



INDUSTRIAL DEVELOPMENT CAPACITY REPORT

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DEVELOPMENT.**

PROJECT MEMORANDUM

TO: Columbia-Cascade River District Steering Committee

FROM: John Andersen, Consultant

DATE: April 18, 2007

TOPIC: INDUSTRIAL DEVELOPMENT CAPACITY ANALYSIS REPORT

Purpose

The purpose of an industrial development capacity analysis is to determine if sufficient resources exist to attract and accommodate the industries likely to be interested in locating within the study area. The ultimate goal is to assure that the Columbia-Cascade River District (CCRD) is in a position to attract and retain the type and size of industry desired by the partners. Conversely the capacity analysis also indicates those industries or businesses that cannot currently, or in the future, be served by local infrastructure or other pertinent resources, such as land or workforce.

In this way the Industrial Development Capacity Analysis helps to set parameters for the marketing and public facilities plans for the River District.

Process

To prepare a Capacity Analysis several steps are required. First, it is necessary to know which businesses might locate in the Columbia-Cascade River District. The Economic Opportunity Analysis prepared at the beginning of the project identified a number of business types that are likely to be interested in the CCRD. The Steering Committee (SC) in their discussions further refined that listing of potential businesses likely to be attracted to, and desired by, the CCRD. That compilation will serve at the basis for this analysis.

With that listing of potential businesses we can then extrapolate the services needed to serve those industries. By looking at what water, sewer, stormwater services, as well as the available land and workforce resources, we can determine the businesses with the greatest potential for locating locally. That information can be used in preparing a focused recruitment plan for the CCRD and make it much more probable that we will be successful in attracting businesses that will be productive, long-term members of the CCRD.

We also compare that summary of potential industries with our compilation of existing services to determine if sufficient capacity exists currently or if new assets will need to be brought into the CCRD area. That information then affects the development of the Public Facilities Plan, as well as the phasing of development within the CCRD.

Therefore, the primary products to be obtained from this report are:

- A listing of industries that the CCRD should focus on for recruitment.
- A description of services that need to be improved to attract the types of businesses desired for the CCRD.
- Another listing of other resources that may be needed to attract desired industries.
- A set of comments regarding phasing and development of the CCRD.

This report then serves not as a final product but as input into other documents such as the Action Plan, Public Facilities Plan and Development Code. Ultimately it will be used in later years for on-going recruitment planning and as a baseline for comparing the area's progress over time.

What Type of Businesses is the CCRD Likely to Attract?

The Economic Opportunities Analysis prepared by Johnson Gardner for the Columbia-Cascade River District Economic Development Planning Project is the primary source of information for the following listing of potential businesses. A complete copy of that report may be viewed at the CCRD website (columbia-cascaderiverdistrict.org), and the Executive Summary is attached in the Appendices.

To prepare this listing Johnson Gardner looked at existing economic trends in the Portland Area and to the extent possible the specifics of activities likely to affect the growth of the CCRD Area. Specific attention was given to businesses in the East County Area currently, as well as the aspirations of the various partners in attracting desired new businesses.

Quoting from the report it specifically indicates:

“A range of industrial uses are seen as highly viable ... in the district, including flex, manufacturing and warehouse/distribution space. Over time, we would expect that flex space product would increasingly shift to a higher proportion of office build-out, consistent with trends that we have seen in other markets. This will yield both higher employment densities, as well as higher assessed values for land and improvements.

Warehouse/distribution has become a victim of the recent trend within the Portland metropolitan area to evaluate economic development on the narrow basis of employment density. What is missing in this characterization is the recognition of the vital role that distribution plays in facilitating the functioning of the remainder of the local economy. In addition, employment associated with distribution functions compares favorably to other industrial use types, offering relatively high wage levels with limited labor force requirements. As highlighted in this report, the warehousing sector has important linkages to highly valued industries, and the healthy function of this sector is consistent with broader economic development goals.

The study area is not currently a regional office concentration, and is unlikely to transition into one in the foreseeable future. The study area has outstanding regional access, but is neither centrally located nor an established office concentration. The most likely office development form we would expect in this area would be a continuation of office build-out in industrial buildings, providing for the office space needs associated with industrial function in the area. Over time, the level of office space build-out tends to increase over time, as the investment in tenant improvements encourages landlords to seek tenants that can utilize the office space. We have seen shifts over time in a number of more mature industrial markets, in which industrial space gradually shifts to a greater office build-out over time, eventually transitioning to a primarily office business park environment.

Commercial development in the study area will be driven by support needs associated with the local employment base, highway-related commercial associated with Interstate

84 and commercial demand related to the proximate population base. The study area has seen some limited big-box retail development (Wal Mart), and probably has the potential to support at least one more of these types of retailers. Care should be taken to minimize potential conflicts between commercial development in the area and the area's primary industrial function.

Tourism-driven expenditures have become a substantial source of support for commercial uses, a trend which we see continuing near the high-end of our forecast range. While retail sales are not typically viewed as having a substantial secondary impact, tourism-related activity is a basic or export industry, bringing net new dollars into the community."

It appears that the CCRD is most likely to attract **warehousing distribution, manufacturing and other industrial users of flex-space**. Further, **commercial services that would support those industrial activities** would also need to be accommodated. And, new to the CCRD, but consistent with recent trends in Troutdale, it appears some carefully considered provision should be made for **tourist-oriented commercial development**.

Do We Have the Workforce, Land and Infrastructure We Need?

Workforce

One of the early discoveries in the inventory portion of this project was that the East County Area had a large and well-trained workforce able to accommodate a substantial amount of industrial and commercial development. With the exception of high-tech engineering employees, it was found that the CCRD did not have to worry about workforce as a limiting factor in the attraction of new businesses.

It was also pointed out that the same transportation network that made the CCRD attractive to new employers also provided access to potential jobs for East County and Portland Region workers. The only deficiency suggested here was that better public transit service would be needed in the future.

Two of the important workforce resources for the CCRD are Mount Hood Community College and the local offices of the Oregon Employment Division. When the study began we were able to determine that as the employment needs of the area evolved the CCRD would be in an excellent position to meet anticipated workforce expansion needs by using those training and employment agencies as effective partners in meeting employment demands.

Workforce does not seem to be a limiting factor.

Land

One of the most important inputs to the industrial capacity of an area is the availability of the lands upon which new businesses can be located. To determine available land in the CCRD an inventory of developable and re-developable lands was conducted during the inventory phase of the project. The results of the inventory found that the CCRD has more land available than previously thought. A map of the Buildable Lands in the CCRD can be found on the following page, and a land parcel summary for the whole district can be found in the appendices.

The inventory listed lands of the following sizes, in acres, for each community:

<u>City</u>	<u>0-4.99</u>	<u>5.0-9.99</u>	<u>10.0-24.9</u>	<u>25.0 +</u>
Fairview	33	9	5	0
Gresham	14	10	7	0
Troutdale	45	6	9	2 (one parcel is 120)
Wood Village	13	0	4	0.

Many of these parcels could be combined to create larger parcels or reconfigured to obtain needed lot sizes for various uses. The total acreage involved is 1,087 acres. It is on the whole a tremendous resource for the district, and the people of East County.

Since that inventory was conducted additional development has taken place and a few of the parcels have been eliminated. In addition, further information has come forward regarding wetland and flooding issues but the inventory continues to find substantial land that could be used for new businesses. Some of this land would require re-development as these parcels are currently occupied by less productive activities, such as the manufactured home park near 238th or former auto auction yard inside the City of Fairview.

While it is important to know what lands are available for development it is also valuable to be able to identify the land needs by the type of industry the CCRD seeks to attract. A recent study by the Port of Portland indicates that land needs for manufacturing would require land parcels ranging in size from as small as two acres to as large as 25 acres, with a rare need for parcels over 100 acres. The CCRD is well prepared to provide for such uses and has a significant inventory of available lands in all four cities, with Troutdale capable of handling even the largest potential land use.

That same study also indicated that distribution uses need anywhere from as small as 4 acres to as large as 55 acres to accommodate the various types of centers that can be found within the region currently. All of the cities have lands that are currently occupied by distribution uses, and the inventory indicates that additional uses could be accommodated as well, particularly those of the smaller size, but even the largest would fit into parcels in Troutdale.

Flex-space is just as the name implies a flexible building where a variety of uses can be sited. Fairview has recently seen new flex-space applications and such buildings currently exist throughout the study area. The land parcel inventory's size and variety assure that additional flex-space users could be provided locations in the CCRD.

Commercial service and tourist – related commercial generally require smaller lots and are very dependent on location. As the map indicates the CCRD provides a number of available sites near the river, at the interchanges and along Sandy Boulevard.

It does not appear land availability is a limiting factor in the district.

Infrastructure

The project staff worked in conjunction with the Public Works Directors of the four cities, as well as the staff of Multnomah County and the Sandy Drainage Improvement Company to evaluate the water, sewer, transportation and stormwater services existing and needed within the CCRD. The findings of that evaluation and gap analysis can be found in the CCRD Public Facilities Plan.

It appears the water and sanitary sewer services required are either already available or can be made available at reasonable cost, and without requiring extraordinary financing mechanisms. For a complete listing please see the Public Facilities Plan.

The only exception to the previous statement about water service would be if a really large water user should desire to locate in the CCRD. Special arrangements would have to be made to seek additional water sources. None of the uses identified in the Economic Opportunities Analysis or studies of other industrial uses in the area or the region would fit into that definition, and therefore this is not seen as an inhibition to the district's growth.

Transportation is a serious issue for the district since so many of the likely businesses to be attracted to the area will need direct and easy access to the interstate and regional transportation network. The Public Facilities Plan (PFP) identifies the needed improvements and it will be one of the on-going challenges for the CCRD partners to continue to work together as they lobby for the needed regional, state and federal funds required to construct the various links identified in the Plan. Overall the regional road network has great potential but it is in the local linking to the larger network where the CCRD must focus its attention. Sufficient capacity exists for the initial phases of the area's development but more will be needed in the future.

Transit service to the area is already being mentioned as a concern by businesses that have looked at locating in the CCRD. Undoubtedly this will be an increasingly important issue in the future and the CCRD must begin lobbying for expanded service from Tri-Met now.

Ultimately, depending on the businesses that are attracted it may be necessary to add expanded rail, barge and air services to the current inventory. Until specific businesses are identified that have increased demands over the existing capacity the current facilities appear to be sufficient.

The service needing further clarity is stormwater and flood protection. While the initial stormwater expansions anticipated in the PFP are easily accommodated, the lack of a regional stormwater plan means that the full cost and specific character of some of the improvements will not be known until after that study is completed. The hydraulic modeling work accomplished to-date seems to indicate that areas currently under development in Fairview, Gresham and Wood Village will have few problems as long as certain improvements are made.

It also appears that Phase One of the Reynolds Site will be feasible, but how and when the following Phases Two and Three are to be completed will require further time and study. The initial plan by the Port of Portland to set aside lands within the center and western portions of their property for wetland and flood water detention seems to offer great potential for allowing the development of the other two phases at a reasonable cost, while also providing a significant aesthetic and recreational resource to the overall community.

On the private side of services there were no deficiencies in electrical, natural gas or telephone services that would inhibit development of the CCRD. The one service area where improvements were called for is high-speed Internet services. This will need to be a focus for the CCRD, particularly if they wish to seek high-tech users for the area.

Overall it appears the district is in an excellent position to begin attracting new businesses immediately. With diligent attention to the Public Facilities Plan there should be land available for all types of development in the CCRD for many years to come.

Conclusions

The Columbia-Cascade River District appears to have a very real potential to attract manufacturing, distribution and flex-space industrial uses. As we have seen in the Economic Opportunities Analysis a market exists for those type of uses in the Portland region. It also appears there is a relatively large supply of the types of land required to site such uses in the CCRD. Further, the infrastructure required for those industries currently exists or is planned for the near future.

As regards the commercial service and tourist uses, they also have a supply of land in the correct locations that would provide for their needs. Much of the area where the service uses would be located already has infrastructure in-place to provide the necessary sewer, water and stormwater services. The tourism sites along the river will need added services, but extension of those services is generally feasible.

Stormwater/flood plain services will continue to limit some of the development area until a regional stormwater plan is finalized and implemented.

Transportation linkages continues to be the major issue that must occupy the activities of the CCRD in order to assure existing facilities that are adequate for current traffic loads continue to be so in the future. Existing capacity allows development to go forward for the initial areas, but the creation of a gateway at 238th and the expanded services needed for developing the Reynolds Site mean that more transportation facilities must be added.

The Columbia-Cascade River District has some work to do but it is ready for development.

APPENDICES

ECONOMIC OPPORTUNITIES ANALYSIS
PREPARED FOR:
COLUMBIA-CASCADE RIVER DISTRICT

SEPTEMBER 2006

EXECUTIVE SUMMARY

Economic Trends

Based on growth in national production as measured by quarterly Gross Domestic Product (GDP), the economy of the United States is well entrenched in an expansionary period. The first quarter of 2006 posted 4.8% growth, the eighteenth consecutive fiscal quarters where National production growth has increased, thirteen of which have exceeded the pace of inflation.

The composition of the United States' economy has undergone a dynamic transformation over the last several decades. While "hard industries", producing goods and resources dominated the economy in the 1980s, technological advances and increased educational attainment levels have driven growth in service industries. Since 1980, service-oriented industries have experienced a 13.4% increase in their share of the national economy, and currently comprise 45% of national payroll employment.

In 2005, the regional economy had not yet reached a level of recovery consistent with the national average. County level unemployment remained roughly 1.1% above the U.S. unemployment rate. Regional unemployment rate reductions have been the result of healthy job growth as opposed to a significant number of individuals leaving the labor market. Since mid-2003 the region has added nearly 57,000 jobs, 11,000 of which have been realized in Multnomah County. Since March of 2004, the regional economy has posted 27 consecutive months of positive year-over-year job growth.

Between 2002 and 2006 the Portland-Vancouver metropolitan area had added over 56,000 industry employment jobs, representing growth of 6.0%. The Service and construction sectors have recorded substantial gains, led by Education & Health Services (12,100 jobs, 10.8% growth) and Professional & Business Services (10,700 jobs, 8.8% growth). Meanwhile, a record housing market spurred local employment gains in Construction in excess of 10,400 jobs over the four-year period. With the exception of modest increases in Manufacturing and Wholesale Trade employment, job gains in industrial space utilizing industries have been limited. Both Information and Transportation, Warehousing, & Utilities sectors have yet to fully recover from the economic downturn.

Local employment gains appear to be providing an ample number of jobs paying "family wages", specifically in the Construction, Professional & Business Services, and

Education & Health Services sectors. Across all industries, the average covered wage in Multnomah County has displayed notable appreciation. The average wage level has risen from \$37,688 in 2001 to \$41,243 in 2005, reflecting an increase of 9.5%. Industries displaying the greatest wage appreciation include Natural Resources & Mining (18.9%), Financial Activities (17.9%) and Wholesale Trade (15.8%).

Project Study Area

In 2004, employment in the study area fluctuated between 7,314 and 9,348 employees, with peak employment during the summer months of June, July, and August. Seasonal variations in employment are largely the result of operations in the Natural Resources & Mining sector. With 2,181 employees, the Manufacturing sector is by far the largest major industrial sector in the Study Area, accounting for 27.5% of employment. Financial Activities (1,642 employees, 20.7%), and Transportation, Warehousing, & Utilities (845 employees, 10.7%) are other top industries.

The Study Area's largest employment sector, Manufacturing, is also providing the highest wage jobs. The average payroll per employee in the Manufacturing sector was \$59,614 in 2004. This is partially attributable to the over 1,000 Boeing positions in the area. The average overall payroll per employee in the area was \$42,375 in 2004.

The Eastside Economic Opportunity Area has developed with mix of uses that reflect the area's strong accessibility characteristics, as well as proximity to a substantial local labor force. The area's demonstrated strength in manufacturing employment generates both a high quality as well as high density of employment. Market trends over the last fifteen years have seen warehouse/distribution uses expanding to account for a considerable share of marginal development activity, recognizing the area's outstanding accessibility and relatively large parcels.

While employment in warehouse/distribution space provides solid wage levels, the relatively low density of this employment has led agencies such as the Portland Development Commission to implement programs to encourage higher employment density development in the nearby Airport Way Urban Renewal Area. While industrial flex space development has the potential to transition towards higher density employment patterns over time, warehouse/distribution and manufacturing space is not as well suited for office conversion as the market evolves.

Commercial and Industrial Land Need

Assuming medium growth over a twenty-year projection period, the study area is expected to add a total of 32,417 jobs by 2026. Much of this growth represents an increasing capture of Multnomah County growth as a result of available land resources. Professional Services, Financial Activities, Transportation, Warehousing & Utilities, and Wholesale Trade are expected to comprise a significant share of local employment growth.

Over the next twenty years, net new demand for commercial and industrial land is expected to range from 915 to 2,144 acres contingent upon the region's realized growth pattern through 2026. The baseline "Medium Growth Scenario" outlined in our methodology discussion indicates that the Study Area can expect commercial and industrial land need in the vicinity of 1,600 acres through 2026.

Regardless of which growth scenario is realized, the need for industrial development will drive commercial land need in the foreseeable future. Specifically, employment growth in Wholesale Trade and Transportation, Warehousing, & Utilities are projected to drive the need for Warehouse/Distribution space/land need. An estimated 80% of future industrial land need is expected to be derived from net new demand for Warehouse/Distribution space. The strength of the local manufacturing sector also indicates strong potential for demand from new and/or expanding manufacturing firms.

Traditional land need methodologies adopted by State agencies and discussed in the methodology section of this document are solely employment based, and often very conservative through the omission of several factors relating the nature of the market for land and transactions. While the methodology employed in this analysis is ultimately driven by employment growth, which in turn dictates space demand and ultimately land need, we choose not to ignore market realities specific the evaluation area.

For a functioning real estate market and economic development, employment growth is a large but only partial driver of land need and appropriate parcelization. The following other realities of market need for larger industrial parcels are also important, and more than likely will serve to accelerate need for industrial land:

1. Land Sales / Absorption

The sale of land is not equivalent to the net absorption or use of that land, and transaction volume will typically exceed net absorption. Both end-user firms and speculative developers purchase land in advance of their intended use of the property.

2. Land Banking

Land banking has not been directly estimated, which is a significant operational characteristic for larger firms. Firms purchase property not only for current needs, but also anticipated future needs as land holding costs for sizeable, publicly traded firms is a relatively minor cost item.

3. Pent-up Demand

Since a 2002 analysis by JOHNSON GARDNER for the Westside Economic Alliance that demonstrated significant pent-demand for parcels greater than 50 acres in size, the Portland area Metropolitan Services District has moved to add relatively little new industrial land in the metropolitan UGB that are specifically suitable for anything other than high-tech, specifically warehouse and distribution uses.

The aforementioned specific market conditions can reasonably be expected to accelerate the need for industrial demand to a measurable degree. As a result, the

evaluation area can be expected to capture a greater share of anticipated employment growth in Multnomah County. In this analysis, a 25% capture factor is assumed.

The area's access to transportation infrastructure is a key reason for its current attractiveness as an industrial location. While currently enjoying strong regional access, the transportation infrastructure will likely be a limiting factor to growth as the area builds out. The current interchange with I-84 in Troutdale is functionally limited at the current development level, and additional infrastructure will be needed for the area to reach full build-out. In other words, the transportation infrastructure will be a limiting factor in achieving employment density in the area without concurrent improvements to the system. An additional or improved link to I-84, as well as substantially improved north/south access in east Multnomah County will be needed to accommodate anticipated growth.

Recommendations – Targeted Use Types

Conditions have been rapidly improving in Portland's industrial market. Economic growth has helped fuel a consistent decline in vacancies and increase in absorption in what is currently the tail end of the over-build phase in the local real estate market. The current vacancy rate for speculative space in the Northeast area is estimated at 10.4%; slightly lower than the average in the region as a whole. Vacancy rates are estimated to continue their decline, both regionally and in the submarket, reflecting comfortable absorption rates and continued growth.

A range of industrial uses are seen as highly viable over the next in the district, including flex, manufacturing and warehouse/distribution space. Over time, we would expect that flex space product would increasingly shift to a higher proportion of office build-out, consistent with trends that we have seen in other markets. This will yield both higher employment densities, as well as higher assessed values for land and improvements.

Warehouse/distribution has become a victim of the recent trend within the Portland metropolitan area to evaluate economic development on the narrow basis of employment density. What is missing in this characterization is the recognition of the vital role that distribution plays in facilitating the functioning of the remainder of the local economy. In addition, employment associated with distribution functions compares favorably to other industrial use types, offering relatively high wage levels with limited labor force requirements. As highlighted in this report, the warehousing sector has important linkages to highly valued industries, and the healthy function of this sector is consistent with broader economic development goals.

The study area is not currently a regional office concentration, and is unlikely to transition into one in the foreseeable future. The study area has outstanding regional access, but is neither centrally located nor an established office concentration. The most likely office development form we would expect in this area would be a

continuation of office build-out in industrial buildings, providing for the office space needs associated with industrial function in the area. Over time, the level of office space build-out tends to increase over time, as the investment in tenant improvements encourages landlords to seek tenants that can utilize the office space. We have seen shifts over time in a number of more mature industrial markets, in which industrial space gradually shifts to a greater office buildout over time, eventually transitioning to a primarily office business park environment.

Commercial development in the study area will be driven by support needs associated with the local employment base, highway-related commercial associated with Interstate 84 and commercial demand related to the proximate population base. The study area has seen some limited big-box retail development (Wal Mart), and probably has the potential to support at least one more of these types of retailers. Care should be taken to minimize potential conflicts between commercial development in the area and the area's primary industrial function.

Tourism-driven expenditures have become a substantial source of support for commercial uses, a trend which we see continuing near the high-end of our forecast range. While retail sales are not typically viewed as having a substantial secondary impact, tourism-related activity is a basic or export industry, bringing net new dollars into the community.

It is important to keep in mind that this analysis presents a range of potential outcomes for the area, supported by anticipated growth patterns. The final mix of uses is highly policy-dependent, as jurisdictions have the ability to affect development patterns through entitlements, incentives and infrastructure investments.

Fiscal Considerations

Alternative development patterns in the study area can have substantially different fiscal characteristics. In general, industrial and commercial developments have a positive fiscal impact, in that their service costs are less than associated tax revenues. This relationship is not always absolute, as there are a number of development forms that have significant impacts on the transportation system, or other infrastructure.

The comparative fiscal characteristics of general use types such as manufacturing, warehouse/distribution and flex space will vary on a case by case basis. In general, manufacturing is seen as providing the best wages and employment density, as well as the greatest improvement value per acre. The actual nature of manufacturing employment can vary widely, as can the pay scale and employment density of warehouse/distribution space. While a case can be made that manufacturing is a more desirable use from a fiscal and economic development perspective, this may not always be the case.

Retail uses in the area often have high employment levels, as well as relatively high property values, but the wage levels may be below average and traffic impacts significant. There are a number of retail services which are supportive of the industrial

environment in the district, and provide desired amenities. These might include traditional industrial support uses such as food services, convenience retail and fuel.

The City of Gresham has recently introduced an enterprise zone in portions of the study area, which will likely marginally increase the marketability of these sites. This type of incentive can reduce jurisdictional revenues in the short term, but may accelerate development activity. While it may shift the pattern of development in the study area, a program such as this can also increase land values, negating the marginal impact on marketability. It is important to monitor “incidence,” or who actually benefits from a program.

NOTE: When used in the context of program monitoring and evaluation, “incidence” is a term that refers to the distribution of impact from a particular program across groups impacted by the program. In this context, the groups would include the property owner, developer and end-user business.

Columbia-Cascade River District
Buildable Lands Inventory