JOHNSON ECONOMICS

MEMORANDUM

DATE: June 27, 2014

TO: ConAm Properties LLC

FROM: JOHNSON ECONOMICS, LLC

SUBJECT: Assessment of Supply and Demand of Office Lands in West Linn, Oregon

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JOHNSON ECONOMICS conducted an assessment of the supply and demand of lands appropriate for new Class A office development in West Linn, Oregon.

ConAm Properties is currently pursuing a zone change on a parcel of roughly 11.4 gross acres in south West Linn. The property is currently zoned as "Office Business Center" (OBC). This analysis considers the potential of rezoning the majority of this parcel to the "Single Family and Multi-Family Residential" (R-2.1) zone, with an associated reduction of the amount of overall land in the City's OBC zone.

An estimated 10.2 acres are proposed for rezoning, while 1.2 gross acres adjacent to Blankenship Road would remain in the OBC zone.

This memo first discusses the current estimated supply of buildable office-permitting lands, and the demand for new office space. It then quantifies the potential public benefits of building a multi-family housing development on the subject site.

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A. EXECUTIVE SUMMARY

- An inventory of buildable lands appropriate for new office use reveals a significant supply of available vacant and redevelopable parcels. Development of the OBC zone has been modest over the previous decades. Roughly 26% of land in this zone remains vacant, not including the 10.2 acres of the subject site proposed for rezone, or the City-owned property at Tannler Drive.

- Compared to projected 20-year demand for office space in West Linn, there is buildable supply of office lands well in excess of 20-year needs, regardless of the possible rezoning of the subject parcel. The available buildable inventory is multiple times what is projected to be necessary over this period.

- The West Linn area submarket for office space is not the most robust in the Portland Metro area. The submarket, along with Kruse Way and other south-Metro submarkets experienced some of the highest vacancy rates during the recent recession and vacancy remains high. A recent inventory from the Clackamas County Business and Economic Services of available commercial space in West Linn found 80,000 sq.ft. of office space available and vacancy of nearly 31% among buildings surveyed.

- The office developments directly adjacent to the subject site have combined vacancy in excess of 27%. Overall, the West Linn market has experienced negative absorption in recent years, shedding office space back onto the market. Absorption is projected to be flat in coming years.

- Based on our analysis, Johnson Economics thinks that it is highly unlikely that office development of anywhere near this scale will take place on the subject site. The reasons for this are described in this report, but to summarize:

    - Value of new development as an income-generating investment is lower than the cost to build.
    - Market is very soft with high vacancies and negative absorption putting more vacant space on the market.
    - Established weakness of adjacent large office developments.
    - Weakening of suburban metro markets relative to central Portland and Hillsboro.
    - Slow historical pace of development in West Linn and modest projected demand.
    - Prospective office tenants have flexibility in where to locate.
    - This site has sat vacant since adoption of the OBC zoning in 1974.

- Based on our analysis, there are other challenges presented by the subject site making it an unlikely location for other uses which are allowed in the OBC zone. The site is un-appealing for conditional uses such as retail and hotel due to topography, visibility and access. Vertical mixed-use or live/work units are infeasible due to increased costs, difficulty of marketing the commercial space, and lack of market demand.

- The subject site is well-suited for residential use, providing good access, views, and schools. Multi-family residential is a good use for transitional areas like the subject site which lays between low-density residential and commercial neighborhoods.

- The development as preliminarily designed would generate significant public benefits, including fees and system development charges at construction, and on-going tax generation. It would also have economic impacts on local job creation and household spending. This is a preliminary estimate of impacts:

  - $572,500 in annual property tax
  - $4.1 million in fees and SDC's
  - 170 jobs created or induced by construction and operation
  - $12.3 million added though wages and economic activity related to these jobs
  - Up to $9.3 million in household spending by new residents at the property
  - These estimates are preliminary and subject to change but provide indicators of general magnitude of benefits.

- As office development on the scale of the subject site is highly unlikely, and the topography is unfavorable for retail, the most likely scenario for the site under the OBC zone is to remain vacant indefinitely. This provides a very modest public benefit in terms of property tax, but no additional benefits in generating economic activity, providing housing choices, generating economic activity or bringing active use to this large dormant site.

B. ALLOWED AND CONDITIONAL USES IN THE OFFICE BUSINESS CENTER (OBC) ZONE

The subject site is located in the OBC zone. As the stated purpose of this zone in the West Linn Development Code implies, it is intended first and foremost for office employment:

> The purpose of this [OBC] zone is to provide for groups of business and offices in centers, to accommodate the location of intermediate uses between residential districts and areas of more intense development, to provide opportunities for employment and for business and professional services….
> (West Linn Development Code 21.010)

In analyzing the appropriateness of a zone change for a majority of this property, this memo first considers the uses which are allowed in the OBC zone and the suitability of the site for these uses.

Before providing in-depth analysis of office use at this site (the main purpose of the zone), we first discuss some additional categories of uses which are permitted or conditionally permitted in the OBC zone. Additional potential uses of this site under current zoning are:

1) Mixed-use residential/commercial
2) Live/work units
3) Retail use (Conditional use)
4) Hotel use (Conditional use)

The suitability of these uses for the subject site from a market perspective are discussed below. (As office use is the primary purpose of the zone, more in-depth analysis of office need is provided in the following sections.)

1) Mixed Use Residential/Commercial

Under current zoning, the 11.4-acre site could conceivably be used for mixed use structures, with residential uses above ground floor commercial uses (sometimes called “vertical mixed uses”). This use is described as “permitted under prescribed conditions” in the Development Code:

> Multiple-family units, as a mixed use in conjunction with commercial development, only above the first floor of the structure.
> (West Linn Development Code 21.050)

Vertical mixed use architecture is generally meant to create a more “urban” or storefront character to a street, with building facades being located adjacent to the sidewalk and parking located underneath or behind. The rational for this zoning often includes the desire to create generate more density, create a “main street” feel, and a more active environment by combining living and shopping, entertainment and employment in one area.

Given the size of the parcel, this could in theory be accomplished by creating an internal street grid on the property. However, the subject site features many challenges which would make this difficult to achieve:

- First and foremost, vertical mixed use has proven very difficult to execute in more suburban environments. Where it is seen in the Metro area outside of central Portland, it is typically located in a key area of a town, such as the historic downtown or a transit station area, *and in nearly every case it has been significantly subsidized with urban renewal or other public funding.*

- The main reason for this is that vertical mixed use generally brings with it additional costs which make it less viable in suburban locations. (In the central city, rents become high enough, and buildable land scarce enough, to justify the cost of this development form.) Additional costs for mixed use include structured parking, firewalls between commercial and residential uses, a different mixture of materials, need for two leasing teams, and often enhanced systems needs such as sprinkler, electrical and elevator. It is also generally an unfamiliar development type for most developers and therefore brings a higher cost in time, learning curve and mistakes.

- The location of vertical mixed use is key. In a community like West Linn efforts to encourage mixed use might be best focused on one or two key areas such as the historic downtown or other plan area which provides the character and "bones" to compliment mixed use buildings. The subject site is an ill-suited location to try to create this type of urban feel and storefront character out of whole cloth.

- The hillside topography of the site is difficult for commercial uses in general. Retailers typically look for high-visibility and high-traffic sites on major arterials, with large flat parcels and plenty of parking for customers. (See more discussion on retail needs below). If the site were designed with mixed-use buildings on some sort of internal street grid, the ground floor business would have very poor visibility. The internal streets of dense street-fronting buildings would provide very poor visibility from both Blankenship Road and Tannler Drive.

  Furthermore, there would be nearly no internal car traffic to bring customers by these businesses. While residents of the mixed-use buildings would provide some business, even small retail businesses must typically draw customers from a much larger trade area. In a community such as West Linn, retail business is overwhelmingly located directly on high-visibility corridors. The interior parts of this site are unsuitable.

- While creating a dense mixed-use environment here would be a challenge and is likely financially infeasible, the proposed rezone of this site to 10.4 acres of multi-family zoning and 1.2 acres remaining OBC zoning near Blankenship Road could actually accomplish a similar mix of residential commercial uses, but in a horizontal, rather than vertical format. The commercial uses would have much greater viability located on the arterial, while still serving the residents of the multi-family housing.

2) Live/Work Housing

Attached live/work housing could conceivably be allowed on the site under the definition of "home occupations". The typical live/work format in the Metro area is a two-story unit, with living space above and convertible space on the ground floor suitable for hosting an office or low-traffic commercial use. While live/work is not explicitly permitted in this zone, this unit type would seem to fall under the definition of "mixed use" given above.

- Live/work units have not seen much success in the Metro area. Most are found in central Portland. In our experience conducting market studies for condo and rental projects in Portland, these units are typically included in projects in order to meet a zoning requirement for "active ground floor uses." In practice, the live/work units rarely house a commercial business. In surveying Portland rental properties, it is rare to see live/work units being used for any visible commercial purpose. They are mostly used solely as a residential unit, with the two-level layout being close enough to a typical townhouse format. Because they are larger, they tend to be rather high-cost residential units.

- The most high-profile introduction of live/work units in the Metro area has been in central Fairview, Oregon where a number of attached units were built with residential space over what was meant to be commercial space on the ground floor, fronting the sidewalk. Recently, five of the units built between 2007 and 2008 were sold at auction for a deep discount, after being foreclosed on by the lender. At the time of the auction in 2013, four of the five had never been occupied. None of the units have active commercial uses on their ground floor. A number of additional nearby live/work units, built earlier in the decade, also give no indication of commercial use.

- There are multiple barriers for live/work units to overcome, including the unfamiliarity of the product type with owners and renters and the unpredictability and high failure rate of small businesses. Arguably, most people who work from home are doing so in order to avoid paying commercial rent. A hybrid product like live/work units will bring an increased rent level which defeats this purpose, while saddling the occupant with higher rent if the business fails.

- While the occasional user might be interested in a live/work unit, it is highly unlikely that enough such users would be interested to justify any significant number of this unit type at the subject site, certainly not enough to represent a major use of an 11.4 acre parcel.

3) Retail Use (Conditional Use)

Retail businesses such as convenience sales and personal services, food and beverage, and vehicle fuel sales are listed as a conditional use in the Development Code (21.060). As alluded to above, the subject site is problematic as a retail site for a variety of reasons.

- The site features a difficult hilly terrain that is atypical for a retail center. Retail development here would require building and parking on hills or terraces. Retail developers will seek large, flat sites on major arterial streets to provide the best visibility and access, as seen at the shopping center across Blankenship Road, and the Willamette Marketplace south of I-205.

- The subject site features some visibility and access from Blankenship road, but it is hampered by the steep grade as you move north. While the shops nearest Blankenship may be visible, the quickly climbing terrain would mean that any located above them would likely be completely obstructed from this arterial. Tannler Drive would provide secondary access, but this street is not as high-volume and has limited visibility. Shops and stores on the interior of the site would be located far from an arterial.

- Of all potential uses, retail development of this site seems the least likely from a market perspective given these challenges.

4) <u>Hotel Use (Conditional Use)</u>

"Transient lodging and associated convention facilities" are listed as a conditional use in the Development Code (21.060). A recent City report on the Arch Bridge and Bolton Town Center area noted the lack of a hotel in West Linn and posits likely support for additional lodging and meeting space in the community.

The report also notes multiple reasons why the Arch Bridge and Bolton Town Center[1] study area would be well suited for a hotel use, including the proximity to the river and river views and visibility from I-205. Also, Bolton Town Center is an officially designated Metro Town Center calling for a mix of uses and activities complimentary to lodging located in the immediate area.

The subject site by contrast offers some challenges for a hotel use, which are similar to those facing retail use:

- The topography is again the primary challenge. The hillside locale is not a natural development site for a hotel. Assuming the lodging consisted of multiple buildings built on terraces, the hotel would provide difficult access between buildings and steep grades for staff and room guests (walking to and from the front office, gym or pool, for instance.)

  National companies such as hotel chains enter markets with a specific set of site criteria and tend to quickly eliminate sites which don't meet them. The chain will simply move on to other sites and neighborhoods rather than undertake a difficult development on a marginal site. The simple fact that hotels are a conditional use in this zone, rather than permitted outright, could be sufficient to strike any potential site in the OBC off the list.

[1] "Arch Bridge and Bolton Town Center Existing Conditions Study", LMN Architects et al., April 2014.

- The site features relatively poor visibility from I-205 north or southbound due mostly to terrain, and tree cover.

THE FOLLOWING SECTIONS PROVIDE MORE IN-DEPTH ANALYSIS ON THE SUITABILITY OF THE SITE FOR OFFICE USES IN PARTICULAR (THE PRIMARY USE OF THE OBC ZONE), THE SUPPLY AND DEMAND OF LAND FOR OFFICE USES GOING FORWARD.

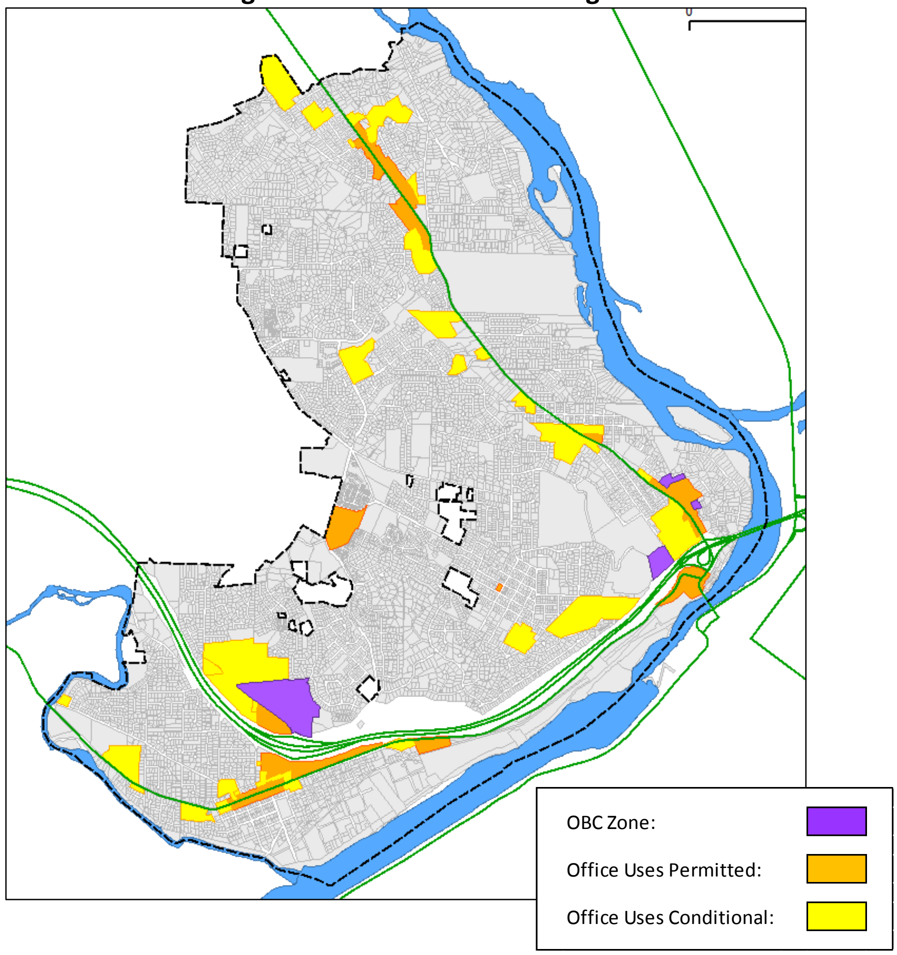
C. OFFICE PERMITTING ZONES AND BUILDABLE LAND

The City of West Linn features a number of zones which allow office employment uses outright, or by conditional use permit (Figures 1 and 2). Johnson Economics used a combination of Metro RLIS GIS data and aerial photography to survey land in these zones and identify vacant and redevelopable parcels.

Figure 1: Office Use Permitting Zones

Office Uses Permitted Outright	
Office Business Center	OBC
General Commercial	GC
Campus Industrial	CI
Office Uses Permitted Conditionally	
Single-Family Residential Attached and detached	R-4.5
Single-Family and Multi-Family Residential	R-2.1
Neighborhood Commercial	NC
Willamette Neighborhood Mixed Use Transitional Zone	MU

Figure 2: Office Use Permitting Zones



Source: RLIS, Johnson Economics

Vacant and Redevelopable Land: For the purposes of this analysis, Johnson Economics has inventoried vacant and "redevelopable" sites. We used an "Improvement-to-Land Value Ratio" (I:L ratio) measure as a guide to whether sites have redevelopment potential. The I:L ratio compares the market value of any improvements (typically buildings) on a given parcel, to the market value of the land only (market values are estimated by County Tax Assessor). When the value of the buildings on a parcel is low relative to the value of the land itself, this can be an indicator that the current use is obsolete or low intensity relative to the value of the land/location. Therefore, the parcel may be a candidate for redevelopment now or in the future.

For instance, when the I:L ratio is at 1.0, the improvements are roughly as valuable as the land. When it is higher than 1.0, improvements are of relatively higher value and less likely to redevelop. When the ratio is less than 1.0, the improvements are decreasingly less valuable until a ratio of 0.0 is reached which means the land is vacant.

The level at which the I:L ratio becomes low enough to trigger redevelopment is imprecise and will differ depending on the market characteristics of the location. For planning purposes, an I:L ratio of less than 1.0 is often used as an indicator of redevelopment potential. The Portland Development Commission (PDC) has applied a much higher ratio of 2.0 or 3.0 to parcels in central Portland. Outside of the central city, the PDC has used a measure of 0.5 or less to indicate the highest redevelopment potential, and 0.5 to 1.0 to indicate moderate redevelopment potential.

For the purposes of this analysis, an I:L ratio of 0.75 or less was used to indicate "redevelopability". This captures all parcels with a ratio of 0.5 or less which have the highest likelihood of redevelopment, and those with a ratio between 0.5 and 0.75 which have a moderate likelihood. This inventory was further screened to include only parcels that are over 10,000 sq.ft. in size in order to accommodate an office development and parking. (Smaller parcels which are contiguous with other vacant or redevelopable parcels are also included.)

Figure 3 presents a summary of the estimated vacant and redevelopable land identified.

Figure 3: Estimated Vacant and Redevelopable Land in Office Permitting Zones

Office Zones	Total Acreage	Estimated Vacant		Est. Redevelopable		Est. Vac. & Redev.	
		Acres	% of Total	Acres	% of Total	Acres	% of Total
Office Business Center (OBC):	46.2	5.5 *	12.0%	8.3	18.0%	13.8	29.9%
Other Office Zones (Permitted):	99.0	10.5	10.6%	6.8	6.8%	17.3	17.5%
Other Office Zones (Conditional):	235.8	8.7	2.9%	11.0	3.6%	19.7	6.5%
TOTALS:	381.0	24.7	6.5%	26.0	6.8%	50.8	13.3%

* Does NOT include the two City-owned parcels east of Tannler Drive. DOES include 1.22 acres at the subject site which would remain in the OBC zone under this proposal. The 7.6 acre parcel owned by the school district at the corner of West A Street and I-205 is included as a potential redevelopment site.
Source: RLIS, Google Earth, Johnson Economics

- At 46 acres, the OBC zone constitutes 32% of West Linn zoning which allows office uses outright. And 12% of the zoning which allows office uses either outright or conditionally. (Zoning totals include zoned parcels only and excludes public right of way.)

- Not including the portion of the subject site proposed for rezoning (10.2 acres) or the City-owned parcel at Tannler Drive, an additional 30% of the OBC zone remains vacant or redevelopable. This is an estimated 13.8 acres.

- In other zones which also permit office uses outright, an additional 17.3 acres is vacant or redevelopable, 17.5% of the total acreage in those zones.

- When zones in which office uses are allowed as a conditional use are included (R4.5, R2.1, NC, MU), there are an additional 19.7 gross acres of vacant or redevelopable lands.

- When all zones are combined there are an estimated total of 50.8 gross acres of vacant or redevelopable office land in West Linn.

D. HISTORICAL DEVELOPMENT OF THE OBC ZONE

The OBC zone is limited enough that an inventory of developed uses is possible. Of the 16 total parcels in this zone, 6 are developed and 10 are vacant.

4 parcels, totaling 12.3 acres have been developed since 1980. This mean that roughly 23% of the zone has developed in the last 34 years, at an average rate of 0.36 acres per year.

E. PROJECTED DEMAND FOR OFFICE SPACE

In order to assess the sufficiency of remaining office lands, Johnson Economics projected demand for office space over the next 20 years. This benchmark was chosen to conform to current state planning laws, which require that jurisdictions endeavor to keep enough buildable lands within their Urban Growth Boundary (UGB) to accommodate projected growth for the next 20 years.

In order to project office space demand, Johnson Economics first projects office-using employment. There are two potential sources for future rates of employment growth in West Linn. One is the Oregon Employment Department which regularly completes 10-year projections of employment by industry sector for economic sub-regions around the state. Clackamas County is analyzed as its own economic sub-region (Region 15). The latest state forecast for the county, projects an annual employment growth rate of 1.88% between 2010 and 2020.

Another source for projected employment growth is the Metro regional government, which administers a group UGB which encompasses the City of Portland and many suburban cities, including West Linn. Because these communities share one UGB, Metro has greater flexibility to allocate projected housing and employment growth among them. Metro does this by splitting communities into smaller areas called Transportation Analysis Zones (TAZ) and allocating certain housing and employment figures to each. What is important to note here is that in the most recent Metro exercise to allocate growth[2], the agency forecasted a growth rate for West Linn that is very similar to the state Region 15 projection (1.84% vs. 1.88%). Therefore the two most relevant growth rate forecasts are in agreement.

For this analysis, Johnson Economics took the following steps (Figure 4):

[2] "2035 Regional Transportation Plan" and "Urban Growth Report" (2009), Metro.

- Estimate the current distribution of employment by industry sector in West Linn using Census employment data.

- Apply the industry-specific employment growth rates from the Oregon Employment Department for Region 15 (the county). (Note that because West Linn has a different breakdown of employment across industries then the county as a whole, the resulting overall rate of employment growth increases to 2.1%. This is because the city has greater representation in some of the faster growing industry sectors than the county overall. For the purposes of this analysis, a higher rate is a “conservative” assumption because it results in a somewhat higher estimate of office need, rather than underestimating it.)

- Estimate the growth in employment over the 20-year period, and calculate the share of employment in each industry that tends to take place in an office environment.

- The projected number of office-based workers is multiplied by the average amount of space use per employee to arrive at an estimated need for office space over the 20-year period.

- An average Floor Area Ratio (ratio of floor area of built space to site size) converts the need for office space into a need for office land acreage.

Findings (Figure 4):

- As Figure 4 shows, Johnson Economics projects a need for 264,300 sq.ft. of new office space in West Linn over the next 20-years. This translates to a need for a total estimated 15.2 acres of gross land for office uses. This is an annualized rate of roughly 0.8 acres per year.

- When the currently available inventory of 79,585 sq.ft.[3] of vacant office is taken into account, there is a remaining 20-year need for 10.6 gross acres, or 0.5 acres per year. The current vacant inventory is enough to absorb 30% of the 20-year projected demand.

- The assumed FAR of 0.4 for future development is based on a number of comparisons from around the area. In its recent Urban Growth Report, Metro surveyed a range of office park developments around the region and found an average FAR of 0.33.[4] However, a closer look at those projects most similar to what is likely to occur in the West Linn market reveal a higher average FAR than this.

  The two adjoining office properties have estimated FARs of 0.46 (Summerlinn Center) and 0.35 (Willamette 205). Kruse Woods Corporate Park, which includes a majority of

[3] “Buildings Available for Lease or Sale, prepared for West Linn”, Clackamas County Business and Economic Services, 6/2/14.

[4] “2009 – 2030 Urban Growth Report, Appendix 5”, page A5-3, Metro, 2009.

buildings in the Kruse Way corridor of Lake Oswego, has an average FAR of 0.56. The Wilsonville Business Center has an average FAR of 0.54. The assumed FAR of 0.4 used here is the average of the two adjoining properties and reflects that office development in West Linn is likely to remain somewhat less dense than in the Kruse Way corridor.

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Figure 4: Estimated 20-Year Employment Growth and Gross Office Land Need

Base Growth Scenario	Est. Annual Growth Rate[1]	Total Employment		Office Share[2]	Office Employment		Sq. Ft./ Emp[3]	Est. Office Demand (1000's of Sq.Ft.)		20-yr Change ('10-'30)	
Employment Categories		2013	2033		2013	2033		2013	2033	New Office Emp.	New Space Demand (sf)
Natural Resources	2.7%	0	0	2%	0	0	225	0	0	0	0
Construction	2.9%	162	289	2%	3	6	225	730	1,302	3	573
Manufacturing	1.4%	240	317	5%	12	16	200	2,396	3,172	4	776
Wholesale Trade	1.6%	300	412	5%	15	21	200	3,004	4,125	6	1,121
Retail Trade	1.2%	467	590	5%	23	29	200	4,668	5,898	6	1,230
Transportation, Warehousing, Utilities	2.2%	151	232	30%	45	70	225	10,214	15,646	24	5,432
Information	1.4%	64	85	90%	57	76	200	11,480	15,226	19	3,746
Financial Activities	1.5%	303	405	90%	272	364	200	54,482	72,880	92	18,398
Professional & Business Services	2.8%	814	1,403	90%	733	1,263	200	146,547	252,624	530	106,077
Educational & Health Care Services	2.8%	1,589	2,747	40%	635	1,099	200	127,095	219,798	464	92,704
Leisure & Hospitality	2.0%	593	878	40%	237	351	200	47,428	70,267	114	22,839
Other Services	1.5%	220	298	40%	88	119	200	17,568	23,844	31	6,275
Government	0.7%	513	586	35%	179	205	200	35,898	41,045	26	5,147
Totals (Rounded Estimates):	*2.1%*	*5,415*	*8,244*		*2,301*	*3,620*		*461,509*	*725,827*	*1,318*	*264,300*

Estimated Floor Area Ratio[4]:	0.4
Est. Gross Office Acreage Demand (20-year):	15.2
Avg. Annual Gross Office Acreage Demand:	0.8
Current vacant office space inventory (sf)[5]:	79,585
Remaining 20-year Demand (sf):	184,715
Remaining Gross Acreage Demand (20-year):	10.6
Remaining Annual Gross Acreage Demand:	0.5
Actual Annual Acreage Usage Since 1980:	*0.36*

1/ The estimated annual growth rate is based upon forecasted growth from the Oregon Employment Department for Region 3, combined with past growth trends for market area.

2/ Office Share is the estimated percentage of the total employment in that category that is done in an office setting.

3/ Office Share and Square Footage based on Urban Land Institute estimates, converted to N.A.I.C.S. by Johnson Economics LLC

4/ Estimate of average floor area ratio based upon FAR observed at neighboring properties and Kruse Way office properties. Office development in West Linn market tends to have a lower FAR than Kruse Way, which is reflected here.

5/ Inventory of currently available office space. "Buildings Available for Lease or Sale, prepared for West Linn", Clackamas County Business & Economic Services, 6/2/14.

Sources: U.S. Census, Oregon Employment Department, Urban Land Institute, Johnson Economics LLC

- Office development in West Linn also has the potential to achieve higher density than the 0.4 FAR assumption, which would reduce the amount of acreage demanded over the 20-year period. For instance, the previously proposed development at the subject site was designed at an FAR of roughly 0.8. While we feel this scale of development is unlikely to occur in West Linn for the foreseeable future (discussed more below), it is an indicator that even greater density is possible, further reducing land need.

F. COMPARISON OF OFFICE LAND SUPPLY TO PROJECTED DEMAND

As Figure 3 presented, there are an estimated 50.8 vacant and redevelopable acres in zones which allow office uses outright or conditionally. Of those an estimated 13.8 acres are found in the OBC zone, not including most of the subject site or city lands east of Tannler Drive.

- Based on a projected 20-year need for 15 acres of office land, 51 acres would represent roughly a 67-year supply of vacant or redevelopable office land. Looking more narrowly at those zones which allow office outright, there are an estimated 31 acres, or a 41-year supply.

- When we assume the need to first absorb the current inventory of 80,000 sq.ft. of vacant office space, there is a projected 20-year need for 10.6 acres of office land remaining. In that case, 51 acres represents a 73-year supply of office land. The 31 acres where office is allowed outright represents a 47-year supply.

- Finally, if we assume the slower actual historic rate of OBC land usage since 1980, or 0.36 acres/year, we find an 86-year supply of land where office is permitted outright, and a 141-year supply of land where office is permitted outright or conditionally.

Therefore, by many possible measures, a comparison of remaining buildable supply and projected demand indicates that there is more than adequate supply of land for office uses in West Linn, regardless of rezoning of the subject property.

G. LOCAL OFFICE MARKET CONDITIONS AND TRENDS

On a national-scale the office market is believed to be going through some structural changes that have been hastened by the recent recession. Office development has been very limited for the last five years, while the amount and configuration of space has been changing along with the needs of firms.

Like much of the country, the Portland-area office market suffered during the recent recession, as businesses consolidated or closed doors. Total employment in the Portland/Vancouver metro area fell roughly 6% from its peak in 2007 to its lowest point in 2010. In 2011, total employment finally stabilized and began to grow. After peaking at nearly 12%, the unemployment rate has fallen to 6.6%, roughly the national level.

Beginning in 2008, office vacancy rose significantly accompanied by falling rent levels. This market environment caused a significant slowdown in new office development, with major projects in the Central City and suburbs delayed. Portland office construction peaked roughly ten years ago during the tech boom.

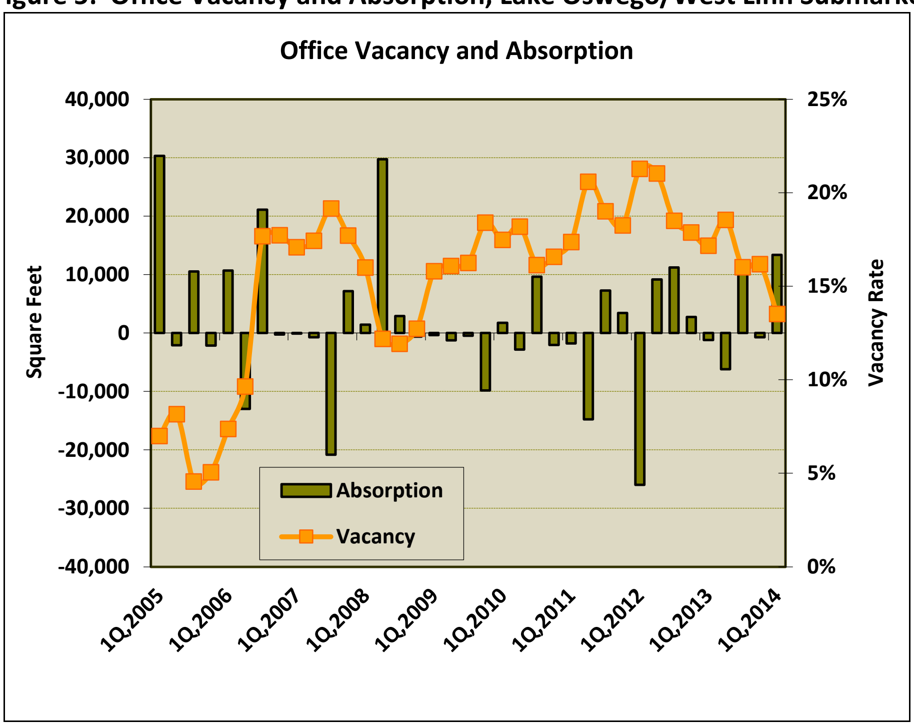
Coming out of the recession, the central Portland office submarket has been the strongest in the region which has not always been the case historically. The Lloyd District, CBD, and NW Portland have an estimated vacancy of under 11%, while suburban markets (not including Vancouver) have a combined vacancy of over 15%.

During the recession, the Kruse Way area in Lake Oswego was one of the hardest hit office submarkets with vacancies soaring from 10% in early 2008 to 30% by the end of 2010. Since early 2011, vacancy rates have gradually improved to 15%, though this is still well above what a property owner expects from a healthy operating property.

The adjacent Lake Oswego/West Linn submarket (as tracked by Norris, Beggs & Simpson) is most relevant to this analysis. It similarly was hard hit during the recession, though curiously vacancy rates in this submarket spiked before the onset of recession, climbing from under 10% in 2005 to almost 17% by the end of 2006, which corresponds to the introduction of the 65,000 sq.ft. Summerlinn Center on Blankenship Road.

Vacancy peaked at over 21% in early 2012. It has since fallen to an estimated 14% (Figure 5).

Figure 5: Office Vacancy and Absorption, Lake Oswego/West Linn Submarket



Source: Norris, Beggs & Simpson and Johnson Economics

As Figure 6 shows, Kruse Way and the Lake Oswego/West Linn submarkets remain among those with the highest vacancy rates. (The totals in Figure 6 are a representative sample of buildings in the submarket, not total square footage.) Other nearby submarkets also have elevated vacancy, including the Central 205 submarket to the north, and the South I-5 submarket to the west.

There is still little development of office space taking place in the Portland area. What activity exists is found in central Portland, where the Park Avenue West office tower has resumed construction, and the university system is finishing facilities in the south waterfront. New and renovated space for tech companies is also picking up steam.

Figure 6: Office Statistics, Portland Metro Area Submarkets

Selected Submarkets	Inventory (sq.ft.)	Available (sq.ft.)	% Vacant	Under Const. (sq.ft.)
Central Business District	14,784,716	1,713,614	11.6%	273,000
Lloyd District/ Central Eastside	2,330,633	211,620	8.8%	0
NW Portland	3,079,486	280,665	9.1%	0
Sunset Corridor	3,634,029	443,899	12.2%	0
Central 217	1,840,105	339,646	18.5%	0
Tigard Triangle / South 217	1,144,392	130,857	11.4%	0
Barbur Blvd.	492,659	77,274	15.7%	0
Beaverton-Hillsale/Sylvan	807,005	183,060	22.7%	0
Central Beaverton	690,923	86,114	12.5%	0
I-5 South	2,108,471	359,918	17.1%	0
SW Waterfront/Johns Lndg.	1,018,602	94,190	9.2%	55,000
Kruse Way	***2,321,570***	***338,985***	***14.6%***	***0***
Lake Oswego/West Linn	***438,085***	***59,221***	***13.5%***	***0***
North/Northeast	897,741	111,570	12.4%	0
Central 205	1,281,934	220,328	17.2%	0
Southeast	392,792	47,613	12.1%	0
Vancouver	4,674,586	485,187	10.4%	12,000
All suburban markets:	**21,742,894**	**2,977,862**	13.7%	**67,000**

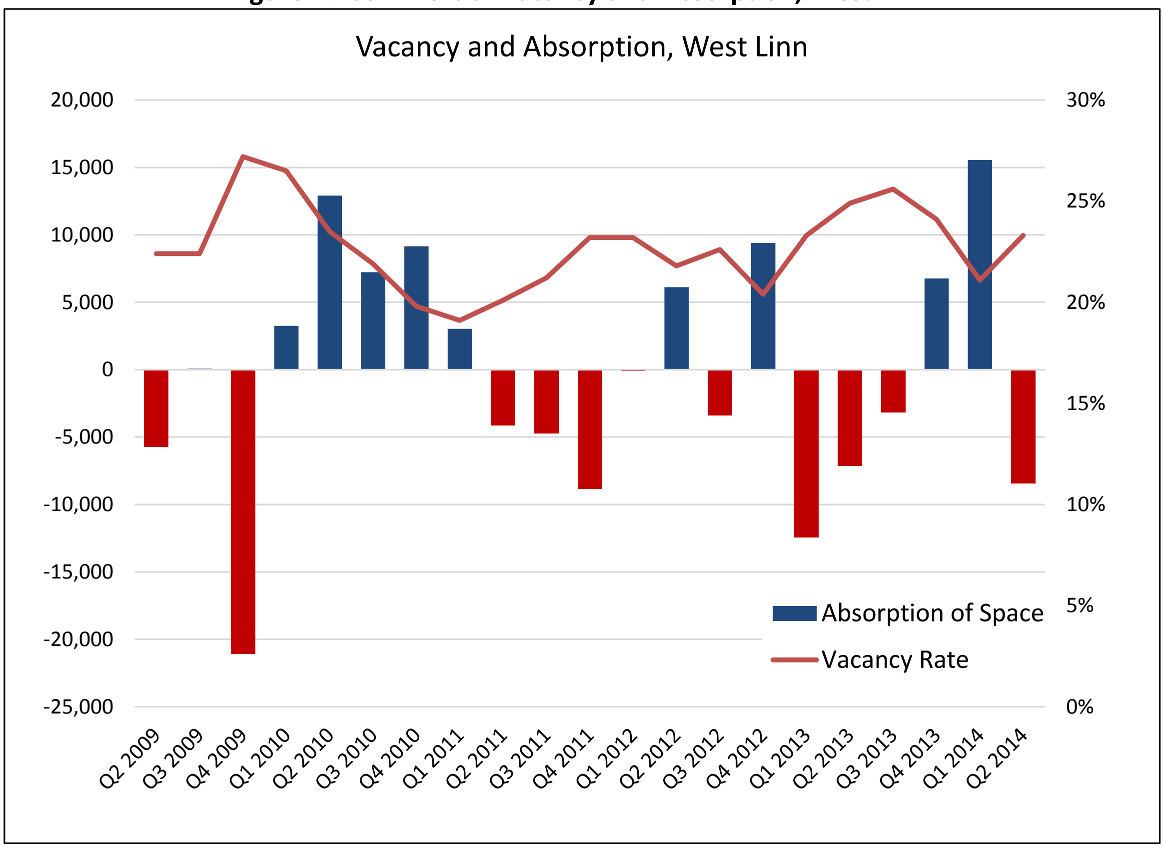
Source: Norris, Beggs & Simpson and Johnson Economics
* Totals are of a representative sampling of buildings in the submarkets. The sample does not capture total square footage in the market, nor total available square footage. Therefore this figure differs from the Clackamas County inventory of available space cited elsewhere in this report.

Going forward, Portland's Central Business District is expected to remain the strongest office market for the foreseeable future. Many of the high-tech and knowledge-based firms now driving employment growth in Oregon are actively seeking a central, rather than suburban location.

West Linn Vacancy and Absorption: A recent inventory of commercial buildings available for lease or sale in West Linn[5] paints an even gloomier picture for the local office market than that presented above. Of 22 properties inventoried, the average vacancy was 31% for all commercial properties, as well as 31% for office properties.

The survey finds that vacancy in the West Linn market has hovered above 20% for most of the past five years. Absorption of space was -12,800 sq.ft. during that time, despite the fact that almost no new commercial space was introduced (see Figure 7). West Linn has been experiencing greater vacancy and shedding additional available space onto the real estate market and this is expected to continue. In 2013 alone, there was negative absorption of an estimated -16,000 sq.ft. The report does forecast moderate positive absorption over the next two years of less than 2,000 sq.ft. total.

Figure 7: Commercial Vacancy and Absorption, West Linn



Source: Clackamas County

There are two large-scale office developments directly adjacent to the subject site which provide the best indicators of the office market conditions at the subject site itself. These properties are the Summerlin Center and the Willamette 205 Corporate Center, summarized below.

5 "Buildings Available for Lease or Sale, prepared for West Linn", Clackamas County Business and Economic Services, 6/2/14.

Both of these developments, offering a total of 145,000 suffer from a combined vacancy of 27.5%, and have for some time. The Sumerlinn Center development has never been fully leased since development in 2006. It currently has an estimated vacancy of nearly 40%.

Figure 8: Class A Office Examples, West Linn

	Year Built	Class	Total Sq.Ft.	Available Sq.Ft.	Vacancy
Sumerlinn Center 1730 Blankenship Rd. West Linn, OR 97068	2006	Class A	65,000	24,743	38%
Willamette 205 Corporate Center 1800 Blankenship Rd. West Linn, OR 97068	1998	Class A	80,000	15,130	19%

Source: LoopNet, Clackamas County, and Johnson Economics

Given that the developer of new office space would typically be seeking a stabilized vacancy of no more than 10%, these elevated vacancy levels are a sign of a weak office market which will dissuade major new office development in the market for some time to come. Office development on the scale of the subject site parcels will remain highly unlikely.

<u>Conclusions on Office Conditions and Trends</u>

The prospects for further office development in West Linn are not good and have not been for some time. Vacancy rates of over 25%, including at the newest and largest office parks, indicate a very soft market that will not be enticing to developers. Office developers seek a stabilized vacancy rate of roughly 10% in modeling the operations of a future project, and there is little chance that they can achieve this benchmark in the West Linn market at the current time or for the foreseeable future, particularly in a large multi-tenant projects.

There is a large and growing amount of available office space on the market, including nearly 40,000 sq.ft. of available space at the two office properties near the subject site. In addition, the space available in other communities experiencing elevated vacancy across the south metro area also provides competition for prospective office tenants in West Linn.

Johnson Economics performed a basic analysis of the cost of new office development vs. the achievable value of that development in the West Linn market. We conclude that currently, the estimated value of a new office development based on the income stream it can achieve is less than the cost to build it, even assuming an optimistic vacancy rate of 10%. With a vacancy rate of 20%, a new office development would be worth far less upon completion then it cost to build. (This is further discussed in the following section).

No developer will move forward with new office development under the conditions outlined above. Small scale office development (i.e. for instance a single predetermined tenant) may occur, but large scale speculative office development, meant to attract multiple tenants is very unlikely.

Given the cost vs. return, elevated vacancy, negative absorption, and examples provided by the two newest office properties nearby, office development on the scale of the subject site will remain highly unlikely for many years to come.

Other Trends in Office Space Needs: Coming out of the recent recession, the Downtown Portland office market has performed better than most suburban markets, including the traditionally strong market of Kruse Way. The greatest new segment of demand for office space is internet and other technology companies seeking space in the Central City. These have likewise been the industries experiencing some of the strongest growth out of the recession.

It is forecasted that these types of firms, employing young creative workers, will continue to seek space in more urban environments which can more readily provide transit and biking options, dining and entertainment, and housing in close proximity to the office. For this reason, the strengthening of the central city market relative to suburban markets may be a long term trend which will negatively impact the need for new space in suburban markets.

Another factor going forward is the evolving need for office space for modern firms. There is now an established trend towards diminishing office space need for each employee. Some of this is driven by continuing technological innovation reducing the need for paper filing and other storage space. Trends in open and shared floor plans are also driving a trend towards less space need for each employee.

This analysis (as shown in Figure 4) uses an estimated need per office employee of just over 200 sq.ft. However, commercial real estate industry experts point out that within the past decade the industry rule of thumb was 250 sq.ft. of space per employee. That has now fallen to 200 sq.ft., and some project it may fall as low as 150 sq.ft., or even 100 sq.ft., over the next 10 years.[6]

The implication of this is that the same number of projected new employees may require even less office space to accommodate them. The average office space per employee used in Figure 4 represents a conservative assumption which likely overestimates the need for office space, rather than underestimates it.

H. POTENTIAL OFFICE DEVELOPMENT AT THE SUBJECT SITE

An office development was previously approved on the subject site in 2007, consisting of 289,000 sq.ft. of office space in three buildings. This development never occurred, though the approval is vested.

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[6] CoreNet Global. "Office Space per Employee will drop to 100 square feet or below", new release, Feb. 2012
Newberg, Sam. "The Incredible Shrinking Office Space – Fact or Fiction?", Urban Land, Aug. 2011.
Scanlon, Don. "What do shrinking tenant space needs mean?" NHBR, Oct. 2013

Johnson Economics

Based on our analysis, Johnson Economics thinks that it is highly unlikely that office development of anywhere near this scale will take place on the subject site. The reasons for this are described in Section E above, but to summarize:

- Value of new development as an income-generating investment is lower than the cost to build.
- Market is very soft with high vacancies and negative absorption putting more vacant space on the market.
- Established weakness of adjacent large office developments.
- Weakening of suburban metro markets relative to central Portland and Hillsboro.
- Slow historical pace of development in West Linn and modest projected demand.
- Prospective office tenants have flexibility in where to locate
- This site has sat vacant since adoption of the OBC zoning in 1974.

Figure 9 is a summary of a simple valuation analysis for the development as previously proposed. It uses the income approach to valuation favored by the Clackamas County Assessor, to generate a ballpark valuation for illustrative purposes.

Figure 9: Cost/Value Comparison, Proposed Office Development

			Source
Proposed Office Space:	289,000	s.f.	Blackhawk LLC
COST			
Land value:	$1,247,739		Current value via Clack. Co. Assessor
Est. improvement cost:	$43,000,000		RS Means
Est. srructured parking cost:	$2,000,000		Johnson Econ. conservative estimate
Total cost:	***$46,247,739***		
INCOME			
Lease Rate:	$25.00	/gross leasable s.f. full service	Johnson Economics estimate of market rate
Vacancy Assumption:	10%		
Effective Gross Income:	$5,852,250		
Expenses	$2,340,900		40% of Effective Gross Income
Net Operating Income:	$3,511,350		EGI minus Expenses
Cap Rate:	8.50%		CBRE
VALUATION			
Est. Value (Direct Cap):	***$41,310,000***		NOI/Cap Rate
Est. Value (at 20% vacancy):	***$36,720,000***		

Source: Johnson Economics

Figure 9 demonstrates that under current conditions, the estimated value of the proposed office building would be significantly less than the cost to build, even assuming a 10% vacancy rate. Assuming a 20% vacancy rate (still lower than comparable lower properties) the achieved value is roughly 80% of the cost of construction.

No company with the means and sophistication to undertake a project of this size would proceed under these conditions. The project would exceed the entire 20-year projected demand for office space (Figure 4) and is over 4 times the size of the Summerlinn Center and nearly 3 times the size of the Willamette 205 Center, both of which have suffered elevated vacancy for many years.

* * *

The following section discusses the potential public benefits of a multi-family residential use on the subject site. While the office development as previously proposed in 2007 would *in theory* produce higher property tax revenue and larger SDCs, *in practice* this development is highly unlikely to ever take place.

Therefore, the accurate comparison is between the subject site as it is now, a collection of vacant parcels, or under multi-family residential use. The benefits of each case are discussed below.

I. MULTI-FAMILY HOUSING NEED

The proposed rezoning of the subject site would result in an estimated 10.2 acres of multi-family residential land, and 1.2 acres of remaining OBC land. This split of the full 11.4 would still achieve mixed uses at the site, with the commercial uses located adjacent to Blankenship Road where it is likely to be most successful, and residential uses uphill where the site is better suited to this use for reasons discussed more below.

Before discussing estimates of the direct potential impact of multi-family development at the site, this section provides an overview of the supply and demand for multi-family rental apartments and land in West Linn.

The recent Arch Bridge and Bolton Town Center[7] existing conditions study concludes that there is strong demand for rental housing in West Linn with a short supply of relatively expensive rental units. The study found that West Linn's housing stock is dominated by single-family detached housing at 77% of units. An additional 11% are "attached single family units", typically townhomes. Only 11% of units are multi-family units in buildings of 2 or more attached units (Page 18, Figure 16). These multi-family units would include for-sale condominiums as well as rentals.

[7] "Arch Bridge and Bolton Town Center Existing Conditions Study", LMN Architects et al., April 2014.

Furthermore, the type of housing available in West Linn tends to be quite high end. The median sale price in the community in recent months has been $439,000, while the median Metro-wide is $341,000, 22% lower (source: RMLS).

In terms of land, the amount of land in West Linn's primary multi-family zones (R2.1 and R3) is just 5% of the amount of land in single-family zones (205 acres compared to 4022 acres).

Very little of this land is available for new rental housing development. Johnson Economics identified an estimated 5.3 gross acres in the city's multi-family zones and mixed-use zone. Roughly 2.2 acres (or 41%) of this is part of the Madison Heights condo development located just north of the subject site. This is likely to be developed as condominium, rather than rental, units.

These supply constraints are likely a large contributor to the fact that West Linn supports a much lower share of renters than Clackamas County or the Metro Area. While 22% of West Linn residents are renters, 31% of county residents and 38% of Metro residents are renters (Page 16).

Census Employment Dynamics data indicates that nearly 4,000 people employed in West Linn commute into the community from outside. This is more than 5 times the estimated number of local employees who live in the community. Many of these in-commuters are local public servants such as teachers or local government employees.

These figures indicate an on-going need for increased housing opportunities for West Linn's local work force, including rental housing. As it stands, there is little land remaining to meet this growing need.

J. POTENTIAL IMPACTS OF RESIDENTIAL USE AT THE SUBJECT SITE

The subject site is well-suited for multi-family residential use. It enjoys good access to the local and regional transportation grid, shopping and employment opportunities. The site should enjoy excellent views of the river valley, and it offers direct access to City-owned open space across Tannler Drive. Topography would buffer residential uses at the site from impacts of Blankenship Road and the freeway.

The site is located adjacent to existing R-2.1 zoning, as well as a mix of other uses. A concentration of new households here could help support existing business in the area and help create a functional mixed-use neighborhood.

West Linn is an attractive community for residents due to high household incomes and excellent schools. At the same time, rental opportunities have been limited in the area, with very slow development of multi-family apartment properties over the last decade. This site, being large and well-located in a transitional zone between single-family and commercial neighborhoods would be well suited to providing needed rental housing to the community.

Finally, a multi-family project at this site is feasible and has much better odds of reaching fruition and bringing public benefits than a large office project or the current vacant condition. Some of the major benefits are estimated below.

Tax Revenue Generation

The preliminary design ideas for the subject site call for approximately 210 residential units of one, two and three bedrooms in multiple three-story buildings served by surface and tuck-under parking. There would also likely be a clubhouse on site for use by residents. ALL DESIGNS ARE PRELIMINARY ONLY, AND SUBJECT TO CHANGE.

Johnson Economics applied the income approach to value a potential development of 210 units and roughly 230,000 sq.ft. of built space. The improvement value was combined with the current estimate of land value of the subject parcels, and then multiplied by the official Changed Property Ratio to arrive at the Assessed Value used for taxation. (See Figure 10)

Based on the preliminary design, under residential use, the property would have an estimated assessed value of roughly $31 million and generate an estimated $572,500 in property taxes per year. (These are estimates only and may differ significantly from the final project design and market value assessments of the County Appraiser. Assumptions such as achievable income and cap rate also change over time.)

Figure 10: Estimated Valuation and Property Tax Generation, Multi-family Residential

			Source
Size:	230,560	sf	ConAm Properties
	210	units	
Estimated effective Gross Income:	$3,661,700		Con Am/Johnson Economics
Expenses (Pre-tax)	$988,659	27%	Multifamily NW apartment report
NOI:	$2,673,041		
Cap Rate:	5.50%		CBRE
Effective Tax Rate:	1.50%		Tax rate/Changed Prop. Ratio
Est. Value (Direct Cap):	$38,186,300		NOI/Cap rate + Eff. tax rate
Assessor Value & Taxation			
Est. Total RMV (Land & Impr.):	$38,186,300		
Changed Property Ratio:	0.807		
Assessed Value:	$30,816,344		
Tax Rate (Code 003-002)	18.5815	per $1,000	
Est. Annual Tax Payment:	***$572,614***		

Source: Johnson Economics, sources noted

Figure 11: Estimated Annual Property Tax Generation, by Recipient

	Tax Rate per $1,000	Share of Total Rate	Estimated Annual Revenue (1st year)
West Linn/Wilsonville School District	4.8684	26.2%	$150,026
West Linn/Wils. School Dist. Levy	1.5000	8.1%	$46,225
Clackamas Community College	0.5560	3.0%	$17,134
Clackamas Education Service District	0.3676	2.0%	$11,328
Clackamas County	2.4037	12.9%	$74,073
City of West Linn	2.1200	11.4%	$65,331
Fire District	1.5252	8.2%	$47,001
County Library	0.3963	2.1%	$12,213
Fire District Levy	0.2500	1.3%	$7,704
County Public Safety Levy	0.2480	1.3%	$7,642
Metro	0.0963	0.5%	$2,968
Metro Levy	0.0960	0.5%	$2,958
Port of Portland	0.0699	0.4%	$2,154
County Extension and 4H	0.0499	0.3%	$1,538
County Soil Conservation	0.0489	0.3%	$1,507
Vector Control Levy	0.0250	0.1%	$770
County Urban Renewal	0.0065	0.0%	$200
Vector Control	0.0065	0.0%	$200
City of West Linn Bond	0.4390	2.4%	$13,528
Clackamas Comm. College Bond	0.1494	0.8%	$4,604
Fire District Bond	0.1309	0.7%	$4,034
West Linn/Wils. School Dist. Bond 1	0.7816	4.2%	$24,086
West Linn/Wils. School Dist. Bond 2	2.1722	11.7%	$66,939
Metro Bond 1	0.0931	0.5%	$2,869
Metro Bond 2	0.1811	1.0%	$5,581
TOTAL:	18.5815		$572,614

Source: Johnson Economics, Clackamas County Assessment and Taxation

Impact and SDC Fee Generation

The estimated fee and SDC generation for this hypothetical development is estimated at $4.1 million, including planning fees ($25,800), SDC's (3,526,900), building permits ($283,300) and school excise tax ($230,300).

School Impacts

The proposed development would have a positive revenue impact on local schools on a number of levels.

- At the time of development, the project would pay an excise tax of $1.00 per square foot, which would amount to an estimated $230,500 in this case.

- As Figure 11 shows, the estimated property tax revenue to the district would be $150,000 in the first year, with an additional $46,000 to the school levy.
- The Oregon school funding system ensures that funding is provided per student, so that each new student from the proposed development would bring the same per capita funding to the district as existing students.
- The West Linn-Wilsonville School District Long Range Plan estimates an average 0.21 students per multi-family housing unit. This means the proposed project would bring an additional 44 students to the district. This would be a roughly 1% increase of the estimated enrollment of 4,795 in 2013.
- In 2013, the West Linn part of the district had an estimated remaining available capacity for 230 students at the elementary level and 136 students at the high school level. Rosemont middle is estimated to be over capacity by 46 students.

Employment and Economic Impacts

Johnson Economics uses an IMPLAN model to estimate the economic impacts of new development for a range of project types. IMPLAN is an established and accepted method that provides a direct and quantifiable answer to the question of how much commercial activity new development can support.

The IMPLAN Economic Impact Methodology

To model the economic impacts of various activities, JOHNSON REID applied the IMPLAN (IMPact for PLANning)[8] input/output multiplier model. Developed by the Forest Service to assist in land and resource management planning, IMPLAN has developed since the 1970's into an economic impact model designed for analyzing the effects of industry activity (employment, income or business revenues) upon all other industries in an economic area. IMPLAN is specifically designed to identify related economic activity associated with shifts in employment, and provides useful guidance to the question of commercial space supported by new development activity.

Economic impact analysis generally seeks to assess changes in overall economic activity within a specific geographic area as a result of a change in one or many specific activities; in this case, multi-family housing construction. The ripple effect of a gain or loss in economic activity is identified in three stages: *Direct Impacts*, *Indirect Impacts* and *Induced Impacts*.

- *Direct Impacts:* The actual change in activity affecting a local economy. For example, if a new housing development is constructed, direct economic impacts comprise the jobs required for construction and operations, and the labor income paid.
- *Indirect Impacts:* The response of all other local businesses within the geographic area to the direct impact. Continuing the previous example, indirect impacts of a new apartment complex would comprise revenues for related venders, i.e. suppliers, subcontractors, etc., and the jobs and labor income thereby generated.

[8] Minnesota IMPLAN Group (MIG), Inc., Stillwater, Minnesota.

- *Induced Impacts:* The response of households within the geographic area affected by direct and indirect impacts. In the given example, induced impacts would be the increase in all categories of spending by households in the geography directly or indirectly employed by the businesses' activities (not including the new residents at the property).

Applying this model to a multi-family construction project in the West Linn market of the size suggested in preliminary designs, yields the following estimated impacts:

Figure 12: Estimated Economic Impacts of Proposed Multi-Family Development

Category of Impact	Employment	Labor Income	Total Value Added
Direct Effect	96.7	$5,857,851	$7,823,860
Indirect Effect	46.1	$1,865,765	$2,580,050
Induced Effect	27.5	$1,039,399	$1,944,430
Total Effect	170.2	$8,763,014	$12,348,320

Source: IMPLAN, Johnson Economics

As Figure 12 shows, the proposed development could have a significant economic impact, creating or inducing up to 170 jobs during construction and operation and total value added of $12.3 million.

Spending Impacts

As of 2014, the average West Linn household spends $68,500 on services and products beyond the cost of rent or mortgage. This level of spending is 130% the national average.

Figure 13: Estimated Average Per-Household Spending by Category

Food At Home	$6,925
Food Away from Home	$3,838
Alcoholic Beverages	$1,325
Day Care & Education	$6,974
Healthcare	$6,370
Housing & Personal Services*	$8,654
Transportation Expenses	$13,904
Furnishings and Appliances	$3,458
Personal Care, Smoking Products	$2,040
Pet Expenses	$811
Sports and Entertainment	$9,126
Apparel	$5,425
Total Household Spending:	$68,850

* Does not include rent or mortgage expense
Source: Nielsen, Claritas

Renter households tend to have a lower average income than the general household population. In West Linn, the median income of renter households is 64% the general median income. Applying this as a simple discount factor to the average spending yields an estimated average spending per *renter* household of $44,174.

Based on this estimate, the proposed multi-family development at 210 new households could generate as much as $9.3 million in new spending. As all communities experience some leakage of spending from their local households to other shopping areas, this spending would take place both in West Linn and beyond.

The local community is likely to capture much of the food expenditure, and expenditures on local household and personal services. A capture of 50%, which is not uncommon, would generate $4.7 million in additional local spending per year.

Summary of Estimated Benefits

In summary, a multi-family residential development in keeping with the preliminary design discussed would generate an estimated:

- $572,500 in annual property tax
- $4.1 million in fees and SDC's
- 170 jobs created or induced by construction and operation
- $12.3 million added though wages and economic activity related to these jobs
- Up to $9.3 million in household spending by new residents at the property

THE PRELIMINARY DESIGN IS SUBJECT TO CHANGE. All of the above figures are estimates based on best available data, assumptions, and sources as described in this document.

This is in contrast to the current vacant use which produces an estimated current property tax of $18,133 in the latest year. Absent development, these parcels will continue to produce this relatively low property tax revenue, with a modest yearly escalator. Until developed, the site will produce no benefits in SDC's, jobs created, economic activity from development and operations, new households or spending.

Given the uncertainty that commercial development will take place on this site at any time in the foreseeable future, these benefits, very modest in comparison to the benefits of the proposed multi-family development, are likely to persist indefinitely.

K. CONCLUSIONS

- An inventory of buildable lands appropriate for new office use reveals a significant supply of available vacant and redevelopable parcels. Development of the OBC zone has been modest over the previous decades. Roughly 26% of land in this zone remains vacant, not including the 10.2 acres of the subject site proposed for rezone, or the City-owned property at Tannler Drive.

- Compared to projected 20-year demand for office space in West Linn, there is buildable supply of office lands well in excess of 20-year needs, regardless of the possible rezoning of the subject parcel. The available buildable inventory is multiple times what is projected to be necessary over this period.

- The West Linn area submarket for office space is not the most robust in the Portland Metro area. The submarket, along with Kruse Way and other south-Metro submarkets experienced some of the highest vacancy rates during the recent recession and vacancy remains high. A recent inventory from the Clackamas County Business and Economic Services of available commercial space in West Linn found 80,000 sq.ft. of office space available and vacancy of nearly 31% among buildings surveyed.

- The office developments directly adjacent to the subject site have combined vacancy in excess of 27%. Overall, the West Linn market has experienced negative absorption in recent years, shedding office space back onto the market. Absorption is projected to be flat in coming years.

- Based on our analysis, Johnson Economics thinks that it is highly unlikely that office development of anywhere near this scale will take place on the subject site. The reasons for this are described in this report, but to summarize:

    - Value of new development as an income-generating investment is lower than the cost to build.
    - Market is very soft with high vacancies and negative absorption putting more vacant space on the market.
    - Established weakness of adjacent large office developments.
    - Weakening of suburban metro markets relative to central Portland and Hillsboro.
    - Slow historical pace of development in West Linn and modest projected demand.
    - Prospective office tenants have flexibility in where to locate.
    - This site has sat vacant since adoption of the OBC zoning in 1974.

- Based on our analysis, there are other challenges presented by the subject site making it an unlikely location for other uses which are allowed in the OBC zone. The site is un-appealing for conditional uses such as retail and hotel due to topography, visibility and access. Vertical mixed-use or live/work units are infeasible due to increased costs, difficulty of marketing the commercial space, and lack of market demand.

- The subject site is well-suited for residential use, providing good access, views, and schools. Multi-family residential is a good use for transitional areas like the subject site which lays between low-density residential and commercial neighborhoods.

- The development as preliminarily designed would generate significant public benefits, including fees and system development charges at construction, and on-going tax generation. It would also have economic impacts on local job creation and household spending. This is a preliminary estimate of impacts:

- $572,500 in annual property tax
- $4.1 million in fees and SDC's
- 170 jobs created or induced by construction and operation
- $12.3 million added though wages and economic activity related to these jobs
- Up to $9.3 million in household spending by new residents at the property
- These estimates are preliminary and subject to change but provide indicators of general magnitude of benefits.

- As office development on the scale of the subject site is highly unlikely, and the topography is unfavorable for retail, the most likely scenario for the site under the OBC zone is to remain vacant indefinitely. This provides a very modest public benefit in terms of property tax, but no additional benefits in generating economic activity, providing housing choices, generating economic activity or bringing active use to this large dormant site.