



# CREEC

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## COMMERCIAL REAL ESTATE ECONOMIC COALITION UPDATE (CREEC) (JULY 2010)

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### HEADLINES:

**Regional Urban Reserves/Rural Reserves.** On 6/3/10, the Metro Council formally adopted its 2060 Reserves Map, with 28,600 gross acres of urban reserves (UR) and 267,000 gross acres of rural reserves (RR); the map has an undetermined amount of “undesigned” acreage in and around URs to provide the safety valve for future expansion if needed. In conjunction with its three county partners, Metro approved a plan that will accommodate an estimated 74% growth of population on an 11% increase in land area. The shortage of a combined supply of urban reserves/undesigned acreage is particularly acute in Washington County. Metro mailed its notice of decision to the Land Conservation and Development Commission (LCDC) on 6/23/10, triggering a 21-day period within which opponents can file “objections”. Filing such an objection provides the legal standing necessary to participate in the LCDC acknowledgement hearing, to be held in Portland on 10/19 – 10/20/10.

**Coalition for a Prosperous Region (CPR).** Composed of 10 labor and business organizations, the Coalition for Prosperous Region (CPR) formed earlier this year under the auspices of the Portland Business Alliance. Most of CPR’s members have decided to file an objection to the Metro reserves decision. To this end, CPR raised a legal fund and hired Black Heltterline (BH) in a competitive bidding process. BH attorneys Stark Ackerman and Carrie MacLaren completed the legal brief for the objection and filed it with the Department of Land Conservation and Development (DLCD) by the 7/14/10 deadline. Forty-five objections were filed mostly from individual property-owners, but there were some broad-based objections from such organizations as Oregonians in Action on one end of the political spectrum to 1,000 Friends/ Washington County Farm Bureau on the other.

**West Hayden Island Planning Process.** The West Hayden Island (WHI) Community Working Group will present its findings and recommendations for the future redevelopment of the 800-acre portion of the island at a public hearing before the Portland City Council on Thursday, 7/29/10, at 6:00 PM in City Council Chambers. The Port of Portland has asked the business/development community, including CREEC, to support its efforts for a mixed-use plan to devote the northern-most 300 acres along the recently-deepened Columbia River Channel for an extension of its deep-water port, with the remaining 500 acres devoted to active and passive open space. The site is the only one within the Portland city limits suitable for expansion of deep-water terminals. As is usually the case, the environmental community has been pressing for several years to dedicate the entire west end for open space use.

**Periodic Review.** Closely related to the Metro Reserves process, is the decision now pending at the end of 2010 on whether to expand the regional Urban Growth Boundary (UGB) for this round of Periodic Review, the once-every-five-years process. For nearly two years, the Metro staff and Council have been sending signals that there will be only a modest expansion of the boundary, and this view has been reflected in Metro COO Michael Jordan’s “Making the Greatest Place Report” (9/09). The possible exceptions are the need for more large-lot industrial land and, possibly for some residential development depending on assumptions about infrastructure availability and projected refill rate and under-build factor. Jordan will present a status report on the Capacity Ordinance at a Metro Council work session on Tuesday, 8/3/10, at 2:00 PM in the Council Chambers.

**CREEC Board Meeting.** A special CREEC board meeting will be held on Thursday, 7/22/10, from 7:30 – 9:00 AM at Perkins Coie, 10<sup>th</sup> Floor, 1120 NW Couch Street, to discuss the West Hayden Island planning effort. The Port’s Kathryn Williams and Susie Lahsene will be the featured speakers.

## **DISCUSSION**

**Reserves Process.** On 6/3/10, the Metro Council formally adopted its 2060 Reserves Map, with 28,600 gross acres of urban reserves (UR) and 267,000 gross acres of rural reserves (RR); the map has an undetermined amount of “undesigned” acreage in and around URs to provide the safety valve for future expansion if needed. Metro and its three county partners approved a plan that will accommodate an estimated 74% growth of population on an 11% increase in land area. The outcome is based on a set of assumptions that maximizes existing capacity within the existing regional Urban Growth Boundary (UGB), thus, minimizing the acreage needed beyond the UGB (UR) for the 50-year planning process:

- Selected the top of the “middle” range of population and employment growth and did not distribute this growth by county or other sub-region.
- Assumes incorrectly that it is always less costly to provide infrastructure for infill and redevelopment of already-developed areas than in newly-developing areas. This is only true to the extent that this densification uses existing excess capacity. Up-sizing existing infrastructure such as sewers and streets in already-development areas is more expensive and disruptive than on green-field sites.
- Fails to acknowledge that residential refill results in higher per-unit housing costs and limits the range of housing types.
- Assumes a infill/redevelopment rate of 40%+ for residential lands within the existing UGB, even though historic refill rates from 1997 – 2006 varied from 17% - 34%, and selected a similar refill rate, 40%, for non-residential development.
- Increases the under-build rate for residential development from 80% of maximum density of housing units to 95%, a 75% increase
- Assumes significantly higher floor-to-area (FAR) ratios for non-residential development in excess of historic performance. For example, Metro assumes that future industrial development will occur at FARs of 0.3/1 even though today less than 3% of industrial development has achieved this density.

If any of these assumptions prove to be inaccurate, e.g., population and/or employment growth exceeds the mid-range or aggregate development falls short of assumed refill, under-build and FAR targets, the amount of urban reserves provided will be inadequate. This is exacerbated by the fact that there is little appropriately-located undesigned acreage to convert to future URs if needed. The shortage of undesigned acreage is particularly acute in Washington County, where in most locations the inner edge of designated RRs abuts up directly either to the existing UGB or URs, creating a “hard edge” to future development.

Moreover, Metro failed to consider sub-regional differences in population and employment growth. Washington County estimates that at the end of the 50-year planning record, it will account for about 32% of total population in the seven-county Portland/Vancouver Primary Metropolitan Statistical Area (PMSA) while Clackamas County will account for about 17%. Similarly, it is projected that Washington County will account for nearly 31% and Clackamas County for about 19% of all jobs, respectively<sup>1</sup>. Yet, Washington County is allocated only 13,810 gross acres of URs and has only 6,000 acres of undesigned acreage, 12% of the county’s total study area of 171,200 acres. This leaves over 151,320 acres of RRs (88%). It is noteworthy, that based on its own detailed economic analysis, Washington County entered the process asking for 34,000 gross acres of UR and ultimately received less than 40% of this. On the other hand, Clackamas County is allocated only slightly less UR, about 13,800 acres, and substantially more undesigned acreage, as much of that county’s acreage does not meet the eight factors for designation as RRs. In addition, much of the 12,000-gross acre Damascus/Boring area, brought into the UGB in 2002 remains undeveloped. Thus, it can be argued that Clackamas County has an adequate supply of future urbanizable land, including the necessary “safety valve” that Washington County, which is expected to grow more rapidly, does not.

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<sup>1</sup> Multnomah County is expected to accommodate about 13% of the total population and 30% of the total employment by 2060 but asked for and received only a minimal amount of UR acreage, about 1,100 acres.

**Coalition for a Prosperous Region (CPR).** Composed of 10 labor and business organizations, the Coalition for Prosperous Region (CPR) formed earlier this year under the auspices of the Portland Business Alliance. Most of CPR's members<sup>2</sup> have decided to file an objection to the Metro reserves process. To this end, CPR raised a legal fund and hired Black Helterline in a competitive bidding process. BH attorneys Stark Ackerman and Carrie MacLaren completed the legal brief for the objection and filed it with the Department of Land Conservation and Development (DCLD) by the 7/14/10 deadline.

The core of the objection is that Metro and its three county partners failed to provide a sufficient safety valve of urban reserves and undesignated acreage to accommodate urban growth, especially within Washington County, in the event that its aggressive assumptions about densification of development and/or mid-range estimates of population and employment growth proved to be inaccurate over the 50-year planning period. As noted in CPR's objection<sup>3</sup>:

*The objective of this reserves process is to address the resulting needs – both urban and rural – in a manner that “best achieves livable communities, the viability and vitality of the agricultural and forest industries and protection of the important natural landscape features that define the region for its residents.” OAR 660-027-0057(2).....Although the Reserves Decision leaves some land undesignated, it is far too little, and too lop-sided in allocation around the region (it is mostly in Clackamas County, even though more growth is projected for Washington County). As a consequence, there is little margin of error should the projections, or the assumptions on which those projections are built, be wrong. [Metro's] Reserves Findings underscore this point:*

*If the region's effort to contain urban development within the existing UGB and these urban reserves for the next 50 years is successful, the UGB will have accommodated an estimated 74 percent increase in population on an 11-percent increase in the area of the UGB. No other region in the nation can demonstrate this growth management success. Most of the borders of urban reserves are defined by a 50-year “hard edge” of 266,954 acres designated rural reserves. [Emphasis added]*

As a remedy, CPR asks for LCDC to adopt the proposed URs and remand the decision on RRs to Metro to create additional URs and/or more appropriately-located undesignated acreage in Washington County while protecting the proposal in Clackamas County. However, CPR has no control over the nature of such a remand, one of the risks inherent in filing the objection. The LCDC acknowledgement hearing has been set for 10/19 – 10/20/10 in Portland.

Forty-five objections were filed mostly from individual property-owners, but there were some broad-based objections from organizations such as Oregonians in Action on one end of the political spectrum to 1,000 Friends/ Washington County Farm Bureau on the other. The most controversial objection was filed by the State Department of Agriculture, which broke ranks from the other six state agencies advising Metro on the reserves process.

**West Hayden Island.** The West Hayden Island (WHI) Community Working Group will present its findings and recommendations for the future redevelopment of the 800-acre portion of the island at a public hearing before the Portland City Council on Thursday, 7/29/10, at 6:00 PM. The 800-acre portion of the island west of the Burlington Northern Santa Fe Railroad crossing is located within the regional UGB but outside the Portland city limits. At the hearing, the Council will consider a resolution whether to continue planning and annexation efforts for marine industrial, recreational and passive open space uses.

The Port of Portland has asked the business/development community, including CREEC, to support its efforts for the mixed-use plan to devote the northern-most 300 acres along the recently-deepened Columbia River Channel for an extension of its deep-water port, with the remaining 500 acres devoted to active and passive open space. The site is unique: the only one within the Portland city limits suitable for expansion of deep-water terminals and, therefore, cannot be provided elsewhere in the region. As is usually the case, the environmental community has been pressing for several years to dedicate the west end to open space use. Port representatives, Kathryn Williams and Susie Lahsene will make a presentation at a special CREEC meeting on Thursday, 7/22/10. See the meeting notice above.

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<sup>2</sup> CREEC, CPBTC, HBAMP, NAIOP, PBA, PMA and WEA.

<sup>3</sup> An electronic version of the objection accompanies this CREEC Update.

**Regional Infrastructure Conversation.** In 12/09, COO Michael Jordan invited a wide range of business community interests to a series of breakfast meetings to begin a discussion on the public/private funding of future infrastructure such as roads, water, sewer and other capital investments of regional importance, in what is now officially known as the Community Investment Strategy Project. Out of this discussion, an exploratory committee, including several CREEC and CPR members, has recommended that Metro establish a Regional Investments Steering Committee, composed of the region's most prominent leaders in the for-profit and non-profit sectors. For political and legal reasons, the committee will function as an independent organization, although Metro has authorized a budget of \$3 million over the next three years to provide administrative and technical support. It is hoped that the new organization will function like one of many public/private partnerships founded in such metropolitan areas as Chicago, Oklahoma City and Salt Lake City. The steering committee will be charged with identifying the types of regional investments to be included; looking for ways to maximize existing capacity and use existing funding efficiently; identifying a package of funding options composed of existing and possibly new funding sources for each investment category; proposing legal governance and program for implementing the distribution of such funding; and developing a public relations' strategy to win voter support. Recruitment of the new steering committee is underway, with the aim of kicking off the process in the fall.

**2010 Periodic Review.** Having now completed the reserves process, Metro is still on track to make the decision about expanding the Regional UGB in this round of Periodic Review by the end of 2010. Since URs have been established and soon will be approved, barring a remand from LCDC, any expansions will be taken from designated URs. According to Metro's technical analysis, there is a shortfall of land to accommodate a 20-year demand for 44,000 – 62,000 dwelling units and between 200 – 1,500 gross acres of large-lot industrial, resulting from the study of the special subcommittee that met earlier this year. Either this demand must be absorbed into the existing UGB and/or accommodated on newly-designated URs and brought into the boundary. To begin the process, Metro staff talked to all the outlying local cities to identify the pool of land available for study and expansion that these jurisdictions were ready and willing to urbanize. This yielded about 3,000 acres. However, Metro's legal counsel has advised staff that there needs to be a pool of about 8,000 candidate acres to demonstrate to LCDC that a full range of options (parcel size, location, development considerations) were evaluated. As an illustration of the controversy that this process already has engendered, several Clackamas County public officials wrote a memorandum on 5/12/10 to the Metro Policy Advisory Committee (MPAC) noting that there is such a great vacancy of industrial space within the existing UGB because of the "Great Recession", they doubt the need to bring in any additional large-lot industrial land at all in the upcoming decision. This is countered by a 5/21/10 memorandum from Washington County Chair Tom Brian and several Washington County elected officials who note that the large-lot parcels needed by traded-sector companies cannot be accommodated in existing industrial buildings scattered throughout the region. This position is supported by a substantial amount of technical data.

**Metro President Race.** Now that David Bragdon is term-limited, Metro will have a new president in 2011. As a result of the recent primary election, the race is now down to Tom Hughes, former mayor of Hillsboro, and Bob Stacey, who until last year was executive director of 1,000 Friends of Oregon. Despite entering the race late and being outspent 3 to 1 by Stacey, Hughes garnered 37% of the vote, compared to Stacey's 35%. Despite the funding gap, Hughes was able to garner endorsements from all of the region's major newspapers. The third contender, Metro Councilor Rex Burkholder, only won 28% of the vote and is now out of the race. Hughes and Stacey have significantly different positions and constituencies that should make for an interesting and hard-fought race. To some degree, the men will split up Burkholder's voters, a combination of environmental and labor/business interests. In addition, with less than 40% turnout in the primary, there is a sizable portion of the electorate yet to reach.

**The University of Oregon Index of Economic Indicators™**. Issued in 7/10, the May economic report indicates that the state's economic recovery hit "headwinds" in the late spring. The UO's indicators collectively fell 1.4% to 87.9 (1997=100) from the revised April report, 89.0. This decline was led by significant deterioration in Oregon employment payrolls, residential building permits and interest rate spread. Specifically:

- Labor market indicators are showing improvement, with the pace of layoffs clearly moderating and employee payrolls – largely for temporary workers – rising to their highest level in nearly a year. Unemployment claims have fallen dramatically since last year, but still remain elevated while steady economic growth since last summer has had limited impact upon new hiring.
- Residential building permits fell to the lowest level since 12/09. Not seasonally adjusted, permits declined in a month normally associated with a seasonal increase in permits, to a level below that of the same month last year. The decline has been anticipated given the expiration of tax credits for homebuyers, a policy that merely pulls from future demand.

At the same time, the Indicators' author, Dr. Tim Duy, notes that:

*".....it would premature to conclude that a 'double dip' recession is imminent on the basis of a single month decline in the UO index. The decline, however, is consistent with concerns that the pace of recovery would falter in the second half of 2010 after the impetus of inventory correction and fiscal stimulus waned."*

For more information, contact CREEC **Advocate Beverly Bookin** or **Administrator Rebecca Woods** at The Bookin Group (503.241.2423).