

Preliminary Economic Opportunities Analysis

Chapters 3 and 4

Prepared for Lake Oswego

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The Lake Oswego Economy

Current Conditions, Trends, and Forecasts

Lake Oswego exists as part of the larger economy of the Portland metropolitan area and is strongly influenced by regional economic conditions. For many factors, such as workforce, Lake Oswego does not differ significantly from the broader region. For other factors, such as income, it does. Thus, Lake Oswego benefits from being a part of the larger regional economy and plays a specific role in the regional economy.

This chapter summarizes national, state, regional, and local trends and other factors affecting economic growth in Lake Oswego based on the best available information at the time this report was prepared. Each heading in this chapter represents a key trend or economic factor that will affect Lake Oswego economy and economic development potential. We compare Lake Oswego with the Portland metropolitan region, which includes Clackamas, Multnomah, Washington, and Clark Counties. Where appropriate, we compare Lake Oswego with the Portland Metropolitan Statistical Area (MSA), which includes Clackamas, Multnomah, Washington, Yamhill, Columbia, Skamania, and Clark Counties.

A more detailed analysis of economic trends and factors affecting Lake Oswego's future economic growth is presented in Appendix A.

3.1 CONTEXT FOR ECONOMIC GROWTH IN LAKE OSWEGO

3.1.1 AVAILABILITY OF WORKFORCE

The availability of trained workers in Lake Oswego will impact development of Lake Oswego's economy over the planning period. Key trends that will affect the workforce in Lake Oswego over the next 20-years include growing population, demographic factors (e.g., aging of the population and income in Lake Oswego), availability of educated and skilled workers, and regional commuting patterns. Lake Oswego has access to workers in the Portland metropolitan region workforce and is likely to continue to be able to draw workers from the regional workforce in the future.

Growing population

Population growth in Oregon tends to follow economic cycles. Historically, Oregon’s economy is more cyclical than the nation’s, growing faster than the national economy during expansions and contracting more rapidly than the nation during recessions.

Table 3-1 shows that Oregon’s population grew from 2.8 million people in 1990 to 3.8 million people in 2008, an increase of nearly 950,000 people at an average annual rate of 1.6%. Oregon’s growth rate slowed to 1.3% annual growth between 2000 and 2008. Clackamas County grew slightly faster than the State between 1990 and 2008, growing at 1.7% annually and adding nearly 98,000 people.

Lake Oswego’s population grew slower than the County average, at 1.0% annually, adding 6,014 residents over the eighteen-year period. In 1990, 11% of the County’s population lived in Lake Oswego. The City’s share of County population decreased to 9.7% in 2008.

Table 3-1. Population in the U.S., Oregon, the Portland metropolitan region, Clackamas County, and Lake Oswego, 1990-2008

Area	Population			Change 1990 to 2008		
	1990	2000	2008	Number	Percent	AAGR
U.S.	248,709,873	281,421,906	304,059,724	55,349,851	22%	1.1%
Oregon	2,842,321	3,421,399	3,791,060	948,739	33%	1.6%
Portland Area	1,133,494	1,451,066	1,662,006	528,512	47%	2.1%
Clackamas County	278,850	338,391	376,662	97,812	35%	1.7%
Lake Oswego	30,576	35,278	36,590	6,014	20%	1.0%

Source: U.S. Census, the Population Research Center at Portland State University.

Notes: Clackamas, Multnomah, Washington, and Clark Counties represent the Portland metropolitan region.

AAGR is average annual growth rate.

Migration is the largest component of population growth in Oregon. Between 1990 and 2008, in-migration accounted for 69% of Oregon’s population growth. Over the same period, in-migration accounted for 72% of population growth in Clackamas County, adding more than 70,000 residents over the eighteen-year period.

Lake Oswego does not have a current population forecast. Metro is in the process of developing regional population forecasts and has not yet allocated the population forecast to sub-areas within the Metro area. Based on preliminary work, Lake Oswego will add 1,957 households between 2010 and 2030, which approximately equates to growth of 4,457 residents.¹

¹ This estimate of population is based on the housing and population forecast in the Housing Needs Analysis conducted by Winterbrook Planning.

The forecast of population growth in Lake Oswego may change as Metro refines its forecasts.

Aging population

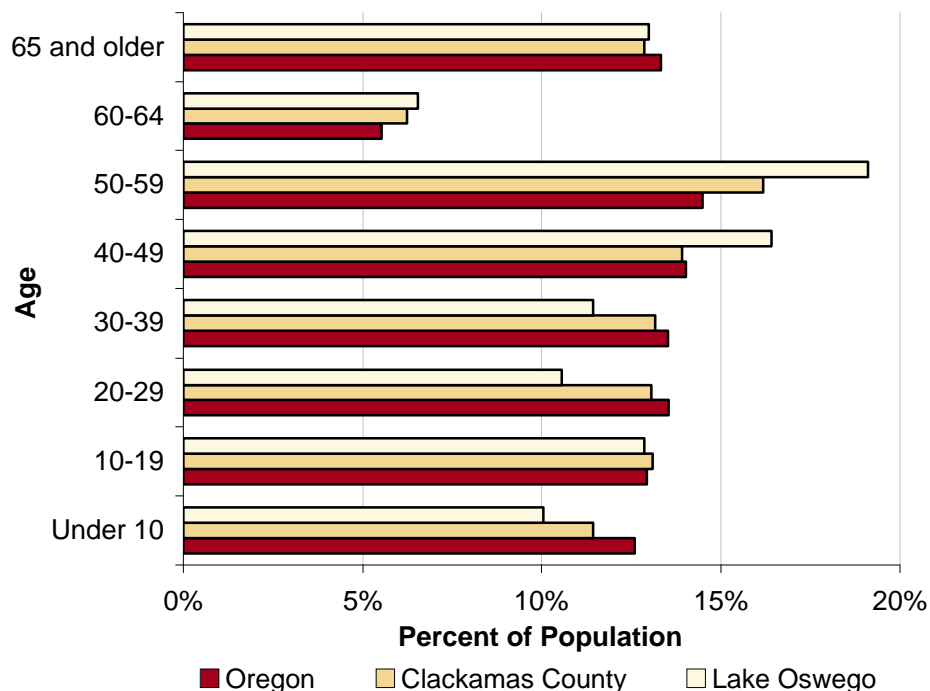
According to the U.S. Census, the number of people age 65 and older in the U. S. is expected to double by 2050, while the number of people under age 65 will only grow by 12%. The economic effects of this demographic change include:

- A slowing of the growth of the workforce
- Need for workers to replace retirees
- Aging of the workforce for seniors that continue working after age 65
- An increase in the demand for healthcare services, and
- An increase in the percent of the federal budget dedicated to Social Security and Medicare.²

² The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, 2008, *The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, April 10, 2008. *The Budget and Economic Outlook: Fiscal Years 2007 to 2016*, January; and Congressional Budget Office, 2005, *The Long-Term Budget Outlook*, December.

Lake Oswego had a high proportion of population between the age of 40 and 59 compared to Clackamas County and the State in 2007. Figure 3-1 shows the age structure for Oregon, Clackamas County, and Lake Oswego in 2007. Lake Oswego had a smaller share of residents between the ages of 20 and 39 (22%) than the County (26%) or the State (27%). People between the ages of 20 and 39 include young professionals beginning their careers. Given the high cost of housing in Lake Oswego (relative to the Metro region), we would expect to see a smaller share of residents aged 20 to 39 years and a larger share of residents aged 40 to 59 years living in Lake Oswego.

Figure 3-1. Population by age, Oregon, Clackamas County, and Lake Oswego, 2007



Source: 2007 American Community Survey.

The average age of Lake Oswego residents is increasing. Table 3-2 shows the change in age distribution for Lake Oswego between 2000 and 2007. Groups that declined in population in Lake Oswego include under 10, 30 to 39 and 40 to 49. The largest growing age group in terms of percentage was those between 50 and 64, gaining 31% or 2,208 people over the period.

Table 3-2. Change in age distribution, Lake Oswego, 2000-2007

Age Group	2000		2007		Change 2000 to 2007		
	Number	Percent	Number	Percent	Number	Percent	Share
Under 10	4,172	12%	4,138	11%	-34	-1%	-1%
10-19	5,234	15%	6,041	16%	807	15%	1%
20-29	3,163	9%	3,873	10%	710	22%	1%
30-39	4,314	12%	3,868	10%	-446	-10%	-2%
40-49	7,245	21%	6,093	16%	-1,152	-16%	-5%
50-64	7,132	20%	9,340	24%	2,208	31%	4%
65 and over	4,018	11%	5,002	13%	984	24%	2%
Total	35,278	100%	38,355	100%	3,077	9%	0%

Source: 2000 U.S. Census, 2007 American Community Survey.

Note: The number of Lake Oswego residents shown in Table 3-2 in 2007 (38,355) is based on data from the U.S. Census' American Community Survey, which estimates population based on data from the U.S. Census. It differs from the Portland State University certified estimate of population (the official State estimate of population) in Lake Oswego in 2007 (36,335). The differences between these estimates will be resolved in the 2010 Decennial Census.

Income

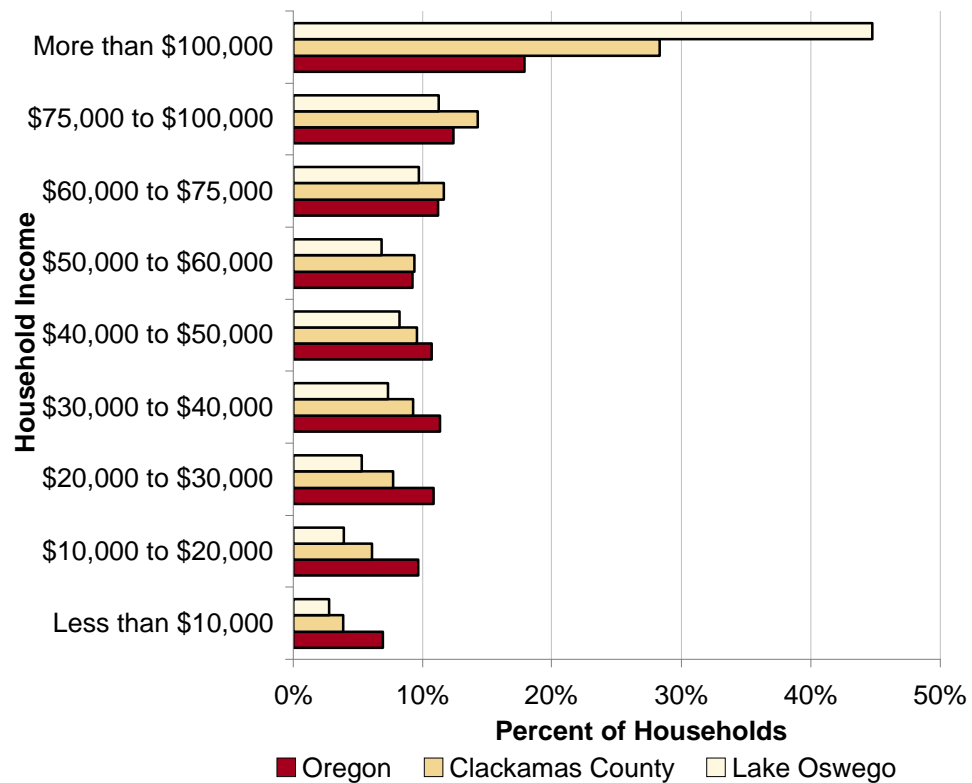
Over the last twenty-seven years, income in Clackamas County has been above State and national averages. In 2007, per capita income in Clackamas County was nearly \$44,000 compared to \$35,100 in Oregon and \$38,600 in the nation.³ Per capita in Clackamas County has been higher than in Washington and Multnomah counties since about 1990. In 2007, per capita income in Multnomah County was nearly \$40,600 and \$38,400 in Washington County.

Wages in Clackamas County and Oregon tend to be more volatile than the national average. The major reason for this volatility is that the relative lack of diversity in the State and County economy. Wages in Oregon and Clackamas County are impacted more than the national average by downturns in either the national economy (e.g., high-tech manufacturing) or in industries in Oregon that are dependent on natural resources (e.g., timber and wood processing).

³ Bureau of Economic Analysis, Local Area Personal Income
<http://www.bea.gov/regional/reis/default.cfm?selTable=CA1-3§ion=2>

Lake Oswego's median household income in 2007 was \$76,883, compared to \$59,709 for Clackamas County, \$47,385 for Oregon, and the national average of \$50,007.⁴ Figure 3-2 shows the distribution of household income in Oregon, Clackamas County, and Lake Oswego in 2007. It shows that a large share of households in Lake Oswego earn more than \$100,000 per year (45%) compared to the County (28%) and the State (18%). Similarly, a larger portion of Statewide households (49%) earns less than \$50,000 annually compared to Clackamas County (36%) and Lake Oswego (28%).

Figure 3-2. Distribution of household income of Oregon, Clackamas County, and Lake Oswego, 2007



Source: 2007 American Community Survey.

Household income is higher in Lake Oswego than the County or State average. Nearly three-quarters of Lake Oswego's households have an income that is higher than the State median income (\$47,385). Higher income will affect the types of retail and local service businesses that locate in Lake Oswego.

⁴ 2007 American Community Survey, B19013.
http://factfinder.census.gov/home/saff/main.html?_lang=en

- Firms with lower paying jobs may be less likely to locate in Lake Oswego than in other communities in the eastern Metro region. This includes certain types of low-paying service industries, such as Administrative and Support Services.⁵
- Lake Oswego may be more attractive to retail firms, especially retailers that specialize in high-amenity merchandise, because residents of Lake Oswego have higher incomes and household expenditures.

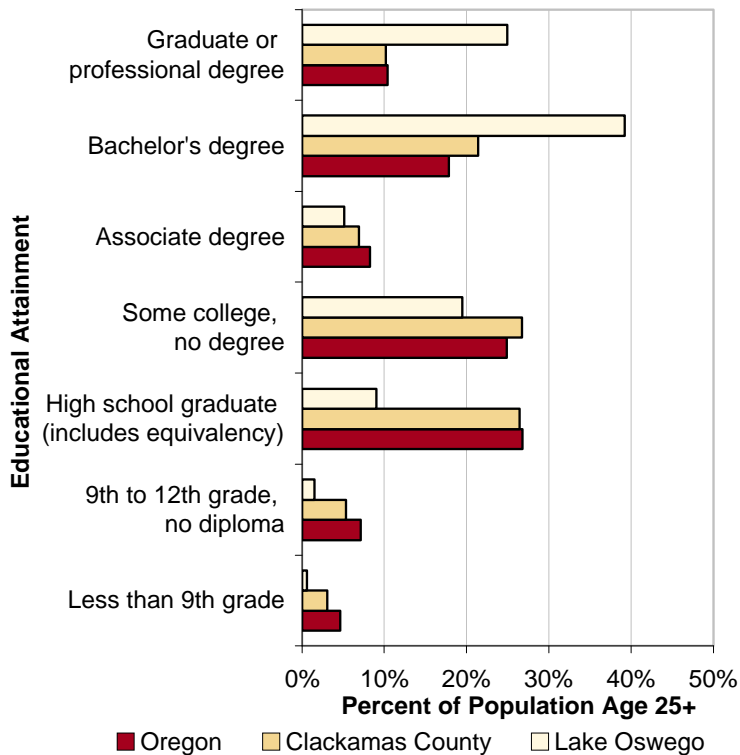
⁵ Administrative and Support and Waste Management and Remediation Services includes the following types of services: office administration, facilities support, business support (e.g., document preparation services or telephone call centers), waste collection, and remediation services.

Educational attainment

The availability of trained, educated workers affects the quality of the workforce in a community. Educational attainment is an important workforce factor because firms need to be able to find educated workers. In addition, educational attainment is correlated with income. The fastest growing occupations in the U.S. require an academic degree and, on average, have higher incomes than occupations that do not require an academic degree.⁶

Figure 3-3 shows educational attainment in Oregon, Clackamas County, and Lake Oswego in 2007. In 2007, Lake Oswego had a higher share of residents above the age of 25 with a bachelor's degree or higher (64%) than residents of Clackamas County (32%) or Oregon (28%).

Figure 3-3. Educational attainment for the population 25 years and over, Oregon, Clackamas County and Lake Oswego, 2007



Source: 2007 American Community Survey

Access to Lake Oswego's workforce may be attractive to businesses that need highly educated and skilled workers, such as Corporate Headquarters or Professional and Scientific Services.

⁶ Arlene Dohm and Lyn Shniper, "Occupational Employment Projections to 2016," *Monthly Labor Review*, November 2007, pp. 86-125.

Commuting patterns

Commuting plays an important role in Lake Oswego's economy. Lake Oswego residents have a little shorter commute than most residents of Clackamas County or the Portland metropolitan region. About 70% of Lake Oswego's residents commute 29 minutes or less, compared to 60% of Clackamas County residents and 65% of residents in the Portland metropolitan region. About 2% of Lake Oswego's residents had a commute of 60 minutes or more, compared to 6% of residents of Clackamas County and the Portland metropolitan region.⁷

Lake Oswego's *residents* commuted across the Portland metropolitan region in 2006,⁸ with about 90% of workers working in Multnomah County, Clackamas County, and Washington County. About 37% of Lake Oswego's residents worked in the City of Portland, 14% in Lake Oswego, and 5% or more in Beaverton, Tigard, and Tualatin.⁹

Lake Oswego's *workforce* commuted from across the Portland metropolitan region in 2006, with about 85% of workers coming from Multnomah County, Clackamas County, and Washington County. About 22% of Lake Oswego's workforce lived in the City of Portland, 14% in Lake Oswego, and 5% or more from Beaverton or Tigard.¹⁰

The implication of this data is that Lake Oswego's companies have access to workers from across the Portland metropolitan area but especially from Portland south and Beaverton east to I-205. These commuting patterns create demand for automotive and other forms of transportation, both within Lake Oswego and on roads throughout the Portland metropolitan area.

Energy prices are expected to continue to be relatively high or increase over the planning period, which may impact commuting patterns within the Portland metropolitan area, as well as the entire State. The impact is likely to be greatest for people with longer commutes. Workers may be less willing to commute to or from Lake Oswego. One outcome of increased energy prices may be that more workers in Lake Oswego choose to live in Lake Oswego or nearer to Lake Oswego. The impact of rising energy prices on commuting to and from Lake Oswego may be partially off-set if Tri-Met

⁷ 2007 American Community Survey

⁸ The most current data on commuting patterns is for 2006. This data is available from U.S. Census Bureau: LED on the Map

⁹ U.S. Census Bureau: Longitudinal Employer-Housing Dynamics mapping tool

¹⁰ U.S. Census Bureau: Longitudinal Employer-Housing Dynamics mapping tool

extends streetcar service from the Portland South Waterfront to Lake Oswego.

3.1.2 CHANGES IN EMPLOYMENT

The global economy is evolving. Nationally, this is reflected in changes observed during the 1980 to 2007 period. These changes affected the composition of Oregon's economy, including the Portland metropolitan area and Lake Oswego. The most important shift during this period at the national-level was the shift in employment from a focus on manufacturing to services. The most important shift in Oregon has been the shift from a timber-based economy to a more diverse economy, with the greatest employment in services. The most important trends and changes in employment for Lake Oswego over the next 20-years are: growth in financial firms, growing importance of health care, and growth in other services that require high quality office space (e.g., professional and technical services).

Shifts in employment

Over the past few decades, employment in the U.S. has shifted from manufacturing and resource-intensive industries to service-oriented sectors of the economy. Increased worker productivity and the international outsourcing of routine tasks have led to declines in employment in the major goods-producing industries.

In the 1970s Oregon started to transition away from reliance on traditional resource-extraction industries. An important indicator of this transition is the shift within Oregon's manufacturing sector, with a decline in the level of employment in the Lumber & Wood Products industry¹¹ and concurrent growth of employment in high-technology manufacturing industries (Industrial Machinery, Electronic Equipment, and Instruments¹²).

As Oregon has transitioned away from natural resource-based industries, the composition of Oregon's employment has shifted from natural resource based manufacturing and other industries to service industries.¹³ The share of Oregon's total employment in Service industries increased from its 1970s average of 19% to 30% in 2000, while employment

¹¹ Lumber and Wood Products manufacturing is in Standard Industrial Classification (SIC) 24

¹² SIC 35, 36, 38

¹³ Service industries include industries that typically have higher pay, such as health care or professional services, as well as industries that typically have lower pay, such as retail or food services.

in Manufacturing declined from an average of 18% in the 1970s to an average of 12% in 2000.

The changes in employment in the Portland metropolitan area have followed similar trends as changes in national and state employment. Between 1980 and 2008, the Portland MSA added nearly 380,000 jobs. The sectors with the greatest change in share of employment were Services and Retail Trade, adding more than 350,000 or 68% of new jobs. The average wage per employee in the Portland metropolitan region was \$46,000 and \$41,000 in Clackamas County in 2008.

The share of employment in manufacturing decreased over the 28-year period from 21% of employment in 1980 to 12% of employment in 2008. The composition of manufacturing employment in the Portland metropolitan region has changed since 1980. Employment in producing instruments and related products (e.g., laboratory or medical equipment) and lumber and wood products has decreased, while employment in producing computer and electronic products and food manufacturing has increased.

Some industries in the region's employment base have volatile employment cycles. These industries typically have boom and bust cycles, which results in cycles of hiring and layoffs. The lumber and wood products industry is tied to national housing market cycles, with decreased productivity and employment in slow housing markets. The transportation equipment manufacturing industry is tied to broader national economic trends, availability of capital, and energy price changes. Finally, the region's high-tech companies are subject to market trends in the high-tech industry, including changes in production methods and consumer purchasing patterns.

Employment in Lake Oswego

Lake Oswego had 21,044 jobs at 2,272 establishments in 2006¹⁴, with an average firm size of 9.3 employees.¹⁵ The sectors with the greatest employees were: Finance and Insurance (17%), Professional, Scientific and Technical Services (12%), Government (11%), Accommodation and Food Services (9%), Health Care and Social Assistance (8%), and Retail (7%). These sectors accounted for 13,245 or 63% of Lake Oswego's jobs.

The average wage per employee was about \$49,400. The sectors with the most employment and above average wages were Finance and Insurance (\$65,335 average wage) and Professional, Scientific and Technical Services (\$73,100). Other sectors with at least 5% of the City's employment and above average wages were: Wholesale Trade (\$86,400), Construction (\$58,000), and Manufacturing (\$54,700).

The sectors with the most employment and below average wages were Accommodation and Food Services (\$16,300), Retail (\$24,100), Government (\$34,100), and Health Care and Social Assistance (\$36,000). Other sectors with at least 5% of the City's employment and below average wages were: Other Services (\$27,200),¹⁶ and Administrative Support and Waste Management (\$30,500).

A substantial amount of Lake Oswego's employment is located on land that is not designated for employment.

- **Home occupations.** Table A-11 shows home occupations, which account for about 9% of employment in the City's License Database. Home occupations tend to have a lower average firm size, 1.5 employees per firm, compared to 9.1 employees per firm for non-home occupations operating in Lake Oswego.¹⁷ The most common

¹⁴ This study uses 2006 QCEW data to be consistent with the base employment data used by Metro in the recent work on the *Urban Growth Report 2009-2030*.

¹⁵ The number of employees per firm is calculated based on the covered data from the Quarterly Census of Employment and Workforce (QCEW). Other data sources give different firm size. For example, Table A-11 presents employment data from Lake Oswego's business license database, which shows an overall firm size of 6.1 employees per firm and 9.1 employees per firm, excluding home occupations. The best available data about firm size is from the QCEW data because businesses with employees covered by unemployment insurance are required by the Federal Government to report all employment on a monthly basis.

¹⁶ Other Services includes services such as repair and maintenance, dry cleaning services, personal care services (e.g., barber shops or nail salons), and religious or grantmaking organizations.

¹⁷ This estimate of the number of employees per firm is based on employment data from Lake Oswego's business license database. The best available data about firm size is from the QCEW data because businesses with employees covered by unemployment insurance are required by the Federal

types of home occupations are general construction, interior design, design, consultants, and mortgage brokers.

- **Employment located on non-employment plan designations.** The Quarterly Census of Employment and Wages (QCEW) data in Table A-10 includes employment that is located in non-employment plan designations, mostly residential plan designations. This employment includes home occupations (e.g., home offices or construction contractors working out of their home), as well as retail or commercial businesses located in non-employment plan designations (e.g., convenience stores or assisted living facilities). Analysis of the QCEW data shows that about 2,450 employees are located in non-employment plan designations, accounting for 12% of Lake Oswego's employment. The most common types of employment located on non-employment plan designations are: Health Care and Social Assistance; Arts, Entertainment, and Recreation; Construction; and Other Services.

It is likely that there is overlap in the employment reported from these data sources. The QCEW data probably includes some home occupations, such as contractors working from home or telecommuters that work for firms not located in Lake Oswego. The information in this analysis suggests that between 9% and 12% of Lake Oswego's workforce is located on land that is not designated for employment uses.

Government to report all employment on a monthly basis. The purpose of presenting the data about firm size in this paragraph is to illustrate that home occupations have fewer employees than the City's average firm size.

Outlook for Regional Growth

Metro's preliminary forecast of population growth in the Portland MSA projects that the region will grow by 667,700 to 903,700 people over the 2010 to 2030 period, an increase of 30% to 39%.

Lake Oswego does not have a current population forecast. Metro is in the process of developing regional population forecasts and has not yet allocated the population forecast to sub-areas within the Metro area. Based on preliminary work, Lake Oswego will add 1,957 households between 2010 and 2030, which approximately equates to growth of 4,457 residents.¹⁸The forecast of population growth in Lake Oswego may change as Metro refines its forecasts.

Metro's preliminary employment forecast for the Portland MSA developed a range of employment forecasts for the 2010 to 2030 period. Table A-12 shows that Metro projects that employment will grow by between 278,970 jobs and 722,070 jobs, an increase in employment of 29% to 74% over the 20-year period. Metro's forecast show the largest job growth in the following sectors: (1) Education and Health Services; (2) Professional Business Services; and (3) Financial Activities. Metro projects little growth in manufacturing employment, with modest growth in Electronics and Computer manufacturing.¹⁹

¹⁸ This estimate of population is based on the housing and population forecast in the Housing Needs Analysis conducted by Winterbrook Planning.

¹⁹ Metro *Regional population and employment range forecasts*, April 2009 draft.

3.2 LAKE OSWEGO'S COMPETITIVE ADVANTAGES AND CHALLENGES

Economic development opportunities in Lake Oswego will be affected by local conditions as well as the national and state economic conditions addressed previously and described in Appendix A. Economic conditions in Lake Oswego relative to these conditions in other portions of the Portland metropolitan area form Lake Oswego's competitive advantage for economic development. Lake Oswego's competitive advantages have implications for the types of firms most likely to locate and expand in Lake Oswego.

There is little that Lake Oswego can do to influence national and state conditions that affect economic development. Lake Oswego can influence local factors that affect economic development. Lake Oswego's primary competitive advantages are quality of life, prestige, market buying power, location, and access to highly educated and skilled labor. These factors make Lake Oswego attractive to residents and businesses that want a high quality of life where they live and work.

The local factors that form Lake Oswego's competitive advantage are summarized below and described in detail in Appendix A.

- **Quality of life.** Lake Oswego's high quality of life and significant amenities are a primary competitive advantage for attracting businesses to the City. Lake Oswego's quality of life attributes include: high-quality housing, urban amenities (restaurants and shopping opportunities), the Lake and lake front properties, parks and open space, proximity to Portland, beautiful setting, community attitudes, and access to urban and outdoor recreation. Lake Oswego's high quality of life is likely to attract businesses and entrepreneurs that want to locate in a high-amenity area.
- **Prestige.** Office space in Lake Oswego, especially along Kruse Way, is considered a prestigious location. Businesses that want to locate in a prestigious, high amenity area are likely to be attracted to Lake Oswego.
- **Buying power of markets.** The buying power of Lake Oswego's households provides a strong market for goods and services. According to estimates on household spending by Oregon

Prospector,²⁰ households in Lake Oswego spent over \$1.2 billion in 2008, about 18% of total household expenditures in Clackamas County. Lake Oswego households spend an average of \$78,900 on commonly purchased items. Expenditures by households in Lake Oswego were 135% of the County average (\$58,443 per household). The buying power of households in Lake Oswego are a competitive advantage for attracting retail and services.

- **Location.** Lake Oswego is located in the Portland metropolitan area, south of the City of Portland and near the intersection of I-5 and I-205. Lake Oswego is located near Tigard, West Linn, Gladstone, and Milwaukie. In addition, Lake Oswego is located in the northwestern part of Clackamas County, near Multnomah and Washington Counties.

Lake Oswego's location will affect economic development in the City because: the City is located in the most populous part of Oregon, residents have access to easy shopping in and around the City, residents have access to cultural and urban amenities in Lake Oswego and adjacent cities, and businesses in Lake Oswego have access to transportation and business infrastructure in the Portland metropolitan area.

- **Transportation.** Businesses and residents in Lake Oswego have access to a variety of modes of transportation: automotive (I-5, I-205, Highway 43, Highway 217, and local roads); transit (Tri-Met buses, possible future bus rapid transit or Portland Streetcar extension); and air (Portland International Airport). Businesses that need relatively easy automotive access to I-5 and other major roads in the region may be attracted to Lake Oswego. The distance from I-5 to Downtown may discourage retailers that serve the larger Portland metropolitan region from locating in Downtown Lake Oswego.
- **Labor market.** The availability of labor is critical for economic development. Availability of labor depends not only on the number of workers available, but the quality, skills, and experience of available workers as well.

²⁰ Oregon Prospector is the State of Oregon's economic development website. It has city profiles, which include information about expenditures by residents of the city. The website can be accessed at: <http://www.oregonprospector.com/>.

Commuting is common in Lake Oswego. Thirty-seven percent of the people who live in Lake Oswego commute to Portland for work. Less than one out of every seven of Lake Oswego's workers live in Lake Oswego. The commuting patterns show that businesses in Lake Oswego are able to attract skilled and unskilled workers from across the Portland metropolitan region. Businesses that need access to workers from across the Portland metropolitan region and that want a pool of local highly educated and skilled workers may be attracted to Lake Oswego.

- **Public policy.** Public policy can impact the amount and type of economic growth in a community. The City can impact economic growth through its policies about the provision of land, redevelopment, and infill development. Success at attracting or retaining firms may depend on availability of attractive sites for development and public support for redevelopment. Although firms may be attracted to Lake Oswego because of the City's competitive advantages, the choice to locate in Lake Oswego may be based, in large part, on public assistance with redevelopment (e.g., parcel assembly) because of the challenges associated with redevelopment.
- **Business taxes.** Multnomah County levies a 1.45% business income tax. Clackamas and Washington Counties do not have a business income tax, which gives cities in these counties an advantage for attracting businesses over cities in Multnomah County. Lake Oswego's proximity to Multnomah County presents an opportunity to attract firms that want to locate near Multnomah County.

Lake Oswego also has a number of real or perceived challenges for economic development, relative to the Portland Metropolitan Region. Interviews with stakeholders identified the following as barriers to economic development in Lake Oswego. These issues are identified in Appendix E.

1. **Land.** The availability of land in Lake Oswego was the most commonly mentioned challenge to economic development. The challenges included: availability of vacant land, availability of sites over a few acres, and cost of land. The lack of light industrial land with highway access or flex space is a concern because the City has so little industrial land.
2. **Infill and redevelopment.** Infill and redevelopment, especially of sites larger than an acre, is difficult. This is especially true in

Downtown, where parcel assembly of sites is very difficult because of the highly fragmented pattern of ownership. In addition, the City's policies make it challenging to change existing uses through rezoning.

3. **Parking.** High land costs make providing parking costly, especially for structured or underground parking. The need for parking, both because of the lack of transportation alternatives and City policies, is cited by the stakeholders as a challenge to increasing densities in areas with office buildings. In addition, the lack of parking in Downtown is seen as making retail uses more challenging, especially for small retailers that cannot afford to build parking structures. Private provision of structured parking is not generally financially feasible, given allowable building heights and densities, especially for businesses that locate on small redeveloped parcels.
4. **Providing infrastructure.** The cost of providing new infrastructure to increase intensity of uses (like in the Foothills area) and funding maintenance of existing infrastructure are a challenge to economic development.
5. **Downtown.** The distance from Downtown to I-5 and the capacity of Highway 43 and local roads are a challenge to development in Downtown. The distance from I-5 will prevent Downtown from providing regional retail or services. In addition, increasing densities in Downtown substantially may create capacity issues on the street system, especially if people come from outside of Lake Oswego for retail and services.
6. **Affordable housing.** The lack of affordable housing, especially workforce housing, is a challenge to businesses with lower paid employees. These employees generally cannot afford to live in Lake Oswego and must commute from other communities.
7. **Community attitudes.** Community attitudes are a challenge to development, especially development near established neighborhoods. In addition, community concerns about development often make the development process (from concept to receiving development entitlement from the City) slower.
8. **City government.** The complexity and speed of the planning process is a challenge to economic development. Interviewees identified the following challenges to economic development in City policies:
 - o The City's design review process is inflexible and difficult.

- The City's sign regulations are highly restrictive and do not allow retail businesses enough latitude to advertise their business.
- The City's zoning ordinance prevents increases in density in some instances, with height limitations and parking requirements. The high cost of land combined with zoning restrictions may make some projects unviable, including some that the City might find desirable. For example, developers cannot build over four stories tall and must provide a certain amount of parking. The cost of the land, parking, and construction may make the project financially unviable. The same project might be financially viable if the building could be one or two stories taller.
- The City has higher System Development Charges (SDC) and other taxes and fees than some surrounding communities, which creates a barrier to economic development.

Potential Growth Industries in Lake Oswego

This chapter discusses potential growth industries in Lake Oswego based on Lake Oswego's competitive advantages, business clusters in Clackamas County and Lake Oswego, the factors that affect firms' locational decisions, and local and regional economic trends. Chapter 3 and Appendix A describe the factors that make Lake Oswego attractive to the types of businesses identified in this chapter.

An analysis of growth industries in Lake Oswego should address two main questions: (1) Which industries are most likely to be attracted to the Portland metropolitan region? and (2) Which industries best meet Lake Oswego's economic objectives? Generally speaking, the types of industries that Lake Oswego wants to attract have the following attributes: high-wage, stable jobs with benefits; jobs requiring skilled and unskilled labor; employers in a range of industries that will contribute to a diverse and sustainable economy; and industries that are compatible with Lake Oswego's community values.

4.1 REGIONAL AND LOCAL BUSINESS CLUSTERS

ECONorthwest recently completed several evaluations of employment clusters in Clackamas County.²¹ This analysis identified the top ten clusters, based on *value added* of an industry as the measure of economic importance. Overall, Clackamas County's clusters can be organized into five broad categories: Manufacturing; Warehousing & Transportation; Wholesale Trade; and Finance, Insurance, and Professional Services. Combined, the direct economic impacts of the 10 clusters account for roughly 39.8% of the Clackamas County economy. When secondary impacts, such as those realized by up- and downstream cluster suppliers are considered, the 10 clusters account for about 65% of the county economy.

ECONorthwest was unable to conduct an identical analysis of employment clusters in Lake Oswego, both because of budget constraints but also because cluster analysis is typically performed as a regional analysis, rather than a local analysis. We conducted an analysis of how Lake Oswego fits into the Clackamas County economy based on job

²¹ The reports for the Portland Development Commission produced in 2009 were "Evaluation of Economic Specialization in Portland" and the Clackamas County "Clackamas County Cluster Analysis."

concentration by employment sector. We defined the region as nine counties from Salem to Vancouver.²² ECONorthwest calculated location quotients (LQ) using *value added* of an industry as the best measure of economic importance.²³

We combined related industry sectors into clusters, and ranked them according to their size and LQ using value added. We then described the key clusters in terms of size and other economic characteristics. The summaries were constructed using 2006 IMPLAN (IMPact analysis for PLANing software) data, supplemented by Quarterly Census of Employment and Wages (QCEW) data.

Our analysis identified ten “key clusters” in Clackamas County. Each of these clusters met two basic criteria: (1) highest value added location quotients in Clackamas County relative to the nine county CMSA; and (2) a contribution of at least 0.25% to the county’s total Gross Domestic Product (GDP) (as measured by value added). Table C-1 provides the results of this analysis.

Data about value added is not available at the City level. However, there are other methods to analyze how Lake Oswego fits into the Clackamas County economy. We calculated location quotients for industry sectors (defined by 2-digit North American Industrial Classification System (NAICS) codes) for Lake Oswego compared to Clackamas County, using data on wages for covered employees for 2006.

Because of the different methodologies used, these results are not directly comparable to the clusters we identified for the County. However, this analysis does shed some light on the relationships between the Lake Oswego and Clackamas County economies.

Four industries in Lake Oswego had more than double the employment concentration than Clackamas County, indicating possible employment clusters. Those sectors were Finance & Insurance; Real Estate, Rental & Leasing ; Professional, Scientific & Technical Services; and Information. These sectors roughly correlate to two of the key industry clusters

²² This region is defined by the U.S. Census as the Portland Consolidated Metropolitan Service Area (CMSA). This area includes Clackamas, Columbia, Marion, Multnomah, Polk, Washington, and Yamhill counties in Oregon; and Clark County and Skamania County in Washington.

²³ It is more typical for cluster studies to use employment as the basis for comparison. But the highest employment does not necessarily produce the highest value added. While the measures are highly correlated, value added is a theoretically preferable measure of an industry’s or cluster’s impact on the economy.

identified in Clackamas County: Professional Consulting Services, and Finance and Insurance.

This analysis indicates the City of Lake Oswego has different economic strengths than the rest of Clackamas County. Manufacturing, Transportation and Warehousing are some of the County's key clusters, compared to the Portland metropolitan region. Employment in these clusters is not concentrated in Lake Oswego.

On the other hand, Finance, Insurance, and Professional Consulting Services were also identified as key clusters in the County. The City of Lake Oswego has a very high concentration of wages in these sectors, compared to the County as a whole. Were it not for the strength of these sectors in Lake Oswego, it is unlikely that Clackamas County would show a comparative advantage in these clusters.

Appendix C provides a complete description of the cluster analysis for Clackamas County and Lake Oswego.

4.2 TARGET INDUSTRIES

The characteristics of Lake Oswego will affect the types of businesses most likely to locate in Lake Oswego. Lake Oswego's attributes that may attract firms are: quality of life, prestige, market buying power, location, and access to highly educated and skilled labor.

As the City proceeds with policy discussions about economic development, decision makers may want to consider whether the target industries identified in this section are the industries the City wants to attract. Are there other industries that the City needs to attract to fulfill the City's economic development objectives?

Based on current employment trends, the City's competitive advantages, and City land-use and economic development policies, types of businesses that may be attracted to Lake Oswego include:

- **Finance and Insurance.** Lake Oswego currently has a high concentration of employment in finance and insurance. The City's high quality of life, prestige, proximity to Downtown Portland, concentration of employment in finance and insurance, and access to high quality labor may make Lake Oswego firms in this industry.
- **Professional, Scientific, Technical Services and Information.** The availability of highly educated and skilled labor, concentration of existing professional firms, and the high quality of life in Lake Oswego make it attractive to professional service firms and information firms. These types of businesses could include engineering, research, law firms, accounting firms, software development, and other professional services that are attracted to high-quality settings.
- **Real Estate.** Lake Oswego's high quality housing stock and reputation as a desirable commercial location make Lake Oswego attractive to real estate firms. The growth in this industry, however, may be limited because of limited supply of land (and real estate opportunities) in Lake Oswego. The City may continue to attract real estate firms that primarily operate in communities outside of Lake Oswego.
- **Corporate or Regional Headquarters.** The availability of office space on Kruse Way (and other parts of Lake Oswego), quality of life, prestige, proximity to Portland, location along I-5, availability of executive housing, and availability of highly educated workers may make Lake Oswego attractive as a place to locate corporate or regional headquarters.

- **Green Businesses.** There is no clear definition of what constitutes a green industry or business. In general, green businesses are those that produce products or services that improve or maintain environmental quality, as described in Appendix A. Opportunities for environmentally conscious businesses are growing. The types of green businesses that may choose to locate or expand in Lake Oswego includes: training and support firms, research firms, or small scale, light industrial firms with environmentally friendly practices.
- **Health Care.** One of the fastest growing sectors in the national and State economy is Health Care. The aging of the population in the Lake Oswego, and the Portland metropolitan region, make Health Care a sector that is likely to grow in Lake Oswego. The types of health care likely to locate or expand in Lake Oswego are medical offices.
- **Services for Residents.** Population growth will drive development of retail and government services in Lake Oswego.
- **Services for Seniors.** The Portland metropolitan region's growing population of retirees or people nearing retirement, creates demand for services for seniors, such as medical services or high-amenity senior housing, which may be attracted to Lake Oswego.
- **Government and Public Services.** Lake Oswego will continue to be the location for institutions such as: Lake Oswego City Services, the Lake Oswego School District, and Marylhurst University.