



Economic Vitality Symposium 2
March 29, 2011, 222 NW Fifth Ave., PDC Commission Room

Agenda:

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| 1. Welcome & Participant Introductions | 7:30 AM |
| 2. Agenda Review & Overview of Symposium 1 | 7:35 AM |
| 3. ZGF/ECONW Analysis of Central City Cost
Competitiveness for Office Development | 7:40 AM |
| 4. Discussion – Development Opportunities and Constraints | 8:05 AM |
| 5. Discussion – Subdistrict and Land Use Changes | 8:30 AM |
| 6. Discussion – Summarize Issues to Address in
CC2035 Economic Vitality Policy | 8:55 AM |
| 7. Public Comment | 9:20 AM |
| 8. Next Steps | 9:25 AM |
| 9. Adjourn | 9:30 AM |

CC2035 Economic Vitality Symposium 2: Discussion Questions

Development opportunities and constraints (Agenda item 4)

What are the key real estate development strategies needed to foster Central City job growth? The Central City's share of regional office space declined from 58% in 1990 to 49% in 2010.

- a. *Where and what building types are the best opportunities to increase Class B and C office development in the Central City that will be regionally cost competitive?*
- b. *How much focus should be put on opening up new catalyst sites versus infill in developing areas like South Waterfront?*
- c. *Are there particular infrastructure investments that seem critical or catalytic when considering business and job growth in the Central City?*

Subdistrict and Land use changes (Agenda item 5)

Where should land use patterns change in the Central City to increase job growth to 2035?

New mixed-use housing areas

- d. *Is there potential to repeat the River District's success in stimulating office development through mixed-use housing growth? Where?*
- e. *Should we be thinking differently about the role of mixed-use districts in terms of their potential for business and job growth?*
- f. *How much priority should be placed on having moderate-income workforce housing in the Central City? Where? How?*

New directions for retail and 24-hour activity

- g. *Can retail and related 24-hour activity (entertainment, cultural, restaurants, tourism) be a driver for economic development in the Central City?*
- h. *What issues should be better addressed to improve retail vitality in the Central City? For example, more concentrated retail locations, grocery stores as anchors, accommodating large-format retail, retaining independent businesses, and retail district management.*

- i. *Should efforts move forward to leverage development of a headquarters hotel at the Oregon Convention Center?*

Central Eastside and Lower Albina industrial/incubator districts

- j. *What should be done to support industrial areas and grow the amount and types of employment they support without undermining the role of these areas in preserving existing industry*
- k. *Should the overlay zoning that allows software and design offices in part of the Central Eastside industrial zones be expanded to more of these districts or to allow a broader range of creative service land uses?*

**Summary of issues to address in CC2035 Economic Vitality Policy
(Agenda item 6)**

In summary, what are the most important issues that need to be tackled in the Economic Vitality Policy for CC2035?

Symposium topics discussed:

- **Elevating Central City job growth** – Central City role in regional economy; benefits of Central City growth; Central City location advantages; new directions; job growth targets
- **Sector growth opportunities** – target clusters; professional, business and financial services; industry and incubator offices; leisure, hospitality and retail; higher education
- **Development opportunities and constraints** – opportunity locations and building types for Class B and C office development; new catalyst sites; critical infrastructure investments
- **Subdistrict and land use changes** – new mixed-use areas; retail and 24-hour activity; Central Eastside and Lower Albina districts



Cost Competiveness of the Central City

Executive Summary

Purpose:

Understand and evaluate the cost competitiveness for office development between Central City and suburban office areas.

Approach:

Project identifies office use tenant types and desirable characteristics of central city office areas that are competitive, or can become competitive, with suburban areas. We began by interviewing real estate professionals to identify competitive areas of the region, and discuss emerging trends for office tenants. We then identified building prototypes that could be desirable for most office tenants. We calculated development costs for each prototype, and estimated the rent necessary for each project to break even. Comparing prototype rents to current market rents in competitive areas of the region, allowed us to identify a financial gap, and suggest broad public policy directions that could eliminate that gap, improving the cost competitiveness of the Central City.

Findings:

There are perceived and real barriers to new construction and renovation of existing commercial office buildings that are competitive with suburban locations. These relate to cost, perception of tenants, building location, applicable standards, and public policy which are manifest in market lease rates. Areas of the central city have characteristics that are conducive to private office development, with or without public subsidy. As trends in employment evolve, more tenants are seeking leasable space in the Central city at a variety of price points. Improving the characteristics of the city's urban form that are conducive to office development requires public policy decisions. This study provides suggestions for public policies to achieve this purpose.

Goal:

Identify pathways for private office development that is attractive to tenants who are expected to expand employment in the Central City.

Tenant Characteristics:

Before identifying the competitive advantages and disadvantages of the Central City, it is beneficial to understand the factors which are most important to tenants. Different tenants have different priorities for selecting office space. Our analysis classified tenants into different categories, based on their relative priorities. This allowed us to focus on the factors that are most important to the types of tenants that are most likely to consider locating in the Central City.

Tenant Type	Location Preference		Willing to Move?	Class of Space
	Suburb	Urban Center		
Urban Corporate Image		X		A to B+
Urban Character		X	X	B+ to C
Cost Conscious	X	X	X	B to C
Suburban Image	X			A to C
Corporate Campus	X	X		A to C
PDX Address Driven		X		A to C

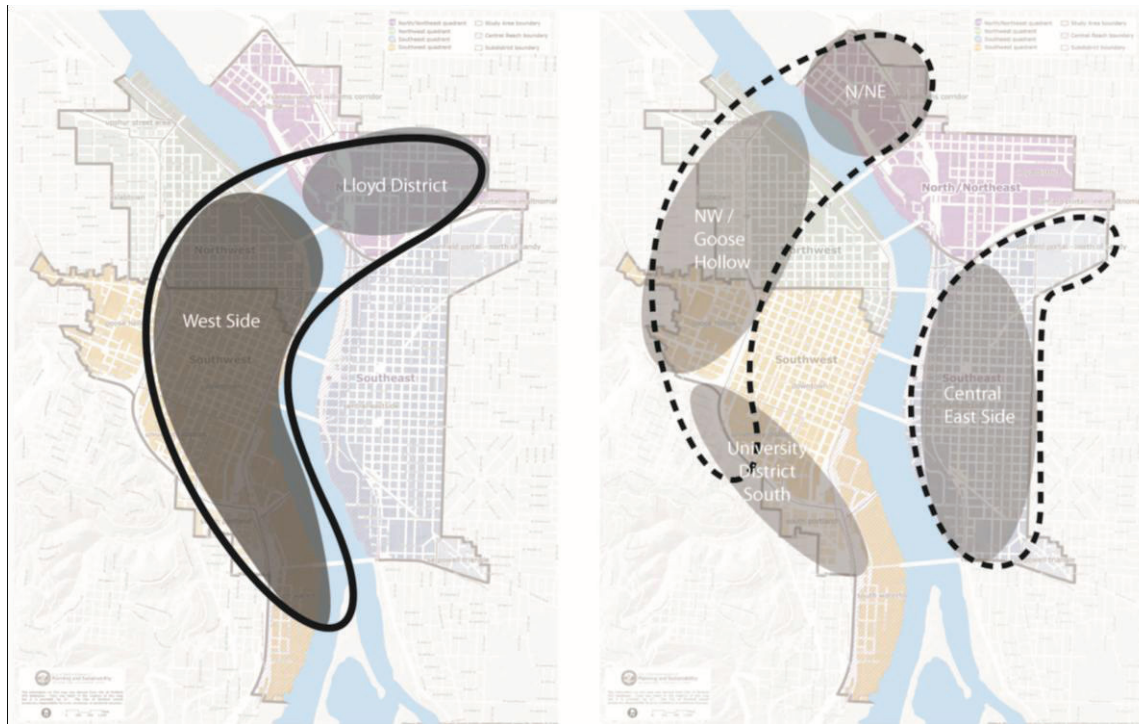
It is important to note that these tenant typologies are only a guideline, and each tenant is unique, with attributes that overlap and blur the boundaries of these six typologies. What is important is that tenants prefer certain environments and some are more willing to move between the Central City and suburban locations than others.

Competitive Areas of the Region:

We identified three areas as most competitive for tenants who might otherwise locate in the Central City: Kruse Way, Beaverton, and Vancouver, WA. These areas may not be the exclusive zones of suburban competitiveness, but they are certainly major suburban job centers, and they effectively represent the range of cost profiles and amenities that distinguish competitive suburban areas.

Competitive Areas of the Central City:

Within the Central City, the project team distinguished between the Core (also referred to as the Crescent), which broadly consists of the Central Business District (within the I-405 loop), South Waterfront and the Lloyd District, and the Edges, which include the Central East Side, Sandy, Lower Albina, Slabtown, Goose Hollow, and the South University area south of PSU and I-405. The Pearl District includes a mix of Core and Edge characteristics, and has successfully mixed a range of office types with significant residential development.



Generally, the Core has greater entitlements for height and density, improved transportation access, and great potential for future Class A office space which contributes to higher land values. Edge areas are defined by more restrictive base zoning, less existing office and commercial activity, less accessible transportation, and lower land costs.

Target Building Prototypes and Characteristics:

For the purposes of this study, the project team assumed that new Class A office space will continue to be located in high-value existing Core areas of the central city. No other areas of the region compete for Class A space as found in the Core areas of the central city. This class of office space is highly sensitive to market demands and national financing trends. As such, the ability for the City to act as a catalyst for the development Class A office space is limited.

Opportunities for the development of Class B and C spaces exist throughout the Central City. They exist primarily in areas with lower land prices, limited transportation access, and lesser amenity and services than the Core. In many cases, these coincide with the Edge areas described above, but they also exist in parts of the Core where buildings can be renovated and reused or where land costs are relatively low. Given the broad availability of competitive areas and the appeal of these lower cost spaces for tenants looking for new or renovated space through out the region, this study focuses on strategies to promote the development of Class B and C space that would be attractive to tenants who may be inclined to locate to Central City

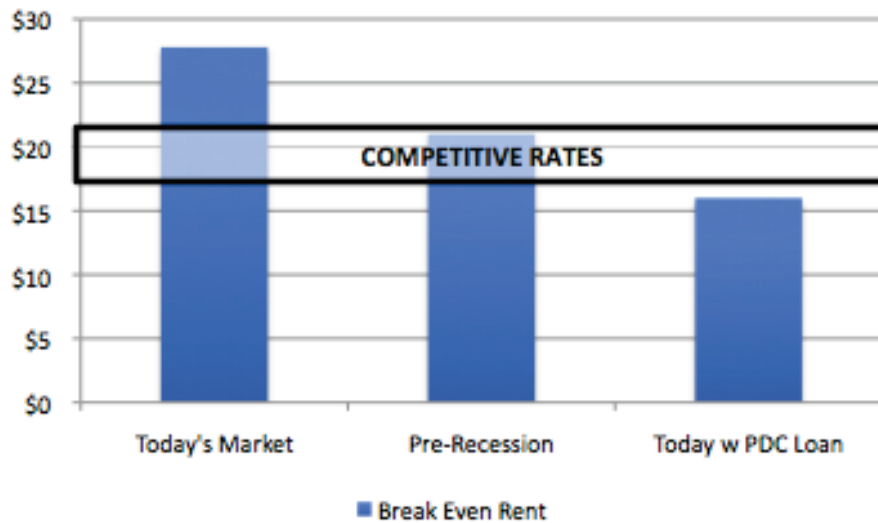
The project team developed and analyzed five prototypes to characterize the market feasibility and financing gaps for a range of products. The five prototypes were generally modeled after recently completed projects. The variation between them represents the difference in cost between new and renovated buildings, and between different levels of finishes and construction types as well as parking developed in prototypical B and C properties.

Financing Gap:

We calculated the development costs for each of the prototypes described above. Based on these development costs, and standard financing assumptions in today’s market, we calculated the necessary rent for each project to “pencil out.” Comparing these rents to current competitive market rates, we find a financing gap.

Prototype	Adjusted Cost / gsf	Break Even Rent	Comp. Rent	Gap
New B+	\$ 236	\$32	\$20 - \$24	\$8 - \$12
New B	\$ 207	\$28	\$18 - \$21	\$7 - \$10
New C	\$ 154	\$21	\$15 - \$18	\$3 - \$6
Renovate B+	\$ 211	\$28	\$18 - \$21	\$7 - \$10
Renovate C	\$ 186	\$25	\$15 - \$18	\$7 - \$10

The table above demonstrates a gap for every prototype. So what’s going on here? At the Symposium, we will describe the financial challenges in greater detail, but one of the largest challenges is a recent shift in the basic structure of development finance. Among many changes in the lending industry, banks are charging higher interest rates, and requiring more equity investment up front. This adds significantly to total project costs, and the rent necessary to break even. Below we show the break-even rent for a New B building given today’s market conditions, compared with pre-recession financial assumptions, and the impact of PDC involvement.



The figure above demonstrates how changing market conditions have made development much more difficult to pencil out. But it also demonstrates the power of public policies to improve the financial feasibility of new development. In the Symposium, we will describe the challenges for new development in the Central City, and explore potential public policy solutions for improving the competitiveness of the Central City.