

Hood River Waterfront

Lot#1 Industrial Demand Assessment

April 15, 2019

REPORT

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ECONorthwest prepared this report for the Port of Hood River.

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Table of Contents

<u>1</u>	<u>EXECUTIVE SUMMARY IMPLICATIONS FOR LOT 1</u>	<u>VII</u>
<u>2</u>	<u>INTRODUCTION</u>	<u>1</u>
<u>3</u>	<u>HOOD RIVER'S WATERFRONT AND LOT 1. CURRENT CONDITIONS</u>	<u>2</u>
<u>4</u>	<u>SUMMARY OF STAKEHOLDER INTERVIEWS</u>	<u>11</u>
<u>5</u>	<u>HOOD RIVER – INDUSTRIAL DEMAND ASSESSMENT</u>	<u>14</u>
<u>6</u>	<u>CONCLUSIONS</u>	<u>25</u>
	<u>APPENDIX A: COMPETITIVE SUPPLY SUMMARY</u>	<u>29</u>

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1 Executive Summary

Implications for Lot 1

This brief summary describes our specific conclusions about the potential level of demand for new development on Lot 1. For a more detailed discussion, see the Conclusions section at the end of this report.

The Port is interested in understanding existing conditions for industrial development in the region. The purpose of this *industrial demand assessment* to (1) gauge the level of potential demand in future development of Lot 1, and (2) to help understand the needs and desires of the types of businesses that would locate there.

We found that there is **currently is demand for new development in Hood River**—both in the short-term and in the long-term. But that (1) **Hood River’s waterfront is a unique location for industrial development**, and (2) **multiple challenges pose significant barriers to new development on Lot 1**. These challenges—especially the financial hurdle necessary to achieve new development and the regulatory boundaries that restrict the type of projects that can get built—limit the potential set of future Lot 1 users. Moreover, as the experience of some of the recent projects on the Waterfront have shown, meeting zoning and design regulations, plus finding tenants that can afford the higher rents that are required can be challenging. This means that demand for industrial development *at Lot 1* is only a subset of overall demand for *industrial* development in the region.

A key determination is to outline what is included in the definition of “industrial.” Many of the successful businesses that are located at Hood River’s Waterfront are office users with a small warehouse or commercial component. Our research indicates that the “professional office and technical services” sector is expected to be one of the fastest growing employment sectors in the region. Based on the City of Hood River’s latest employment land inventory completed in 2011, the city lacks sufficient land for the expected growth in office employment through 2030. These findings, coupled with the public policies (e.g. zoning), and the vision developed in the Lot 1 Master Plan, indicate that future tenants are likely to be quasi-industrial office users that can fit into flex-industrial buildings.

Combining input from regional industry data and trending and economic development efforts, alongside the economic, regulatory, and cultural environment, we see a specific opportunity for Lot 1 to absorb industrial development in the following three sectors: food production and value-add agriculture, technology (including UAV associated businesses), and other professional and/or industrial office users. Exhibit 1 provides an overview of these industry sectors and discusses their potential compatibility with Lot 1.

Exhibit 1. Lot 1 Industrial Sector Opportunities and Compatibility

	Eligible Land Use	Level of Near to Mid-term Demand	Building and Site Needs	Need for Commercial Space	Ability to Pay Premium Rents	Likelihood of Locating in Lot 1
Technology (Including UAV companies, technology services and development, among others)	Yes. Most technology companies are “goods producing” and therefore, qualify for industrially zoned areas.	Moderate. Technology focused companies are highly dependent on business cycles. Current growth is positive. An economic down-turn could reduce demand.	These businesses seek high-quality spaces to attract talented employees and reinforce their brand image. Daytime parking will be required. Alternative travel modes, shared parking, and transport management plans may reduce parking demand.	This depends on the specific type of technology company. However, most companies are not consumer-facing and, therefore, do not need commercial space.	Yes. These tend to be high-profit companies that are able to pay rent premiums.	Depends on the company. These companies will seek a location at Lot 1 if the location matches their brand identity.
Food and Value-Added Agriculture (Manufacturing)	Yes. These are manufacturing companies.	Moderate to High. This is one of the steadily growing industrial sectors in the Hood River Area.	Scale and type of building depend on the size of the production operation. Small producers can fit into multi-tenant spaces. Larger companies require larger, single-user facilities. Employee parking, truck parking, and outdoor storage are commonly needed. Both drive-in and dock high doors are typically required.	Yes. Although it depends on the company, many of these businesses benefit from having a consumer-facing commercial outlet	Depends on the business. Most emerging food companies cannot afford premium rents	High. But it depends on price and building suitability.
Other Professional Services/ Industrial Office Users	For the most part. Companies in this category may not meet zoning requirements.	Professional and Businesses Services is one of the fastest growing industries.	These businesses are primarily office users. They can fit in any number of configurations. Typically, single large floor plates are preferred.	No. Most companies are not consumer-facing.	Yes. Most companies can pay “office level” rents.	High. Lot 1 is an attractive location for these companies.

Source: ECONorthwest

2 Introduction

2.1 Background and Purpose

The Port of Hood River is interested in understanding existing conditions for industrial development in the region as it considers how it can attract development on Lot 1, one of the last undeveloped parcels on the Hood River Waterfront (the Waterfront). Lot 1 is unique in the Hood River context because it is larger than most other employment sites in the City and is close to the burgeoning employment district at the Waterfront. The Waterfront currently includes mix of commercial and industrial users, alongside popular public recreational areas. Since Lot 1 serves as a gateway to the Waterfront, expectations among existing businesses and key stakeholders are high for the quality of the site's development. Alongside new buildings, the site will need new infrastructure to support new internal circulation into the site, the provision of utilities, connections to the rest of the Waterfront.

Lot 1 presents a unique opportunity for the Port and its partners: how can the Port encourage development at Lot 1 to maximize the creation of jobs and support the local economy while promoting a high-quality development program that serves as an attractive gateway to the Waterfront?

The purpose of this industrial demand analysis to (1) gauge the level of interest in future development of Lot 1, and (2) to help understand the needs and desires of the types of businesses that would locate there. Key questions the Port sought to answer with this research included:

- What is the current and estimated near future level of demand for industrial properties in the Hood River market area?
- Who are the businesses—either local or from outside of Hood River—that would appropriately fit the location, market, physical, and regulatory environment of Lot 1?
- Including but not limited to infrastructure, what are the barriers, real or perceived, with pursuing industrial development in Hood River's Waterfront?
- How does the Port support and promote this unique mix of users? And what do these users need from a building and site features standpoint to thrive?

3 Hood River's Waterfront and Lot 1.

Current Conditions

For all types of development, physical site characteristics and the regulatory environment play strong roles in determining the use, scale, and character of potential development. In this section, we examine Lot 1's current physical and regulatory environment.

3.1 What is Industrial Land?

"Industrial" land is land that has been designated by a local government to focus on the industrial uses by right, many times with allowances for some limited commercial or retail uses, and (rarely) residential uses. Industrial land also colloquially called "employment land" is designated industrial because it meets the needs of industrial users. These needs include: proximity to transportation routes (interstate highways, rail, water ports, airports), relatively low-cost land, and a location that reduces conflict with others' uses.

Who uses Industrial Land?

Industrial uses are usually identified as a collection of sectors that include:

- Manufacturing
- Transportation, Communications, and Utilities
- Wholesale Trade
- Mining and Construction.

These uses share some basic characteristics. First, they tend to be export-oriented and are involved in the direct creation or movement of physical goods. Second, they generally have the same building, land use, and site requirements. For example, these uses cannot typically locate in high-rise buildings, and their external effects (e.g. odors, loud noise¹) make them unattractive neighbors to other users. These limitations mean that industrial businesses generally require inexpensive land and easy access to major transportation routes.

However, not all industrial users are located in industrial areas and conversely, not all industrial areas are used solely by industrial users. These are important points that get to some of

What is Flex Space?

"Flex space" is a type of employment space that flexibly provides the option to a business to build out their interior space with varying proportions of office space to warehouse space. Flex buildings are usually one or two stories in height and feature multiple tenant spaces for lease. In most cases, Flex buildings require more parking than traditional industrial users, as interior spaces are permitted to be built out almost completely as office space.

Many Waterfront businesses are Flex Space type buildings.

¹ Although, in today's economy, many industrial businesses have few external impacts. Changing technology and updated regulations have led to fewer "smokestack" industrial users, at least in the United States. Industrial uses also frequently have less traffic impacts than commercial, or retail uses.

the core questions asked by the Port with this study. Here we examine each statement individually:

- **Not all industrial uses are located in industrial areas.** For example, the head office of a utility company is likely to be in a downtown office or commercial area. Even some manufacturing uses are permitted in commercial or mixed-use zones. An example here would be a brewery or food manufacturer located in a neighborhood commercial zone.
- **Not all industrial areas are solely used by industrial users.** Many businesses that are categorized as “commercial uses” or “services” need industrial land because they share the same requirements as industrial users for cheap land and convenient access to transportation routes. But many other non-industrial users may locate in industrial areas, not because they have these specific requirements, but because they (1) are not prohibited from doing so, and (2) market conditions allow them to out-bid industrial users. For example, professional offices that are categorized as “architecture and engineering” businesses are frequently permitted to locate in industrial areas, even though the day to day functions of those companies look nothing like a typical “industrial” user. This is a concern voiced by many stakeholders during our research for this study: that the Waterfront will see growth of only quasi-industrial users in the future, thus diluting one of the few industrial areas in the city.

Among the primary questions that the Port of Hood River is asking with this study is “How much demand is there for new development at Lot 1?” Our general conclusion is that there is demand for more industrial development within the Hood River area and Lot 1 is an attractive location for many of these potential users. Demand by specific users is not equally distributed; specific industries are seeing more growth than others and many of these users fall into industry classifications that are on the fringes of what is permitted for the Waterfront. Our analysis in this report attempts to unpack and quantify demand by these specific industries.

3.2 The Waterfront and Lot 1

Hood River's Waterfront is a 75-acre area located between the Columbia River to the north, east, and west and Interstate Highway 84 to the south. The majority of the Waterfront is owned and controlled by the Port of Hood River. This study focuses on the Waterfront's Lot 1, a vacant nine-acre parcel located close to the primary entrance to the Waterfront along North Second Street and one of Hood River's major highway interchanges (Exit 63 along Interstate 84). Exhibit 2 shows Lot 1's location along the east side of the Waterfront.

The Waterfront is a unique and atypical industrial area because the proximity to local recreational areas and downtown Hood River make the area desirable for many different types of users. The current mix of uses in the Waterfront is composed of a variety of industrial and commercial businesses, alongside public facilities and parks. It is not commonplace for industrial zones to be integrated with public spaces and amenities.

The Waterfront provides advantages to many commercial and industrial businesses including easy access to Interstate 84, an attractive and amenity rich location, and proximity to other similar businesses (clustering). At the same time, challenges have arisen as a result of conflicts between Waterfront businesses and visitors, regulatory limits to the type and scale of businesses that are permitted, and general development barriers resulting from an imbalance of rents and development costs.

Exhibit 2. The Waterfront's Lot 1 Location in Hood River



Source: Lot 1 Public Infrastructure Framework Plan, 2019

Waterfront Development Activity 2009-2017

In the past ten years, there has been substantial public and private development activity on the Waterfront, including the development of the Hood River Waterfront Park, which was completed in 2013. From 2009 to 2017, there were 445,000 square feet of new development on Port of Hood River land on the Waterfront. Exhibit 3 provides an overview of development activity through May 2017. Exhibit 4 provides a map of development activity and ownership on the Waterfront that corresponds to the number keys in the previous exhibit.

Exhibit 3. Waterfront Development Activity and Tenants (as of May 2017)

Project	Date Completed	Size	Investment	Direct Jobs	Tenants/Descriptions (2017)
1 - Anchor Way	2009		\$750,000	N/A	New Industrial Street
2 - Portway Avenue II	2012		\$450,000	N/A	Streetscape Improvements
3 - Halyard Building (Construction)	2010	20,000 SF	\$ 3,350,000	45	Pfriem Brewing
4 - UTS Building (Remodel)	2011	35,000 SF	\$2,040,000	40	Hood Technology, Celilo Construction
5 - Treatment Plant Upgrade	2011		\$591,245	N/A	Cover Clarifiers
6 - Jensen Building (Remodel)	2010	71,000 SF	\$2,870,000	40	Turtle Island Foods, RBS Batten Systems
7 - Hood River Juice Company Phases 1-2	2011-14	55,000 SF	\$7,500,000	128	Hood River Juice Co.
8 - Turtle Island Foods	2012	33,000 SF	\$12,000,000	30	Turtle Island Foods
9 - Waterfront Park, Phases 1-4	2008-13		\$ 2,610,000		Northern Park, East Green, Playground
10 - Maritime Building Upgrades	2012	38,000 SF	\$200,000	15	Hood River Distillers, Double Mountain
11 - Hood Tech Building	2013	40,000 SF	\$5,410,000	55	DaKine, Decavo, Stoked Coffee Roasters
12 - Key Commercial Building	2013	20,000 SF	\$3,000,000	45	Inter-Fluve, Solstice, Camp 1805, Offices
13 - Pfriem Brewery Expansion	2015-17		\$1,400,000	40	Expanded Production/ Retail Facility
14 - City Sewer Outfall Project with Trail	2016		\$3,000,000	N/A	Pedestrian/Bike Trail/ Sewer Outfall
15 - Nichols Landing	2016-18	83,000 SF	\$28,000,000	119	Hampton Inn and Medical Offices
16 - Nichols Basin West Edge Trail	2015		\$800,000	N/A	Waterfront Bike/ Ped Trail and Open Space
17 - Pedestrian Bridge Trail	2015		\$400,000	N/A	Waterfront Bike/Ped Trail and Kiosks
18 - Sheppard's Supply*	2017	20,000 SF	\$2,000,000	18	Relocation, Expanded Retail/Service Facility
19 - Expo Industrial Offices, Phase 1*	2017	30,000 SF	\$8,500,000	80	New Light Industrial/Office Building Space
Total		445,000 SF	\$84,871,245	655	

Source: Port of Hood River, May 2017

Exhibit 4. Current Users on the Hood River Waterfront



Source: Port of Hood River, May 2017

3.3 Lot 1's Regulatory Environment

Lot 1 is zoned with an industrial designation, similar to the majority of the Waterfront. The base zoning for Lot 1 is Light Industrial (LI) and falls under two overlay zones—the Waterfront Overlay Zone and the Interchange Area Management Plan (IAMP) Overlay Zone. Exhibit 5 shows Lot 1—the area outlined in black—as an area filled in by pink coloring, representing the base zoning (LI), overlaid by diagonal striping that indicates the IAMP overlay. The Waterfront Overlay applies to all parcels within the scope of this map in areas north of I-84. Other parcels in the Waterfront are zoned General Commercial (C-2)², Open Space/Public Facility (OS/PF), and Columbia River Recreational/Commercial (RC).

Exhibit 5. Lot 1 Zoning



Source: City of Hood River Zoning Code

² The parcel of land located immediately to the south of Lot 1 is zoned C-2. This parcel is included in the recent Lot 1 Master Plan, but due to its disconnection from Lot 1, both physical and in terms of zoning, it is not included in our analyses for this study.

In Hood River’s zoning code, the Light Industrial (LI) zone and the overlays are described as follows:

Light Industrial Zone (LI)

According to the City of Hood River, the purpose of this zone is to provide space for minimally intrusive types of manufacturing or other industries that can be located in relatively close proximity to residential, commercial, and farm zones. Therefore, the development standards for this zone are stricter than in other industrial zones. The goal is to permit industries that have few external impacts to adjacent or nearby users. Some of the allowed uses in the LI zone include: manufacturing or assembly, processing, fabrication, wholesaling and warehousing, utilities, research and development facilities, printing and publishing, contractor equipment yards, and commercial uses that are “incidental or directly related to the services and operation of the permitted industrial use.”³

Waterfront Overlay Zone

The Waterfront Overlay Zone was created to implement a design concept aimed at fostering an active recreational area with compatible facilities and within the Light Industrial Zone, while also allowing for some limited commercial development. The Overlay Zone establishes specific urban design standards for new commercial and industrial development that strives to provide an attractive and pedestrian-friendly streetscape. Additionally, the Overlay Zone aims to allow for easy local access to the Waterfront Trail and visibility along the Waterfront by protecting public access to the Columbia River.⁴

What is Industrial Office?

Several of the current day users of the Waterfront are Industrial Office Users. Industrial Office provides space for “activities that, while conducted in an office-like setting, are more compatible with industrial activities, businesses, and districts. Their operations are less service-oriented than traditional office uses and focus on the development, testing, production, product training and support, processing, packaging, or assembly of goods and products, which may include digital products. They primarily provide products to other businesses. They do not require customers or clients to visit the site; any such visits are infrequent and incidental”

Source: Hood River Zoning Code

Interchange Area Management Plan (IAMP) Overlay Zone

The purpose of the IAMP Overlay Zone is to provide for the long-term, “*preservation of operational efficiency and safety of the highway interchanges within the City of Hood River, which provides access from and to Interstate 84 for residents and businesses throughout the City and Hood River County*”.⁵ The IAMP Overlay Zone recognizes that Hood River’s interchanges with Interstate 84 are vital to both the City and greater County area. As such, all land use applications in parcels that are within the IAMP Overlay Zone must be reviewed and are subject to the standards outlined in Chapter 17.20, Transportation Circulation and Access Management.

³ Hood River County Zoning Code Ordinance. January 2017. Article 32 – Light Industrial Zone (M-2). Section 32.15.A.

⁴ City of Hood River Zoning Code – Title 17, Chapter 17.03.130

⁵ City of Hood River Zoning Code – Title 17, Chapter 17.03.120

Exhibit 6. Lot 1 Zoning Details

Zoning Designations	Base Zone: Light Industrial (LI) Overlay Zones: <ul style="list-style-type: none">▪ Waterfront Overlay Zone (Subarea 4)▪ Interchange Area Management Plan (IAMP) Overlay Zone
Permitted Uses	<ul style="list-style-type: none">▪ Light Industrial Uses including the following when accessory and essential to the permitted light industrial use: office uses, wholesale sales, marketing, training and outside storage (LI)▪ Industrial Office uses up to 25,000 square feet of gross floor area (LI)▪ Sales and display of products provided: (i) sales are limited to those accessory and essential to the permitted use; and (ii) the total area devoted to sale and display of such products shall not exceed 2,500 square feet or 25% of the gross floor area within the building, whichever is less (LI)▪ Parking lots of four (4) or more spaces, new or expanded, and or the equivalent of paving equal to four (4) or more parking spaces (LI)▪ Transportation facilities pursuant to 17.20.050(B) (LI)▪ Change of use (LI)
Conditional Uses	<ul style="list-style-type: none">▪ Industrial Office uses greater than 25,000 square feet of gross floor area, subject to design standards in 17.16.055.▪ Public facilities and uses, including change of use.▪ Light Industrial and Industrial Office Uses on parcels of more than 5 acres.
Maximum Height	<ul style="list-style-type: none">▪ 45' (LI)
Max Lot Coverage	<ul style="list-style-type: none">▪ 25,000 square feet (Waterfront)
Density (min/max)	<ul style="list-style-type: none">▪ None
Setback Requirements	<ul style="list-style-type: none">▪ Minimum: no requirement (LI)▪ Maximum: 20' from public sidewalk (Waterfront)<ul style="list-style-type: none">○ The setback may be increased to allow for usable public space(s) with pedestrian amenities (e.g., extra-wide sidewalk, plaza, pocket park).
Parking Requirements	<ul style="list-style-type: none">▪ One (1) off-street parking space shall be provided on the building site, or adjacent to the site for each employee. In addition, adequate off-street parking shall be provided on or adjacent to the building site to meet the needs of anticipated clientele (LI)▪ The Central Business District, the Heights Business District and the Waterfront are exempt from this requirement but shall pay a fee in-lieu of parking in accordance with Chapter 17.24 (LI)▪ Parking in the Central Business District, Heights Business District and Waterfront may be satisfied by substituting all or some of the parking requirement at adjacent or nearby off-site off-street locations and/or by adjacent or nearby shared parking if the substitute parking reasonably satisfies the parking requirements of this section. If no off-street or off-site parking reasonably satisfies the parking requirements of this section, the fee in-lieu of parking shall be paid in accordance with Chapter 17.24. If less than all required parking is provided, the fee in lieu of parking shall be paid in accordance with Chapter 17.24, except that a credit shall be given for the number of spaces provided (LI)▪ Off-street loading facilities shall be encouraged (LI)▪ Public alleys may be utilized for off-street loading facilities (LI)▪ Bicycle parking as required by 17.20.040 (LI)▪ Parking is prohibited between the front elevation of the building and the street (Waterfront)▪ Commercial/Retail Uses: One (1) space for each 300 square feet of gross floor area (Waterfront)
Design Standards	Design standards are relatively strict when compared to a typical light industrial zone. Design standards include specifications for façade variation, specific window types, building entryways, exterior building materials, building placement and orientation, landscaping, fencing, lighting, and screening and storage.

Source: City of Hood River County Zoning Code

3.4 Lot 1's Physical Attributes

Exhibit 7 summarizes the property's physical attributes—i.e., the physical and location factors that will influence and inform new development.

Exhibit 7. Lot 1 Development Considerations

Assessment Factors	Property Assessment
Local and Regional Accessibility	Lot 1 is located adjacent to a full interchange with Interstate 84. Local connecting roads are modern and generally have little traffic. These factors combine to give the properties exceptional local and regional accessibility.
Site Configuration and Orientation	More than other land use types, industrial properties need to be flat and typically rectangularly shaped to fit modern industrial uses. Lot 1 fits these parameters. It should be noted that the Master Plan for Lot 1 promotes building configurations and scales that are specific to flex-industrial type projects. The more traditional alternative would be one or two large single-story industrial buildings with a circulation pattern focused on tractor trailer maneuvering and parking.
Visibility and Exposure	Unlike retail locations, most industrial businesses tend to not rely on visibility and exposure to attract customers. Lot 1 is unique in that many potential users are companies with a consumer facing brand. The subject properties have good visibility and exposure to the interstate highway traffic—a factor that will be considered by a portion of potential site developers or tenants.
Proximity to Complementary Uses	Lot 1 is the largest contiguous block of light industrial land within Hood River. Adjacent industrial and industrial office uses would complement new uses on Lot 1.
Character of Surrounding Uses	Surrounding uses are primarily industrial, commercial, and recreational. Recently developed buildings in the Waterfront are of high-quality. The Lot 1 Master Plan and local zoning regulations encourage a continuation of high-quality flex-industrial developments.
Availability of Infrastructure and Utilities	Development of Lot 1 will require substantial infrastructure enhancements. Existing sewer, water, and power utilities are currently available to the edge of the site. The key infrastructure projects to unlock Lot 1 for development include internal streets (1 st Avenue, Portway Avenue, Anchor Way, and the Swerve), transportation and pedestrian focused enhancement projects, and utility connections. ⁶

⁶ Lot 1 Public Infrastructure Framework Plan, 2019.

4 Summary of Stakeholder Interviews

To gain perspective on potential industrial growth trends and the implications for development on Lot 1, ECONorthwest staff interviewed a set of stakeholders, including existing Waterfront tenants, elected officials, and economic development professionals. The interview list included:

- Chico Bouvansky – Dakine
- Maui Meyer – Copper West
- Ben Sheppard – Sheppard’s Tractors
- Stephen Ford – Current Commercial
- Andy von Flotow – Hood Tech
- Rudy Kelner – Owner, Pfriem Brewery
- Paul Blackburn – Mayor, City of Hood River
- Kate McBride – Hood River City Councilor
- Jessica Metta – Gorge Tech Alliance, Hood River City Councilor
- Amanda Hoey – Mid-Columbia Gorge Economic Development District
- Jenny Taylor – Insitu
- Phil Hanshew – BBG Appraisers

4.1 Common Interview Themes

The following section summarizes common themes discussed by multiple stakeholders and the implications of those ideas for future development of Lot 1. The ideas presented here are general opinions represented by individuals that we interviewed. It should be noted that while many of the ideas presented here were commonly shared among the interviewees, there are several themes that are non-consensus opinions.

Stakeholder Interviews – Key Themes

- **A core group of future users of new development at Lot 1 will be those who place a premium on waterfront location, the area’s amenities, and proximity to the existing business mix.** Stakeholder input—especially from existing users of the Waterfront—indicated that strong factors for having a waterfront location include quality of life for employees and brand visibility/identity. Interviewees described three key waterfront industries that seek these locational qualities:
 - **Food/value-added agriculture:** These users transform agricultural products into food and beverages. Because their business model relies upon strong brand identity and connections with their customers, many of these businesses have tasting rooms or small retail outlets alongside their industrial operations for visitors (tourists) to experience their products at the source (e.g. a brewery with a tasting room). A waterfront location is attractive to these businesses because of the natural beauty of the area and local recreation opportunities, the proximity to other similar businesses, and the prestige of the location.
 - **Technology:** Hood River has a growing technology industry. This broad group of companies encompasses everything from UAV makers and their subsidiaries to

programmers and designers working remotely for Hood River. Jobs in this sector tend to be high paying and competitive. Hood River's appeal makes the community a draw for technology companies and workers. The Waterfront offers a prestige and central location for these companies. But not all of these companies may meet zoning regulations or be otherwise compatible with other waterfront uses⁷.

- **Outdoor recreation products:** Like the technology users, the recreation products users are primarily office users, some of which have a light manufacturing or warehousing component. These companies have a smaller presence in Hood River than the previous two industries. However, these companies tend to have high public profiles and seek prestige locations near outdoor recreation areas where employees and customers alike can test and use their products. The best example company in this category for Hood River is Dakine—a surfing and outdoor apparel company with headquarters located in the Waterfront. Stakeholders did point out that the outdoor recreation industry is volatile. *In recent years, many firms in this sector have consolidated or been absorbed by larger companies. Dakine, for example, has been bought and sold a couple times in the past decade. While these companies are a good fit for the waterfront, there is not enough general market strength to tailor a development program specifically targeted for their use.*
 - **Implication for Lot 1 development:** Lot 1 is an attractive location for many companies. For value-added food producers, many different types of technology companies, and for outdoor recreation companies, the Waterfront offers an amenity rich, high-profile location that reinforces their brand appeal, is a place where employees want to work, and allows for an easy and attractive location for customers and partners to visit.
- **New value-added food production businesses could be a key target for Lot 1 development.** Several interviewees discussed the community's strong connection to agriculture and opined that new development on Lot 1 could expand upon the food and value-added agricultural businesses already in the area. To be successful in this area and afford the potentially premium rents, many of those businesses depend on having a commercial element (e.g. tasting room, restaurant, or brewpub) that allows them to showcase their products.
 - **Implication for Lot 1 development:** The Port could seek to attract a concentration of food and drink manufacturers that complement and build upon the existing users in the area.
- **There is an ongoing tension between Downtown and the Waterfront.** Some business owners and community members see recent and some types of potential future development at the Waterfront as a threat to the success of downtown Hood River. Many stakeholders raised these concerns. Several interviewees mentioned that this was a result of the blurring between commercial and industrial uses on the Waterfront. The concern is that some visitors that might otherwise visit shops and restaurants in the downtown area are instead choosing to go to the Waterfront. Other interviewees, notably existing users on the Waterfront, opined that continuing to build out the area with a stronger focus on a mix of uses would contribute to the “vibrancy” of the Waterfront and would be a success for the entire community.

⁷ Note: Not all technology companies may be compatible with zoning regulations on the Waterfront. In general, many of these companies are likely to fall into the “industrial office” subcategory that is allowed. However, a detailed assessment of each potential technology company could result in the exclusion of some of these candidate companies from the area. We also heard a concern that some of the UAV companies, specifically, may be hesitant to locate at the Waterfront out of concern of not being “culturally compatible” with other users of the area.

- **Implication for Lot 1 development:** Assuming that the regulatory environment for Lot 1 is not going to change, new development on Lot 1 will face increased scrutiny and will need to clearly adhere to the City's existing regulations, and be differentiated from downtown Hood River. As some of the recent Waterfront projects have shown, meeting these zoning and design regulations, plus finding tenants that can afford the higher rents that they require, can be challenging.
- **Lot 1 is one of the few vacant and developable locations for future industrial development in Hood River, but it has challenges.** Several interviewees mentioned that, in general, there is a lack of available space for new industrial development in the Hood River area. We heard that businesses are looking outside of the gorge area because they feel that potential for growth is too constrained in the Gorge Region. It was recognized that Lot 1 has many key advantages for industrial users, such as highway access, and proximity to other complementary industrial users. However, several interviewees mentioned that the Waterfront is also a challenging location for some industrial users, due to heavy car and pedestrian traffic, lack of current buildings with loading docks, and lack of available warehouse storage space.
 - **Implication for Lot 1 development:** Stakeholders recognize that Lot 1 is one of only a few areas in the region that can accommodate future industrial development. However, future users of Lot 1 will have to deal with a unique and, in many ways, a constrained development environment.
- **Future employment growth faces challenges.** Most interviewees mentioned high housing costs in the Hood River area as the key constraint that is currently limiting local business expansion. We heard that many local companies would like to hire more employees but could not find them homes that matched their incomes.
 - **Implication for Lot 1 development:** Although housing costs are not a factor that the Port can directly influence, the potential for new development on Lot 1 will depend in part on Lot 1 businesses being able to hire a local workforce. Moreover, near to mid-term demand for new development at Lot 1 will be impacted by Hood River's ability to solve its housing supply issues.
- **Interrelated challenges related to regulations and financial barriers impede development at The Waterfront.** Interviewees mentioned two key barriers to development:
 - **The regulatory environment.** Interviewees stressed the need for a clearly defined code and approval process that makes it clear to developers what is possible and that codes will not be changed after permits are issued. Even with this clarity, the design overlay and zoning regulations may push rents to levels that many businesses cannot afford.

In addition to code and zoning regulations, the IAMP zone overlay can prohibit certain types of new development due to its trip cap limitation.
 - **Financial challenges and required infrastructure.** Given the current allowed uses and design requirements, infrastructure costs could be prohibitive to new development, limiting new growth in the area. Stakeholders also described development costs to be prohibitively expensive in Hood River. The combination of infrastructure costs, strict use and design regulations, and development costs create a formidable financial barrier to development.
 - **Implication for Lot 1 development:** Regulations for development seek to advance the area as a pedestrian-friendly employment district, but some of these regulations add to development costs, which translates to higher costs for businesses. Combined with infrastructure and development costs, there are significant barriers to new development of The Waterfront.

5 Hood River – Industrial Demand Assessment

In this section, we examine the economic drivers and trends that will influence future industrial development activity in the City of Hood River.

5.1 Drivers of Industrial Land Demand

Demand for industrial space is primarily influenced by two demand drivers: local growth and production (creating the need for local serving businesses), and distribution to external markets (creating demand for externally-oriented businesses). Industrial land users that serve these two sources of demand have different land and site needs.

Local serving businesses

These businesses grow as a result of population and employment growth in the region. As the region grows, consumption increases, which in turn, creates a need for more products and services, such as wholesale trade to supply local businesses, construction to build more buildings, and transportation and storage to move and store those goods. This growth drives demand for more industrial space within the region.

Externally-oriented businesses

These businesses serve the larger state and even global economy by producing, storing, and transporting goods. Because the source of this demand is external from the local economy, demand for industrial space locally will only be realized if local sites have a comparative advantage over other locations. As a result, the industrial land supply and other factors, such as the cost of electricity, regional transportation accessibility, or tax policy, play an important role in shaping external oriented demand for industrial space. In addition to bringing new investment to the regional economy, externally-oriented businesses typically employ a larger number of people than local serving industrial uses, which makes them attractive for economic development. Attracting even one or two externally-oriented businesses will have sizable economic benefits for the region because these businesses provide secure, long-term jobs and a steady source of tax revenue.

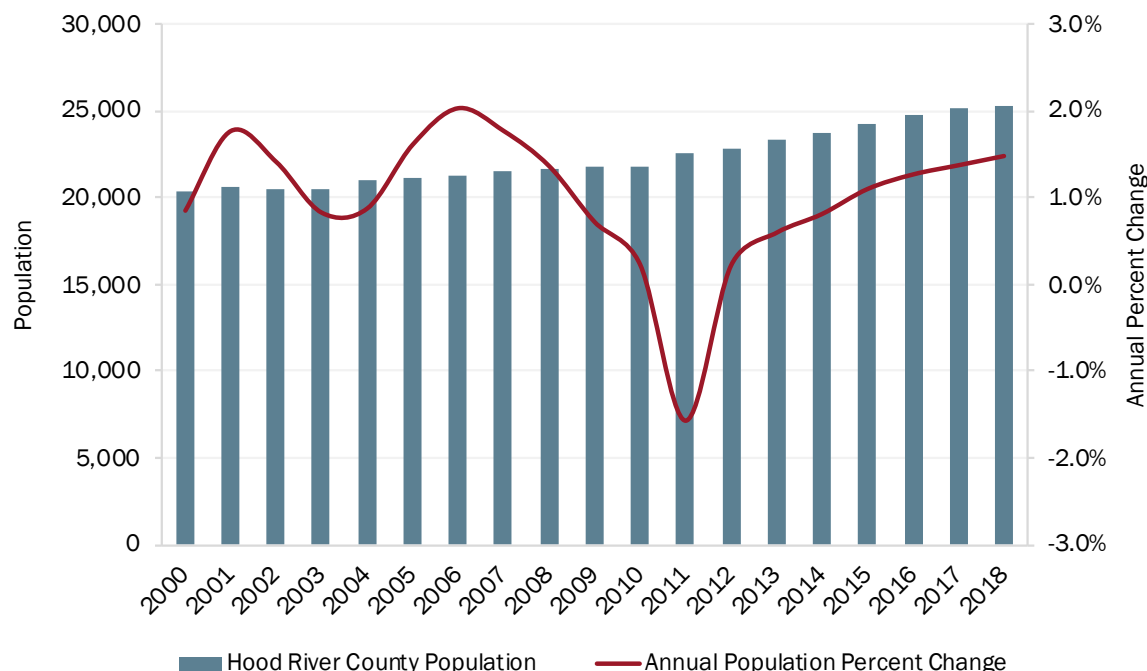
Industrial Demand Factors

This section looks at the factors generating local-serving demand for industrial land, including population and economic trends in the region.

Population Growth

Hood River County has experienced a steady increase in population growth since 2000, with an average annual growth rate of one percent. The only year since 2000 to experience a negative annual percent change in growth rate was in 2011—the middle of the Great Recession.

Exhibit 8. Annual Population Growth, Hood River County, 2000 to 2018



Portland State University, Population Research Center.

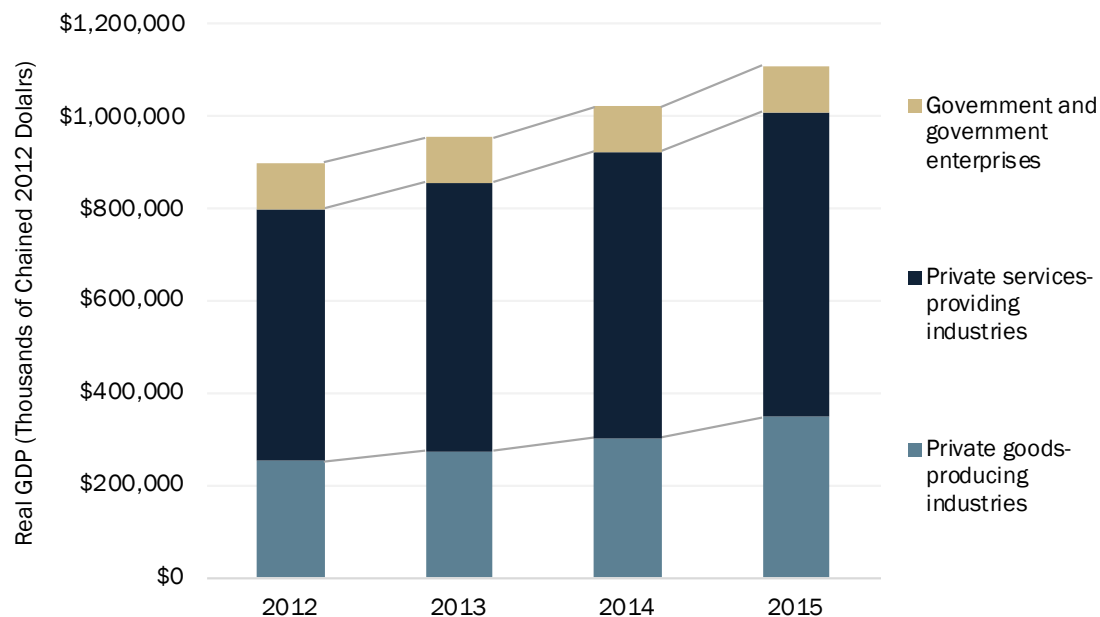
Source:

Gross Domestic Product (GDP)

The Gross Domestic Product measures the value of economic activity within a specific geography. It is the sum of the market values of all final goods and services produced in an economy during a period of time. Since Hood River County is primarily a service-providing economy, private goods producing industries (such as manufacturing) made up about 31 percent of the County's total economic output in 2015. However, despite this concentration in services, the County's GDP still grew by 23 percent from 2012 to 2015⁸, as shown in Exhibit 9. In 2012, Hood River County's total economic output was about \$900 million and increased to a little over \$1.1 billion by 2015. During this time frame, the share of goods-producing industries contributing to the County's total GDP also increased. In 2012, goods-producing industries made up 28 percent of total GDP and in 2015, it made up 31 percent. Alongside this increase, each of the services-providing industries and government and government enterprises contributed a smaller share to the County's total economic output (61 percent down to 60 percent for services-providing industries and 11 percent down to nine percent for government and government enterprises).

⁸ Only four years of county-level data were available via the U.S. Bureau of Economic Analysis at the time of this analysis.

Exhibit 9. Real Gross Domestic Product (Thousands of Chained 2012 Dollars), Hood River County, 2012 to 2015

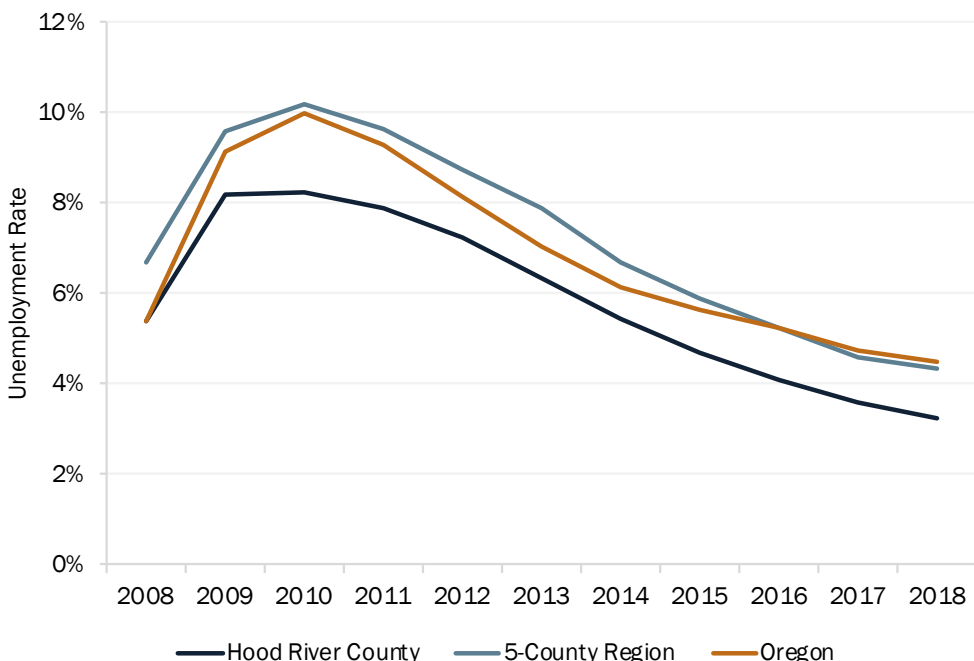


Source: U.S. Bureau of Economic Analysis.

Employment Trends

The unemployment rates in Hood River County, the Mid-Columbia Region, and Oregon fell from 2010 to 2018. Since the Great Recession in 2011, unemployment has dropped to historic lows in all of these geographies, as shown in Exhibit 10. In 2017, Hood River County had a lower unemployment rate than the Mid-Columbia Region and Oregon. In 2018, Hood River County's unemployment rate was one of the lowest in the State of Oregon at 3.3 percent. During the same period, state level unemployment was 4.5 percent.

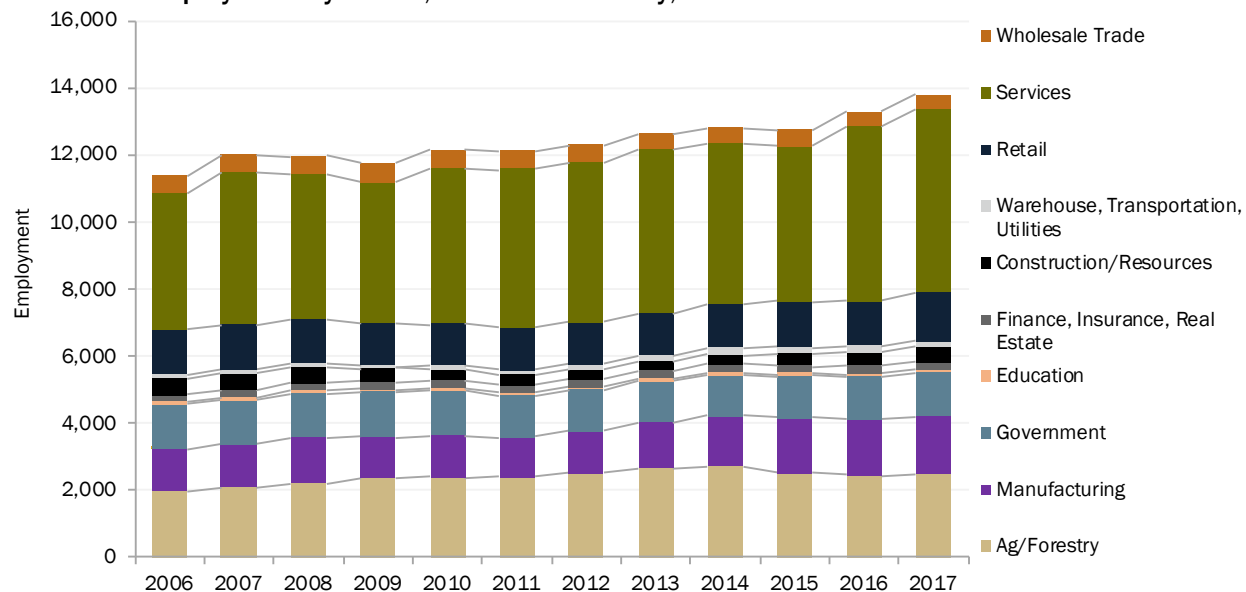
Exhibit 10. Unemployment Rate, Hood River Count and 5-County Region*, Oregon, 2008 to 2017



* The "5-County Region" is comprised of the following counties: Hood River, Sherman, Wasco, Klickitat, and Skamania.
Source: US Bureau of Labor and Statistics

Total employment in Hood River County has been steadily increasing over the last decade, growing by more than 20 percent (over 4,000 jobs). The Great Recession had only a minor impact on the County's employment, as shown in Exhibit 11 by the slight dip in jobs in 2009. However, different employment sectors have had varying growth patterns since 2006. The two largest employment sectors in Hood River County have consistently been services and agriculture/forestry.

Exhibit 11. Employment by Sector, Hood River County, 2006 to 2017



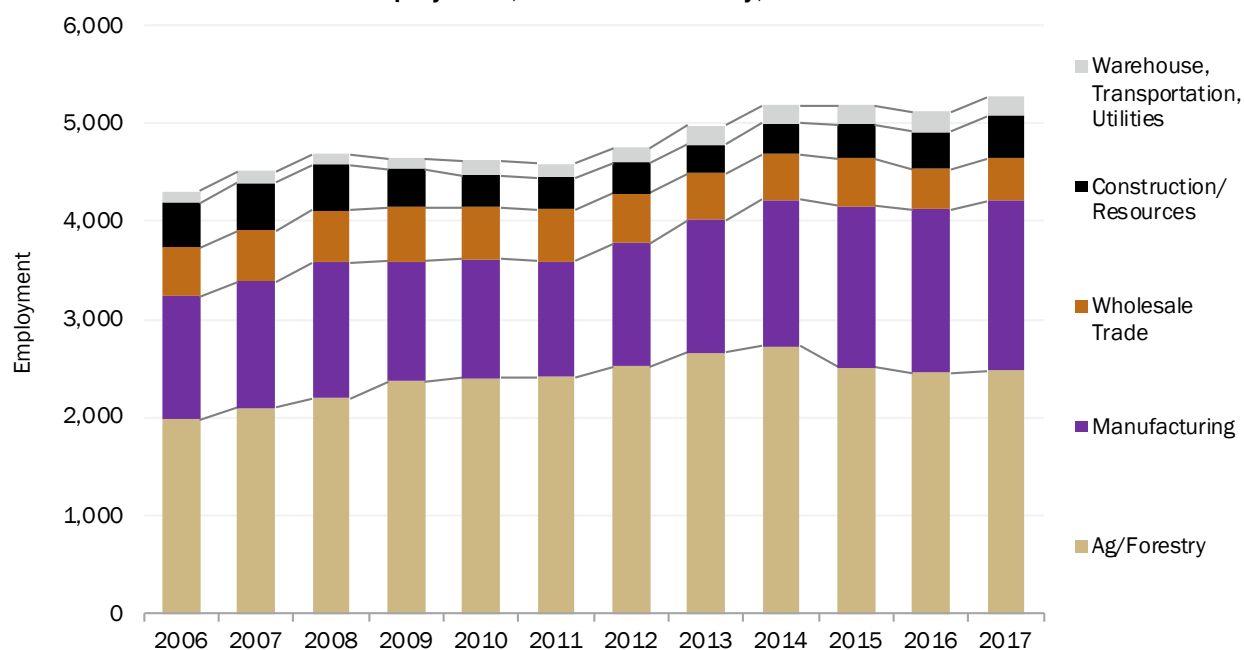
Source: Oregon Employment Department, Quarterly Census of Wages (QCEW).

Industrial Employment Sectors

There are several employment sectors that correspond generally to employment types commonly found in industrially zoned areas. These include: wholesale trade, warehouse, transportation and utilities, manufacturing, construction/resources, and agriculture/forestry. In this section, we examine recent historical trends in these sectors.

Industrial employment levels have increased in recent years in Hood River County. The Great Recession (ending in 2009) slowed some of that growth, but annual year-over-year employment growth returned in 2012. Since 2006, industrial sector employment is up by almost 1,000 jobs in Hood River County.

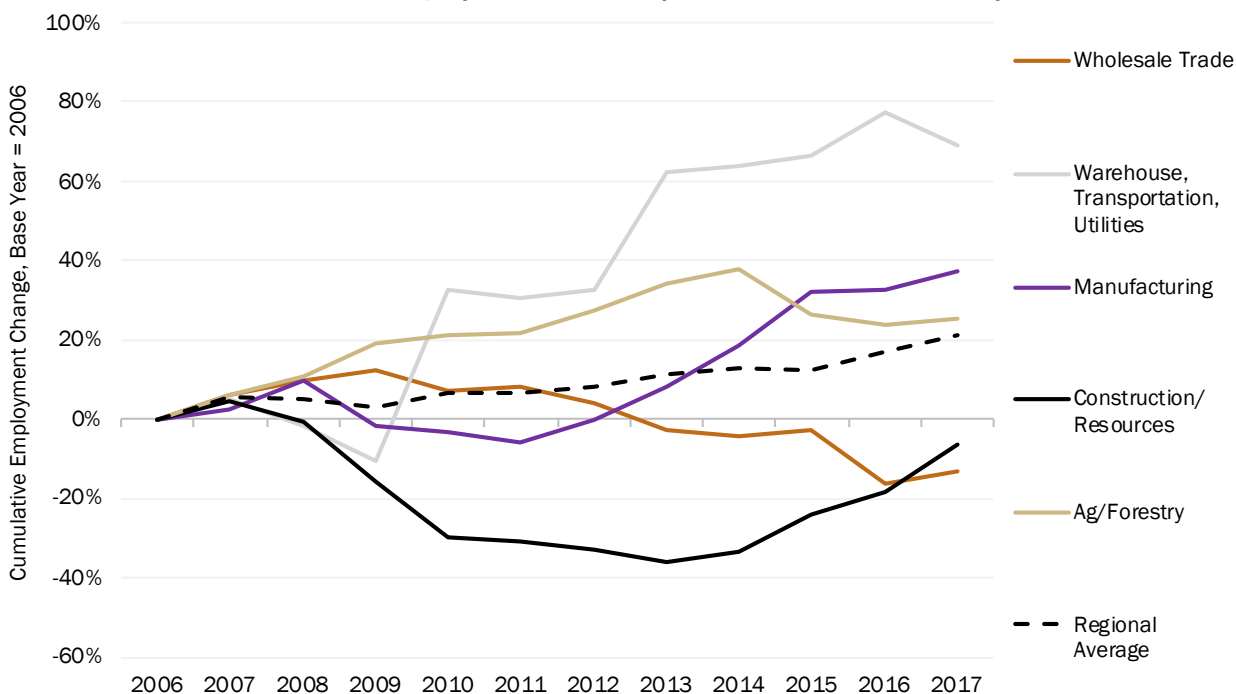
Exhibit 12. Industrial Sector Employment, Hood River County, 2006 to 2017



Source: Oregon Employment Department, Quarterly Census of Wages (QCEW).

Many of the industrially-focused employment sectors have had large increases in employment since 2006 when compared to the regional average (Exhibit 13). The notable exception is with construction/resources and wholesale trade employment sectors, which saw net losses over this time.

Exhibit 13. Cumulative Percent Employment Growth by Sector, Hood River County, 2006 to 2017



Source: Oregon Employment Department, Quarterly Census of Wages (QCEW).

Some industrial employment sectors have few jobs in the region, and therefore, any growth appears to be significant, even though few new jobs were created. For example, the warehouse, transportation, and utilities sector had about 110 employees in 2006. When employment in this sector reached its peak in 2016 (at about 200 employees), the proportional employment growth relative to 2006 reached nearly 80 percent. This growth rate is large, but 90 new employees over a decade in a region with over almost 14,000 total jobs is a comparatively small net gain in employment.

The largest industrially-focused employment sectors in Hood River County have historically been agriculture/forestry and manufacturing. Today, these two employment sectors comprise 80 percent of all industrial sector jobs in the County⁹. These two sectors have seen net gains in employment in the past decade. From 2006 to 2017, agriculture/forestry employment grew by about 25 percent (500 jobs), and the manufacturing employment sector grew by approximately 38 percent (470 jobs).

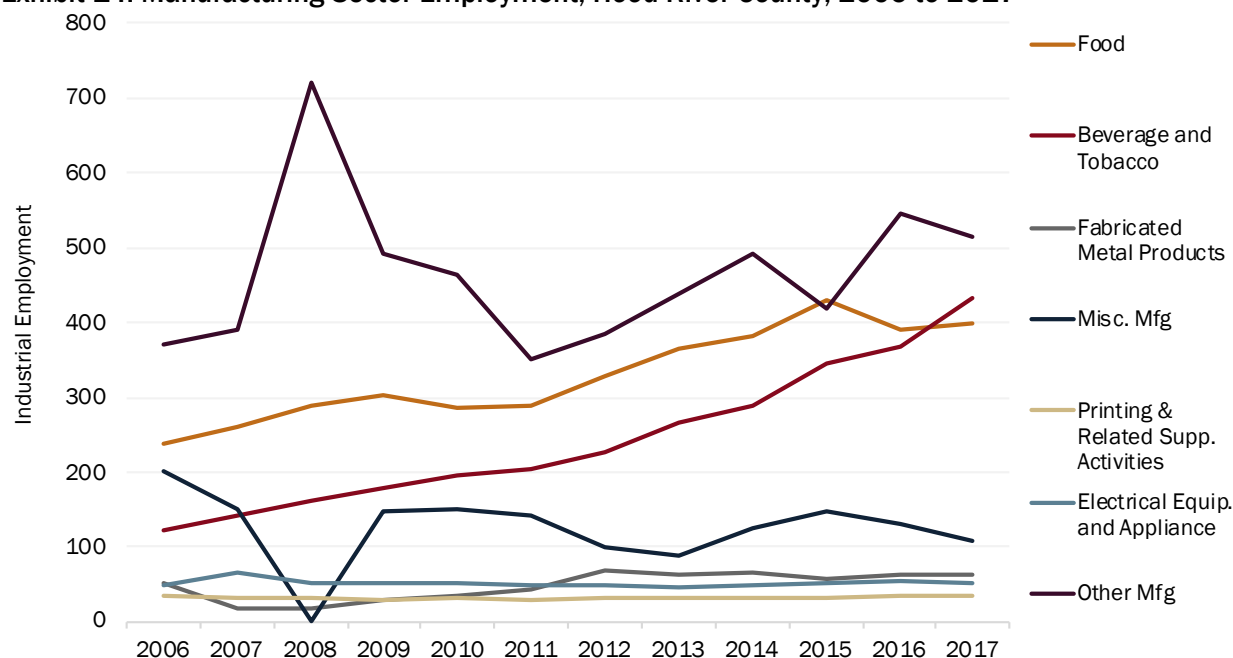
The manufacturing employment sector can be further broken down into subsectors. Exhibit 14 shows how employment levels in these subsectors have shifted since 2006. Three manufacturing subsectors—beverage and tobacco¹⁰, food, and the catch-all but non-descriptive subsector called “other manufacturing”—together make up the majority of all manufacturing jobs in Hood River County. The food, and beverage and tobacco subsectors have grown consistently since 2006.

⁹ Source: Oregon Employment Department, Quarterly Census of Wages (QCEW). (2017 data)

¹⁰ Although this employment category’s name includes tobacco related jobs, we are unaware of any tobacco production businesses located in Hood River County.

The “other manufacturing” subsector has been more volatile, but has increased employment levels from 2006. Other manufacturing subsectors have seen relatively little employment growth in recent years.

Exhibit 14. Manufacturing Sector Employment, Hood River County, 2006 to 2017

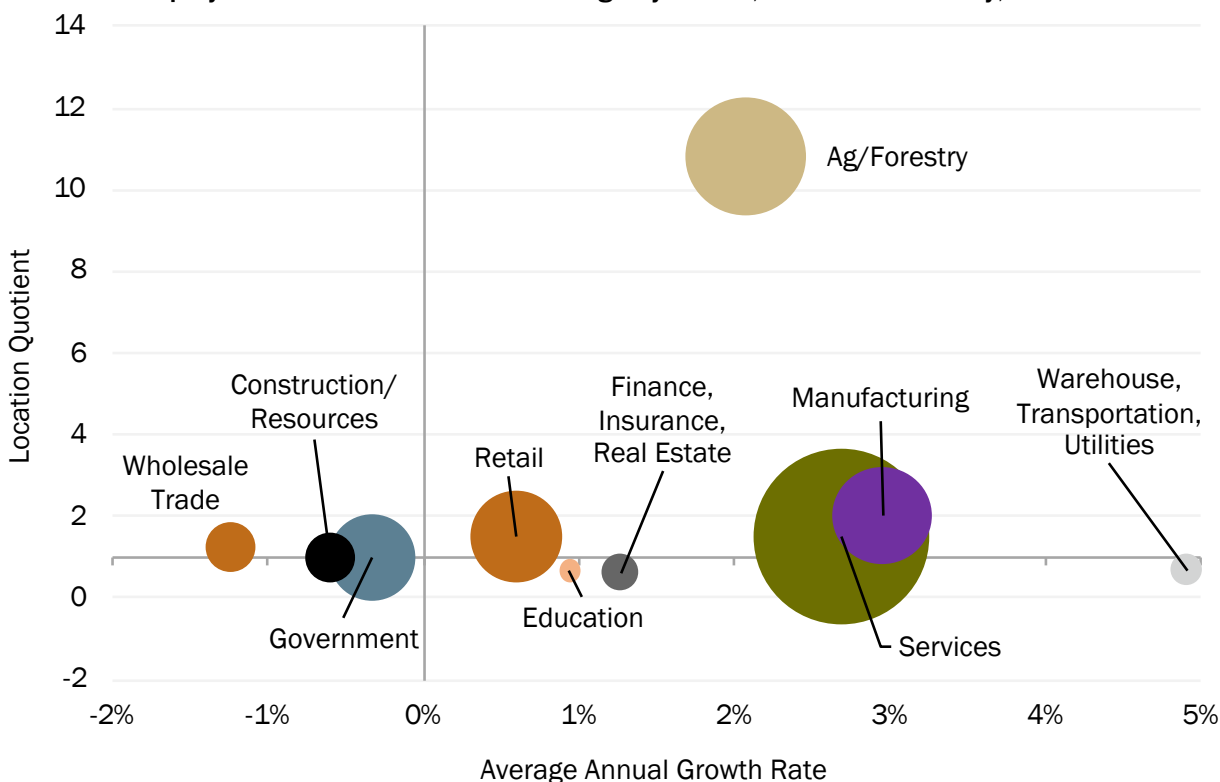


Source: Oregon Employment Department, Quarterly Census of Wages (QCEW).

Hood River County Employment Location Quotient

Location quotients measure the concentration of jobs in a sector compared to a statewide average. A value of 1.0 signifies that the sector possesses the same level of employment concentration as the state. Values above 1.0 are more concentrated than the state average. The size of the bubble represents the number of jobs within that sector. Sectors with sizable employment and higher than average concentration, represent strengths for the region. Fast growing sectors, even if they are not very large, represent potential opportunity areas. Exhibit 15 shows the local concentration of jobs by sector (location quotient) along with measures of industry size and average annual employment change in Hood River County.

Exhibit 15. Employment Concentration and Change by Sector, Hood River County, 2006 to 2017



Source: Oregon Employment Department, Quarterly Census of Wages (QCEW).

Key findings from this chart include:

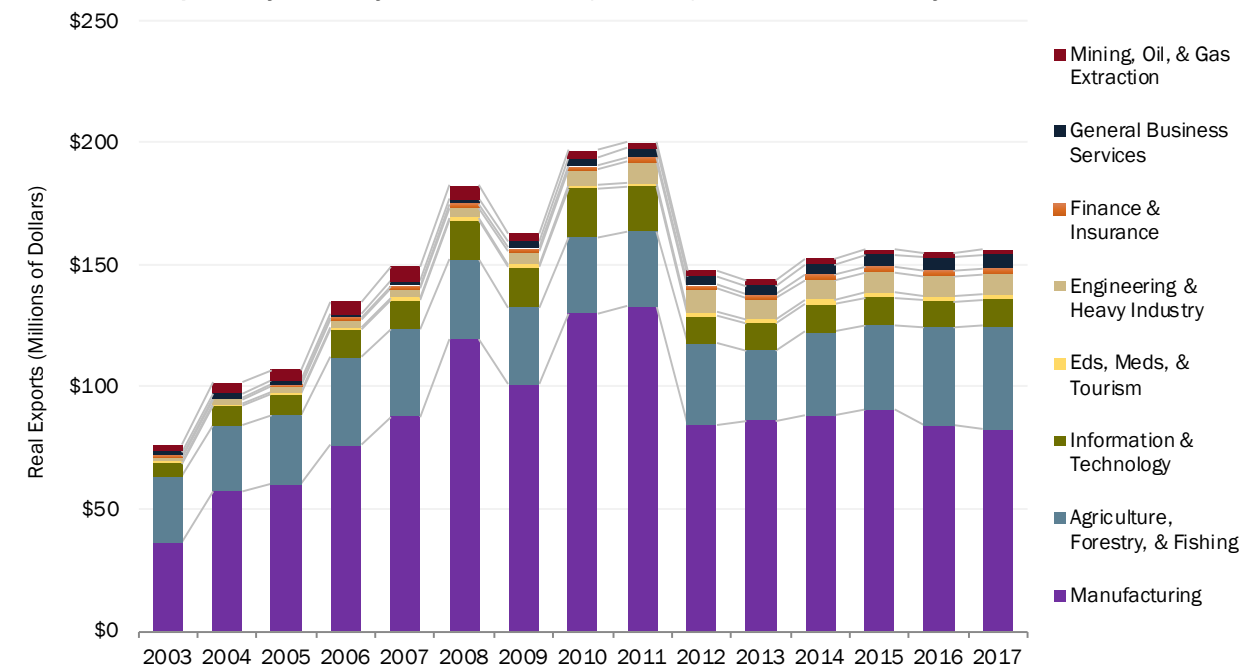
- **The agriculture and forestry sector** has the largest location quotient in Hood River County at 10.8 and grew, on average, at an annual rate of 2.1 percent over 2006 to 2017.
- **The warehouse, transportation, utilities sector** has the largest annual average growth in Hood River County at 4.9 percent; however, its concentration is less than that of the state (location quotient of 0.7).
- **Manufacturing employment** has been increasing 2.9 percent annually and is more concentrated than the state (location quotient of 2.0).
- **Services sectors** are the largest employers in Hood River County. They are more concentrated than Oregon on average (location quotient of 1.5). Its average annual growth rate was 2.7 percent across 2006 to 2017.

Hood River Regional Exports

Exhibit 16 shows total exports from Hood River County from 2003 to 2017. The largest export industry is manufacturing followed by agriculture, forestry, and fishing. Total exports increased over 2003 to 2017, though a couple of large declines occurred throughout this period. Manufacturing exports decreased 16 percent over 2008 to 2009 and agriculture, forestry, and fishing decreased by about 3 percent. These declines were likely due to the Great Recession; however, in 2010 and 2011, manufacturing rebounded whereas agriculture, forestry, and fishing

continued to decline. Since 2011, regional exports from Hood River County have been largely unchanged.

Exhibit 16. Exports by Industry in Real Dollars (Millions), Hood River County, 2003 to 2017



Source: Brookings Export Monitor, 2018.

5.2 Hood River County - Potential Future Demand

Hood River County saw considerable growth in the last decade. Population, GDP, and employment figures have all increased in the past few years. Hood River County currently has one of the lowest unemployment rates in the entire state of Oregon. Like many communities across the northwest, employment is anchored in the service sector, but Hood River County has important clusters of employment in manufacturing and the agriculture and forestry sectors—two sectors that typically require industrial land.

Overall, the prospect for continued economic growth in the Hood River region is positive. The area is located along an interstate highway and proximate to the largest economic metro in the region. The natural beauty of the area and outdoor recreation opportunities will continue to draw visitors and new residents. Notable challenges include providing an adequate supply of land for new development and providing housing that is affordable for the growing workforce. Established local industries, such as food and beverage companies and UAV manufacturers, are poised for future growth.

Future Employment Growth and New Industrial Land Demand

Future demand for industrial land within the Hood River region will be driven by economic expansion of locally-serving and externally-oriented industrial type businesses. A strong indicator for economic expansion is employment. Moreover, the amount and type of industrial related future job growth will affect the region's industrial land needs.

In general, local-serving industrial land demands track closely with overall regional growth. Demand for external-oriented industrial land in the region is affected by a number of different market factors, including the supply of readily developable sites that meet the specific user's needs. As a result, external-oriented industrial jobs are not as easy to project at the local level and do not grow at a steady rate.

One common method for understanding the future demand for industrial land is to extrapolate from employment projections. In Oregon, the Oregon Department of Employment (ODE) is responsible for developing these long-range employment projections. ODE's most recent projections are for 2017 to 2027. ODE's projections also include sector-specific breakdowns, so we are able to better understand how jobs may grow in industrial employment sectors.

Exhibit 17 displays ODE's projected job growth for the employment sectors of manufacturing, wholesale trade, and transportation and warehouse in the Gorge Region.

Exhibit 17. Gorge Region (Gillam, Hood River, Sherman, Wasco, and Wheeler Counties) 10-Year Projected Industrial Sector Employment Growth, 2017 to 2027

Industrial Sector	Gorge Region Projected Growth, 2017-2027
Manufacturing	300
Wholesale Trade	70
Transportation, Warehousing, and Utilities	70
Total	440

Source: Oregon Department of Employment.

ODE projects 440 additional new jobs in these employment sectors over the next ten years. A continuation of historical job growth trends would result in 680 industrial jobs over the same time period.¹¹ However, if we include the employment sector "professional and technical services" — a sector that represents many businesses that are allowed to locate in industrial areas — the growth projections change substantially. Including professional and technical services in ODE's projections would result in 740 new jobs over the next ten years. Adding this sector to the historical growth method of future projections results in 1,823 new jobs.

Using common relationships between jobs, building size, and industrial lots sizes, we can roughly estimate the land needed to accommodate these future jobs. Exhibit 18 below presents a summary of this estimation method and its land demand output. Lower job density industrial projects are typically associated with employment sectors that require few employees per facility, such as warehousing, and distribution type developments. Higher job density projections refer to light industrial, manufacturing, or flex-industrial type developments.

¹¹ Source: Oregon Employment Department, ECONorthwest. Average annual growth of historical trends from 2005-2017 projected over 2017 to 2027 time period.

Exhibit 18. Gorge Region Future Industrial Land Demand Estimates (includes Prof. and Tech. Services Sector)

		OED Estimates	Historical Trending
10-Year Job Estimations (2017-2027)		740	1,823
Industrial Building Space - Low Job Density	800 SF/Job	592,000 SF	1,458,272 SF
Industrial Building Space - High Job Density	500 SF/Job	370,000 SF	911,420 SF
Floor Area Ratio (FAR)	0.33		
Industrial Land Demand (Acres)			
Low Job Density (acres)		41 Acres	101 Acres
High Job Density (acres)		26 Acres	63 Acres

Source: Oregon Department of Employment, ECONorthwest.

Using the OED employment projection method, demand for industrial land in Oregon's Gorge Region over the next ten years is estimated to be between 26 and 41 acres in total. Depending on how much of this growth is allocated to Hood River, the range is aligned with land demand estimates presented in the last City of Hood River Economic Opportunities Analysis¹². The most recent EOA estimated that the City of Hood River alone would need 11 to 53 acres of industrial land by 2030.

The variability in these estimates show the difficulty and uncertainty in predicting the future. Historical data and recent trends in industrial real estate show a modest demand for industrial real estate going forward. Expectations for a massive industrial expansion in the Gorge Region should be tempered. The region is much more likely to see incremental growth in the foreseeable future.

¹² See Appendix for more detail

6 Conclusions

Like most communities across Oregon, Hood River's economy is changing. The rise of tourism in the Mid-Columbia Gorge area has led to an increase in service-based employment. The region's agricultural base has enabled the emergence of many food-focused businesses in the manufacturing sector. And the unique unmanned aerial vehicles (UAV) industrial cluster has created new opportunities for spinoffs large and small.

The Port of Hood River (the Port) is at a crossroads as it considers how to best attract new development to Lot 1, the last remaining undeveloped area of the Hood River Waterfront. The Waterfront currently includes a mix of commercial and industrial users, alongside recreational uses like the Waterfront Park and Trail. Lot 1 serves as a gateway to the Waterfront— to conform with the rest of the Waterfront, the expectation is high for quality development projects that also meet the community's demand for value-add industries with well-paying jobs. To unlock land for this new development, the site will need new infrastructure to support internal circulation, utility connections, and a design that facilitates connections to the rest of the Waterfront.

The Port is interested in understanding existing conditions for industrial development in the region. The purpose of this *industrial demand assessment* to (1) gauge the level of potential demand in future development of Lot 1, and (2) to help understand the needs and desires of the types of businesses that would locate there.

ECONorthwest used a variety of data sources to complete the market analysis including Costar (real estate data), Oregon Department of Employment data, Census data, etc. To ground the quantitative market information, ECONorthwest conducted interviews with 11 local stakeholders, including business owners, brokers, and property owners.

6.1 Hood River Industrial Demand

Core to our research task is to uncover the nature of demand for industrial land in Hood River, and specifically for the Waterfront's Lot 1. After synthesizing both quantitative and qualitative data we arrived at the following findings.

Industrial Demand Findings

The Waterfront is a unique location for industrial development

Before discussing the amount of future demand for new industrial development on the Waterfront, it is important to emphasize that the Waterfront is a unique industrial area that is unlike most other industrial areas in the Gorge Region. The Waterfront started as a more typical light industrial area with public utility facilities and warehouses, but recent flex-industrial developments coupled with the creation of parks, public space, and a pedestrian focused regulatory environment have fostered an industrial area that functions like a mixed-use center. This has implications for the character and scale of future developments, and for the type of businesses that will be attracted to the area.

There is currently demand for new development in the Hood River area—both in the short term and in the long term

The fundamental demand drivers that lead to new development—population growth and economic expansion—are expected to continue on their current upward trajectory. This indicates growing demand for new development in the short term and long-term. However, the region's small population and the challenges faced by new development projects indicate that the development and absorption of space is likely to be sporadic. Expectations for a robust industrial expansion in the Gorge Region should be tempered. The region is more likely to see incremental growth in the foreseeable future.

Demand for new industrial space isn't evenly distributed between industry sectors. For example, some industry sectors like food and beverage manufacturing have seen steady and consistent growth over the past few decades. Other sectors have seen more intermittent growth.

The Waterfront provides greater opportunities for select industry sectors

Several of the region's key industrial sectors have seen growth in the past few years. The most likely businesses to derive a premium or locational advantage from the Waterfront are:

- **Businesses that want to be close to other businesses in the same cluster.** Some businesses seek locations where they can be close to other businesses in the same or complementary sectors. For example, the Waterfront has a concentration of food and beverage manufacturing businesses, this sector is expected to see continued strong growth in the short run. For these reasons, Lot 1 will be an attractive location for more food-focused companies.
- **Businesses that seek an amenity-rich location for employees.** When asked about why they chose to locate on the Waterfront, some of the area's existing flex/office-oriented tenants cited the area's recreational amenities, views, and adjacent businesses as key reasons for why they chose to locate in the area. This points to a particular opportunity for industrial flex/office businesses to locate at Lot 1.
- **Industrial businesses with a commercial component.** For industrial businesses that are consumer facing, a small commercial or retail outlet at their production facility can be a key element of their business strategy. These outlets enable their customers to come and experience products where they are produced. The Waterfront, with its pedestrian scale, and outdoor amenities, offers an attractive location for industrial businesses that want to have a consumer facing retail component to their business.
- **Traditional industrial users that need proximity to the highway or to be located in a central location.** Lot 1 is adjacent to a highway interchange with Interstate-84. Industrial users that require an easy connection to the highway system will be drawn to Lot 1.

Despite demand for new industrial development, multiple challenges impact project feasibility and development efforts.

We heard from several stakeholders that there is an interest by local companies to expand and develop new facilities. Two primary challenges to new industrial development repeatedly arose in our stakeholder conversations. First, the Hood River region has a limited supply developable industrial land, and much of the available supply is in small lots, or in lots in need of substantial improvement before development can occur. Second, Hood River is facing an affordable housing crisis that is having real effects on local businesses' ability to attract new employees to the region.

The table below summarizes the opportunities and challenges for industrial development in Hood River generally, and for Lot 1 specifically.

Exhibit 19. Industrial Development Opportunities and Challenges

	Industrial Development in Hood River	Industrial Development on Lot 1
Opportunities	<ul style="list-style-type: none">• Highly desirable area• Emerging industrial clusters• Strong economy	<ul style="list-style-type: none">• Excellent access to I-84• Existing cluster of light industrial uses will attract similar types of businesses• High-quality mixed employment and recreation area
Challenges	<ul style="list-style-type: none">• Limited supply of workforce housing• Availability of space	<ul style="list-style-type: none">• High rents will limit base of potential users• High cost of providing infrastructure to support development• Compatibility of some potential industrial users

Source: ECONorthwest

6.2 Implications for Lot 1 Development

Our research indicates current demand for new industrial development in Hood River. However, the Waterfront is a unique industrial area, and therefore has a limited set of potential businesses that suitable tenants. Moreover, as the experience of some of the recent projects on the Waterfront have shown, meeting zoning and design regulations, plus finding tenants that can afford the higher rents that are required can be challenging. This means that demand for industrial development *at Lot 1* is only a subset of overall demand for *industrial* development in the region.

A key determination is to outline what is included in the definition of “industrial.” Many of the successful businesses that are located at Hood River’s Waterfront are office users with a small warehouse or commercial component. Our research indicates that the “professional office and technical services” sector is expected to be one of the fastest growing employment sectors in the region. Based on the City of Hood River’s latest employment land inventory completed in 2011, the city lacks sufficient land for the expected growth in office employment through 2030. These findings, coupled with the public policies (e.g. zoning), and the vision developed in the Lot 1 Master Plan, indicate that future tenants are likely to be quasi-industrial office users that can fit into flex-industrial buildings.

Combining input from regional industry data and trending and economic development efforts, alongside the economic, regulatory, and cultural environment, we see a specific opportunity for Lot 1 to absorb industrial development in the following three sectors: food production and value-add agriculture, technology (including UAV associated businesses), and other industrial office users. Exhibit 20 provides an overview of these industry sectors and discusses their potential compatibility with Lot 1.

Exhibit 20. Lot 1 Industrial Sector Opportunities and Compatibility

	Eligible Land Use	Level of Near to Mid-term Demand	Building and Site Needs	Need for Commercial Space	Ability to Pay Premium Rents	Likelihood of Locating in Lot 1
Technology (Including UAV companies, technology services and development, among others)	Yes. Most technology companies are “goods producing” and therefore, qualify for industrially zoned areas.	Moderate. Technology focused companies are highly dependent on business cycles. Current growth is positive. An economic down-turn could reduce demand.	These businesses seek high-quality spaces to attract talented employees and reinforce their brand image. Daytime parking will be required. Alternative travel modes, shared parking, and transport management plans may reduce parking demand.	This depends on the specific type of technology company. However, most companies are not consumer-facing and, therefore, do not need commercial space.	Yes. These tend to be high-profit companies that are able to pay rent premiums.	Depends on the company. These companies will seek a location at Lot 1 if the location matches their brand identity.
Food and Value-Added Agriculture (Manufacturing)	Yes. These are manufacturing companies.	Moderate to High. This is one of the steadily growing industrial sectors in the Hood River Area.	Scale and type of building depend on the size of the production operation. Small producers can fit into multi-tenant spaces. Larger companies require larger, single-user facilities. Employee parking, truck parking, and outdoor storage are commonly needed. Both drive-in and dock high doors are typically required.	Yes. Although it depends on the company, many of these businesses benefit from having a consumer-facing commercial outlet	Depends on the business. Most emerging food companies cannot afford premium rents	High. But it depends on price and building suitability.
Other Professional Services/ Industrial Office Users	For the most part. Companies in this category may not meet zoning requirements.	Professional and Businesses Services is one of the fastest growing industries.	These businesses are primarily office users. They can fit in any number of configurations. Typically, single large floor plates are preferred.	No. Most companies are not consumer-facing.	Yes. Most companies can pay “office level” rents.	High. Lot 1 is an attractive location for these companies.

Source: ECONorthwest

Appendix A: Competitive Supply Summary

This section provides a summary of the competitive industrial land supply within the Gorge Region. As is the case with most non-metropolitan regions, local real estate data in the Gorge Region has gaps and is many times inaccurate. Within the section, we provide notes where we have observed abnormal data or lack of a complete dataset.

Industrial and Flex-Industrial Real Estate Market Trends

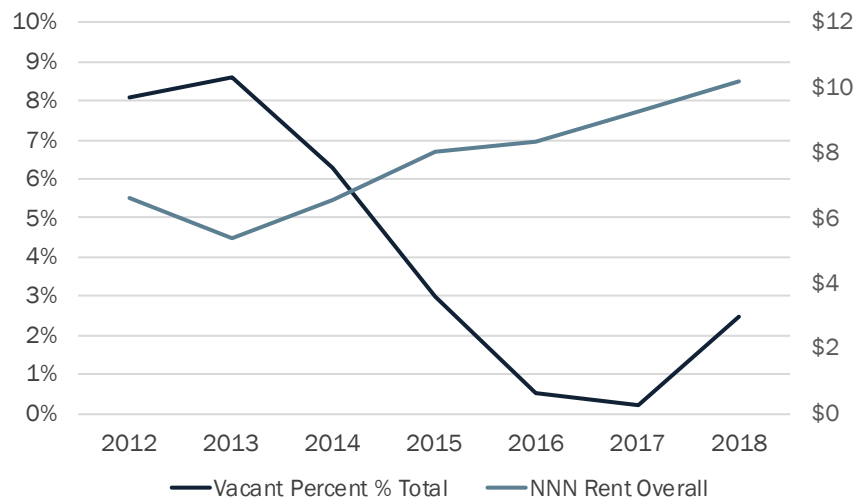
This section describes the current and recent historical real estate conditions for the industrial and flex markets in the Gorge Region. In general, the industrial real estate market includes buildings where raw materials and products are assembled, processed, and warehoused. These buildings tend to be large, often equipped with specialized machinery, and generally yield lower average rents per square foot than buildings in other commercial markets. The flex real estate market includes buildings that offer adaptable spaces that can accommodate a range of office, warehouse, or other types of commercial uses such as research and development, medical, industrial, quasi-retail, or others.

Exhibit 21 and Exhibit 22 show rent, vacancy, and absorption and delivery trends in the Gorge Region industrial and flex real estate markets.

Since 2013, industrial/flex rents have increased by more than 50% while vacancy rates have declined. In 2018, industrial rents reached a high of \$10 per square foot and vacancy rates dropped to about 2.5 percent.

Exhibit 21. Industrial and Flex Rent per Square Foot and Vacancy Rate, Gorge Region, 2012 to 2018¹³

Source: Costar.

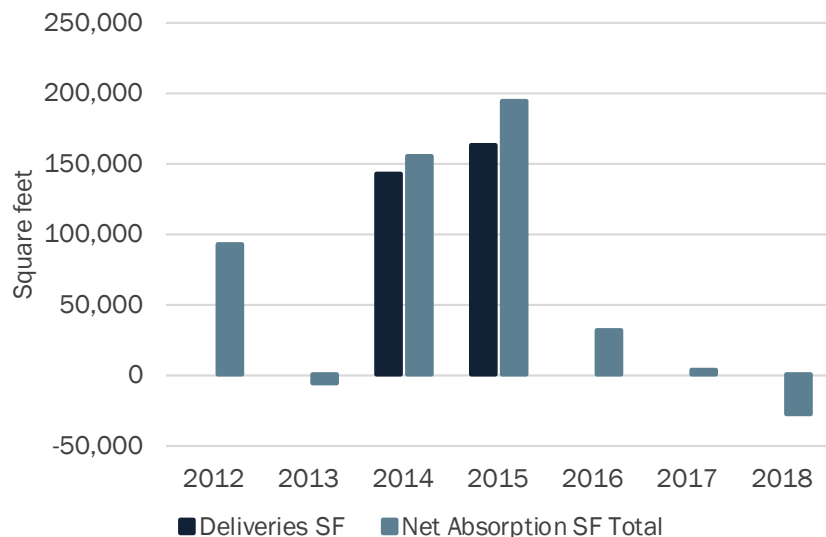


¹³ NNN or “Triple Net Rents” refer to commercial real estate leases where the tenant is responsible for all space related expenses, e.g. utilities, property tax, janitorial services, etc.

The Gorge Region saw the largest amount of industrial/flex square feet delivered and absorbed in 2014 and 2015. Industrial projects by Google and Lexington Realty Trust added nearly 300,000 square feet of industrial/flex space to the five-county area in 2014 and 2015.

Exhibit 22. Industrial and Flex Deliveries and Absorption (square feet), Gorge Region, 2012-2018

Source: Costar.



These real estate market trends show that since the Great Recession, the industrial and flex-industrial sectors of the Gorge Region have seen rapid expansion and positive market indicators. That is, rents have generally been increasing, vacancy has been declining and there have been a few large deliveries to market that were quickly absorbed.

It should be noted that 2018 data indicate an uptick in vacancy and negative absorption. Although this dataset is not comprehensive to all industrial and flex properties in the region, these trends should be watched closely to identify any growing market weakness.

Recent developments

There have only been a few industrial or flex space developments in the Gorge Region built in recent years. Many of these properties were developed on the Hood River Waterfront, including the Expo Industrial Offices, and projects built by developer Key Development¹⁴.

For the past five years the total building area shown in Costar, the most comprehensive real estate database in the Gorge Region, show that the new flex and industrial buildings total about 300,000 square feet in rentable building area, and all of the buildings were either completely or nearly completed occupied as of early 2019. CoStar estimated building rents¹⁵ between \$6 to \$20 for these properties.

¹⁴ See Exhibit 4 for more detail

¹⁵ CoStar estimates building rents based on the asking rent for the most recent tenant move-ins.

New Industrial/Flex Buildings



901 Bingen Point Way (Bingen)

Year built: 2014

Estimated rent: \$6-8 per sq. ft.

901 Bingen Point Way is fully leased (as of early 2019) with over 124,000 sq. ft. of rentable building area. The building was awarded silver-level LEED certification in 2015.



Wasco Avalanche Building (Hood River)

Year built: 2014

Estimated rent: \$10-13 per sq. ft.

The Wasco Avalanche Building is a flex show room with about 18,000 sq. ft. of rentable building area. The building was 89% occupied as of early 2019.



**407 Portway Avenue
(Hood River)**

Year built: 2018
Estimated rent: \$26 per
sq. ft.

407 Portway Avenue is a
three story, 15,000 sq. ft.
flex R&D building with
84% occupancy (as of
March 2019).

This building is part of a
series of recent
development projects by
Key Development along
Portway Ave.

In addition to the 407 Portway Avenue Project, new commercial and industrial development at the Waterfront since 2014 includes:

- **Sheppard's Supply** at 440 Riverside Drive, a 20,000 SF expanded retail/service facility for a longtime Hood River landscape supply company.
- **Pfriem Brewery Expansion**, completed in 2017, which increased the production and retail area for Pfriem Brewery.

Hood River's Waterfront in the Context of the City's Industrial Land

The Hood River Waterfront comprises a large portion of the City of Hood River's limited supply of industrial land. Lot 1, in particular represents a unique opportunity given its size of nine acres, which is larger than almost every other industrially-zoned parcel in the City.

The most recent inventory of available industrial land within the City of Hood River was completed as part of the City's Economic Opportunities Analysis (EOA) in 2011. This document included a buildable lands inventory, which is an assessment of the capacity of land within the City of Hood River to accommodate forecasted housing and employment needs over 20 years. Exhibit 23 provides a summary of the amount of vacant and partially vacant employment land in the city by land use class in 2011.

Exhibit 23. Vacant and Partially Vacant Lands by General Land Use Zone Class, Hood River UGB, 2011

	Acres	Percent of Total Buildable Acres	Tax Lots
Office Residential (C-1/U-C-1)	0.7	0.6%	2
Commercial (C-2/U-C-2)	73.3	65.5%	64
Industrial/Light Industrial (I/LI)	37.9	33.9%	29
Total Gross Buildable Land	111.9	100.0%	95

Source: Hood River Economic Opportunities Analysis, 2011, Page 4.

Key findings from the buildable lands inventory included:

- There were about 38 acres of buildable industrial land in the City of Hood River in 2011, comprising about a third of total buildable employment land.
- Most of the vacant or partially vacant parcels were small: just four parcels were more than two acres in size.
- There were 74 acres of vacant or partially vacant commercial land, comprising two thirds of buildable land.

At the time of the analysis, the Waterfront had seen some limited redevelopment, including the Jensen Building, the Halyard Building, the UTS Building, and Hood River Juice. However, this document does not reflect the many new projects built from 2012 to 2017, shown in Exhibit 3. At nine acres, Lot 1 represented about 24 percent of the City's capacity of industrial land, as of 2011.

To determine whether the City had enough available land to accommodate future employment, the EOA estimated that the City would add a total of 1,500 and 3,000 jobs across all sectors over 20 years, from 2010 to 2031. Because this is a wide range of potential job growth, the EOA also included three scenarios for employment growth to determine the implications for land need under each scenario. Key findings included:

- **Industrial land:** The Hood River UGB has enough industrial land to accommodate the forecasted level of industrial employment growth that is expected to occur under low-growth (11 acres) or medium-growth (16 acres) scenarios, but not the high growth scenario (53 acres).
- **Commercial land:** The UGB has a shortfall of commercial lands of between 15 and 19 acres needed to accommodate office growth, while there would be a surplus of 37 to 50 acres of other commercial land.

Hood River's Waterfront Relative to Other Industrial Areas in the Region

There are several industrial business parks within the Gorge Region that are direct competitors for Lot 1 and the Hood River Waterfront. Each of these areas has distinct advantages and disadvantages for particular users.

Port of Klickitat (Bingen, WA)

Like the Port of Hood River, the Port of Klickitat is interested in the long-term economic development of the region and offers long-term ground leases for its land. The Port of Klickitat owns commercial and industrial property at two business parks:

- **The Bingen Point Business Park** in Bingen, Washington is a partially developed waterfront property which is zoned for commercial and light industrial use. Currently, Insitu leases its eight-acre site from the Port. This business park is the most similar to the Hood River Waterfront because it is within the town of Bingen and has a mixed-use character.
- **The Dallesport Industrial Park** in Dallesport, Washington is zoned for light and heavy industrial use. The industrial park borders US Highway 197 and the Columbia Gorge Regional Airport. It has one terminal facility and rail access (served by the BNSF Railway). The first phase of the industrial park offers a total of 65 buildable acres. Key tenants include LifeFlight, which moved into a speculative building in 2018.

Port of The Dalles (The Dalles, OR)

The Port of the Dalles sells and ground leases land for immediate economic development purposes, with an employment target of at least six jobs per acre.

- **The Columbia Gorge Regional Airport Business Park** in The Dalles has 17 shovel-ready lots with water, sewer and other utilities. To develop the lots, the Port has graded 34 acres and installed roadways. Several lots will have access to the airport's taxi-ways.¹⁶
- **Columbia Gorge Industrial Center.** Completed in 2015 the Port of the Dalles is marketing 26 state-certified, shovel-ready lots of one to four acres, some of which can be assembled. The total project comprises 60 acres. As of March 2019, the Port has sold 15 of the 26 lots.



Columbia Gorge Regional Airport Business Park in The Dalles, Oregon

¹⁶ Port of the Dalles. Columbia Gorge Regional Airport. <https://www.portofthedalles.com/properties/1350-2/>

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