LELAND CONSULTING GROUP

Memorandum

Date	16 June 2013
To	Tom Litster, Otak
From	Chris Zahas, Leland Consulting Group
Subject	Dallas Mill Market Reconnaissance
Project	5404 Dallas Mill

BACKGROUND AND OBJECTIVES

The City of Dallas was awarded a TGM grant, a joint effort of the Oregon Department of Transportation (ODOT) and the Oregon Department of Land Conservation and Development (DLCD), to analyze potential uses for the former Weyerhaeuser Mill Site (Mill Site). The project includes an evaluation of potential transportation connections to, within, and across the site, a market reconnaissance, and development alternatives for the future development of the site. The mill was closed in 2009 and sold in 2012 to Northwest Demolition and Dismantling, a demolition company that is in the process of removing and salvaging or recycling as much of the existing equipment and infrastructure as possible. The owners are open to redevelopment ideas and would be willing to sell the property to an end user or potentially retain the property as a long-term investment, serving as a master developer. The current property owner, City, and regional economic development staff believe the site has potential to accommodate a variety of industrial and employment uses.

This memo summarizes the current market conditions, explores economic opportunities, and recommends a program for redevelopment that will be incorporated into the alternative development schemes.

PROJECT OBJECTIVES

The objectives for this project, as included in the scope of work, are as follows:

1. Determine potential uses for the Mill Site that are appropriate for the character of the surroundings, create employment opportunities, are economically viable, and fulfill market demand.
2. Develop concepts for transportation connections to and through the Mill Site, considering potential uses and the surrounding areas.
3. Develop a range of alternative development schemes that may be implemented at the Mill Site and identify the implementation steps necessary to carrying them out.

The information in this report is drawn from several sources, including regional economic and employment forecasts, stakeholder interviews, and available data regarding real estate market conditions. Resources analyzed for this memo include:

- Mid-Willamette Valley Comprehensive Economic Development Strategy (CEDS), 2012.
- Oregon Statewide and Regional Employment Projections by Industry and Occupation, 2010 to 2020.

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- Documents given to the City of Dallas by the Oregon Employment Department.
- Stakeholder interviews conducted with City staff, economic development agencies, the property owner, and an industrial broker.
- A site tour of the property.

MARKET ANALYSIS KEY FINDINGS

The following summarizes the key findings gathered from the research, interviews, and tour of the site.

- **Employment.** Feedback from the City and initial input from the 2030 community visioning process indicates that employment should be the major focus of redevelopment at the Mill Site. There is also a desire for diversification, rather than a reliance on only one major employer in the future.
- **Transportation access.** Rail access is crucial for a select few businesses. However, for the majority of businesses it is not essential, though valuable in that it provides flexibility for potential future needs. Road access, especially to the interstate system, is a significant locational factor for many industrial users. Therefore, the rail spur should not be abandoned if at all possible, as it would be difficult to get it back in the future, but it may not be the main asset of this site. The rail spurs on the Mill Site could be reconfigured, if necessary, to better suit the layout and needs of potential users.
- **SDC credits.** The City has allocated system development charge (SDC) credits to the site based on the previous use, which are valued at approximately $2 million. These credits are a significant advantage for redevelopment and should be part of the message used to help recruit businesses, especially those that might be considering a build-to-suit project. It may close the gap between the price of an existing building and the cost to construct a new one.
- **Seek local entrepreneurs.** During the interviews, stakeholders indicated that there were two key assets within Dallas. One is the existing base of skilled workers that used to work for the mill but have moved on. These workers could be recruited by a new employer at the Mill Site. The second is to build upon a growing mix of local entrepreneurs seeking places to expand in Dallas. Both assets provide opportunities that would benefit from a strategy to connect interested parties with the resources to start and grow a business. Chemeketa Community College has a Small Business Development Center that offers assistance to startups and the City has a variety of other assistance programs listed in its Business Assistance Toolkit.[1]
- **Continue to work with property owners.** The current property owners will control how the site develops, either serving as developers themselves or through a sale to another party. A collaborative relationship between the owners and the City, the Chamber of Commerce, SEDCOR, and Business Oregon can help connect potential purchasers or lessees for the property.
- **Industrial incubator.** A small speculative development could be built in the short term as incubator space for local startups, with spaces sized between 4,000 and 20,000 square feet. Preleasing part or all of the space would make this development more feasible, and may help to fast-track the project. Some of the SDC credits could be used to help reduce the cost of such a project. When leased, it would immediately provide a

[1] http://www.ci.dallas.or.us/DocumentCenter/Home/View/861.

revenue stream for the property owners, and generate activity and interest in the property, helping to stimulate future opportunities.

- **Build synergy with existing uses.** The Old Mill Feed and Garden store, located on Main Street to the northwest across from the Mill Site, was started by local residents and has been very popular with the community. It is located in a rehabilitated mill building which adds character to the area. Along with the historic granary building, which sits adjacent to the northwest corner of the Mill Site, these buildings start to form a distinct and authentic historic industrial district. The northwest corner of the property could build on this energy and would be a good location for a craft industrial type of use that might need a small auxiliary retail venue of some sort, like a wine or beer tasting room, wood or metal working showroom, or a glass or pottery making classroom.


Granary Building (view from site)

- **Expansion opportunities.** Forest River, makers of several models of recreational vehicles, owns several properties to the northeast of the Mill Site. The company, a division of Berkshire Hathaway, has weathered the recession, unlike many RV makers that went out of business in the last couple of years, and appears to be operating at capacity. Van Well Building Supply, located to the east of the property, also seems to be healthy and operating at capacity. There may be an opportunity to sell or lease part of the Mill Site to these users for future expansion needs.

DEVELOPMENT PROGRAM

The market opportunities discussed above in combination with demographic and economic information about Dallas can help identify an appropriate mix of uses for the site. This "development program" becomes the baseline from which different development alternatives can be created. This section of the report summarizes the key market findings and describes a mix of uses that are supported by market data and could be configured on the site. More detailed demographic and economic data can be found in later sections of the report.

Based on State of Oregon employment projections for the region, the City of Dallas could expect 145,000 square feet of industrial development through 2020, which could be accommodated on approximately 11 acres. This would take only 25 percent of the Mill Site's 44 acres of developable space if all of the projected employment demand were to locate at the Mill Site. There are other vacant industrial properties in the City that potentially would be competing for this development. However, given the current mill owner's willingness to engage with the City and openness to development ideas, it is reasonable to expect that the Mill Site could capture a large share of this new demand.

Beyond the forecasted growth, there is always a possibility that an outside company looking for a large industrial site will be interested in locating at the Mill Site to take advantage of the rail connection or for other reasons. In many cases, such users will be looking for sites across a very large area, even statewide. However, it could take several years for such an

opportunity to materialize, if at all. In the meantime, the site could be configured such that small immediate opportunities could be realized over the short term and a large parcel with rail access could be set aside for longer term, opportunistic ventures that may materialize in the future.

One alternative, therefore, is to create an industrial business park that could support multiple users by dividing the site into districts or buildable pads. The most immediate opportunity lies in developing smaller incubator spaces ranging from 4,000 to 20,000 square feet to serve local businesses looking to expand. Other buildable pads can be designated for future use, including a large site with rail access.

Development Program Components

This section describes the array of industrial uses that could take place on the site, along with typical site and building sizes and space per employee. These uses form the "ingredients" that can be mixed and matched in different alternatives.

	Heavy Industrial	Flex Incubator Space
		
Description:	Large site user. May need rail access, loading docks, and outdoor storage space. Large parking lots and loading areas that can accommodate tractor trailers.	Flexible spaces can accommodate a variety of users, and/or multiple users in one building. Could be concrete tilt up or metal building. Often include loading dock or bay for each user.
Typical Site Size:	10 to 25 acres	Three to five acres, up to 20 if developed in a multitenant business park
Typical Building Size:	100,000 to 300,000 square feet	20,000 to 60,000-square-foot buildings; several users could co-locate with four to six spaces of 4,000 to 20,000 square feet
Average Job Density:	Ranges from 900 to 1,600 square feet per employee	Ranges from 700 to 1,200 square feet per employee

	Craft Industrial	Expansion for Adjacent Businesses
		
Description:	Light manufacturing which may have a showroom or retail components. Examples include beer or winemaking, specialty craft foods, glassblowing, woodworking, metal working, pottery, and other uses that need a large workshop space.	Adjacent business might need room to expand. Part of the site could be sold or leased to accommodate their needs.
Typical Site Size:	Five to 10 acres	10 to 15 acres
Typical Building Size:	15,000 to 60,000 square feet; several users could co-locate with four to six spaces of 3,000 to 15,000 square feet each	Will depend on user's needs
Average Job Density:	Ranges from 750 to 1,000 square feet per employee	Will depend on user's needs

ECONOMIC AND DEMOGRAPHIC OVERVIEW

The following economic and demographic overview presents information about demographic conditions and trends in the area that may affect the types of businesses that could locate at the Mill Site as well as the overall pace of growth that could be expected. The City of Dallas is located in the Mid-Willamette Valley. It is part of the Salem MSA, the State's second largest metropolitan area, which consists of Yamhill, Polk, and Marion Counties. It is within a short drive to the I-5 corridor which is the main north-south route on the west coast between Canada and Mexico. The region is primarily rural in nature with a large agriculture and natural resources base that has been shifting away from wood manufacturing and toward a wine and food-based economy, although wood products still play an important role. Dallas has the largest concentration of employment west of Salem, and the largest in Polk County.

DEMOGRAPHICS

Some demographic highlights of Dallas and the region are discussed below and in Table 1.

- Polk County was the sixth fastest growing county in the state, with a 0.87 percent annual growth rate from July 2011 to July 2012, just slightly behind Multnomah County (0.88 percent). Washington County had the highest growth rate over this period at 1.2 percent, followed by Hood River, Gilliam, Benton, and Multnomah Counties.[2]
- Housing is more affordable in the Salem metro area, nearly a third less expensive than the Portland metro.
- The City of Dallas has significantly lower median household income ($40,343) than Polk County or the Salem MSA.
- The median age for Dallas residents is 40.9, quite a bit higher than the County or MSA.
- Residents of Dallas tend to be less educated than the County or MSA, with fewer than 20 percent of residents attaining a bachelor's degree or higher. However, more residents of Dallas have attended some college or attained an associate's degree than the County or MSA.

Table 1. Demographic Highlights

Demographics	City of Dallas	Polk County	Salem MSA
Population, 2012 (certified estimate)	14,670	76,625	497,670
Annual Growth Rate 2010-2015 (certified State estimate)	n/a	1.21%	1.02%
Average HH Size, 2012 (estimate)	2.49	2.60	2.68
Median HH Income 2012 (estimate)	$40,343	$48,320	$45,277
Median Age 2012 (estimate)	40.9	37.5	35.7
Population with Bachelor's Degree or Beyond (2005-2009 ACS)	19.9%	26.3%	21.7%
Some college or an Associates Degree (2005-2009 ACS)	37.2%	34.7%	34.4%

Source: ESRI Business Analyst; Portland State University Population Research Center; Office of Economic Analysis, Department of Administrative Services, State of Oregon; Leland Consulting Group.

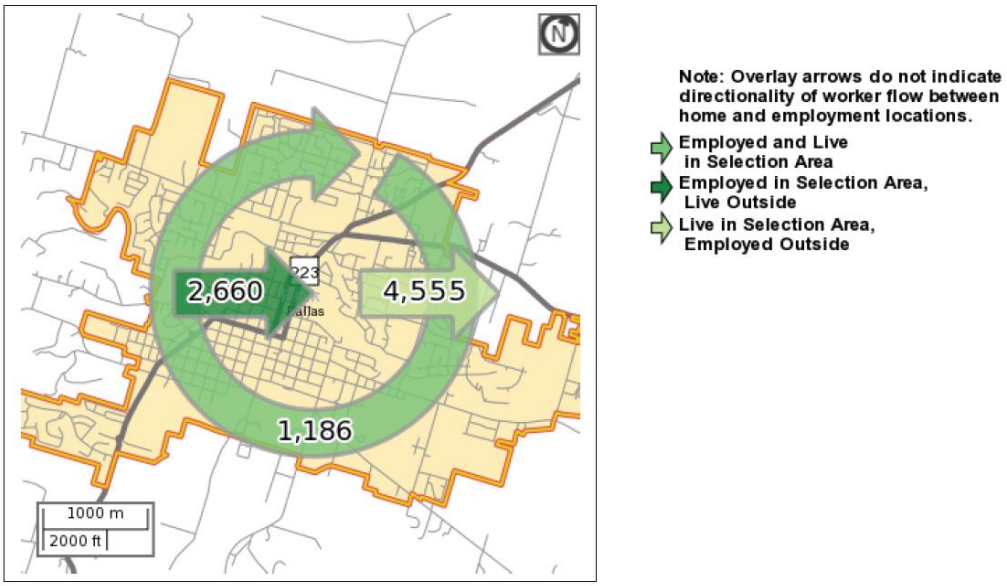
EMPLOYMENT TRENDS

The unemployment rate in the three-county Salem MSA (Polk, Marion, and Yamhill counties) is 8.4 percent as of May 2013, slightly higher than the state unemployment rate of 7.8 percent.[3]

Many Dallas residents commute outside of Dallas for work. As shown in Figure 1, 4,555 residents of Dallas are employed elsewhere, whereas only 1,186 residents both live and work in Dallas. Another 2,660 commute from elsewhere to work in Dallas (based on 2011 employment data).

[2] PSU Population Research Center, Certified Population Estimates, 2012.
[3] http://www.qualityinfo.org/olmisj/Regions?page=2&area=000003.

Figure 1. Employment Inflow/Outflow for the City of Dallas, 2011



Source: US Census LED on the Map.

INDUSTRY CLUSTERS

The presence of existing industry clusters in the area is an indicator of the type of industries that might be appropriate to locate at the Mill Site in Dallas. As presented in the CEDS report, the following four clusters in Table 2 are prevalent and likely to succeed in the Mid-Willamette Valley region. Any of these clusters would be capable of locating on the subject site with the exception of traded sector services, which would tend to locate in office or institutional campuses. Of particular interest might be a value-added food services venue, which is specifically noted in the CEDS as relevant to Polk County. During the stakeholder interviews it was mentioned that a group of local farmers were starting to form a co-op, as they all have a similar need for food processing and distribution services, but are too small to fund the operation on their own.

"Polk County has experienced a severe decline in manufacturing jobs within the past 10 to 15 years, due in part to changes in the forest products industry. The County however, remains one of the largest agricultural producing counties in the state and has experienced a large increase in the number of wineries within the past ten (10) years. One of the economic strategies identified in the CEDS that Polk County and the Mid-Willamette Valley region is well suited to is the acceleration of value-added food and beverage products."

~ Regional Comprehensive Economic Development Strategy 2012

Table 2. Mid-Willamette Valley Industry Clusters[4]

Agriculture, Food & Beverage Products	Metals, Machinery & Equipment (including Electrical)	Forest Products (including Logging)	Specialty Materials Manufacturing
"This cluster includes a series of agribusiness activities ranging from farming to manufacturing of both commodity and specialized food and beverage products. Specific niches with particularly high area concentration include tree nuts, fat/oil refining, dry/evaporated dairy products, ice cream/frozen desserts, dry pasta and tortilla manufacture, snack foods, spice/extract manufacture, and wineries. Of these specialty food industry niches, job growth was noted for ice cream and snack food manufacture and for area wineries. The largest employment segments were noted in agriculture and forestry support (at over 6,800), greenhouse/nursery production (5,600+) and frozen food manufacturing (over 2,100)."	"This cluster includes specialties with high regional concentrations noted for iron and steel mills, secondary nonferrous metals processing, ball and roller bearing manufacturing, enameled iron and metal sanitary ware, textile and packaging machinery, computer terminals, electric lamp bulbs and parts, and dental equipment. Job growth was noted for several of these specialties – including iron and steel mills, enameled iron and metal sanitary ware, packaging machinery, and computer terminals."	"This cluster includes industries with high concentrations in manufactured housing and prefabricated wood building manufacturing. Only prefabricated wood building manufacturing is experiencing both job growth.[5] Total regional employment in this cluster is still relatively high at 5,300. However, compared to other parts of the state, regional specialties are relatively limited – to prefabricated end-use products."	"This cluster includes industries ranging from fabrics to aggregate materials to petro-chemical products. Particular specialties are noted for fabric coating mills, leathers and hides, fertilizer mixing, plastic pipes and fittings, and plastic bottles. Among these sectors, job growth was noted in fabric coating mills (a relatively small employment category) and fertilizer mixing. Despite significant specialties, overall employment in this grouping is lowest of all the clusters considered at 2,700."

[4] Regional Comprehensive Economic Development Strategy (CEDS), Mid-Willamette Valley Community Development Partnership Board, November, 2012. "In 2007, E.D. Hovee and Company, LLC completed a competitive advantage analysis that covered 506 sectors of the three county regional economy. The analysis uses the IMPLAN input-output model to assess economic interrelationships between various sectors of the regional economy as compared to that of the state. The five business industry clusters identified as having a strong comparative advantage in the Mid-Willamette Valley region under this analysis include:" (note: one sector not applicable to industrial and therefore not shown).

[5] This sentence was incomplete in the CEDS Report.

EMPLOYMENT PROJECTIONS

The Salem MSA, also known by the Oregon Employment Department as Region 3, is projected to experience an employment growth rate of 16 percent over the 2010 to 2020 forecast period, which is just slightly lower than the statewide average of 18 percent. Information and projections provided by the Employment Department can help inform the type of jobs and pace of growth that could be captured in Dallas.

According to the Oregon Employment Department, the City of Dallas was home to 880 manufacturing jobs in 2011. This represents 5.1 percent of the 17,100 manufacturing jobs found within Region 3 in 2011.[6] Table 3 below shows the employment growth forecast for Region 3 from 2010 to 2020. Assuming that the City of Dallas can maintain its current capture rate of the region's industrial jobs, Table 3 shows the potential employment growth and new square footage of space needed to accommodate that growth through 2020.

The employment projection segmented the manufacturing growth into durable goods and nondurable goods with subcategories of wood products and food manufacturing, which are both specifically mentioned as industry clusters for the Mid-Willamette Valley.[7] Overall, Dallas could be expected to gain 134 jobs in manufacturing leading to overall building space demand of 114,000 square feet. It could also be expected to gain approximately 24 jobs in wholesale trade, transportation, and utilities, which would require an additional 31,000 square feet of space.[8] The total of 145,000 square feet of new industrial space could be accommodated on 11.1 acres.

Table 3. Employment Projection and New Manufacturing Space Needed, 2010 to 2020

Region 3 Manufacturing Employment Growth Forecast (Polk, Marion, and Yamhill Counties)				Dallas Potential Growth Capture		
	2010	2020	2010 to 2020 Change	Capture % of Region 3 Total (2011)	Share of Net New Jobs	Net New Employment Space Needed (sf)
Total Manufacturing	**17,400**	**20,000**	**2,600**	**5.1%**	**134**	**114,000**
Durable goods	8,500	10,300	1,800		93	79,000
Wood product manufacturing	*1,900*	*2,200*	*300*		*15*	*13,000*
Nondurable goods	8,900	9,700	800		41	35,000
Food manufacturing	*5,300*	*5,700*	*400*		*21*	*17,000*
Total Trade, Transportation, and Utilities	**27,500**	**31,600**	**4,100**		**24**	**31,000**
Wholesale trade	4,000	4,700	700	1.3%	9	12,000
Retail trade (excluded from net new space)	19,300	21,900	2,600	3.0%		
Transportation, warehousing, and utilities	4,200	5,000	800	1.8%	15	19,000
Total Net New Industrial Space Needed					**158**	**145,000**

Source: LED on the Map; Oregon Employment Department Region 3 Employment Projections 2010-2020; Leland Consulting Group.

[6] US Census LED On the Map for Yamhill, Polk, and Marion Counties.

[7] Regional Comprehensive Economic Development Strategy (CEDS), November 2012. Mid-Willamette Valley Council of Governments.

[8] Based on an average of 850 square feet per employee for industrial space, 1,300 square feet per employee for wholesale trade, warehouse and distribution, and a floor area ratio (FAR) of 0.3 which is typical of surface parked manufacturing, industrial, and warehousing employment space.

SITE ANALYSIS

The identification of appropriate and viable uses at the Mill Site must take into account the opportunities and constraints attributable to its location and physical context. The site has approximately 44 developable acres and sits at the gateway to the industrial district at the south end of downtown. It is a large site with minimal connectivity through the site, and has direct rail access with a spur off of a currently unused (but active) Portland and Western (PNWR) line that connects the Mill Site to Corvallis to the south and McMinnville to the north.

Figure 2. Site Map

Source: Property Plan Mill Area, Weyerhaeuser; Google Earth; Leland Consulting Group.

OPPORTUNITIES AND CONSTRAINTS

Some of the opportunities and constraints that are relevant to the City of Dallas and the Mill Site in particular include the following.

Opportunities

- **Rail.** The site has a rail spur that could be used by a new owner or business. According to Business Oregon, a third of the industrial inquiries received by the state are interested in rail service. That said, proximity to I-5 and other factors will trump rail service. Uses most interested in rail:
  - Agriculture (example: apple juice manufacturing, but not apples for produce)
  - Heavy manufacturing
  - Container shipping

    - Distribution (example: GreenFLEX, an up and coming company that builds tilt-up, pre-fab buildings)
- **SDC Credit.** The property has an SDC credit that is worth around $2 million. It is based on the previous use. This can be divided between users on the site and is up to the discretion of the owner to distribute it to new development on the property. The credit can be applied to water, sewer, storm drain, and transportation charges.
- **Willamette Valley.** The site is located in the Willamette Valley, with abundant natural resources including fertile soils that can be converted to value-added manufacturing, especially food products. The Mill Site's location near Salem and the wine country in Yamhill County, as well as its potential access to Pacific Rim trading and international markets through ports in Portland, are additional assets.
- **Sewer and water capacity.** The site has plenty of capacity for sewer and water, which is not always the case in other nearby small towns.
- **Heavy duty pavement.** The Mill Site is paved for heavy weight and has a few existing buildings that potentially could be repurposed for another or interim use.
- **Adjacent to compatible businesses.** The site is adjacent to several compatible businesses. Forest River, which makes recreational vehicles, is adjacent to the site, and seems to be running at capacity. Van Well Building Supply is located to the east of the site and is a healthy and stable business. The Old Mill Feed and Garden store is located in a rehabbed old mill building to the west of the Mill Site and is a local favorite.
- **Proximity to downtown.** The site is close to downtown amenities such as restaurants and shopping. The main downtown streets consist of a wide couplet that used to accommodate large log trucks, making transportation through downtown to Highway 223 to Salem and I-5 a quick and easy connection from the site.
- **Trained workforce.** Dallas is home to many trained industrial workers that have experience from the former mill and could easily transition into other industrial jobs. Many long time residents and younger residents want to remain in the community. The local high school and Chemeketa Community College satellite campus are willing and able to provide training and support for future employees.

Constraints

- **Creek/culvert.** Ash Creek runs down the middle of the property in a partially open culvert. The location of the culvert may restrict the ability to locate buildings on the site. More research is needed to determine the ecological and/or hydrological function and restrictions related to the culvert.
- **Steep terrain.** The hillside on south side of the site is very steep and is unsuitable for industrial development, rendering part of the site essentially undevelopable at this time.
- **Flooding.** The western part of site floods on occasion, a portion of which is located in the floodplain.
- **Limited electricity.** Electrical capacity could be limited for a heavy power user, like a data storage facility or call center, but there is capacity for up to 10 to 12 megawatts, which is sufficient for most other industrial users.
- **Distance from I-5 and airport.** The Mill Site is located more than 30 minutes to I-5 (during most traffic conditions) and more than 60 minutes from the Portland International Airport, both of which will limit the pool of industrial businesses willing to locate here.
- **Industrial land availability/ readiness regionwide.** Marion and Polk Counties, like much of the Willamette Valley, have a good supply of large lots, but do not have many

with existing buildings that could be ready within the short timeframe needed by many industrial users. The Mill Site could not currently deliver a space to a user within a six-month time frame. However, it has several advantages that could make it shovel-ready over the next year or two, including the current demolition taking place and this TGM project which will provide development and transportation alternatives.

TRAFFIC COUNTS

Traffic counts within the City of Dallas tend to be low with counts ranging from 9,000 vehicles per day (on SE Washington Street) to over 16,000 on Highway 223, the main route through town and within a one-mile radius of the site. Low traffic volumes can be good for industrial uses that need quick access, free of vehicular congestion.

ZONING

The site, like most of the surrounding properties along the railroad, is zoned Industrial (I). According to the zoning code, which was recently updated to be more flexible, “the Industrial (I) district is intended to provide for land use compatibility while providing a high-quality environment for a wide range of businesses. The Industrial district also provides suitable locations for heavy industrial uses (e.g., raw materials processing; and manufacturing, assembly, packaging or distribution of heavy or large goods) that would not otherwise be compatible in other districts.”

There do not appear to be any conflicts with the recommended types of employment use for this site and the current zoning standards; in fact, the zoning seems to be in line with the industry clusters recommended for the region and the type of uses that might be likely to locate on the site.