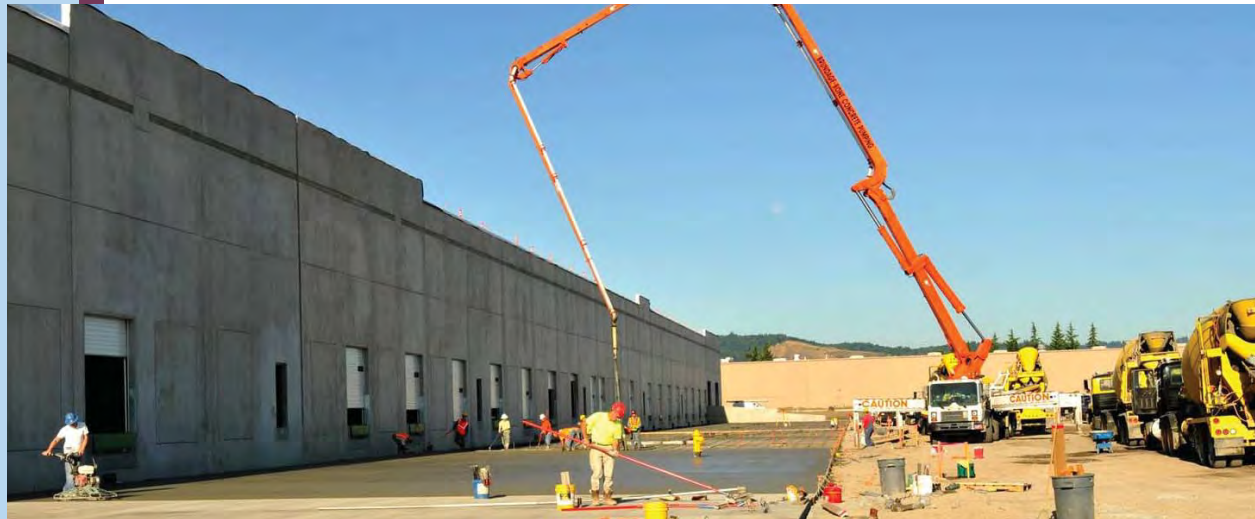


Project Executive Summary



Project Sponsors

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Port of Portland — Portland Business Alliance

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Project Funders:

Commercial Real Estate Economic Coalition (CREEC)

Clackamas County

City of Gresham

City of Hillsboro

City of Portland

City of Sherwood

City of Wilsonville

Howard S. Wright

National Electrical Contractors Association – Oregon-Columbia Chapter

Oregon State Building & Construction Trades Council

Portland General Electric

Plumbing & Mechanical Contractors Association

Sheet Metal & Air Conditioning Contractors National Association

Three Oaks Development Company

Westside Economic Alliance

The Project is being funded in part through funds provided by the State of Oregon, acting by and through the Business Oregon (an Oregon state agency).

The site information contained in this report is based on publicly available data sources and is not intended to replace independent due diligence for transaction purposes. Prospective purchasers, tenants, and others shall perform and rely solely upon, their own independent due diligence with respect to the Property.

PROJECT EXECUTIVE SUMMARY

A. PROJECT PURPOSE

Traded-sector companies sell goods to buyers outside of the Metro region, bringing in additional wealth. Attracting and retaining traded-sector industrial companies is important for the Portland region's long-term economic prosperity. Establishing a supply of development-ready large industrial sites is a critical part of a strategy to attract and retain traded-sector jobs. Because the Portland region must compete with other metropolitan areas for these traded-sector jobs, it must be able to provide a reasonable inventory of available sites.

This report examines the current and near-term supply of large (25+ acres) industrial sites available to accommodate the expansion of existing employers and recruitment of potential new employers to the Portland metro region¹. For purposes of this study, only vacant, industrially zoned, or planned lands within the Portland metropolitan Urban Growth Boundary (UGB) and selected Urban Reserves were analyzed.

The project was conceived partly in response to Metro's 2009 Urban Growth Report, which identified a shortage of large-lot industrial sites in the region and in recognition of the need to replenish large-lot industrial sites as they are developed. This project report was produced by Group Mackenzie in partnership with Business Oregon, Metro, NAIOP - Commercial Real Estate Development Association Oregon Chapter, Port of Portland and Portland Business Alliance, whose representatives served as the Project Management Team (PMT).

The project is divided into two parts. Phase 1 documented the regional inventory of large industrial sites and categorized them into three tiers based on their development readiness. Phase 2 analyzed 12 representative Phase 1 sites to provide more detail about their constraints and the potential economic benefits of development. The purpose of the project is to:

- Quantify the supply and readiness of large industrial sites in the Portland metro area.
- Determine the costs and benefits of developing a representative subset of these sites.
- Inform discussion on future tools and policies to maintain a market-ready inventory of industrial sites.

¹ The Regional Industrial Site Readiness Project examined vacant, industrially-zoned, or planned lands within the Portland metropolitan area's UGB and selected urban reserves that are suitable for large-lot industrial development by new firms moving to the region or the growth of existing firms that do not hold land for future expansion. Rural areas of Clackamas and Washington counties outside the UGB were not included in this analysis. The study identified and documented user-owned sites held for future use but excluded these from the detailed analysis because these sites were not available to the marketplace.

B. FINDINGS

1. Development Readiness

The analysis in this study shows that the region lacks a supply of industrial land that is readily available to attract and grow the types of catalytic employers that will help the region's ability to prosper. This is particularly an issue for sites of 50 acres or more.

Figure 1 represents the findings of the regional inventory as of October 2011. The study found:

9 Tier 1 sites

Available for facility construction within 180 days

There are few Tier 1 “market ready” sites available for traded-sector opportunities in the near term. Further, only five of these nine sites meet broad marketability requirements.

16 Tier 2 sites

Available for facility construction between seven and 30 months

There is a modest supply of mid-term sites requiring investment and policy actions to bring these sites to market. Four of these sites require assembly of smaller lots.

31 potential Tier 3 sites

Available for facility construction beyond 30 months

There are multiple challenges and significant investment and time required to bring these pipeline sites to market. Ten of these sites require lot assembly.

There is a limited supply of 50-plus and 100-plus acre sites in the Portland region. The study found:

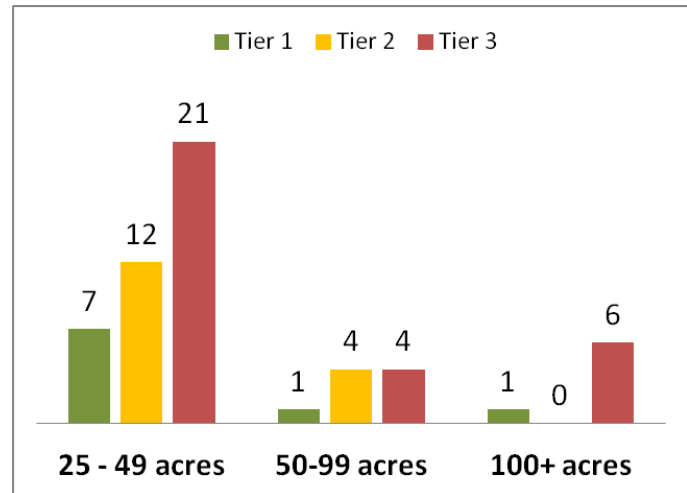
Tier 1 sites: One 100-plus acre site

Tier 2 sites: No 100-plus acre sites

Tier 3 sites: Six potential 100-plus acre sites; three require lot assembly

Industrial sites in the region are in varying states of readiness, requiring regulatory approvals (permitting, mitigation), state/local actions (concept planning, annexation, rezoning), infrastructure (sewer, water, transportation), assembly of sites, and brownfield cleanup. This report provides a clearer understanding of the actions and investments required to make more of these sites development ready to ensure the region's competitiveness.

Figure 1: Regional Site Distribution based on Tiers



Source: Group Mackenzie

2. Development Costs

Evaluation of the 12 Phase 2 case study sites shows most sites have at least one major constraint which is significant enough to preclude market activity. A lack of off-site public utilities such as water, sanitary sewer, storm water, and transportation, are the most common, and in many of the case studies, the most severe constraint. Across all 12 Phase 2 sites, off-site costs comprise roughly 44 percent of all development costs. Transportation constraints are the largest contributing factor. The median cost for off-site infrastructure ranges between \$0.16 per square foot to \$0.85 per square foot. Transportation is the highest at \$0.85 per square foot. Beyond dollars, the time to establish infrastructure approaches 24 to 30 months.

Direct public investment to address off-site issues can have a significant positive impact. For example, the East Evergreen site in Hillsboro has a market viability gap of \$13.3 million, the most significant element of which is transportation infrastructure. An investment in this infrastructure would alleviate 78 percent of the market gap for this site.

The sites with critical infrastructure deficiencies are not likely to attract large firms if investment is left solely to the private market or delayed until a business willing to commit to a site is found.

On-site constraints, such as floodplain, slope, wetlands, and brownfields are not as broadly common, but where they do exist, are often costly and cause delays.

Eight of the Phase 2 sites have a wetland bank in their watershed, which is the preferred mitigation method and reduces time to development. The other three sites that have wetland issues either would necessitate on-site mitigation, reducing net developable acreage, or as in the case of the Troutdale Reynolds Industrial Park (TRIP), require the purchase of additional land for off-site mitigation. Currently, wetland permitting and mitigation cannot occur without a specific user and site plan in hand.

When combined with the long lag times for permitting and mitigation, wetland mitigation is a key "opportunity constraint." Investment in resources, such as creation of wetland banks or a streamlined process, could move these sites further toward marketability at a relatively low cost.

Eight of the 12 sites in this study are agricultural greenfields that have had no previous industrial use. Because of this, brownfield remediation is the smallest dollar cost constraint across all Phase 2 sites. However, even where costs are quite small, environmental remediation is typically the first activity which must occur in the development process. The median brownfield remediation time for all sites (except TRIP) is six months. If the time required for brownfield remediation were eliminated for these sites it would mean a savings of \$2,800 per acre in time costs could be achieved through early environmental remediation.

Brownfield remediation for previously used industrial sites can, on the other hand, be significant. On the TRIP site in Troutdale, environmental cleanup totals \$3.6 million, excluding the costs already incurred by the previous owner on this Superfund site. This is \$1.28 per square foot and exceeds 7.5 percent of total site readiness costs.

Simplifying and expediting permitting and other pre-development processes can have a significant financial impact on project feasibility. There is a time cost associated to the capital required to ameliorate on and off-site constraints². The Phase 2 analysis found that nearly a quarter of all site development costs are related to time and risk. Activities that reduce uncertainty and delay will implicitly reduce time and risk costs and make a site more financially feasible.

Table1: Tier 2 and Tier 3 Development Constraints

CONSTRAINT*	NUMBER OF SITES
Brownfield/Cleanup	8
Natural Resources	13
Infrastructure	19
Transportation	18
Land Assembly	14
State/Local Actions	20
Not Willing to Transact	18

**Sites may have multiple constraints*

Source: Group Mackenzie

² This study calculated a 7 percent annualized rate from the period dollars are spent in the development schedule to site development readiness.

Front end due diligence to identify issues and early investments in preparing sites for market readiness can have a significant impact on their viability by reducing time and risk to the developer or user. Due diligence that identifies a site’s constraints and the time to address them, will highlight those that have low costs but long timeframes. These types of constraints provide a good place to focus initial efforts.

One of the most significant project findings is that lot aggregation is a major hurdle to site readiness. Six of the 12 Phase 2 sites require parcel aggregation as the sites are made up of multiple parcels and multiple owners. In one case, there are eight separate owners to aggregate, and in another, 17 owners. While it was not possible to estimate how long the aggregation process may take, it is important to understand that sites that have multiple ownerships have an additional constraint that adds risk and needs to be addressed.

Constraints need to be understood from the perspective of cost, time, and risk. For sites that are close to economic viability, tools that reduce risks and time to market are likely to be most efficient. Sites with more severe constraints will require more comprehensive strategies that include financial tools to bring them to the market.

3. Economic Benefits

Significant economic and fiscal benefits can be created through investments in market ready sites (Table 2). Providing a sense of scale, the 12 sites analyzed in Phase 2 have the capacity to create an estimated 12,500 direct jobs on-site with average annual wages of \$97,000. When off-site impacts are considered, associated regional job growth could create \$3.7 billion in annual payroll at just over \$58,000 per job at full build-out of the twelve sites.

As a result of direct job creation, the 12 Phase 2 sites have the capacity to generate \$764 million in payroll tax revenue over the first 20 years of site development, construction, and operation. When all impacts are considered, the state of Oregon could potentially gain roughly \$2.3 billion in payroll tax revenue over the first 20 years if all 12 sites were developed.

Phase 2 sites have the combined potential to generate a cumulative \$217 million in local property tax revenues over the first 20 years and \$25 million annually thereafter.

Table 2: All 12 Case Study Sites Potential Economic Benefit	TOTAL
Total Direct Jobs	12,500
Average Annual Wage Level	\$97,000
Total Property Tax over 20 Years	\$217 Million
Total State Payroll Tax over 20 Years (Direct Jobs Only)	\$764 Million
Total State Payroll Tax over 20 Years (Direct and Indirect)	\$2.3 Billion

Source: Johnson Reid

Based on the conceptual uses assumed for the Phase 2 sites, the fiscal benefits to state and local jurisdictions are quite large. These benefits, if realized, in most cases exceed what it would cost an entity to finance infrastructure improvements necessary to make sites development ready. To sum up, from the perspective of the public, infrastructure investment can have a significant positive return.

C. CONCLUSIONS

The analysis reached the following conclusions:

- A small inventory of large industrial sites available in Tier 1 and 2 could potentially result in lost expansion and recruitment opportunities.
- Market choice is more limited for larger 50-plus and 100-plus acre sites. Parcel aggregation is a key issue to supplying larger sites.
- Tier 2 and 3 sites will require new investment, policy actions, and time to become development ready.
- Funding for infrastructure of all kinds is a critical limiting factor to site readiness.
- The cost of off-site infrastructure is the primary challenge to site readiness, comprising nearly 40 percent of total development costs. Transportation costs are the largest contributor to off-site infrastructure costs.
- Direct public investment to address off-site infrastructure needs and costs can have a significant impact.
- On-site issues vary by site. For some sites addressing on-site issues, such as brownfield remediation, has a high cost or long timeframe. An understanding of each site's constraints and the time to address them, will define those that have low costs but long timeframes. These types of constraints provide a good place to focus initial efforts.
- Nearly a quarter of total development costs are related to time and risk. The longer it takes a developer or user to address constraints and the greater the uncertainty about permitting processes, the higher the project cost and the further away from financial feasibility the project is. Front-end work on investigating and preparing sites for market readiness can have a significant impact on their viability.
- Not all sites have owners who are motivated to sell at industrial land prices (or any price). Some owners anticipate a better price with changes in circumstances or zoning that may or may not be realistic. A willing property owner and motivated jurisdiction are critical to moving sites to market.
- Significant economic benefits (jobs, payroll, and property taxes) would result from traded sector investment in these industrial sites.
- The state's general fund is potentially a big winner from associated job and associated payroll tax revenue growth.

D. RECOMMENDATIONS

Site selection decision timelines are getting shorter in order to meet companies' needs to bring goods and services quickly to market. At the same time, there are limited financial tools available to address barriers to development of industrial sites with higher degrees of complexity. The private credit market is extremely tight and private developers generally are unable to finance projects with significant upfront capital investment, longer term paybacks, and regulatory uncertainty. Public sector resources and financing tools that could play a role in infrastructure and site development are also limited.

While discussion and evaluation of potential options for addressing market readiness of industrial sites needs to take place at the regional and state level, the Project Management Team has identified recommendations for further analysis:

- Establish a mechanism for regional leaders to identify potential industrial sites of regional significance and focus resources on bringing these sites to market readiness.
- Maintain and expand existing state infrastructure funding and technical assistance programs and explore opportunities to improve and target state support.
- Investigate the creation of new funding partnerships between state and local entities to support site readiness of large lot sites for traded sector development.
- Explore opportunities to streamline or make more predictable state and local regulatory and permitting requirements and timelines to reduce permitting risk and increase private sector investment.
- Explore regulatory and policy tools in the arena of wetlands mitigation and brownfields remediation to assist in moving sites to market readiness at the local, state, and regional level.
- Explore opportunities for regional and state funding for patient developer entities, either public or private, that can invest in due diligence and site preparation without requiring a market-driven return on investment.
- Analyze the investments needed to move the remaining 36 Tier 2 and Tier 3 sites to market-readiness to assist with regional economic and infrastructure development plans.
- Perform an annual inventory update of large lot industrial sites and encourage other regions around the state to adopt the inventory methodology.
- Analyze the absorption/demand/missed opportunities for large lot industrial sites and the economics of redevelopment for industrial purposes and traded-sector competitiveness.

The recommendations listed here are meant to be the beginning of a dialogue on creating effective tools and policies for ensuring the region and state has a competitive supply of market-ready industrial sites.

In the summer of 2012, the Project Management Team plans on meeting with key regional, state, public and private leaders, culminating in fall 2012 with a meeting of an Oregon Business Plan subcommittee. The work will then be integrated into the Oregon Business Plan. Parallel efforts will be ongoing with legislators and other regional partners to facilitate action and bring about results.

E. PROJECT REPORTS

The Regional Industrial Site Readiness Project includes three volumes, in addition to the Executive Summary. Volume 1 is the complete Project analysis and findings. Volume 2 presents the site specific details and results of the Project. Volume 3 includes all of the technical appendices.