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Freeway Land Property Industrial Site Assessment

Presented to

Portland Development Commission

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Freeway Land Property Industrial Site Assessment

The purpose of this industrial site assessment is to describe the current status of the Freeway Land site, identify physical and market issues and opportunities, and assess the site's overall suitability for various industrial uses. The report is organized as follows:

- **Section 1.0: Site Background.** Overview and history of the Freeway Land site.
- **Section 2.0: Site Characteristics.** Description of physical characteristics, regulation and environmental issues associated with the site.
- **Section 3.0: Industrial Market Assessment.** Assessment of the Portland Metropolitan Area's suitability for industrial development.
- **Section 4.0: Site Competitive Analysis.** Analysis of competitive strength of the Freeway Land site for industrial purposes.

1.0 Site Background

The Freeway Land property lies in Outer Southeast Portland in the Lents neighborhood. It currently includes a mixture of vacant areas, natural resources and light industrial uses. Over time, it has been converted to multi-tenant industrial use. Current property owners purchased the site in 2006. The property had been for sale during much of the previous 15 years and the City of Portland had considered but not acted on opportunities to buy the property in the early 1990s and in 2004. While the property was on the market, it reportedly received significant interest from real estate brokers throughout the West Coast.

Significant planning work has been completed in the Lents area since the early 1990s, including creating and implementing the current urban renewal district. Much of that planning has been focused on areas west of Interstate 205 within the Lents Town Center area. Recent plans more directly related to the Freeway Land site include efforts to address flooding associated with Johnson Creek in this area. Those efforts have resulted in floodway mitigation initiatives that directly affect this property and surrounding parcels and commit a certain portion of the property to wetland and flooding mitigation activities.

The current property owners see themselves as caretakers of the property with the objective of creating employment opportunities in this area for surrounding residents and others in the region. They have no specific plans to change the use of the property or split it into smaller parcels. They hope to work with the City of Portland, with the City in the lead to plan for appropriate future employment uses as part of a larger strategy for Outer Southeast Portland. Map 1.1 provides overview of the Freeway Land site within the Lents neighborhood:

Map 1.1 – Aerial of Freeway Land Property and Vicinity



Source: Cogan Owens Cogan, LLC and Google Maps

Policy Goals

One of the City's overarching goals for urban renewal efforts in Lents is to increase quality employment opportunities for residents of the neighborhood. The following policy goals embodied in various planning documents for the Lents area focus on increasing employment opportunities in Lents and specifically at the Freeway Land site:

- **1996 -- Outer Southeast Business Plan (part of Portland Comprehensive Plan)**

Outer SE Community-Wide Actions: ED4 Assist in the redevelopment of the Freeway Land Development Corporation site for high density employment opportunities.

- **1999 - Lents Town Center Urban Renewal Plan**

Goal 5: Employment: Help businesses create family-wage jobs and make jobs available to Lents residents:

- Promote development and redevelopment of industrial lands.
- Initiate commercial/industrial site marketing efforts.
- Support the creation of new businesses by area residents

- **2001 - Lents Town Center Economic Development Strategy**

Conclusions and Recommendations: Workforce development efforts should focus on four issues:

1. Raising the awareness among Lents residents about the types of family-wage jobs available in the I-205 corridor and the skills required to obtain these jobs.
 2. Developing strong working relationships with I-205 business in targeted industry clusters.
 3. Developing integrated training programs that offer immediate employment opportunities linked to ongoing training for career advancement.
 4. Developing mechanisms that allow people to upgrade skills or education with minimum impact to existing job security.
- The greatest potential for primary job creation will be with industrial sites east of the freeway, possibly accompanied by supporting retail/services. Additional potential for job creation exists in commercial areas of downtown Lents.
 - The area east of I-205 should focus on the creation of primary, family wage jobs.

2.0 Site Characteristics

Location

The property is located in outer southeast Portland in the Lents neighborhood, directly east of Interstate 205, and south of SE Foster Rd. The official site address is 6400 SE 101st Avenue, Portland, OR 97266.

Ownership

The site was sold in 2006 to Jameson Partners, LLC for \$11.4 million.

Owner Address:

Jameson Partners, LLC
2495 NW Nicolai St
Portland, OR 97210

Size

Several reports include differing measurements of the acreage of the property, particularly the amount of buildable or partly-buildable acres. This is due, in part, to individual source assumptions in calculating acreage, and the uncertainty of environmental constraints of the site due to Johnson Creek. A summary of estimates provide a range of usable land between 50 and 87 acres.

The City of Portland's *Industrial Districts Atlas* states the site is approximately 114-acres, and includes an estimated 18 acres of buildable, vacant land and another 39 acres of partly buildable vacant land affected by floodplain or habitat constraints.¹ The estimates for both total acres and usable acres differ from other sources, including a 2003 property valuation by PGP Inc., which estimates the site to be 109.97 total acres, with 87.47 usable acres. PGP's acreage estimates are summarized in Table 2.1 below:

Table 2.1 - Freeway Land Site Size (2003)

| Description | Gross (AC) | Unusable (AC) | Usable (AC) |
|---------------------------------------|---------------|---------------|--------------|
| Primary Site Area – | | | |
| Improved Portion - Industrial | 27.30 | 0.00 | 27.30 |
| Surplus/Excess Industrial Land | 73.48 | 19.50 | 53.98 |
| Excess Commercial Land (Tax Lot 4900) | 2.98 | .50 | 2.48 |
| Residential Land (Tax Lot 400) | 6.21 | 2.50 | 3.71 |
| Total | 109.97 | 22.50 | 87.47 |

Note: The Primary industrial site area totals 100.78 acres, of which 81.28 acres is usable

Source: PGP Valuation, Inc., 2003

¹ 2004 City of Portland Industrial Districts Atlas

SERA Architects estimated usable acres between 56 and 62 acres in alternative diagrams for Portland Development Commission’s (PDC) 2003 Lents Town Center Revitalization Study.²

The industrial broker for the site states that approximately 68 acres are usable.

Johnson Gardener estimated between 50 and 60 developable acres depending on resolution of stormwater retention efforts.³

Current Use

The site is occupied by over 20 different industrial uses including asphalt production and shingles recycling, concrete use, truck repair, and a palette recycler. Approximately 159 employees work at the site. Table 2.2 provides a list of tenants at the site.

Table 2.2 – Freeway Land Tenants and Number of Employees

| Company | Address |
|------------------------------------|---------------------------|
| SKYLINE ENTERPRISES LLC | 6400 SE 101ST AVE STE 2 |
| CASCADE DRILLING INC OREGON | 6400 SE 101ST AVE STE 2D |
| APPLY-A-LINE INC | 6400 SE 101ST AVE BLDG 41 |
| HAWKES POWER & CONTROLS COMPANY | 6400 SE 101ST AVE BLDG 1H |
| LDN EXCAVATION INC | 6400 SE 101ST AVE STE 7 |
| CASCADE DRILLING INC | 6400 SE 101ST AVE STE 2D |
| RINKER MATERIALS CORPORATION | 6400 SE 101ST AVE |
| VIKING METAL GRAFICS | 6400 SE 101ST AVE STE 3C |
| MAINLINE ROCK & BALLAST INC | 6400 SE 101ST AVE |
| NEW VENTURE MFG. & SERVICE, INC | 6400 SE 101ST AVE STE 4D |
| SCHLOTH TRUCK EQUIPMENT CO | 6400 SE 101ST AVE SPC B |
| CASCADE PACIFIC TRANSPORTATION INC | 6400 SE 101ST AVE STE 1 |
| NELSON TRUCKING CO INC | 6400 SE 101ST AVE |
| FEED COMMODITIES LLC | 6400 SE 101ST AVE STE 1A |
| FREEWAY LAND COMPANY LLC | 6400 SE 101ST AVE |
| HYATT TANKS INC | 6400 SE 101ST AVE |
| HAULAWAY STORAGE CONTAINERS INC | 6400 SE 101ST AVE |
| NORTHWEST CLERICAL SERVICE | 6400 SE 101ST AVE STE 5 |
| SANDERS MOBILE TRUCK REPAIR, INC | 6400 SE 101ST AVE STE 2C |
| MACY WELDING | 6400 SE 101ST AVE STE 2A |
| A & J QUALITY CONSTRUCTION LLC | 6400 SE 101ST AVE STE 8 |

Source: Oregon Employment Department, Cogan Owens Cogan

² PDC/SERA Architects, 2003 Lents Town Center Revitalization

³ Baseline Market Analysis for Lents, 2003, Johnson Gardner.

Table 2.3 provides an improvement summary for the site, noting building footprints, gross built-up area (GBA), and the net rentable area (NRA).

Table 2.3 – Improvements, Freeway Land Industrial Park (2003)

| Identification | Footprint (SF) | GBA (SF) | NRA (SF) |
|------------------|----------------|----------------|----------------|
| *Office Building | 5,166 | 9,840 | 7,496 |
| Bldg. 1 | 35,872 | 37,672 | 34,640 |
| Bldg. 2 | 36,000 | 36,000 | 35,841 |
| Bldg. 3 | 31,870 | 31,870 | 25,420 |
| Bldg. 4 | 188,400 | 188,400 | 184,350 |
| Total | 297,308 | 303,782 | 287,747 |

*Does not include the basement area

Source: PGP Valuation, Inc., 2003

Environmental Status

- The site has no major documented environmental issues. Records indicated only one small scale incident involving an oil spill of undisclosed size.
- The site has a small clean-up issue where the previous owner did an illegal fill in the adjacent wetlands near Johnson Creek. This issue is 90% resolved with Corp of Engineers. Final work cannot be done until next summer, after which mediation will be complete and permits can be issued by Corp of Engineers.
- While it is not documented as an environmental issue, the site is currently being used for asphalt production and storage of asphalt debris.

Infrastructure

- **Water Utilities:** City water service point and hydrant present.
- **Sewer:** City and natural storm water assets present.

Local and Regional Access

Roads

- **Freeway:** Adjacent to Interstate 205
- **Major Streets:** SE Foster Rd
- **Local Access Roads:** SE Knapp, SE 101st Ave., and unnamed streets

Note: Interviewees expressed concern that local access from Foster Road might be a challenge – in particular, large vehicles turning in and out of the site.

Transit

- **Bus:** Served by Tri-Met routes 14 and 71

- **Light Rail:** The future “Green Line” extension of the Max Light Rail will serve the site with stops along Interstate 205. Stops are proposed to be located at Foster Road and Flavel St., approximately .5 and .85 miles from the nearest points of access to the site, respectively. Both stops will be located on the other (west) side of I-205 relative to the Freeway Lands site.

Heavy Rail: The existing heavy rail was removed and the right-of-way has been converted to the Springwater Corridor bicycle/pedestrian trail.

Visibility

The site has wide visibility from, and exposure to, Interstate 205 to the east. The western frontage has limited exposure to SE Foster Rd.

Abutting Properties

- **North:** Industrial Development
- **South:** Residential Development
- **East:** Residential Development
- **West:** Interstate 205

Character and Quality of Surrounding Land Uses

- **Residential:** Surrounding residential uses are of quality housing stock in a traditional neighborhood setting. Many pre-existing residential uses directly to the east of the site have been purchased and demolished as part of flood mitigation efforts. Only a few residences in this area remain in close proximity to the site (less than .10 mile). Other nearby residential uses are separated from the site by Foster and Knapp Roads.
- **Commercial:** Surrounding active commercial uses include an auto parts salvage yards and other automotive-related businesses, construction rentals. These are located on or adjacent to Foster Avenue, about .3 from the site.
- **Industrial:** Several active and prominent industrial uses surround the site, industrial including PCC Structurals, Pacific Hoe Saw and Knife, and East Side Plating Works.

Proximity to Supportive Uses

Park and Recreation

The following park and recreation resources were found in vicinity of the site:

- Lents Park (Community Park) (.63 mi)
- Ed Benedict Park (Neighborhood Park) (1.5 mi)
- Earl Boyles Park (Neighborhood Park) (1.5 mi)
- Bloomington Park (Neighborhood Park) (.9 mi)

- Raymond Park (Neighborhood Park) (1.25 mi)
- Beggars Tick Wildlife Park (Natural Area) (.6 mi)
- Zenger Farm (Urban Agriculture) (1.0 mi)
- Glenwood Park (Neighborhood Park) (.63 mi)

Industrial

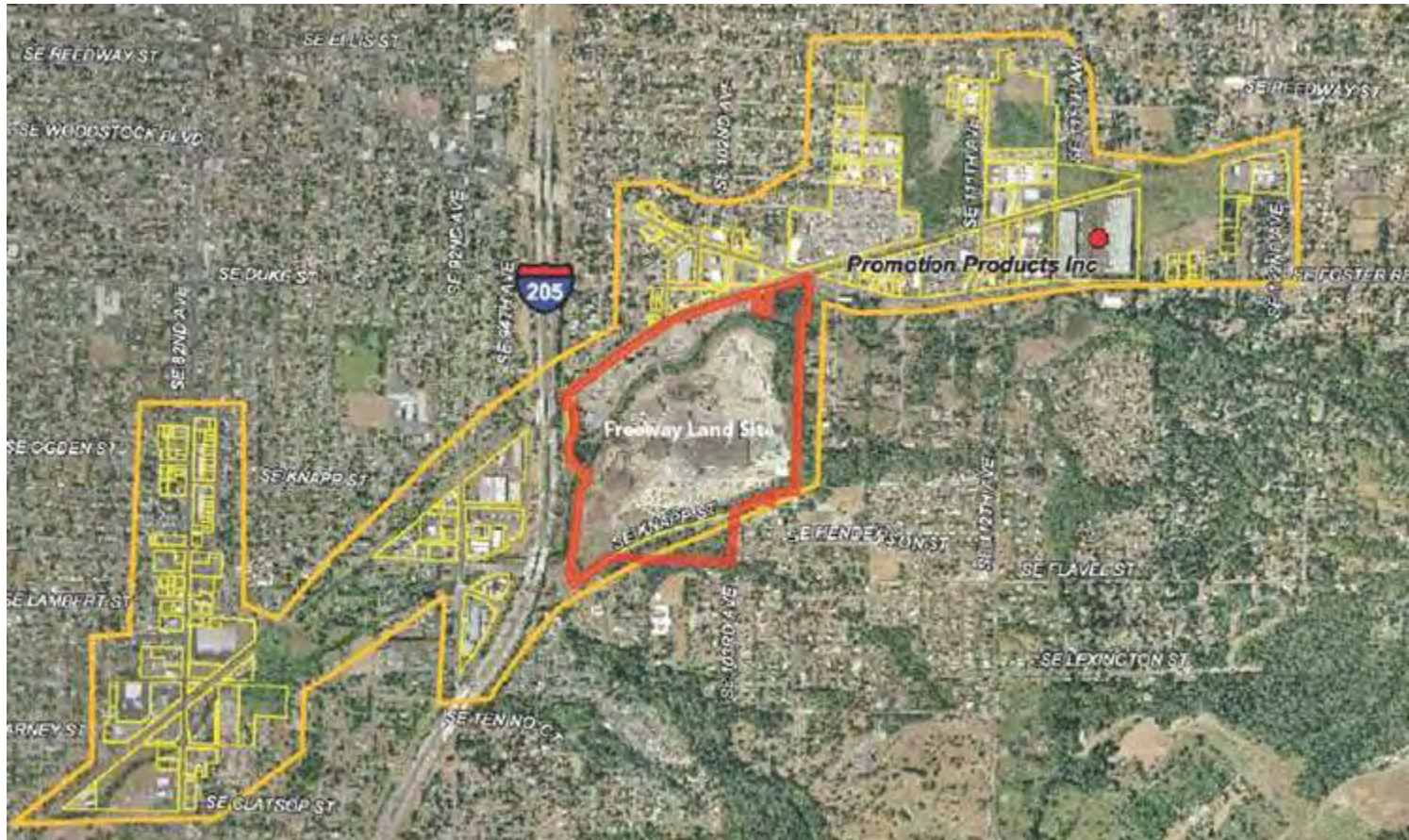
The following list contains supporting uses found within the Outer Southeast Industrial District (OSID), each within approximately .25 miles from the site:

- PCC Structural Corp. Nonferrous Die-castings Except Aluminum
- Promotion Products Inc. Wood Partitions And Fixtures
- Pacific Hoe Saw & Knife Machine Tool Accessories
- East Side Plating Works Electroplating Plating Polishing
- Automotive Indus. Mktg. Service Establishment Equipment
- Spencer Environmental Scrap And Waste Materials
- Centerpoint Graphics Inc. Commercial Printing
- Helping Hands Program Home Health Care Services
- AIMCO Corporation Hardware
- Eagle Industries of Amer. Industrial Machinery And Equipment

Source: 2004 City of Portland Industrial Districts Atlas

Map 2.1 illustrates the boundary for the OSID:

Map 2.1 – Outer Southeast Industrial District (OSID)



Source: 2004 City of Portland Industrial Districts Atlas

Regulation

Zoning: The site is zoned EG2 (General Employment) on the parcels north of Johnson Creek. The majority of the site south of Johnson Creek is zoned IH (Heavy Industrial). A small parcel in the north is distinguished as OS (Open Space).

- **General Employment zones (EG2).** The General Employment zones implement the Mixed Employment map designation of the Comprehensive Plan. The zones allow a wide range of employment opportunities without potential conflicts from interspersed residential uses. The emphasis of the zones is on industrial and industrially-related uses. Other commercial uses are also allowed to support a wide range of services and employment opportunities. The development standards for each zone are intended to allow new development, which is similar in character to existing development. The intent is to promote viable and attractive industrial/commercial areas.
- **Heavy Industrial zone (IH).** This zone is one of the three zones that implement the Industrial Sanctuary map designation of the Comprehensive Plan. The zone provides areas where all kinds of industries may locate including those not desirable in other zones due to their objectionable impacts or appearance. The development standards are the minimum necessary to assure safe, functional, efficient, and environmentally sound development.
- **The Open Space zone (OS).** This zone is intended to preserve and enhance public and private open, natural, and improved park and recreational areas identified in the Comprehensive Plan. These areas serve many functions including:
 - Providing opportunities for outdoor recreation;
 - Providing contrasts to the built environment;
 - Preserving scenic qualities;
 - Protecting sensitive or fragile environmental areas;
 - Preserving the capacity and water quality of the stormwater drainage system; and
 - Providing pedestrian and bicycle transportation connections.

Table 2.4 provides a list of permitted uses under each zone:

Table 2.4 - Uses Permitted by Freeway Land Zoning

| Table 140-1 Employment and Industrial Zone Primary Uses | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Use Categories | EG1 | EG2 | EX | IG1 | IG2 | IH |
| Residential Categories | | | | | | |
| Household Living | CU | CU | Y | CU [1] | CU [1] | CU [1] |
| Group Living | CU | CU | L/CU [2] | N | N | N |
| Commercial Categories | | | | | | |
| Retail Sales And Service | L/CU [3] | L/CU [3] | Y | L/CU [4] | L/CU [5] | L/CU [6] |
| Office | L [3] | L [3] | Y | L/CU [4] | L/CU [5] | L/CU [6] |
| Quick Vehicle Servicing | Y | Y | N | Y | Y | Y |
| Vehicle Repair | Y | Y | Y | Y | Y | Y |
| Commercial Parking | CU [15] | CU [15] | CU [15] | CU [15] | CU [15] | CU [15] |
| Self-Service Storage | Y | Y | L [7] | Y | Y | Y |
| Commercial Outdoor Recreation | Y | Y | Y | CU | CU | CU |
| Major Event Entertainment | CU | CU | CU | CU | CU | CU |
| Industrial Categories | | | | | | |
| Manufacturing And Production | Y | Y | Y | Y | Y | Y |
| Warehouse And Freight Movement | Y | Y | Y | Y | Y | Y |
| Wholesale Sales | Y | Y | Y | Y | Y | Y |
| Industrial Service | Y | Y | Y | Y | Y | Y |
| Railroad Yards | N | N | N | Y | Y | Y |
| Waste-Related | N | N | N | L/CU [8] | L/CU [8] | L/CU [8] |
| Institutional Categories | | | | | | |
| Basic Utilities | Y/CU [12] | Y/CU [12] | Y/CU [12] | Y/CU [13] | Y/CU [13] | Y/CU [13] |
| Community Service | L [9] | L [9] | L [10] | L/CU [11] | L/CU [11] | L/CU [11] |
| Parks And Open Areas | Y | Y | Y | Y | Y | Y |
| Schools | Y | Y | Y | N | N | N |
| Colleges | Y | Y | Y | N | N | N |
| Medical Centers | Y | Y | Y | N | N | N |
| Religious Institutions | Y | Y | Y | N | N | N |
| Daycare | Y | Y | Y | L/CU [11] | L/CU [11] | L/CU [11] |
| Other Categories | | | | | | |
| Agriculture | Y | Y | Y | Y | Y | Y |
| Aviation And Surface Passenger Terminals | CU | CU | CU | CU | CU | CU |
| Detention Facilities | CU | CU | CU | CU | CU | CU |
| Mining | N | N | N | CU | CU | CU |
| Radio Frequency Transmission Facilities | L/CU [14] | L/CU [14] | L/CU [14] | L/CU [14] | L/CU [14] | L/CU [14] |
| Rail Lines And Utility Corridors | Y | Y | Y | Y | Y | Y |

Y = Yes, Allowed

CU = Conditional Use Review Required

L = Allowed, But Special Limitations

N = No, Prohibited

Notes:

- The use categories are described in Chapter 33.920.
- Regulations that correspond to the bracketed numbers [] are stated in 33.140.100.B.
- Specific uses and developments may also be subject to regulations in the 200s series of chapters.

Source: City of Portland

The parcel south of SE Knapp is zoned R2 (Residential 2,000) and another small parcel in the southeast corner of the site is zoned R10 (Residential 10,000).

Refinement plans

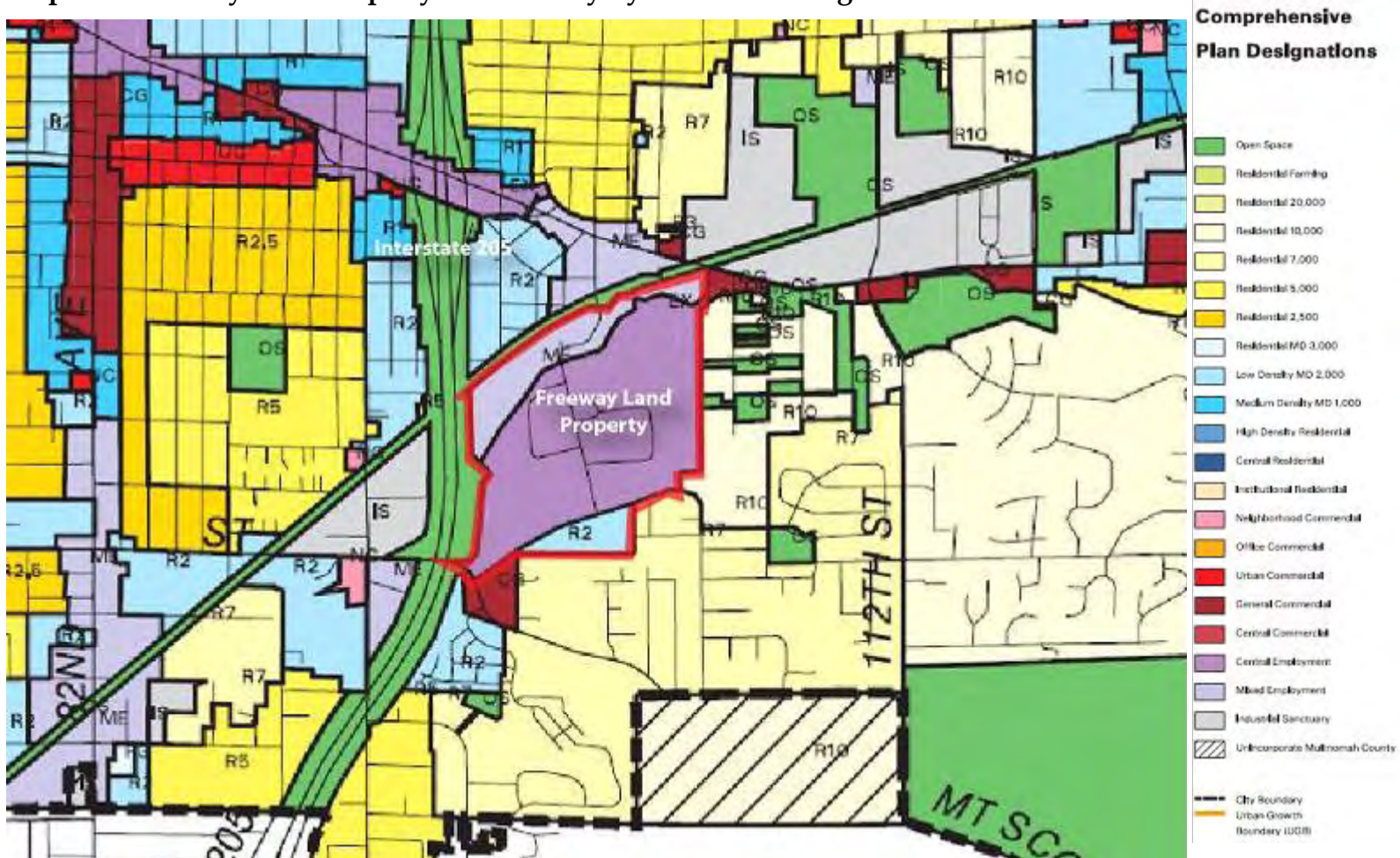
- **Lents Town Center:** The site lies within Lents Town Center Urban Renewal Area.
- **Johnson Creek:** The site lies within the Johnson Creek Basin Planning District, distinguishing areas of FEMA flood risk (100 year flood plain). Details of this planning district are outlined in Chapter 33.537 of the City of Portland's Planning and Zoning code.

Overlays

- **Buffer (b):** This overlay requires additional buffering above the base zone between nonresidential and residential uses.
- **Conservation Zone (p):** This overlay conserves important natural resources and environmental areas, while allowing environmentally-sensitive urban development.
- **Protection Zone (c):** This overlay protects important natural resources by limiting development in this zone.

Map 2.4 provides a comprehensive plan map for the site. Maps 2.5 - 2.6c illustrate current zoning for the site and immediate vicinity, while Map 2.7 delineates the environmental constraints described in the overlays:

Map 2.4 – Freeway Land Property and Vicinity by Land Use Designation



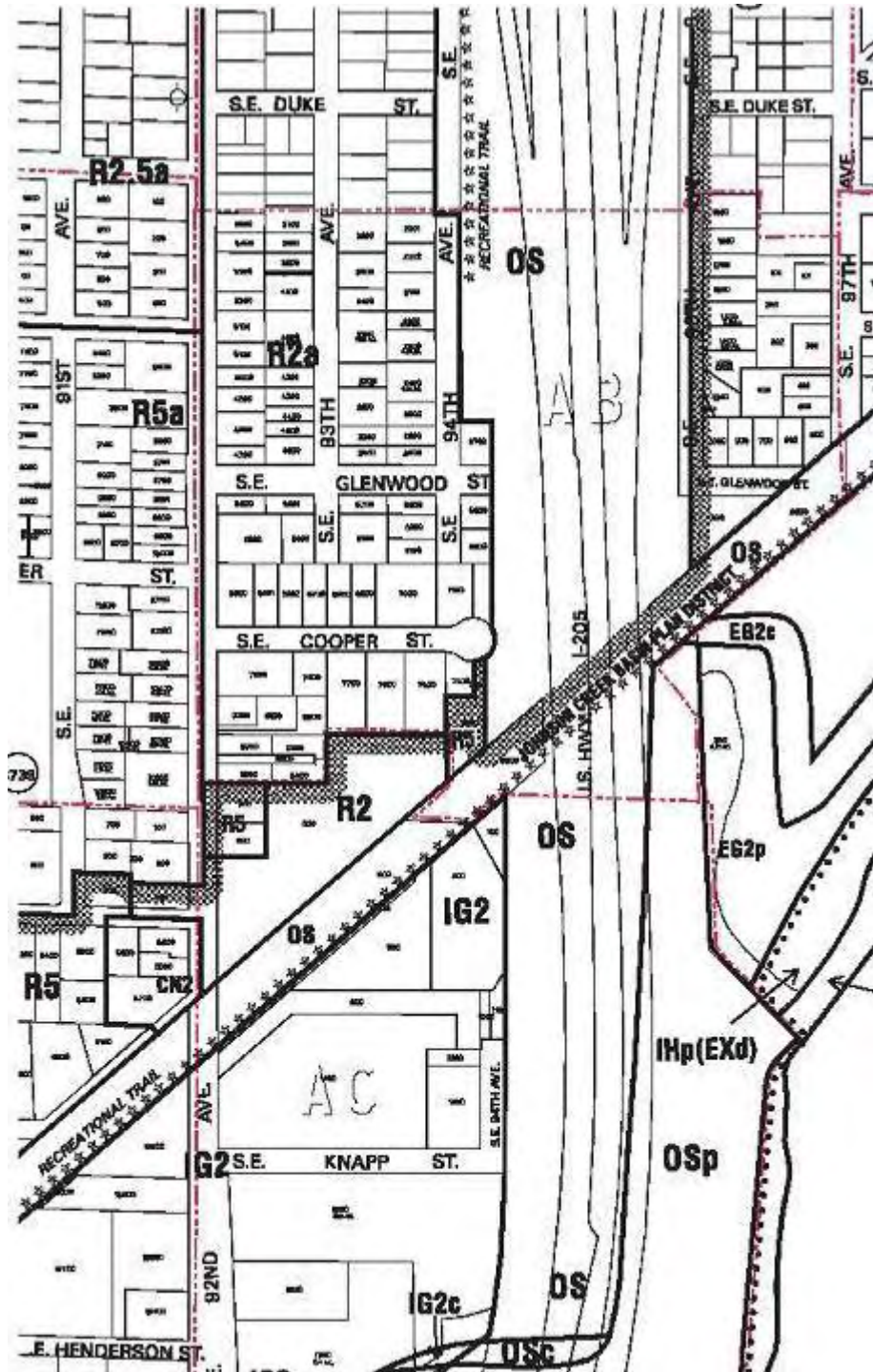
Source: City of Portland

Map 2.5 - Freeway Land Zoning



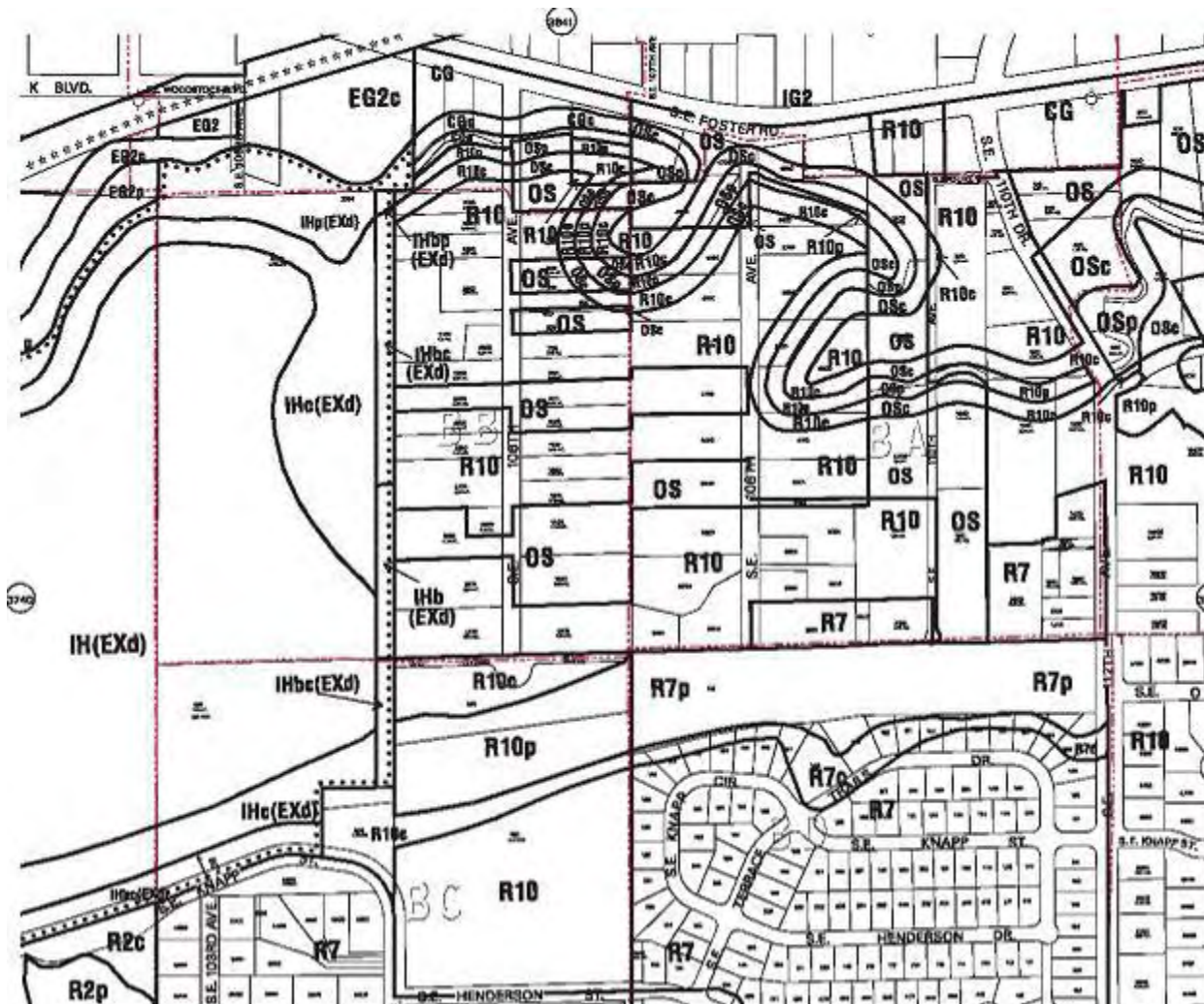
Source: Portland Development Commission

Map 2.6a -Parcel Zoning Map



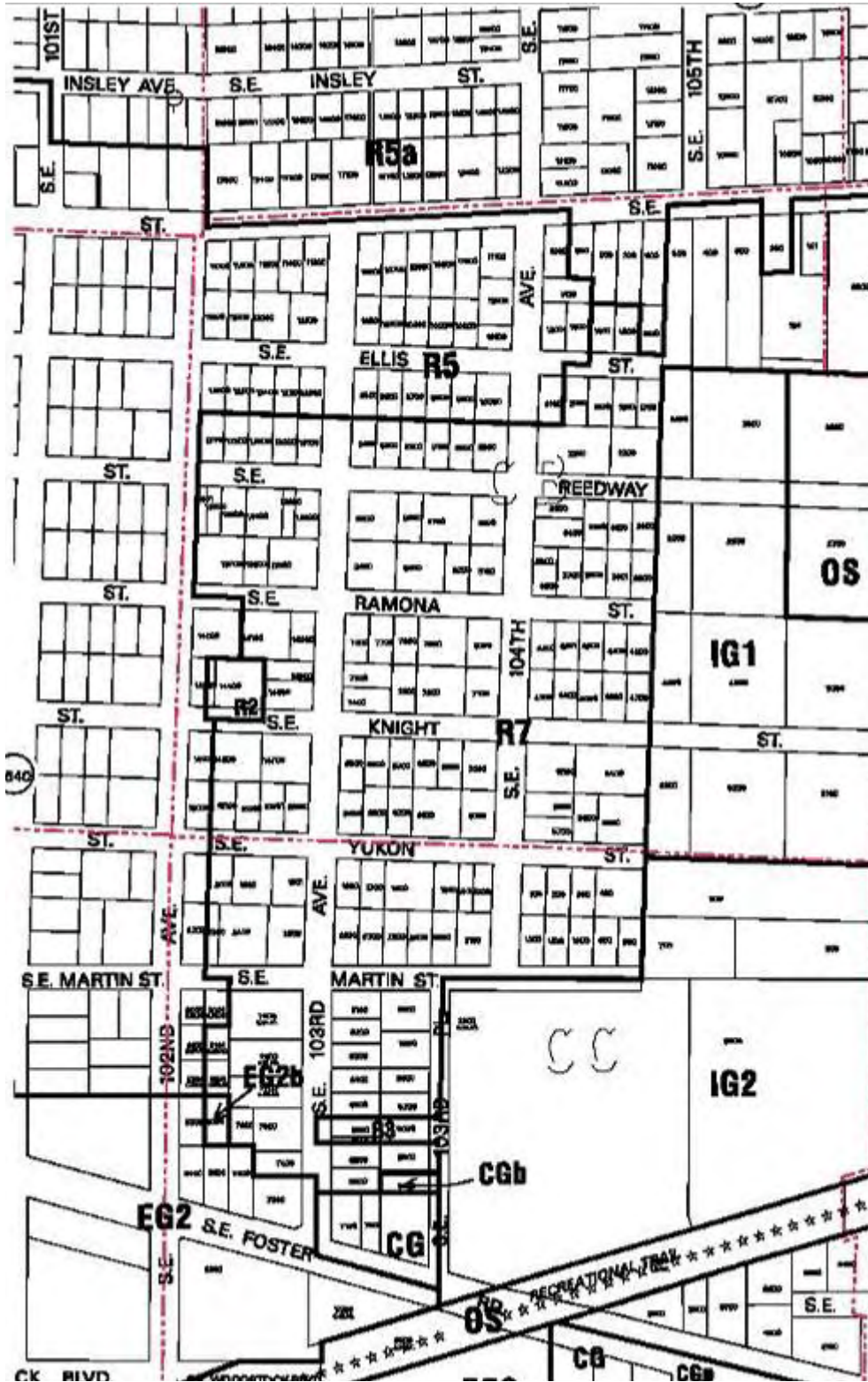
Source: City of Portland

Map 2.6b - Parcel Zoning Map



Source: City of Portland

Map 2.6c -Parcel Zoning Map



Source: City of Portland

Map 2.7 - Freeway Land Environmental Constraints



Source: Portland Development Commission

Flood Plain

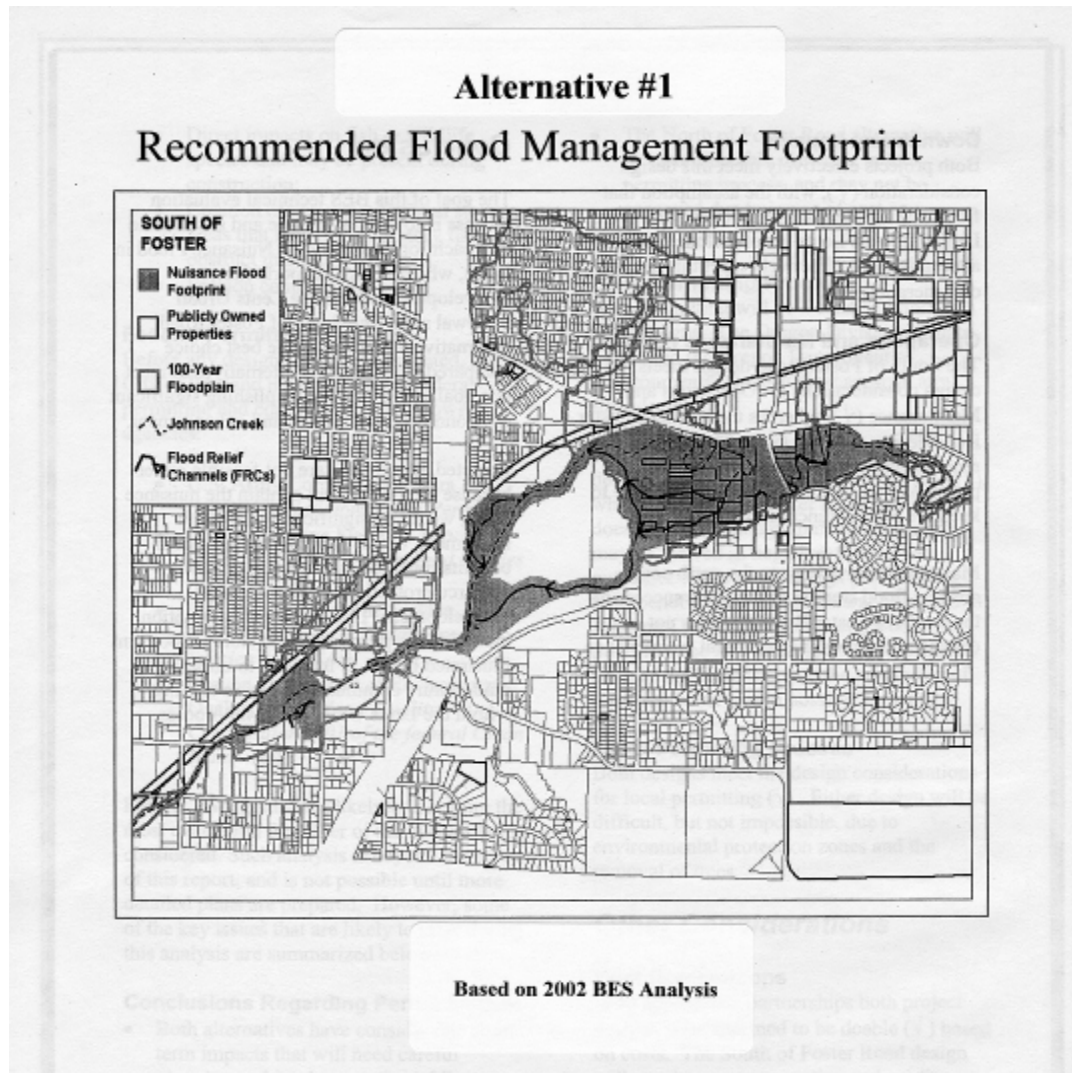
A fairly significant portion of the site lies within the 100-year floodplain (about 25-30 acres). The affected areas are primarily located around lower level topography adjacent to Johnson Creek.

- **Nuisance Flooding Mitigation Efforts:** The Bureau of Environmental Services (BES) has produced two studies analyzing flood management/mitigation along Johnson Creek.
 - **2002 – Analysis of Flood Management Alternatives in Lents.** This study examines several flood management approaches to produce four design alternatives for managing flooding along Johnson Creek. The four alternatives were ultimately reduced to a recommended (feasible) alternative. The recommended alternative would create a wider, two-stage channel within Johnson Creek, including off-channel storage areas and relief channels. This effort would essentially re-route nuisance floodwater around the Freeway Land site and under I-205. However, in 2003, upon consultation with PDC and the property owners, a “preferred” alternative was agreed upon that excludes the channeling of floodwater on southern portion of the Freeway Lands site. BES has recently solicited services to implement this alternative. Both alternatives are illustrated in Map 2.8a-b.
 - **2005 – Johnson Creek Restoration and Nuisance Flood Mitigation: Freeway Land Company Flood Management Analysis.** Similar to the Lents study, this study examines nuisance flooding mitigation alternatives that are specific to the Freeway Land sub-area. Key to this examination is identifying alternatives that meet the City’s goals of reducing natural hazards and protecting habitat. The convergence of these objectives creates an overlay of constraints that determine the amount of land available for job creation, or its “footprint.”

BES states that limited progress has been made in implementing the flood management system. BES wants to ensure that any implementation plan is feasible to implement from a landowner perspective. Given the recent changes in ownership, more communication and planning is needed to generate that confidence. To that end, the City of Portland is in early stages of a multi-bureau effort looking at potential redevelopment of the site.

- **Adjacent Properties:** BES is currently implementing mitigation plans for adjacent residential properties east of the Freeway Lands site. BES has received \$3 million in grant funds from the Environmental Protection Agency (EPA) for land acquisition and other implementation activities (out of a total estimated \$4 million project cost). BES has purchased 95% of land, with implementation and construction of mitigation projects expected to begin in 2010.

Map 2.8a - Recommended Flood Management Footprint (Alternative #1)*

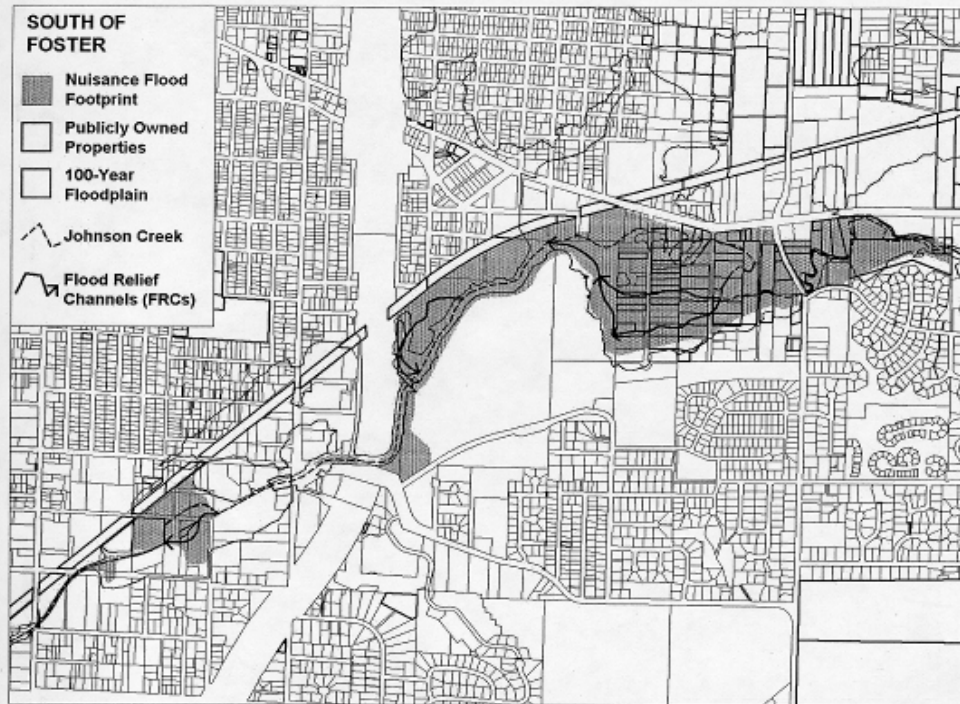


*Based on 2002 BES analysis

Source: Bureau of Environmental Services (BES), 2002

Map 2.8b – Preferred Flood Management Footprint (Alternative #2)*

Alternative #2 Preferred Flood Management Footprint



Based on 2003 BES Analysis and collaboration with Freeway Land Company property owners and the Portland Development Commission.

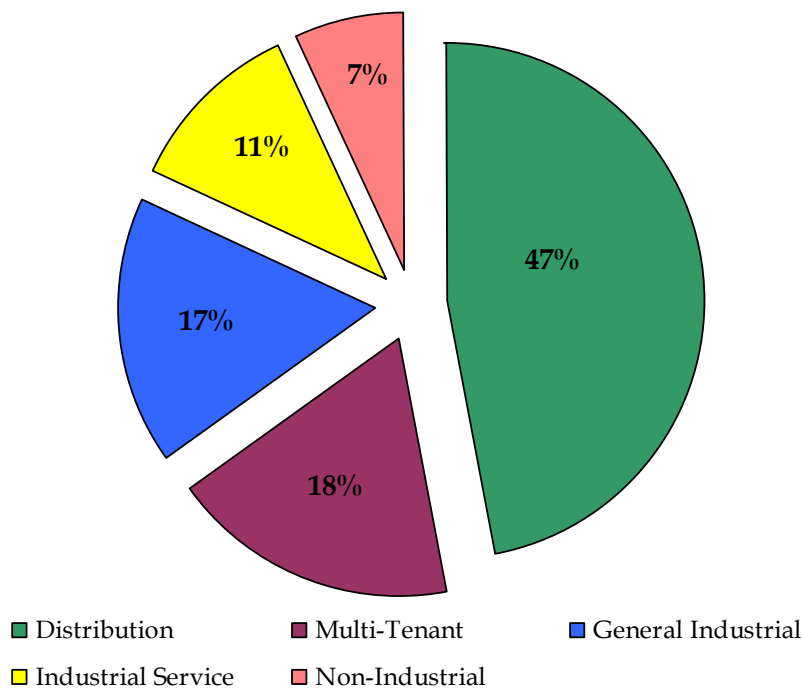
Source: Bureau of Environmental Services (BES), 2003

3.0 Industrial Market Overview

Metropolitan Portland Overview

As of the third quarter of 2007, metropolitan Portland contained just under 58 million square feet of industrial/flex space. According to the City of Portland’s Industrial District Atlas, distribution facilities (including freight terminals and warehouses) made up 47% of developed, occupied industrial land as of 2004. Multi-tenant facilities, including flex space, made up 18% and general facilities (manufacturing, construction and utilities) made up 17%. Forty-one percent (41%) of industrial land was classified as heavy industrial, which is defined as sites with structure coverage of at least 100,000 square feet or outdoor impervious area of at least 10 acres. Chart 3.1 summarizes Portland’s industrial market by use:

Chart 3.1 -- Developed & Occupied Industrial Land by Percent of Land Use, Metropolitan Portland (2004)



Source: City of Portland Industrial Districts Atlas

The Industrial District Atlas identifies the metals and the transportation equipment manufacturing industries and the Port of Portland as major anchors in metro Portland. Local suppliers for these manufacturers and uses associated with the Port create a “hub and spoke” structure in the region. Other local specialties include semiconductor and wood products manufacturing.

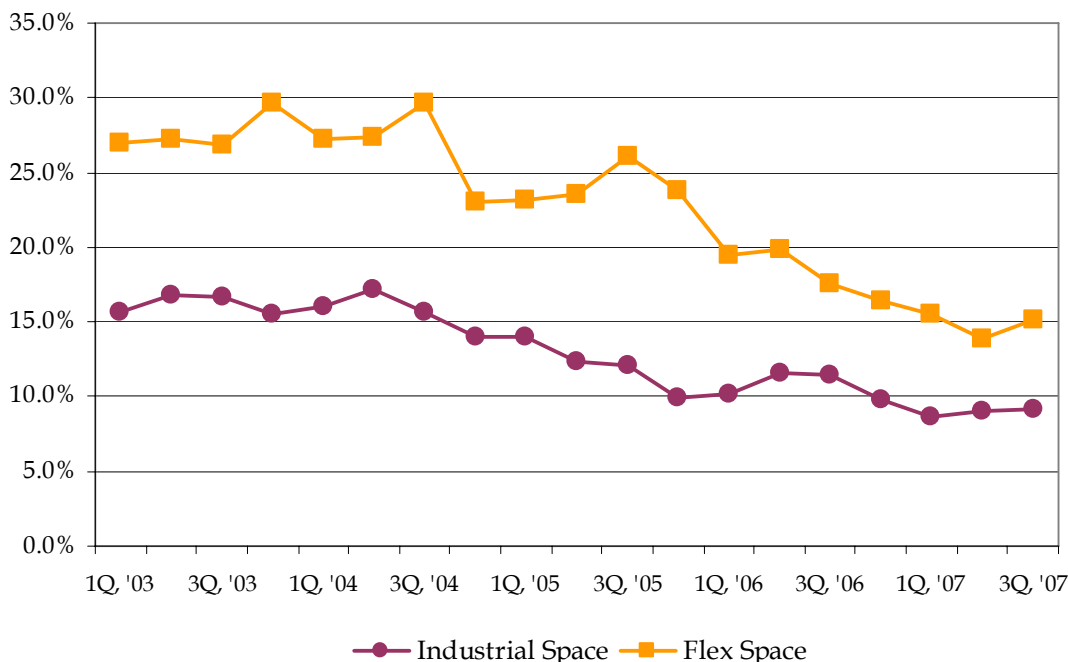
As of 2002, Portland’s industrial districts employed 101,000 workers, split approximately evenly between the production, transportation and industrial services sectors. These jobs tend to be high-wage positions. In 2002, the average wage paid by manufacturing firms was 130% of the average paid by firms throughout the region and the average wage paid by distribution firms was 121% of the regional average.

In the Lents 97266 zip code, the average salary for all industries was \$23,345 in 2005, (Oregon Employment Department). Five industries had average salaries greater than \$30,000, including wholesale trade, the second highest at \$39,366, and manufacturing at \$32,168. Wages in the Portland PMSA in 2005 were almost twice as high as in Lents averaging \$41,626.

According to a 2007 CB Richard Ellis industrial market profile, metro Portland continues to show signs of a strong industrial market despite a slight slowdown in activity. Triple net monthly shell leasing rates averaged \$0.37/SF as of third quarter, 2007, up from \$0.32/SF in 2005. Asking rates for new construction have been as high as \$0.42/SF NNN for the shell and \$0.85/SF to \$1.05/SF NNN for flex space.

Norris, Beggs and Simpson cite a vacancy rate of 9.1% for industrial space and 15.2% for flex space in metro Portland as of the third quarter of 2007. As illustrated in Chart 3.2, the vacancy rates for both industrial and flex space have dropped since the first quarter of 2003, when they were at 15.0% and 27.7%, respectively. Declining vacancy rates indicate a tightening of the industrial market as available industrial land in the metro area declines.

Chart 3.2 -Vacancy Rate for Industrial and Flex Space, Metropolitan Portland (2003-2007)



Source: Norris, Beggs and Simpson

In third quarter, 2007, nearly 2.8 million square feet of industrial space in metro Portland was under construction, according to Norris, Beggs & Simpson. For the quarter, the firm reports a net absorption of -18,595 square feet of industrial space and -127,351 square feet of flex space. As illustrated in Chart 3.3, this quarter is the first in which both the industrial and flex space markets have seen negative absorption since first quarter, 2006.

Chart 3.3 -- Absorption for Industrial and Flex Space, Metropolitan Portland (2003-2007)



Source: Norris, Beggs & Simpson

Metro Portland Industrial Land Supply

In 2007, Otak conducted a study to update the 2005 Metro Industrial Land Supply Inventory with estimates of buildable industrial-designated land within metro Portland’s Urban Growth Boundary (UGB). Since 2005, 367 tax lots were removed from the industrial land inventory, most because of recent construction (300+ acres per year since 2004) and rezoning or redesignation to residential, institutional and mixed-employment designations (200-300 acres per year since 2004).

Additions to metro Portland’s industrial land supply have come in the form of expansions of the UGB in 2002, 2004 and 2005. While these expansions added approximately 4,345 acres of land designated as industrial, most is in rural areas where significant market demand has yet to emerge, according to Metro’s Chief

Regional Economist Dennis Yee. The majority of additional land is currently under concept planning and has yet to be zoned as industrial.

Table 3.1 provides a summary of the vacant, buildable industrial land supply in metro Portland by tier. Tier A, land that is completely vacant and ready for development, makes up only 604 acres (6.4%) of industrial land in the metro area. Most industrial land (70.3%) falls in Tier D, meaning it is partially vacant or redevelopable but has some owner or zoning restraints. The increase in Tier D land since 2000 suggests that a large portion of industrial land added through UGB expansions falls in this category.

Table 3.1 -- Industrial Land Supply by Tier, Metropolitan Portland (2000 and 2007)

| Tier | Tier Definition | 2000 | | 2007 | |
|--------------|---|--------------|--------------|--------------|--------------|
| | | Tax Lots | Acreage | Tax Lots | Acreage |
| A | Vacant & unconstrained; ready for development. | 519 | 2,092 | 140 | 604 |
| B | Vacant with environmental and/or public facility constraints. | 657 | 3,212 | 257 | 1,620 |
| C & E | Small size lots or lots with assessed values above rate for industrial acreage. | 1,095 | 590 | 1,307 | 574 |
| D | Partially vacant or redevelopable with owner/zoning restraints. | 300 | 623 | 1,072 | 6,639 |
| Total | | 2,571 | 6,517 | 2,776 | 9,437 |

Source: Metro, OTAK

According to Metro's 2002-2022 *Urban Growth Report*, there will be demand for 9,366 acres of industrial land in metro Portland over the next 20 years. While the current supply of 9,437 acres appears capable of meeting this demand, most acreage is restricted in some way, indicating that if Portland is to meet anticipated demand it will require highly creative strategies to overcome environmental and other restraints.

Portland industrial land trends can be summarized as follows:

- **Limited supply of industrial land.** To meet growing demand for industrial space, Metro expanded the urban growth boundary in 2002 and 2004 to add about 4,000 acres and again in 2005 to add 345 acres of industrial land. Further, in June 2007, the Oregon Legislature passed a measure enabling Metro and local governments to target additional areas outside the UGB for future expansion over the next 50 years.
- **Need for large space.** With limited industrial land available for development, users looking for large facilities (65,000 square feet or more) are having difficulty finding space. According to the Portland Business Journal, demand for large space is being bolstered as national retailers increase their number of distribution centers in an effort to reduce transportation expenses in light of rising fuel costs. Further, Norris, Beggs & Simpson explain that the typical size

of warehouse space is on the rise. In 2002, the average size for warehouse space being constructed was 120,000 square feet; as of 2006, the average reached 216,000 square feet. Coupled with a preference for higher ceilings, this desire for large space makes it difficult for new users to move into existing industrial buildings.

- **Preference for owner-occupied space.** The decreasing availability of industrial land within the UGB and recent low interest rates have fueled a push to own rather than lease industrial space, especially among large users. While some users are paying premiums for close-in land, others are buying in less desirable locations, according to an industrial associate at Grubb & Ellis. Existing properties are also becoming popular in an effort to avoid the increasing costs of new construction.

Portland's Industrial Submarkets

Tables 3.2 provides market statistics by submarket for industrial and flex space in metropolitan Portland. The North/Northeast submarket provides 32% of total industrial/flex space in metro Portland and saw the greatest absorption of new product in third quarter, 2007, with 419,284 square feet absorbed.

Table 3.2 -- Industrial Market Statistics, Metropolitan Portland (Q3, 2007)

| Submarket | Rentable Area (SF) | Available Space (SF) | Vacancy Rate (%) | Net Absorption (SF) | Under Construction (SF) |
|-----------------|--------------------|----------------------|------------------|---------------------|-------------------------|
| North/Northeast | 18,513,940 | 2,065,701 | 11.2% | 419,284 | 2,321,833 |
| Northwest | 1,497,438 | 56,858 | 3.8% | 26,900 | 0 |
| Southeast | 6,578,311 | 946,912 | 14.4% | -439,761 | 170,884 |
| Southwest 217 | 5,545,281 | 646,235 | 11.7% | -37,632 | 0 |
| Southwest I-5 | 9,547,869 | 726,633 | 7.6% | -91,195 | 62,025 |
| Sunset Corridor | 7,461,211 | 1,047,277 | 14.0% | -50,642 | 113,406 |
| Vancouver | 8,846,429 | 440,621 | 5.0% | 27,100 | 115,460 |
| Total | 57,990,479 | 5,930,237 | 10.2% | -145,946 | 2,783,608 |

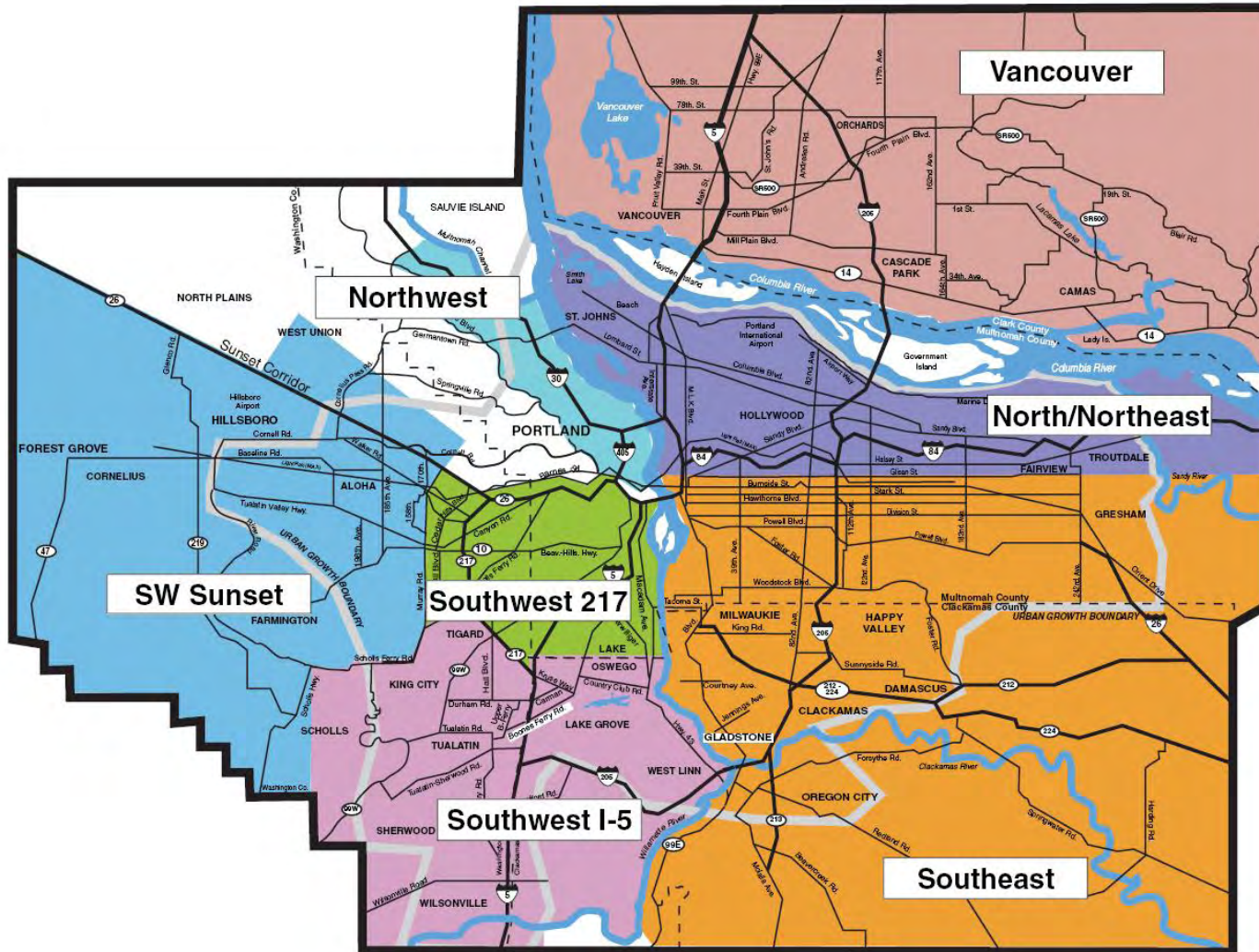
Note: This comparison includes industrial space and flex space.

Source: Norris, Beggs & Simpson

The Southeast submarket, where the Lents Town Center is located, has 6.6 million square feet of industrial/flex space and makes up 11.3% of the metro market. With a third quarter, 2007 net absorption of -439,761 square feet the vacancy rate in the Southeast is the highest of all submarkets at 14.4%. The percentage of flex space in the Southeast is second lowest when compared to percentages in other submarkets, which range from 2.7% to 64.8%.

Map 3.1 on the following page illustrates boundaries for Portland's industrial submarkets.

Map 3.1 – Portland Industrial Submarket Boundaries, 2007



Source: Norris, Beggs & Simpson

The Outer Southeast District

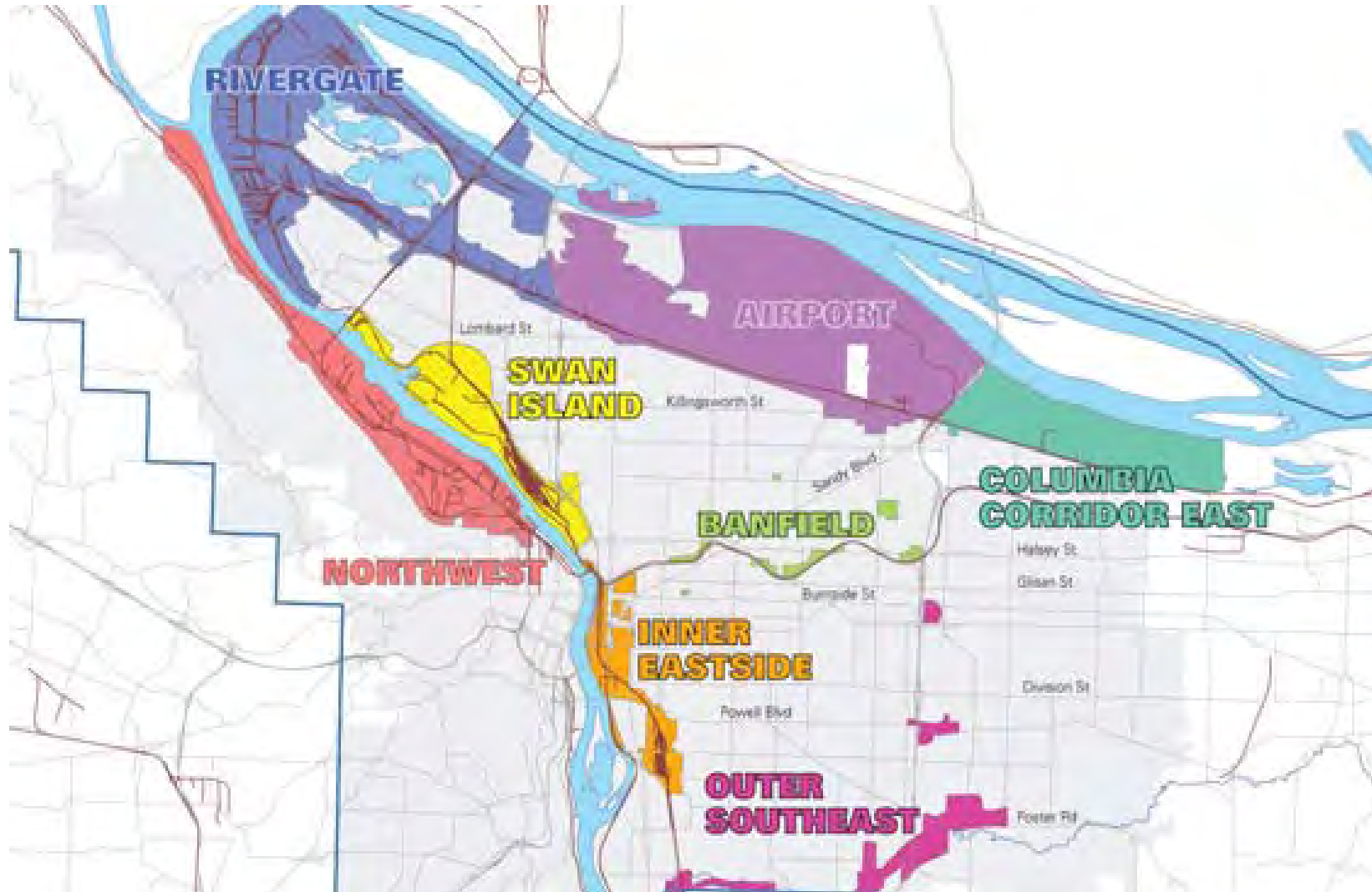
To augment the analysis of existing industrial space by submarket, the City of Portland's inventory of industrial land was also reviewed. The City's Industrial Atlas identifies eight industrial districts (Northwest, Swan Island/Lower Albina, Rivergate, Airport, Inner Eastside, Columbia Corridor East, Banfield and Outer Southeast).

The Outer Southeast district is home to the Lents Town Center and the Freeway Land site and makes up 3% (472 acres) of industrial land in all districts. It is composed of dispersed groupings of small industrial and employment areas along I-205 and Johnson Creek and has a high concentration of land in multi-tenant (flex space) facilities, few distribution centers and minimal heavy industrial use.

As of 2004, the Outer Southeast district provided 3,700 jobs with 45% in the manufacturing sector. Local industries included primary metals manufacturing, durable goods wholesalers, fabricated metal products manufacturing and furniture manufacturing. The largest industrial employer in the district is PCC Structural Corporation (metals manufacturing), which employs over 500 people.

Within the Outer Southeast district, industrial sites tend to be smaller than those throughout all districts as their respective averages of 1.7 acres and 4.3 acres indicate. Average industrial land value in the Outer Southeast was \$4.13 in 2004, slightly below the average for all districts of \$4.67. Map 3.2 provides a map of Portland's industrial districts:

Map 3.2 - Portland Industrial Districts



Source: City of Portland Bureau of Planning

Similar to Metro’s tiered land classification, the City of Portland’s 2004 Industrial Districts Atlas classifies vacant land ranging from “Tier A – Unconstrained” to “Tier F – Partly Buildable”. Table 3.3 summarizes the number of vacant acres for each tier in the Outer Southeast Industrial District.

Table 3.3 – Vacant Acres – Outer Southeast Industrial District (OSID)

| Tiers - Vacant Land | Acres |
|---------------------|-------|
| Tier A | .3 |
| Tier B-E | 19.1 |
| Tier F | 39.4 |

Source: 2004 City of Portland Industrial Districts Atlas (based on 2002 for realty data).

The OSID has approximately .3 acres of Tier A, 19.1 acres of Tiers B-E, and 39.4 acres of Tier F vacant land available for industrial development. Of this, the Freeway Land property comprises approximately 18 acres of the available Tiers B-E vacant land, and approximately 39 acres of the Tier F land. The Freeway Land property represents the only buildable and the largest contiguous industrial site in the OSID.

Vacant or Partially-Vacant Sites

The following is a list of notable vacant or partially-vacant industrial sites identified in the Industrial Atlas within the OSID:

- 14.32-acre industrial site (Tiers C-F) at 3407 SE Powell Blvd (privately-owned) (1.66 mi)
- 3.34-acre industrial site (Tier D/F) on the 8300 block of SE Harney (owned by the Bureau of Environmental Services (BES)) (.6 mi)

Sites for Potential Redevelopment

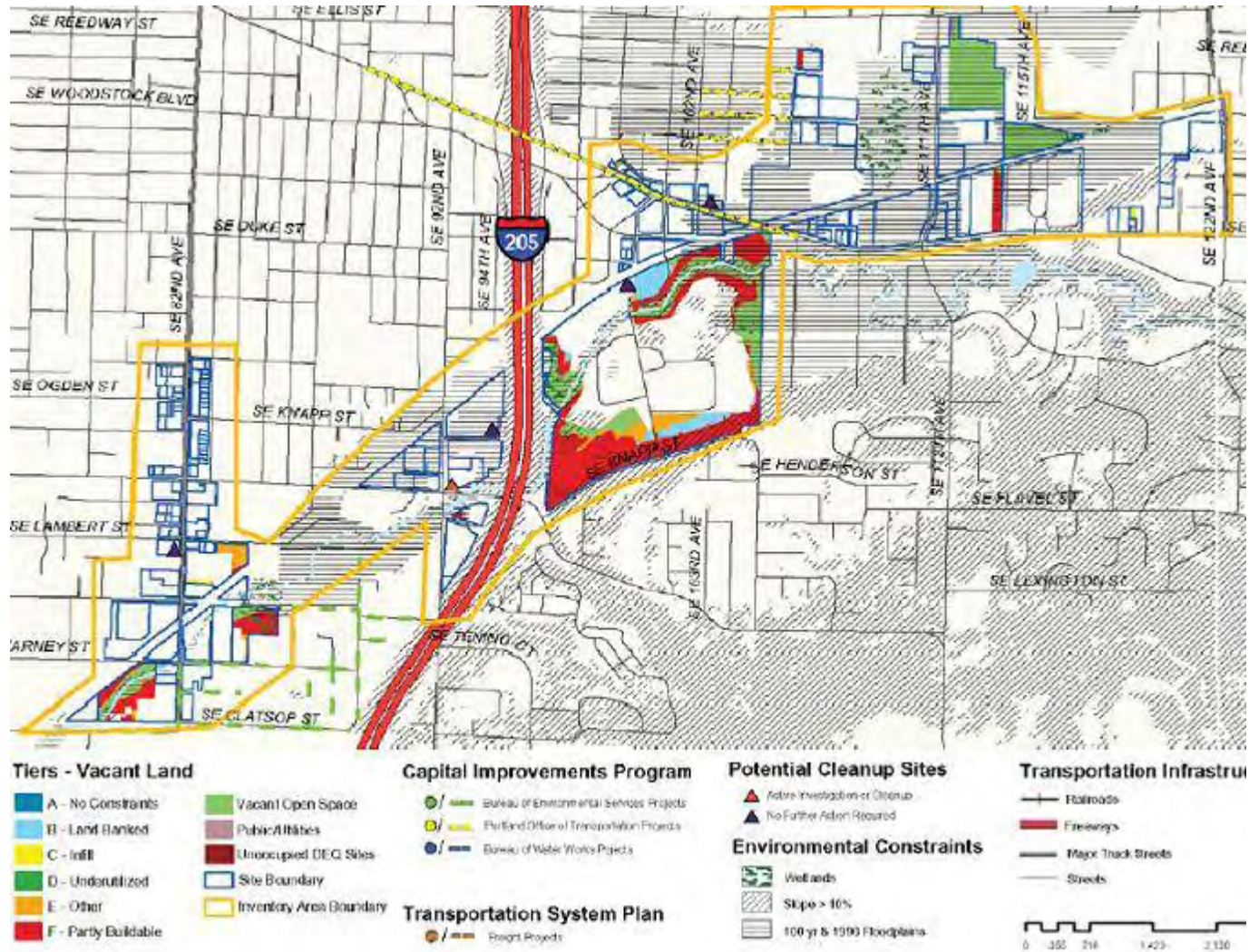
These sites represent potential redevelopment opportunities as higher quality industrial or employment sites:

- Approximately 17 acres at 10355 SE Foster Rd. (Foster Auto Parts) (.25 mi)
- Approximately 3.6 acres at 6421 SE 111th Ave. (U-Pull-It)

According to the Industrial Atlas, there are approximately 34 acres of industrial land in residential use, occupying 83 individual sites, with an average size of less than one-half acre. This comparison of other potentially vacant, partially vacant or redevelopable industrial land in the study area highlights the significance of the Freeway Land site in terms of its large size under a single ownership and its potential for future employment uses.

Map 3.3 illustrates vacant sites by tier in the Outer Southeast district.

Map 3.3 – Vacant and Underutilized Land – Outer Southeast Industrial District



Source: 2004 City of Portland Industrial Districts Atlas

4.0 Freeway Land Competitive Analysis

Marketek interviewed eleven industrial/economic development professionals and/or real estate brokers to gain their 'on the ground' insights to the eastside industrial market and the Lents Freeway Land site. (See Appendix A.) This synopsis is followed by a competitive assessment of the site incorporating comments from the economic development community.

Portland Market Perspective

- Portland's prominence as a transportation hub is increasing in part because the City's Port operations continue to have capacity unlike other West Coast facilities.
- Based upon market trends and prospect inquiries, the greatest demand is for transportation-related operations – distribution and warehousing. The majority of calls are for 25,000 – 35,000 square feet.
- As the scale and/or number of manufacturing operations declines in the market so too does pressure for traditional manufacturing users.
- A significant industrial land shortage exists in metro Portland. The supply was noted as 'critically low,' 'as low as it's been in 26 years,' and 'desperately short' by interviewees.
- As industrial land supply shrinks, prices increase, putting Portland at an economic disadvantage. Brokers cited lower cost markets in the South and Midwest attracting a variety of distribution operations not tied to a local or regional market.
- Economic expansion is fairly balanced between existing companies and businesses seeking to locate in the Portland region.

Eastside/Lents Perspective

- Interest in the Eastside Sub-market as a location for business park-type tenants was 'proven' with the Foster/205 Commerce Center located off of Interstate 205. The center consists of two concrete tilt, industrial buildings: a 157,904 sq. ft. single occupancy building and a 101,510 sq. ft. multi-tenant building.
- The industrial market in the greater Lents area has been very 'quiet' or 'stagnant' as developable land is scarce. Increased density and industrial critical mass would help it become a destination.
- An 'economic gardening' business retention and expansion approach could be an effective growth strategy for the small businesses in the area.

- Many brokers were unaware of light rail development underway in the Lents area and commented that this will draw attention to the Foster/I-205 interchange and could push activity there.
- When asked if there were negative perceptions of Lents that might impact business location in the area, the response was generally no. A quality site or building in the right location is most important. Some white collar, business park type tenants, however, would be put off by Foster Road’s poor appearance east of I-205, including the U-Pull-It facility. However, streetscape improvements and green buffers could go a long way to enhance the area.

Freeway Land Site Evaluation

- Those interviewed were in complete agreement that the Freeway Land site should remain industrial. There was general concurrence that if the site were improved, distribution users would most readily locate there. Specialty or metals manufacturers would be highly desirable. Ideally a large manufacturing operation would locate there, but this is not what the market is seeking.
- Considerations for site redevelopment to ‘higher and better’ industrial uses need to be balanced with the fact that demand exists for all current users, dirty though they are; the existing buildings stay full. Industrial ‘gentrification’ was raised as a potential concern.
- Although industrial land is scarce, should the Freeway Land site redevelop to attract higher end tenants, it will compete with many desirable industrial centers on the eastside including Airport Way, Rivergate, Fairview (Townsend Industrial Park), Clackamas Industrial Area (Highways 212 and 224) and secondarily, Canby Pioneer Industrial Park.

Figure 4.1 provides a synopsis of key interview findings:

Figure 4.1 – Key interview Findings for Freeway Land Site

| Freeway Land Competitive Analysis |
|--|
| Assets |
| <ul style="list-style-type: none"> ▪ Size and freeway access: 68+ buildable acres adjacent to I-205 within Portland make the Freeway Land site one of the largest industrial properties and one of the very few remaining I-205 manufacturing sites; access to the airport is also valued. ▪ Existing users generate several hundred fair-to-good paying jobs presently that are well matched to the immigrant blue collar component of the neighborhood ▪ Light rail will enhance workforce accessibility, mitigate congestion and possibly widen the labor shed ▪ Ideal site for manufacturing operations with limited conflicting neighboring uses and potentially minor impacts on traffic |

| Challenges/Constraints |
|---|
| <ul style="list-style-type: none"> ▪ Resolution of Johnson Creek flooding is imperative for long term site redevelopment. Only time will tell if recent and ongoing mitigation measures are effective. This objection was raised as a concern of many ▪ Left turn access from the site to Foster poses challenges; Foster is the only access ▪ Environmental clean-up from a wetlands fill will not be completed until summer 2008 putting the property at a disadvantage for redevelopment in the immediate future ▪ Existing buildings are 40+ years old and in need of retrofitting ▪ Majority of industrial prospects are seeking existing buildings or at the least, bare ground with up-to-date infrastructure. ▪ Image and attractiveness of Foster Road corridor east of I-205 are viewed as potential issues for 'white collar' business users; auto wrecking not a positive neighbor; however these issues are not as significant as positive attributes related to size, location and access ▪ Lack of rail access may be an impediment to some users |
| Opportunities |
| <ul style="list-style-type: none"> ▪ The site is Lents' best bet for increasing the number of neighborhood family wage jobs; potential to be a destination for a good mix of industrial users ▪ Distribution facility and/or warehouse space was repeatedly identified as the best and most likely opportunities to be captured, followed by specialty manufacturing ▪ Multiple users/tenants over a single user was noted as the preferred redevelopment option to meet market demand and provide long term flexibility and stability ▪ Estimated to support 1 to 1.5 million square feet of industrial space ▪ The property is strategically located and demands a 'big vision' for change to occur |

Freeway Land Site Proposed Uses

A general evaluation was conducted of the most commonly identified uses for the Freeway Land site with consideration for the factors influencing their location. These are warehousing/distribution, manufacturing, and office. Development density was considered for these or similar uses and industry trend information was supplied by the Oregon Employment Department and PDC's 2007 Target Industry Plan.

National studies have attempted to quantify average square foot gross floor area per gross acre ratio (FAR) to characterize potential land redevelopment for industrial use. Table 4.1 below identifies generalized standards for employee density and development density for various uses/development types. These figures are quite variable depending on employment and building types. They provide good background information for further consideration.

In terms of building requirements per acre, the range among uses is fairly narrow. Warehousing has the greatest space per acre requirement (11,230 SF/acre) and manufacturing the least (9,940 SF/acre). Using these standards and assuming 60

acres of buildable land for the Freeway Land site, Marketek calculated potential employment on the site. Using these standards, employee densities are highest for business park/flex space and lowest for warehousing uses. These figures represent estimates and could be higher with multi-story structures.

Table 4.1 -- National Employee Densities, Average Square Foot, Average Acreage Requirements

| Category | Description | Employees/ 1,000 SF | 1,000 SF/Acre | Site Requirements (acre minimum) | Potential Employment at Lents Site (60 ac) |
|--------------------------|---|------------------------|------------------|---|---|
| Warehousing | Storage of materials; may include office & maintenance | 1.28 | 11.23 | 10-acre | 862 |
| Manufacturing | Conversion of raw materials or parts to finished products | 1.87 | 9.94 | 5-acre (varies widely) | 1,115 |
| Business/Flex-Space Park | Group of fix-type or incubator 1-2 story buildings with common road system; office and light industrial | 3.01 | 11.19 | 5-10 acre | 2,021 |
| Industrial Park | Multiple industrial or related facilities | 2.00 | 11.06 | 30-acre | 1,327 |

Source: Source: Institute of Transportation Engineers, Marketek, Inc.

Light Manufacturing and Assembly (Metals and Transportation Equipment)

Industry Description & Trends

- Businesses which produce, shape or make metal into parts or machinery; companies that manufacture equipment for transportation purposes
- Approximately 30,725 metals/transportation equipment jobs in metro Portland as of 2005
- In metro Portland, most jobs are in the fabricated metal manufacturing sub-sector, followed by the transportation equipment manufacturing sub-sector
- Metro Portland lost employment in the metals and transportation equipment industry between 2001 and 2005, but at a lower rate than the West Coast and the US (-8% versus -15% and -11%, respectively)
- Average annual wage in metro Portland was \$50,817 in 2005, with highest wages in the primary metal manufacturing sub-sector
- Lack of available industrial land is key issue

Site Issues & Opportunities

- **Access:** Freeway access important; lack of rail access could be impediment; light rail could favor employee attraction
- **Compatibility w/ nearby uses:** Nearby residential may be concerned about noise & other pollution
- **Highest and best use (broker rating):** 8.5 of 10 (with 10 being highest use); moderate concern regarding a single, dominant user for site

Professional and Business Services (Office)

Industry Description & Trends

- Professional and business services consists of businesses providing direct services to clients such as non-profit organizations, trade associations and universities
- Professional service jobs employed 26,000 metro Portland workers and provided an annual wage of \$54,147 in 2005
- Professional jobs in metro Portland declined by 4% from 2001 to 2005, while these jobs increased by 1% throughout the West Coast. However, from 2004 to 2005 professional jobs in the Portland area increased by 3% and an additional 50,000 jobs in this sector are expected through 2014
- Professional services are expected to be one of the three industries to lead job growth statewide and Portland's location gives this sector tremendous opportunities to expand its services domestically and internationally
- Professional and business service needs include: accountants and auditors, business operations specialists, cost estimators, project managers, lawyers and training and development specialists

Site Issues & Opportunities

- **Access:** freeway and transit access are significant advantages
- **Compatibility w/ nearby uses:** corporate image may be impacted by lower-end commercial/industrial uses; wetlands on the site could result in significant and attractive greenways contributing to a quality business park setting
- **Highest and best use (broker rating):** 4 of 10 (with 10 being highest use); Lents not viewed as 'business' and service center; competing office locations will be a challenge

Distribution and Warehouse

Industry Description & Trends

- Transportation, warehousing and storage of commodities; logistics involved in the movement and distribution of goods
- Distribution and warehouse businesses are more highly concentrated in the Portland region than throughout the West Coast
- In 2005, metro Portland had 8,535 warehouse jobs and 17,675 transportation/distribution jobs. The metro area saw employment declines in both subsectors since 2001, as did the West Coast region (-2% and -4% versus -1% and -6%, respectively)
- Average annual wages in 2005 were \$34,419 for warehousing and \$40,662 for transportation; both are below average 2005 wages for these subsectors throughout the West Coast
- Air transportation saw a significant decline in employment due to larger economic trends including higher fuel costs and industry realignment
- Congestion at Los Angeles, Long Beach and Puget Sound ports gives Portland an increased opportunity to expand services and attract new businesses to its port and the region
- Warehouse and storage expected to be the second fastest growing industry in the state through 2014
- Occupational needs include low-skilled and professional positions, with truck drivers, warehouse positions, IT professionals and bookkeeping/accountants/auditing clerks being the hardest positions to fill
- Freight mobility negatively impacted by rail and road congestion
- Low supply and high cost of land for large-scale warehouse development

Site Issues & Opportunities

- **Access:** easy freeway access is significant advantage; site ingress-egress need improvement
- **Compatibility w/ nearby uses:** favorable; non-disruptive
- **Highest and best use (broker rating):** 10 of 10 (with 10 being highest use), most significant demand

Summary

The long standing desire of the Lents community to increase the local job base and the number of family-wage jobs remains a critical vision. The Freeway Land site continues to offer the best promise for significant job creation with the possibility of

nearby industrially-zoned land redeveloping as the Town Center enhances the overall area's vitality.

With numerous catalytic development projects planned and underway in the Lents Town Center and the opening of the light rail 'green line' in 2009 with four stations in the Lents neighborhood, Lents is poised for new quality higher density development. The Town Center is well-positioned to be the focal point for pedestrian-oriented residential and commercial development. These factors together with industrial land supply pressures will keep attention focused on the Freeway Land site as an excellent industrial location in the metro area and an opportunity site for creating a large concentration of jobs. The site should redevelop either for a single large employer or as a multi-use industrial/business park.

Manufacturing, distribution and warehousing are the priority uses for the site based upon industrial demand, I-205 exposure, regional accessibility and the ability to create quality, well-paying jobs. A mix of these uses is considered feasible on the site together with a modest amount of supporting office space. Discussions with brokers noted that to 'raise the standard' for future industrial expansion on the site, a single developer would most likely redevelop it into a quality industrial park. Assuming an estimated 60 acres of developable land and successful implementation of a Johnson Creek flood mitigation program, the site should be promoted as one of the prime industrial properties in the City of Portland. Getting to the next level of development will likely necessitate a deliberate and imaginative visioning process and a creative public-private partnership.

Appendix A

Interviews

1. Charlie Allcock, PGE
2. Dan Slevin, Capacity Commercial
3. Tom Walsh, Sr., Walsh Construction
4. Randy Young, Norris, Beggs & Simpson
5. Tom Dechenne, Norris, Beggs & Simpson
6. Ken Boyko, Norris, Beggs & Simpson
7. Brad Carnici, Cushman & Wakefield
8. Stu Peterson, Macadam Forbes
9. Malcolm Boswell, Oregon Employment Department
10. Fred Sanchez, Realty Brokers
11. Dennis Yee, Metro
12. Seth Hudson, Portland Development Commission
13. Malcolm Boswell, Oregon Employment Department
14. Maggie Skenderian, City of Portland, Bureau of Environmental Services

Reviewed Documents

Baseline Market Analysis for Lents, 2003, Johnson Gardner

Freeway Land Industrial Park Appraisal, 2003, PGP Valuation

Analysis of Flood Management Alternatives in Lents, 2002, City of Portland, Bureau of Environmental Services

Johnson Creek Restoration and Nuisance Flood Mitigation: Freeway Land Company Flood Management Analysis, 2005, City of Portland, Bureau of Environmental Services

Industrial Districts Atlas, Portland, Oregon, 2005, City of Portland, Bureau of Planning

Marketview: Portland Industrial, Second Quarter 2007, CB Richard Ellis

Industrial and Business Park Reports: Portland, Oregon, 2003 to 2007, Norris, Beggs & Simpson

2002-2022 Urban Growth Report, 2002, Metro

Metro Industrial Land Supply Inventory Memo, 2007, OTAK

Economic Development Target Industry Plan Fiscal Year 2006/2007, Portland
Development Commission