	75	127

Source: Leland Consulting Group

Implications and Recommendations

The public sector can support downtown rental housing by encouraging the reuse of vacant older buildings and incentivizing new construction. In emerging and pioneering urban neighborhoods, individual projects are at risk of being isolated and lacking in surrounding vitality. As the case studies of other cities have shown, successful urban housing results from a collection of buildings that combine to create a community. New urban housing in Klamath Falls should be similarly coordinated in order to ensure that new development creates a true sense of community and not merely a “project.”

Initial projects typically minimize risk by starting with small and lower cost products. Even initial projects, however, should maintain a high quality of construction so as to protect the long term “brand” of downtown housing. Over time, as the market grows, demand will increase enough to support larger projects and more expensive construction techniques.

Additionally, it is important for community leaders to understand that few first-time catalytic developments are “simple.” Developing the downtown housing that is needed in the city will require public support to off-set inevitable risk for anyone entering a new market for the first time. There are various mechanisms for the public sector to support and incentivize downtown housing. The following tools could be utilized by the public sector in order to encourage new downtown rental housing.

- Vertical Housing Tax Credit (VHTC) program
- Infrastructure off-sets

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- State economic development incentives (available for mixed use projects and dependent on job creation)
- New Market Tax Credits (NMTC) (also dependent on job creation)

The City of Klamath Falls has a great opportunity to take an important and incremental step in revitalizing the downtown area. Through the creation of more downtown housing, the City can catalyze development and investment, building momentum towards a thriving and attractive downtown.