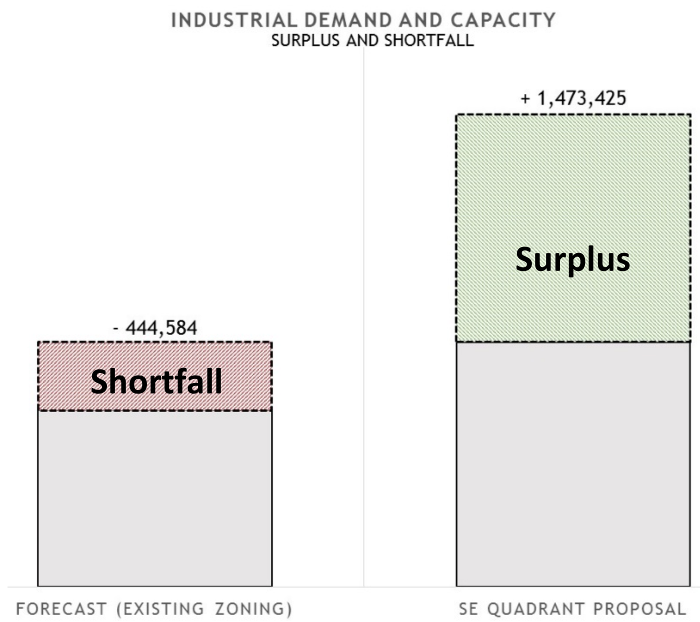
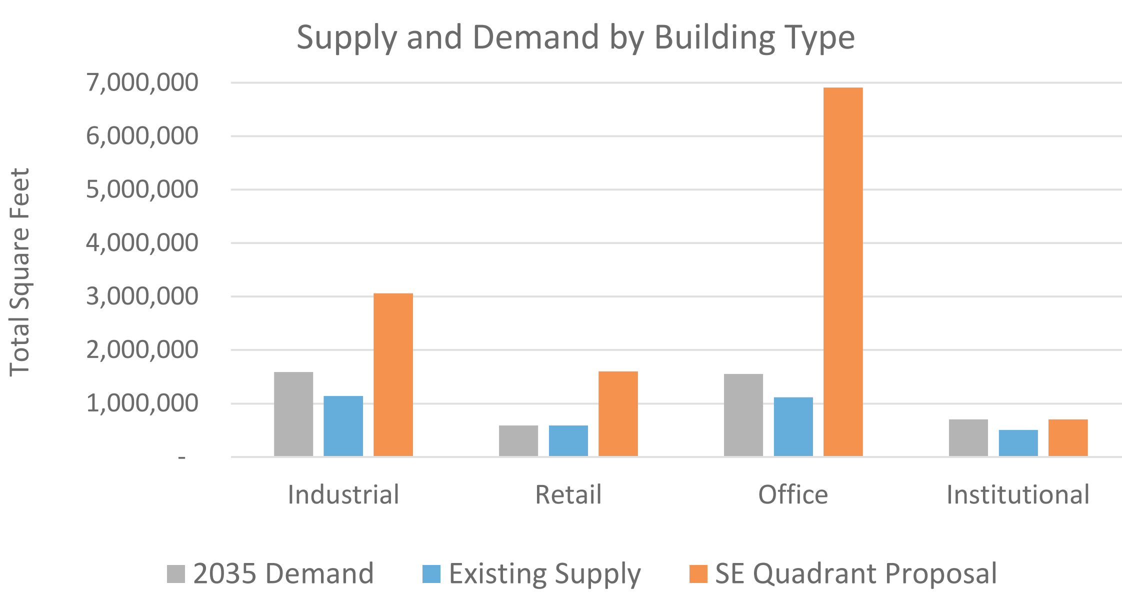
Industrial Demand and Capacity in the Central Eastside

The Central Eastside Industrial District is a preferred, close-in location for many warehouse, manufacturing and industrial service businesses. The district's industrial setting also provides a cost-competitive "incubator" location for new and expanding businesses, creative services and cost-conscious office tenants. The combination of these competitive roles has made this district a dynamic job growth center. This strong job growth trend has continued through the Great Recession and recent recovery period.



Existing development capacity in the Central Eastside meets only 72 percent of forecast demand. Industrial office uses are limited primarily to information sector businesses, such as graphics, design and software. Application of the Employment Opportunity Subarea (EOS) in 2002 helped accelerate job growth in the Central Eastside by reuse of underutilized upper floors. Based on past trends, it appears that continued job growth in the small industrial user and industrial office market will require the more flexible EOS-type zoning. The purpose of this hybrid type of zoning is to retain industrial sanctuary cost levels while expanding the development capacity for industrial office tenants.

The land use changes proposed in the Southeast Quadrant Plan advance goals identified in the City's draft 2035 Comprehensive Plan. These goals seek to maintain the industrial sanctuary and function of the Central Eastside while facilitating the district's evolution into a higher density mix of employment uses. The proposed Southeast Quadrant Plan increases development capacity for all building types in the Central Eastside, including traditional and industrial office space in order to meet forecast job growth through 2035. The majority of the office capacity increases in the Southeast Quadrant are the result of new EX zoning at the Clinton and OMSI station areas. Additionally, the proposal prohibits or restricts housing in the EX zone at the OMSI station area.



Industrial Rents and Vacancy Rates – *Vacancy rates are extremely low and demand is high*

Smaller industrial users (sometimes called “makers”) are paying anywhere from $8 to $15/sf. Many small manufacturers signed long term leases at $12/sf to ride out the speculation in the current market. Traditional industrial users have been paying $8 to $12/sf in the past couple of years for industrial space with limited tenant improvements.

Rent levels vary significantly for industrial office across the Central Eastside. Single story industrial structures are tenanted with industrial office uses at $12 to $18/sf. Lease rates for high amenity industrial office space now exceeds Class A space on the west side. Rents for high finished industrial office space now ranges between $20/sf and $28/sf.

Small industrial users are now competing for a limited amount of space in the district with industrial office tenants who have the ability to pay higher rents. Demand for flexible industrial space in the Central Eastside has increased in a post-recession economy while the market has not increased the supply. Broader application of the EOS will expand the supply of space available for industrial office tenants and relieve pressure on the rental market for small scale industrial users. Without expansion of the EOS, current low vacancy rates for industrial space will continue to put price pressures on the constrained supply of space. The Southeast Quadrant Plan creates an additional capacity for 1.9 million square feet of space for industrial users through 2035.