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REGIONAL INDUSTRIAL SITE READINESS

2017 Inventory Update

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REGIONAL INDUSTRIAL SITE READINESS – 2017 Inventory Update and Investment Report

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EXECUTIVE SUMMARY

Quality of life begins with good jobs, and a thriving economy nurtures a healthy community. Numerous factors that help a community thrive include an educated workforce, strong infrastructure, and available developable land in areas where businesses and jobs can locate. This analysis focuses on the availability of these critical employment lands. Manufacturing is the backbone of the Portland metropolitan area's "traded-sector" employment. Traded-sector employers export goods and services to sell, and import that revenue back into the local economy. Traded-sector businesses include industries such as high technology, software, and design services, among others. A prosperous economy depends on having traded-sector businesses that provide middle-income jobs for its residents. On average, a traded-sector worker in the Portland metropolitan area earns 42% more than other workers[1] and offers valuable employment opportunities for those without high school or college degrees. In an income-tax-dependent state such as Oregon, these higher wage traded-sector jobs generate more revenue for Oregonians and help fund schools, parks, and other valuable services.

The Portland metro area competes on a global scale to attract these coveted jobs and businesses, so it is important to have an adequate inventory of development-ready land. With significant growth forecasted for the region[2], this is more important than ever. In a globally competitive environment, businesses increasingly require compressed timelines for deciding where they will locate. Many of the region's industrial sites are years away from being development-ready; but in a world where businesses are looking at being operational in 12 months or less, that timeline is too long and businesses will locate elsewhere. Similar to individuals viewing multiple options when considering the purchase of a home, businesses must also consider different locations. Having a site inventory of varying sizes and locations in the Portland metro area is key for facilitating a diverse, thriving economy and the quality businesses, jobs and wages that brings.

This report examines the supply of large industrial sites available to accommodate existing and future employers. It is the third edition of the *2011 Regional Industrial Site Readiness Project,* an inventory of large (25+ acre) industrial sites within the Portland metropolitan area Urban Growth Boundary (UGB) and select urban reserves[3]. This 2017 project is a partnership of Metro, NAIOP - Commercial Real Estate Development Association Oregon Chapter, Greater Portland Inc., Portland General Electric, Port of Portland, and the Portland Business Alliance (Project Management Team), with cooperation from local governments and private property owners. This update is intended to inform local, regional, and state efforts to ensure that the region's large industrial sites are ready for traded-sector job creation.

This report intends to:

1. Track the changes from the region's inventory of large industrial sites (last updated June 2014);
2. Analyze varying stages of development readiness for each site;
3. Inform policymakers about policy changes or investments that have influenced the development-readiness;
4. Summarize investments, tax base, and jobs created from development of inventory sites; and
5. Identify policy and investment actions that can ensure a consistent inventory of these vital sites into the future.

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[1] *2012 Portland-Metro's Traded Sector*, Value of Jobs report issued by Portland Business Alliance.

[2] The *2014 Metro Urban Growth Report* forecasted 440,00 additional jobs and 300,000-485,000 additional people inside the Metro Urban Growth Boundary by 2035.

[3] Although this inventory does not include any sites within rural areas of these three counties that are outside the UGB and selected urban reserves, these sites are important to the region's economic prosperity.

The development-readiness tiers used in this inventory are based on those established during the 2011 inventory project. Tier 1 sites are the only sites generally considered recruitment-ready for businesses expanding or locating in the Portland region. While not considered marketable for most recruitments, Tier 2 could be feasible for expansions of existing businesses and for speculative development for investors. Tier 3 sites are not desirable because they require complex fixes to become development-ready.

Tier 1: Development-ready within 180 days. It is anticipated that a site can receive all necessary permits; sites can be served with infrastructure and zoned and annexed into the city within this timeframe. No or minimal infrastructure or brownfield remediation is necessary and that due diligence and entitlements could be provided and/or obtained within this time period.

Tier 2: Likely to require 7-30 months to become development-ready.

Tier 3: Likely to require over 30 months to become development-ready.

Inventory Changes

As a result of the strong economic cycle that continues, the number of large industrial sites in the regional inventory decreased from 54 to 47 sites between 2014 and 2017 – 20% market absorption and reduction of 550 gross acres. Of the 47 sites in the 2017 inventory:

- There are 10 Tier 1 sites; 11 Tier 2 sites; and 26 Tier 3 sites.
- 6 new sites were ***added***[4] to the inventory since 2014 due to changes in the market: 1 Tier 1 site, and 5 Tier 3 sites.
- 13 sites were ***removed*** from the inventory since 2014 primarily due to site readiness investments and development.

The removal of 13 sites in the 2017 inventory is a result of the loss of 9 sites which were absorbed by the market with development. In addition, two sites were removed due to environmental restrictions, and two sites were sold and are being held for future development (user designated).

ACTIVITY RESULTING IN SITE REMOVAL BETWEEN 2014 – 2017 INVENTORY	
User designated[5]	2
Construction and development	6
Developed below acreage threshold	3
Environmental constraint changes[6]	2
Total:	**13**

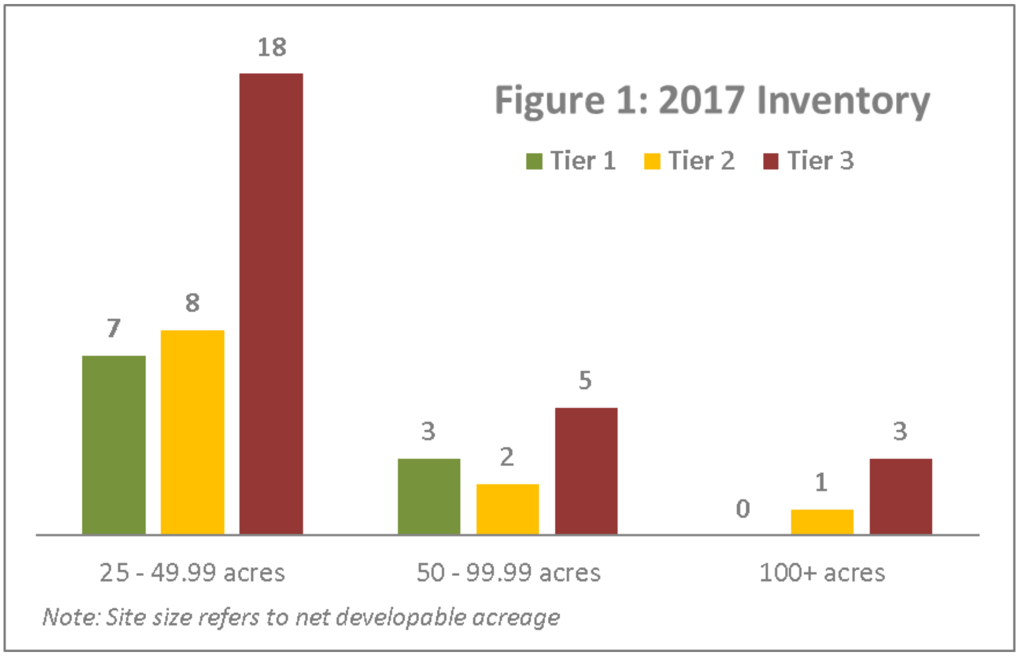
This decrease in sites was offset by the addition of six new sites to the inventory, one of which is a Tier 1 site. Four of the new sites are active gravel pits, and one is a former gravel pit, all of which are designated as Tier 3 sites and will take significant investment in mitigation and infrastructure to move to development-ready status. Finally, one site was moved from the User-Designated List onto the inventory as a Tier 1 site, due to the owner's willingness to transact.

[4] Market changes: **Site 119:** Intel (West Union Road) site (Tier 1) was a user-designated site in June 2014 inventory and has recently been listed for sale. **Site 117:** New site found in the 2015 Washington County Regional Industrial Site Readiness Project. **Sites 118 – 122**: Existing operating gravel sites added to keep consistent with 2011 methodology.

[5] User-designated sites are sites owned and held for future expansion of existing regional firms and not available to the general market. **Site 48** (DeWayne Wafford) and **Site 56** (East Evergreen) were added to user-designated as they have been purchased for future development.

[6] Two sites were removed from the inventory due to environmental site constraints that reduced the net site acreage to less than 25 acres: **Site 47** (Cranford) and **Site 34** (Vanleeuwen).

Figure 1: 2017 Inventory Results



The following charts and tables compare the 2011, 2014, and 2017 inventory changes.

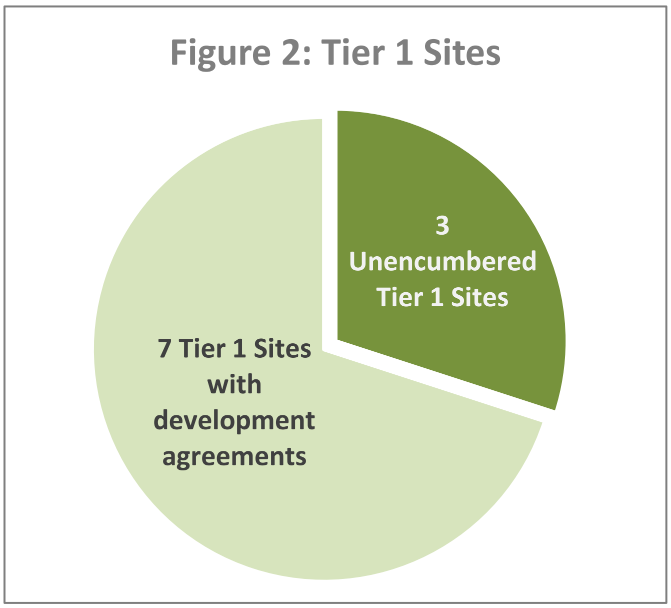
	2011 Inventory	2014 Inventory	2017 Inventory
Tier 1	9	14	10
Tier 2	16	17	11
Tier 3	31	23	26
Total	**56 sites**	**54 sites**	**47 sites**

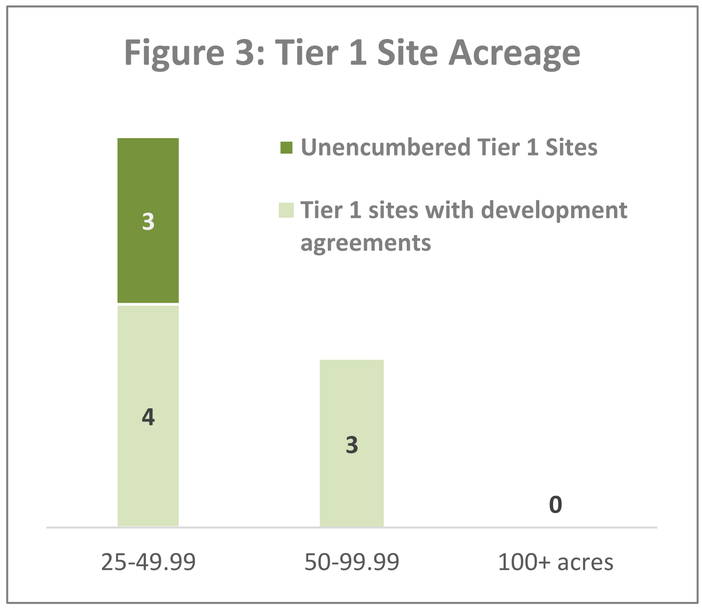
	2011 Inventory	2014 Inventory	2017 Inventory
25-49 acres	**40**	**39**	**33**
50-99 acres	**9**	**10**	**10**
100+ acres	**7**	**5**	**4**
Total	**56 sites**	**54 sites**	**47 sites**

Findings

1. **Between 2014 and 2017, there has been significant development of large industrial sites in the region. There are relatively few unencumbered Tier 1 industrial sites remaining in the inventory and no 50+ or 100+ acre Tier 1 sites.**
   - Nine sites have been developed either fully or partially[7]. Due to national market trends, much of this development activity has been in the distribution and logistics sector and industrial parks.
   - Since this June 2017 inventory was completed, seven additional Tier 1 sites have seen market activity with current development agreements in place[8].
   - Since this June 2017 inventory was completed, two additional Tier 2 sites have seen market activity with current development agreements in place[9]. This results in only one remaining 50+ acre site (Meek Subarea) in Tier 2 **and** Tier 1.
   - Should development proceed on the seven Tier 1 sites with development agreements, there will only be three remaining Tier 1 sites, and no 50-99.99-acre Tier 1 sites available in the region.

Figures 2 and 3: Tier 1 Sites by Development Status and Site Acreage





2. **There has been slower movement between tiers than in the previous inventory update (4 sites between 2014 and 2017, versus 7 sites between 2011 and 2014). This is in part due to the market absorption of sites, but underscores the continued need to make these site readiness investments.**

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[7] **Site 13:** Specht Properties, **Site 22** (GVBP – East), **Site 46** (Development Services of America), **Site 49** (Majestic Realty Co.), **Site 111** (Weston), **Site 113** (Henningsen), **Site 114** (Colwood), **Site 19** (TRIP Phase 2), and **Site 63** (Woodburn).

[8] **Site 1:** Rivergate; **Site 29:** CCDA; **Site 50:** Shute North; **Site 52:** Shute South; **Site 119:** Intel; **Site 16:** Blue Lake Corporate Park (formerly Cereghino); **Site 18:** TRIP Lot 10.

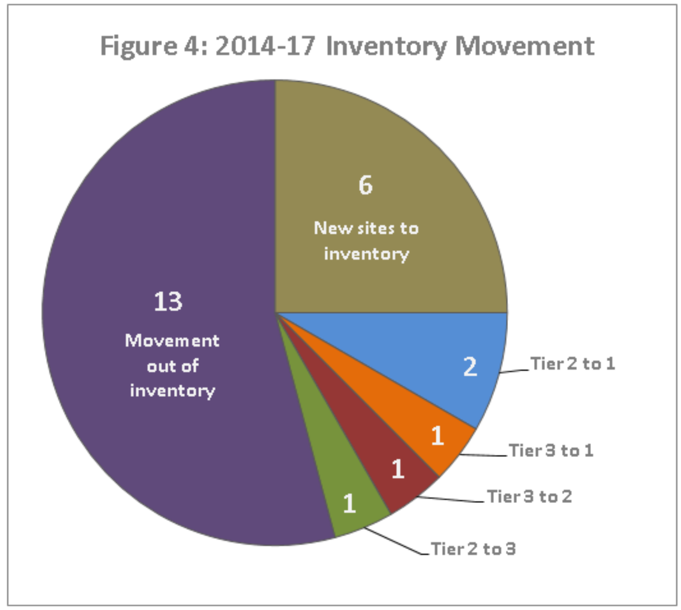
[9] **Site 9**: 33rd Ave and Marine Drive and **Site 37**: Orr Family Site.

Site readiness investments moved sites between tiers:

- Two sites moved up from Tier 2 to Tier 1 based on environmental mitigation and infrastructure investments[10].
- One site moved up from Tier 3 to Tier 1 based on environmental mitigation investments[11].
- One site moved up from Tier 3 to Tier 2 based on transportation investments[12].
- One site moved down from Tier 2 to Tier 3 due to lack of infrastructure[13].
- One site moved to the inventory from the 2014 User-Designated list due to property owner's willingness to sell[14].
- Equally as important, and not reflected in the chart to the right, site readiness investments since 2014 enabled the nine sites that have been fully or partially developed to be developed. A prime example of these site readiness efforts are the environmental mitigation and infrastructure investments required to prepare the Site 19 TRIP Phase 2 for development.

ACTIONS THAT MADE SITES MORE DEVELOPMENT-READY BETWEEN 2014-2017 INVENTORIES	
Changes in property owner willingness to transact	1
Environmental constraint mitigation	2
Infrastructure investments	2

Figure 4: Movement within inventory



Source: Mackenzie

3. **Significant challenges remain to move sites to market. This is particularly true for sites that require aggregation and High-Need Tier 3 sites.**
   - Large industrial sites can face multiple development constraints, including: state and local legislative actions[15], inadequate infrastructure[16] and transportation, land assembly needs, natural resources mitigation, brownfield remediation, and property owners not willing to transact.
   - Sites with multiple property owners require aggregation. This is a key issue to supplying larger sites to the market affecting over a third of the Tier 2 and Tier 3 sites in the inventory (13 sites).
   - Nearly 2/3 of the Tier 2 and Tier 3 sites require local actions such as annexation, zoning, or completion of concept planning (22 sites).

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[10] **Site 1:** Rivergate and **Site 18:** TRIP Phase 2.
[11] **Site 16:** Blue Lake Corporate Park (formerly Cereghino).
[12] **Site 37:** Orr Family Site.
[13] **Site 101:** Vanrose Farms and Bert and Bernie LLC.
[14] **Site 119:** Intel (West Union Rd).
[15] Local and state legislative actions include UGB expansion, annexation, zoning, and concept planning.
[16] Infrastructure includes water, sewer, and stormwater utilities.

- Of the 26 Tier 3 sites, the development community views 15 of these sites as High-Need sites, which will require significant resources to reach Tier 1 site readiness. These sites are expected to take five years or more of site readiness work. In some case, industrial development may not be feasible.
  - Seven of the 26 Tier 3 sites are current or previous operating gravel pits. To be developable, these sites will need to be filled once extraction is complete. The timing of fill is unknown and may take years. Although these sites may be utilized for industrial development in the future, they are on the lengthier Tier 3 timeframe, perhaps even decades out from development.
  - While brownfield redevelopment affects seven large industrial sites, three industrial sites are located in the Portland Harbor Superfund site which will add significant costs, time, and will require coordinated strategies.

Tier 2 and 3 Site Development Constraints[17]	
Infrastructure (sewer, water, storm utilities)	16
Transportation	22
Land Assembly	13
Local and State Legislative Actions	22
Brownfield Cleanup	7
Natural Resources	17
Willingness to Transact	21

- Based on detailed site assessments completed on 19 Tier 2 and Tier 3 sites and a PGE infrastructure study, the estimated total costs for infrastructure only are $143.8 million for the 1,385 gross acres, or an average cost of $2.31 per square foot. In addition, for the 19 sites with detailed site assessments, there is another $53 million of estimated non-infrastructure site readiness costs needed to move sites to market (e.g., wetlands, brownfield clean up, slope mitigation, building pad surcharge), underscoring the importance of flexible site readiness funding sources.

4. **Site readiness investments and development since 2011 have resulted in significant investment and job creation.**

- As a supplemental analysis to the inventory, the 2017 project included an evaluation of the return on investment realized from sites that have been fully or partially developed. Since 2011, six sites have fully developed[18] and nine sites have partially developed[19]. Another seven sites are expected to move toward development in 2017.
  - Of the fully developed sites, $230 million in investment in real property has occurred on 225 industrial acres, creating between 2,500 and 2,750 direct jobs with an estimated annual wage of $50,000 and a $5.2 million annual state personal income tax return.

[17] Estimated costs for constraint mitigation not available.

[18] **Site 46**: Westmark site; **Site 21**: GVBP East; **Site 13**: Specht Properties; **Site 11**: PIC East; **Site 40**: Pacific Realty Associates; **Site 49**: Majestic Realty.

[19] **Site 19:** TRIP lots 1-6; **Site 22:** GVBP lot 9; **Site 21:** GVBP lots 1-3; **Site 48:** Baker/Bindewale; **Site 56:** East Evergreen; **Site 16:** Cereghino; **Site 114:** Colwood; **Site 111:** Weston; **Site 113:** Henningsen.

Fully Developed Sites Since 2011 (6 sites)	
Acres	225
Square Footage	4 million
Estimated Direct Jobs	2,500-2,750
Estimated Average Annual Wage	$50,000
Estimated Indirect and Induced Jobs	2,500
Investment in Real Property	$230 million
Annual Local Property Tax Revenues	$500,000*
Annual State Personal Income Tax Revenues	$5.2 million

* Property tax revenues are adjusted to reflect the five-year property tax abatement for all but one of the nine sites. Property tax revenues will increase at the end of the tax abatement period.

Partially Developed Sites Since 2011 (9 sites)	
Acres	350 acres
Square Footage	4.78 million
Estimated Job Capacity	2,800–3,250
Investment in Real Property	$500 million

Recommendations and Next Steps

While recent market absorption of industrial sites highlighted in this report ranged from 26 net developable acres to 80 net developable acres in the 2014-2017 inventory cycle, the Portland metropolitan region continues to see a demand for larger industrial sites of 50+ and 100+ acres. The 2017 inventory highlights the lack of 50+ and 100+ Tier 1 industrial sites and hurdles associated with moving the Tier 2 and Tier 3 sites of this size to market. If this regional issue is not addressed, the Portland region will experience lost opportunities for new game-changer business locations and expansions.

Policymakers should consider policy actions and investments to address industrial site readiness challenges (e.g., land aggregation, infrastructure, transportation, natural resource mitigation, legislative actions, and industrial brownfield cleanup) and development hurdles. With reduced federal funds, the region will need to be more strategic about investments to support these goals.

The Project Management Team recommends that policymakers, economic development practitioners, and other stakeholders focus their efforts on the following actions to address the findings from this report:

Local and Regional Site Readiness Actions

1. Engage the Oregon Economic Development Department, Oregon Economic Development Association, local jurisdictions, private property owners, and developers in efforts to make investments in industrial sites needed to move these sites to market.
2. Actively work to find ways to aggregate 13 industrial sites with multiple property owners to realize the market potential of these sites. This is critical to realizing the potential of Coffee Creek, Meek Subarea and other industrial sites in the region.
3. Support local jurisdictions in evaluating the sites that require state and local legislative actions (e.g., annexation, zoning, and concept planning) and identify the timeline for and feasibility of completing this work. Metro has invested Community Planning and Development funds in the past to support such efforts.

4. Evaluate Tier 3 High-Need sites to determine if there is a path for development. If not, consider removing them from the inventory or creating a Tier 4.

5. Proactively work on solutions to the Lower Willamette cleanup to remove the cloud over the properties in the Portland Harbor.

6. Apply brownfield tools approved by the legislature to brownfield redevelopment of industrial lands (Brownfield Tax Abatement Program and Landbanking Authority).

7. Actively work on regional and local infrastructure financing solutions that impact 60% of the industrial sites in the inventory. Metro's Economic Atlas may help identify strategic infrastructure investments benefitting the region's industrial and employment lands. Local infrastructure needs could potentially be packaged with State infrastructure financing to fund local/regional projects through the West Coast Infrastructure Exchange.

8. Support regular updates of the inventory and track investments from sites that have been developed. Consider expanding the inventory to sites of 15 acres or more to reflect shifting market demand.

State Legislative Actions

9. Advocate for new tools and funding to support brownfield cleanup and redevelopment. This includes but is not limited to re-capitalization of the Oregon Economic Development Department's Brownfield Revolving Loan Fund and passage of Brownfield Tax Credit.

10. Support state loan funding for the Industrial Site Readiness Program and Special Public Works Fund. The Industrial Site Readiness Program was enacted in 2013 without authorization for loan funding. The Special Public Work Program is oversubscribed and underfunded.

11. Continue to support the Regional Solutions Teams that provide coordinated state attention to facilitate solutions for sites with complex issues involving multiple agencies. The Metro Regional Solutions Team played a key role in addressing sire readiness issues in Troutdale, Gresham, Clackamas, and Hillsboro in the 2014-17 inventory cycle.

Local Development Actions

12. Evaluate the potential for new or expanded enterprise zones or other local or state incentives to help secure targeted development.

13. Encourage local communities to explore an expedited permitting process to address market expectations of issuing construction permits. Several communities with development wins in the 2014-2017 inventory cycle have expedited permitting programs in place (e.g., Hillsboro, Gresham).

Map 1: Regional Map of Tier 1, 2, and 3 Sites