

ECONOMIC DEVELOPMENT FOR CENTRAL OREGON

Current Market Analysis for

Demand and Inventory of Industrial/Light Industrial Land in Bend

December 2007

Executive Summary

Without the ability to add significant light industrial-zoned land to Bend's inventory, the community will be without any options for light industrial land within the next 1-2 years. With the exception of Beaverton, Bend is currently the most undersupplied city of its size in Oregon for light industrial land, which we at Economic Development for Central Oregon (EDCO) believe has very concerning impacts for the area's continued diversification. For several years, the community has been focused on Juniper Ridge as the source for all the community's new and future light industrial and other employment land (research & development).

This important project may be locked down for a period of time from further development due to transportation capacity issues, which means that light industrial development in the entire city will soon come to a halt altogether, as we wait for an Urban Growth Boundary expansion which would include additional employment lands. In the intervening time, we expect that the few remaining lots will continue to escalate in value, and thereby further complicate EDCO's and the community's efforts to strengthen and diversify the Bend and tri-county economy through fostering creation of more and better paying traded-sector jobs.

Market Conditions

Despite the sharp downturn in residential housing sales and building activity, the Bend commercial and light industrial market continues to show signs of strength with new structures either planned or currently being constructed. This business-focused sector of the real estate market has not been entirely immune from the residential housing slump, however. In the short term, we see a general slowing of new construction due both to 1) slightly higher vacancy rates for existing single-user and multi-tenant industrial buildings in Bend and 2) the general scarcity of vacant light industrial-zoned land.

Compass Commercial Real Estate Services, the region's largest commercial brokerage, performs regular quarterly market reports for Bend's employment lands. These reports, which survey more than 9.4 million square feet representing 647 existing buildings in Bend, break out office, retail and industrial into sub-markets. The third quarter industrial submarket is provided below, but the full report for all submarkets and past quarterly reports can be found at: <http://www.compasscommercial.com/.docs/pg/10210>.

BEND INDUSTRIAL MARKET - 3RD QUARTER 2007

Market Area	# of Buildings	Total Sq. Ft.	VAC% 3 rd Qtr	3 rd Qtr Absorption	2007 YTD Absorption	Total 2006
Southeast	110	1,380,091	7.7%	21,676	22,063	68,611
Northeast	99	1,507,592	13.7%	49,988	55,629	59,801
Central	26	242,962	13.0%	(26,493)	(31,533)	1,200
Westside	11	189,240	2.1%	(1,605)	(3,600)	(400)
Bend Total	246	3,319,885	10.5%	43,566	42,559	129,212

Source: Compass Commercial Real Estate Services, *Points* Newsletter

The office and retail markets in Bend have tended to have lower vacancy rates in recent years (office vacancy is 8.1% for 3rd quarter and retail 3.28% for the same period) than the industrial sub-market and approximately the same square footage in absorption as the industrial sub-market. Combined, commercial and light industrial projects in the past few years have contributed to roughly 350,000 square feet in absorption annually.

Conversion of existing light industrial land into other uses has, over the past decade and on an annual average, approximately equaled that actually absorbed (developed with buildings). Examples of this conversion (reduction) in Bend include the entire Old Mill District which was zoned industrial, the new Farewell Bend Park (also heavy industrial), 45 acres of Industrial Park within the Northwest Crossing development, and most recently a flurry of zone changes (and requests) within the Shevlin Center area from light industrial zoning to mixed employment as a result of the recent City of Bend planning code changes that make office development prohibited rather than a conditional use. This conversion issue is not unique to Bend – it is happening across Oregon, but it does play a significant role in absorption rates and industrial land supply.

Employment and Population Growth

Employment Growth 2000-2006				
	2000	2006	Jobs Created	% Growth
Central Oregon	75,385	90,867	15,482	20.5%
Medford MSA	86,715	98,950	12,235	14.1%
Portland MSA	1,029,151	1,078,157	49,006	6.6%
Eugene MSA	161,641	170,288	8,647	5.3%
Salem MSA	167,903	174,847	6,944	4.1%
Corvallis MSA	39,664	41,069	1,405	3.5%

Source: Oregon Employment Department, 2007

Fueling continued demand for space in all sectors has been the region's continued population growth. According to information released November 15th by Portland State University and the U.S. Census Bureau, Deschutes County and Central Oregon continue to lead population growth in the state. One in five new residents in Oregon last year resides in the tri-county area, even though Central Oregon only accounts for 5% of Oregon's population. For year-

over-year population growth, Crook County ranked #1 (+5.5%) followed closely by Deschutes (+5.4%) and Jefferson County (+2.9%) filled the #3 spot. Combined, the tri-county area grew by a net 10,175 new residents, despite the housing slowdown, which was factored into the estimates. Bend led all cities in the forecast, with an estimated 2,490 new residents. Since 2000, Bend has added an estimated 25,751 new residents.

Meanwhile, unemployment continues to remain low – the October 2007 rate for Deschutes County (Bend MSA) was 4.8%, up from 3.8% for the same month last year, but still considerably lower than Oregon’s seasonally adjusted rate of 5.5%.

Many economists view unemployment as more of a lagging indicator, however, and employment growth figures are more insightful as to what is happening with our local and regional economy, especially in light of continued population in-migration.

As the table above illustrates, the tri-county region, which is just over 200,000 residents, leads all other metro areas in terms of net percentage increase in overall employment. But what is more impressive, is that Central Oregon almost created more jobs in the past six years than Eugene, Salem and Corvallis combined. In numbers released earlier this month, the Oregon Employment Department’s most recent 2006-2016 employment forecast calls for the tri-county to add an additional 20,890 new jobs or a 25% increase over the decade.

Industrial & Light Industrial Land Supply

In face of continued job and population growth, Bend is clearly in a crisis for its industrial and commercial land supply. Of Bend’s thirteen business/industrial development areas, three are entirely built out (no vacant lots) and six of the remaining 10 areas have less than five vacant lots.

Development or Area	Available Lots	Total Acreage	Largest Lot Size
Empire Corporate Center	None, fully developed		
Boyd Acres Industrial Area	None, fully developed		
Old Mill District	None, no light industrial lots		
Empire Parkway Center	1	1.75	1.75
Nels Anderson Industrial Area	1	2	2
Shevlin Center Area	2	3.5	2.5
9 th & Wilson Industrial Area	2	10.3	9.3
Reed Market Business Park	4	1.75	0.5
East Empire Business Park	4	3.3	0.87
Basalt Business Park	6	8.3	2.42
Northwest Crossing	7	9	3.2
American Lane Industrial Area	10	7	All slated for multi-tenant
North Brinson Business Park	18	13	1.36
TOTALS	55	59.9	

The combined total for all Bend’s light industrial and business parks is currently only 59.9 acres. All vacant parcels are included in this figure, even though a percentage of these already

have building development, primarily multi-tenant facilities, planned for construction in the near future. Additionally, many of these lots were not listed for sale, so availability may be questionable. The combined acreage of available lots in Bend with the necessary infrastructure for a company to build a new facility is now approximately the same as the community of Sisters, which has a population of 1,825. Redmond currently has approximately five times the supply of shovel ready sites as Bend, and Prineville about three times that of Bend.

Outside of the areas noted above there are a handful of infill light industrial lots here and there, but few totaling more than one acre. For finished lots and undeveloped land with light industrial zoning, EDCO knows of only two parcels over five acres that are not already slated for building development in the near future. These include:

- Britta Property at Brita and Halfway Rd. (8 acres)
- Pozzi Industrial Land on Brinson Rd. (approximately 20 acres)

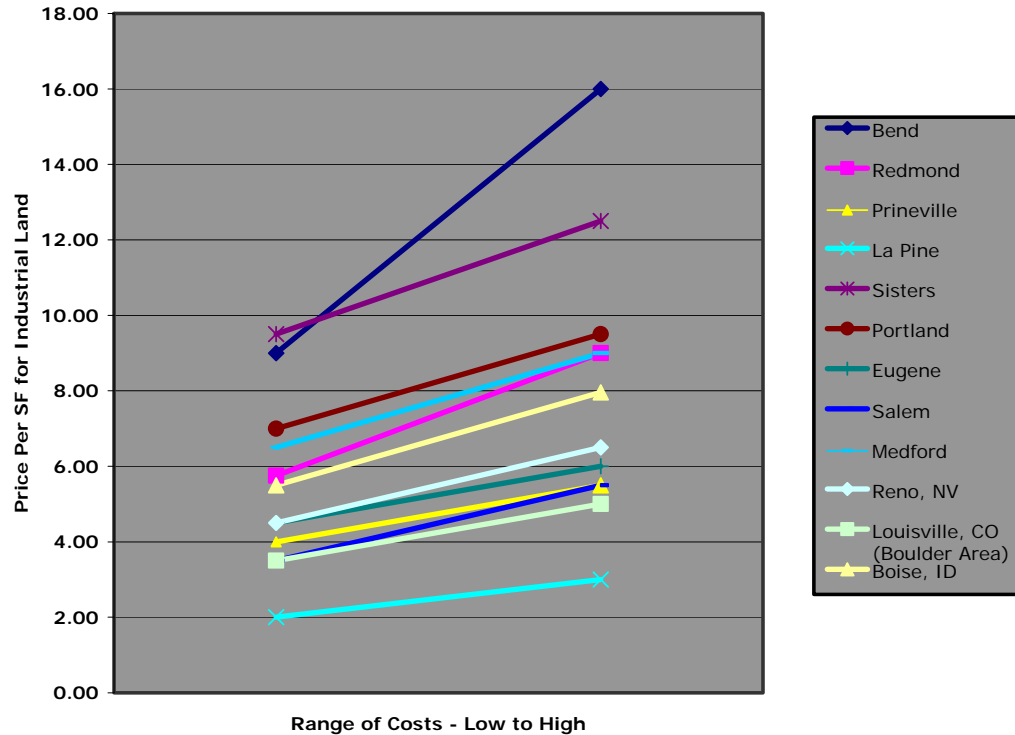
Comparative Costs

A seriously constrained supply of industrial land in the face of steady demand and absorption over the past decade and a half has placed Bend in the unenviable position of having Oregon’s highest price light industrial land. The cost factor alone is perhaps the best barometer of how the market has reacted to the extreme shortage. A majority of the vacant, buildable lots currently in Bend are owned by investors/speculators and developers looking to construct build-to-suit projects. Acting rationally and making the most of market imbalances, these investors have earned good returns by purchasing and holding property, and thereby only further exacerbating the scarcity problem. The percentage of investor-held light industrial properties in Redmond and the other communities in Central Oregon is much lower because the speculative returns are less assured due to a greater (surplus) of land. The table below illustrates how Bend stacks up against other metros in Oregon and those we compete with on a regular basis for business recruitment projects. Metro areas with a much larger business and population base have been less expensive than Bend over the past five years, when the shortage has been most acute.

Community	Industrial Land Price per sf
Bend	\$9.00 - \$16.00
Redmond	\$5.75 - \$9.00
Prineville	\$4.00 - \$5.50
La Pine	\$2.00 - \$3.00
Sisters	\$9.50 - \$12.50
Portland	\$7.00 - \$9.50
Eugene	\$4.50 - \$6.00
Salem	\$3.50 - \$5.50
Medford	\$6.50 - \$9.00
Reno, NV	\$4.50 - \$6.50
Louisville, CO (Boulder Area)	\$3.50 - \$5.00
Boise, ID	\$5.50 - \$8.00

Source: EDCO research, July and December 2007

Comparative Industrial Land Costs



Other land, with mixed employment zoning, can accommodate light industrial. A few parcels exist on an infill basis around the city; however these have limited acreage at a high cost. Prices for mixed employment-zoned land in Bend are currently in the \$15.00 - \$20.00 per sf range – considerably more than light industrial. Meanwhile, commercial land, which is one of the few areas on which office buildings may be located, is running from \$30.00 - \$60.00 per foot depending on size and location.

Development Logistics & Net Buildable Land

As a general rule, most typical development of bare light industrial or business parks has a net yield of 70-80% of the total area in finished lots, with the balance used for roads, right-of-way, landscaping and open space. Consequently, a 20 acre parcel of undeveloped industrial land will yield 14 to 16 acres in finished lots ready for building construction.

From a building development logistics perspective, most light industrial development (which rarely ever build or use multi-story facilities) has a lot size-to-building footprint of 30-40%. The remaining 60-70% of the lot coverage is for setbacks, access, parking, landscaping, and onsite storm drainage. Consequently, one acre of finished light industrial-zoned land will, at best, yield between 13,068 to 17,424 square feet of total building area.

Combining these two logistical development constraints, a 100 acre tract of vacant, developable industrial land yields a maximum square footage much less than might be intuitively expected.

Impacts

Because of the industrial land supply issue in Bend and the resulting skyrocketing prices, Bend has lost existing traded-sector (manufacturing and high technology) employers in the past five years. Companies that have made the decision to leave Bend because of high industrial land costs or lack of large enough lots include:

- Bend Tarp & Liner (built 75,000 sf facility in Prineville)
- Ferguson Pipe Supply (built new facility in Redmond)
- Pacific Accent (moved company to Colorado)
- Aircraft Rubber (consolidated Bend and Redmond facilities in Redmond)
- Monaco Coaches (moved operation to Coburg, OR)

Other companies currently are moving forward on plans to move out of Bend for these same reasons include:

- Brian's Cabinets
- AmeriTech Machine Mfg.
- Entre Prises USA

In addition to local companies in Bend that have been unable to find light industrial land options that work for them, EDCO has worked with numerous companies in the past five years that have wanted to locate in Bend, but were unwilling to incur the cost of Bend's industrial land prices. Other companies were unable to find parcels large enough to accommodate their operations. Examples of companies that still located in the region, but did not choose Bend for these reasons, include Altrec/Great Outdoors.com and T-Mobile. There are numerous firms, many larger in employment and in scale of operations, which did not choose to locate in the region because Bend, the largest city in Central Oregon, didn't have any large light industrial-zoned parcels.