Attachment 6

McMinnville Three Mile Lane Area Plan: Market Analysis

Date April 16, 2019 | FINAL DRAFT

To McMinnville Three Mile Lane Area Plan Project Management Team

From Chris Zahas and Sam Brookham, Leland Consulting Group

Executive Summary

This executive summary provides an overview of the McMinnville Three Mile Lane Market Analysis, which assesses conditions for residential, commercial, office, and industrial development, as well as public recreational facilities. The executive summary includes a description of residential, commercial, office, and industrial forecasts and demand.

Population and Employment Forecasts

The Population Research Center at Portland State University (PSU) produces the annual Population Estimates for Oregon and its counties and cities, as well as the estimates by age and sex for the state and its counties. The population is projected to grow faster from 2020 onwards within the McMinnville UGB than in Yamhill County.

Table ES- 1. Population Forecasts, 2017-2040

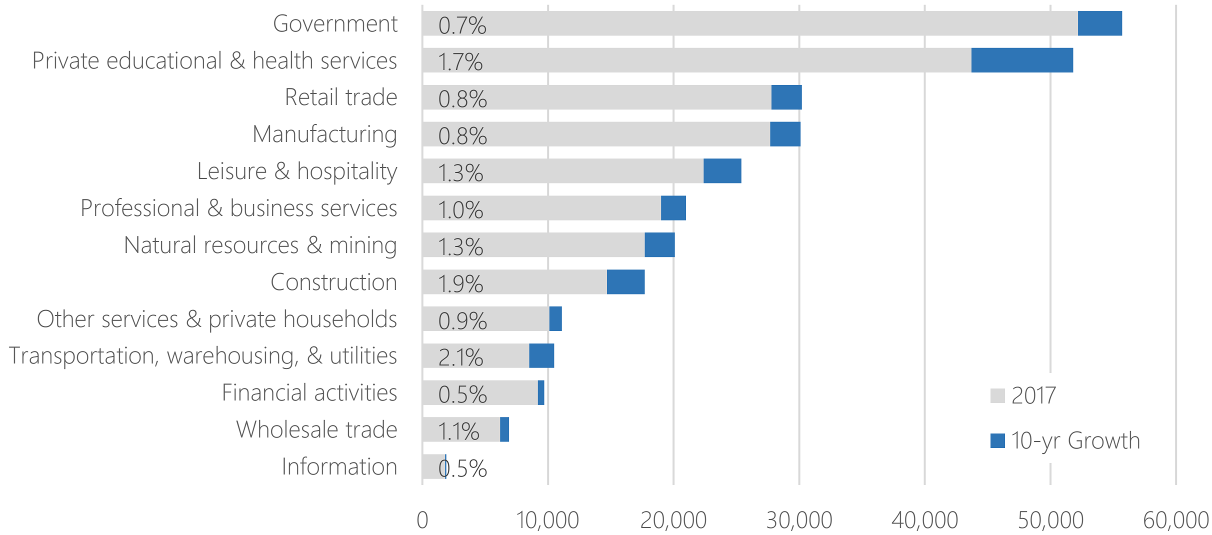
Area / Year	2017	2020	2025	2030	2035	2040
Yamhill County	106,555	111,101	119,339	127,404	135,096	142,311
Annual Growth Rate	N/A	1.40%	1.44%	1.32%	1.18%	1.05%
McMinnville UGB	34,293	35,709	38,437	41,255	44,122	46,956
Annual Growth Rate	N/A	1.36%	1.48%	1.43%	1.35%	1.25%

Source: Portland State University

The study area has a diversified employment base, reflecting the broad range of commercial and industrial businesses in the area. Key takeaways relating to regional employment forecasts include:

- More than one-quarter of all projected employment growth is expected to be in the educational and health services industries, with most in the health care field specifically.
- Industries that typically drive the majority of new office demand—namely Professional and Business Services, Financial Activities, and Information—are among the industries projected to see the slowest employment growth among all industries, and collectively account for eight percent of total projected employment growth.
- Manufacturing employment—the primary driver of industrial development—is projected to be responsible for eight percent of total employment growth.

Figure ES- 2. Projected New Employment Growth, Mid-Valley Region, 2017-2027



Source: Oregon Employment Department (QualityInfo.org).

Real Estate Market

Key takeaways relating to market conditions and real estate trends within the region, City, and Three Mile Lane study area specifically, are as follow.

- **Residential prospects** are strong regionally and nationally, but market conditions are weaker in McMinnville. Significant growth in the Mid-Valley region has driven demand for household growth—for both multifamily and single-family. Growth projections for the region suggest demand will remain strong market-wide, although new development in McMinnville has clustered around the western and northern edges of the city. However, existing rents in the region are relatively low and may struggle to attract prominent multifamily developers in the region due to the continuously rising nature of construction costs. The single-family market is very tight, with strong absorption but very little inventory currently listed for sale—particularly in the sub-$400,000 categories. Single-family homes, multiplexes, townhomes, cottage clusters, and low-rise "garden" apartments are all residential development types that would likely be feasible in the study area in the near-term. Higher-density developments may require additional incentives or other interventions.
- **Retail prospects** are relatively strong for certain retail sectors, despite relatively weak market conditions (including rent, vacancy, absorption, etc.). The Three Mile Lane study area likely checks off many site selection criteria and market characteristics typically desired by prospective retailers. While there are few retailers currently in the area, desired physical characteristics, such as visibility, vacant developable land, and ease of access are all present. Further, McMinnville's central location between the Oregon Coast, the Portland Metro, and Salem provides access to a wide variety of markets. Significant household growth and the burgeoning tourism industry will continue to improve retail prospects.
- **Industrial users** are likely to find the Three Mile Lane area an attractive location given its separation from incompatible land users (like residential), ease of access, highway location, level terrain, and

proximity to the airport. While industrial development prospects at the national level are strong, especially warehouse and distribution—largely because of the rise of e-commerce—the Three Mile Lane corridor is not centrally located to large population centers and is therefore unlikely to capture much of this growing market. Instead, industrial growth is likely to be down to the growing agriculture and food and beverage production industry (including the wine industry). These latter users would be consistent with the existing industrial zoning while creating interesting places and improving walkable access to amenities.

- **Office prospects** are potentially strong but limited. Employment data shows few jobs and low historical growth for industry sectors that typically drive demand for new office space. Regionally, however, projections show significant employment growth in education, healthcare, and professional and business services—all of which drive the most demand for new office construction. If McMinnville is able to reposition its office market to capture a greater share of this regional growth, office prospects may expand. Indeed, two businesses recently relocated to the Three Mile Lane Area because of the lack of available office space downtown—reflecting the very low vacancy rate—but wished to remain in McMinnville because of the high quality of life. McMinnville's quality of life not only has a positive impact on business retention, but there has also recently seen a significant uptick in small high-tech relocations from Silicon Valley that are struggling to find office space. Build-to-suit office opportunities may also arise and help build momentum in the local office market, especially with regard to healthcare and education where there are some existing major tenants and institutions.
- **Lodging** is likely to be a significant development type over the long-term, but the area may struggle to attract hotel developers due to its existing industrial character, lack of walkable amenities, and isolation from downtown. An assessment of the opportunities to capture demand associated with the burgeoning $7 billion wine industry in the Willamette Valley and related tourism development requires further, more nuanced analysis.
- **Tourism** is a booming industry, particularly with regard to the wine industry, increasing market pressure for the new construction of compatible uses, such as experiential retail and restaurants, lodging, and craft industrial, as well as recreational amenities, such as trails and parks, that combined help to create an authentic, vibrant place.

Three Mile Lane in its entirety is located within an Opportunity Zone, a new tax program created by the 2017 Tax Cuts and Jobs Act designed to spur investment in distressed communities. Investors may defer tax on capital gains up to December 31, 2026, by making an appropriate investment through a qualified opportunity fund (QOF) in accordance with certain requirements. This will increase returns and should make investing in opportunity zones more appealing.

Demand and Forecasted Absorption

The following table provides a summary of market area demand for all applicable land uses. The table also includes an estimated development program for the Three Mile Lane study area, which is LCG's projected "capture" of regional growth—based on historical trends, land supply, and anecdotal evidence based on the two focus group discussion conducted to date.[1] The justification for both these numbers is included in the "Notes" column.

It is important to note that these numbers are not specific recommendations; rather, they simply provide an indication of the potential program mix based on market strength. Changes to the mix and specific numbers are anticipated with changes to the zoning, land supply, and public interventions, among other market disrupters.

Table ES- 3. Summary of Market Area Demand and Three Mile Lane Capture

Land Use	Market Area Demand	3ML Est. Program	Notes
Ownership Residential	2,555 units	NA	The market is strong for single-family, with high home values, household incomes, sales volumes, absorption, and construction activity. The quantity depends largely on the City's vision for the area, applicable zoning, and buildable land.
Rental Residential	1,224 units	240 units	Despite solid national development prospects and strong market area demand due to high growth, low-rise rental apartments and multiplexes are likely the primary building types feasible in the study area because of relatively weak market characteristics.
Retail	539,200 sf	150,000 sf	The study area is well-positioned for new retail development, particularly large-format retail. Neighborhood-serving retail may be a mid- to long-term aspiration when additional residential construction occurs.
Office	144,500 sf	30,000 sf	The office market is relatively weak, and the absorption of significant speculative new development should not be expected. However, opportunities may arise because of McMinnville's high quality of life, and the Three Mile Lane corridor's proximity to the airport and institutional users, such as healthcare and education.
Industrial	793,000 sf	80,000 sf	The industrial market remains strong due to the growth of agriculture, food and beverage production, and manufacturing. Continued growth may generate demand in the study area, but development may negatively impact prospects for other land uses, such as lodging and multifamily.
Lodging	NA	NA	Lodging is a specialized development type, which may be feasible given McMinnville's strong tourism industry. However, a weak office market may limit feasibility in the short-term.

Source: Leland Consulting Group

[1] Where applicable, LCG increased the projected growth rate to reflect higher spending due to tourism from the burgeoning wine industry. Spending generated from tourism would not otherwise get captured within LCG's demand models as the majority of demand is typically generated by those that live and work within the primary market area.

Introduction

The Three Mile Lane Area Plan (3MLAP) project will develop an area plan for the Three Mile Lane corridor in McMinnville, updating the 1981 Three Mile Lane Overlay District (amended in 1994) and the 1996 Highway 18 Corridor Refinement Plan. The 3MLAP will integrate a wide range of land uses and a multi-modal transportation system that serves both local and state transportation needs and provides active connectivity within the plan area as well as to the City's downtown core. The project will consider how to maximize the opportunities for job creation, housing, and resiliency planning in the corridor by leveraging the land assets to their highest and best use for affordable housing, industrial development, tourism development, hospital expansion, airport expansion, and gateway improvements.

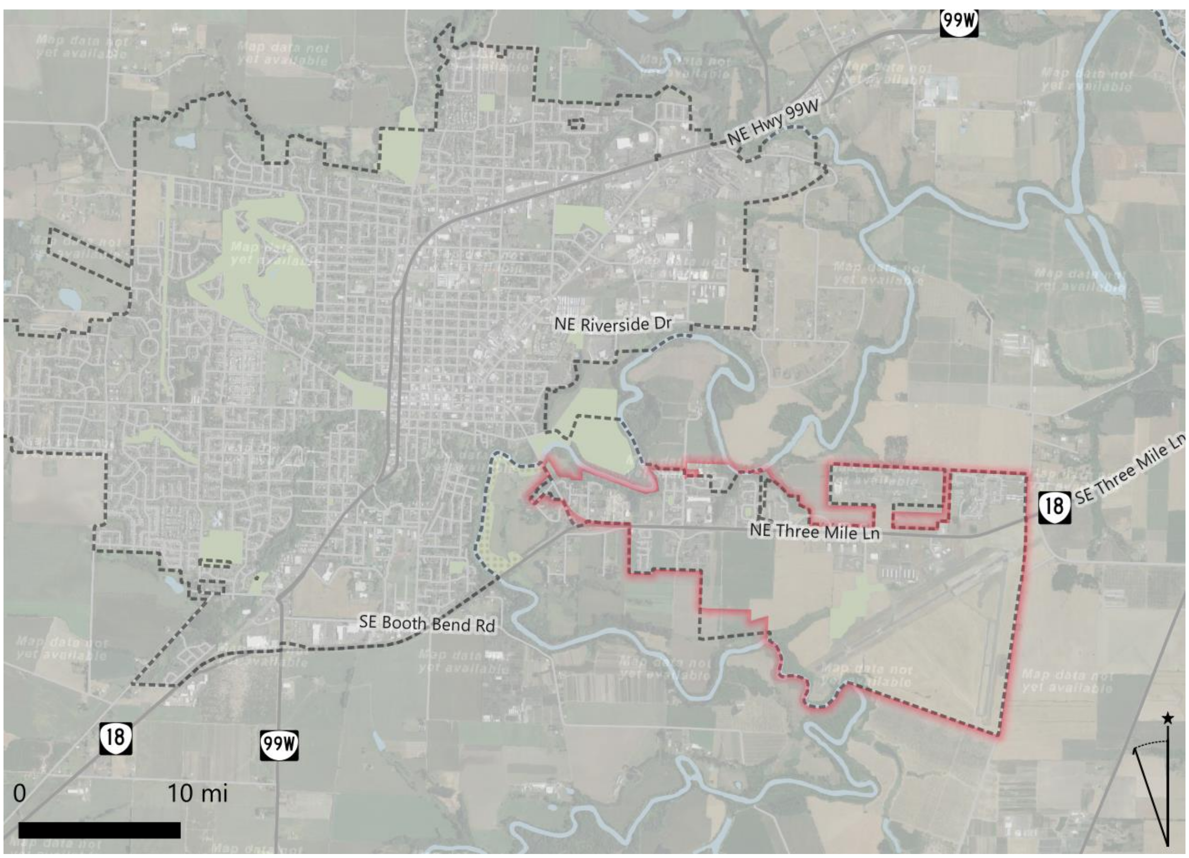
Task Overview

This Market Analysis includes existing and future market conditions for development in the Project Study Area based on current forecasts for population and employment growth; published forecasts for expected growth and development trends; contact with industry professionals; and information provided by participants project meetings and other public input.

Project Study Area

The project study area is located in the southeast arm of McMinnville, centered around State Highway 18/Three Mile Lane, as indicated below in Figure 1.

Figure 1. Three Mile Lane Study Area



Source: Google, TIGER, Leland Consulting Group

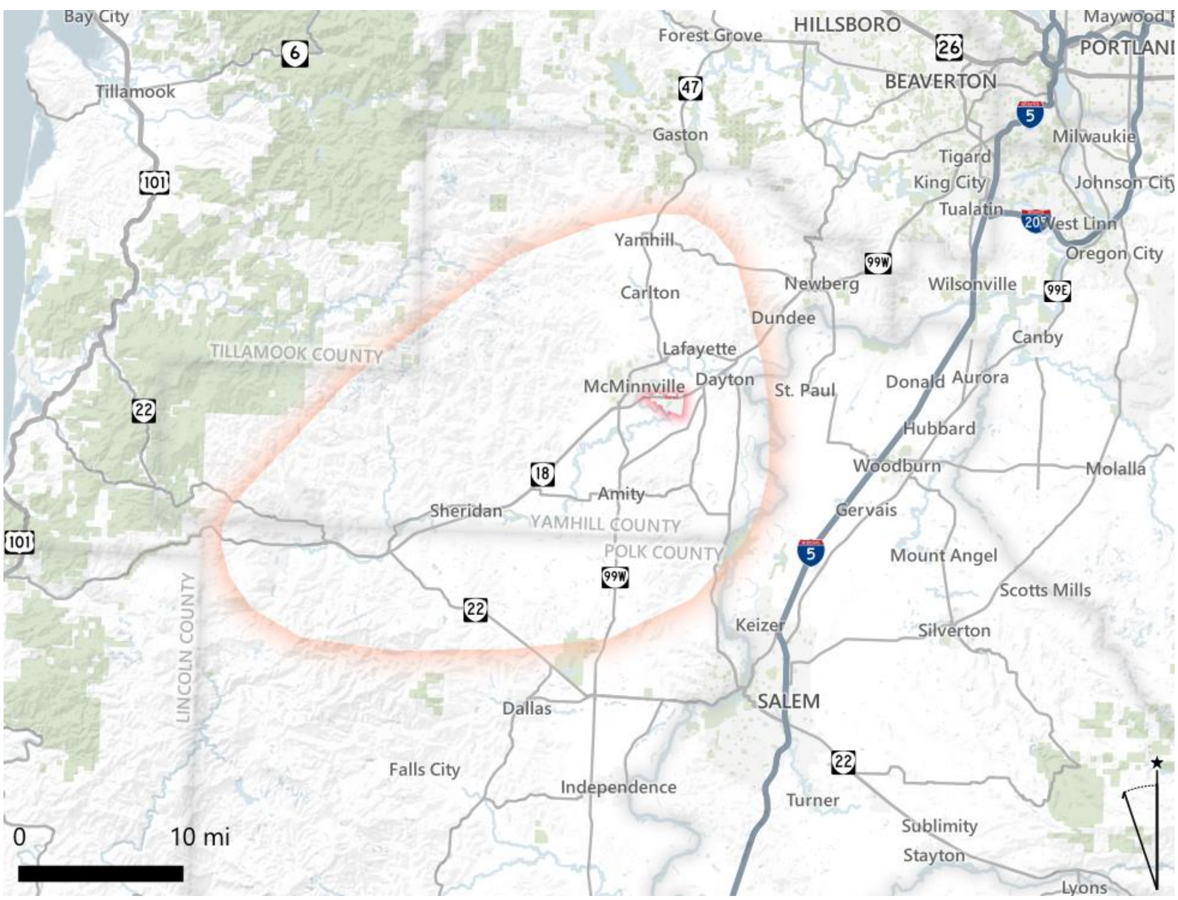
The Market Area

The market area, as defined in Figure 2. represents the area from which the most demand for residential, commercial, and industrial uses will originate, and where most of the competitive development is located. Residents and businesses located in this area are the primary groups to support retail on site, lease/utilize office space, and live in the study area. The market area is roughly bounded by the Willamette River to the east, Tillamook State Forest to the west, and Polk County to the south—although the market does extend into Polk County, there are few residents or jobs located in this area—and the City of Yamhill to the north.

The market area is defined based on several variables, including drive time, destinations, and commute patterns and other relationships to the City of McMinnville. As the most southwestern city of significance on the way to the coast, the market area extends further southwest than it does to the north and south, where McMinnville is unlikely to out-compete with Oregon's major metropolitan regions—namely Portland and Salem. The pass-through traffic on Highway 18 from Portland to the coast is another market of importance to retailers and tourism-related developers, but not necessarily captured within this report. The retail leakage analysis, discussed in depth later in this report, would capture some of the retail spending, but impacts to hotels, wineries, and other important tourism-related organizations and development would not be cataloged.

McMinnville and other cities located on the western periphery are likely to capture the majority of demand in the Western Willamette Valley, while Newberg is closer to the Portland Metropolitan Area and more likely to capture demand for residents and businesses whose lives and livelihoods are oriented towards Portland.

Figure 2. Regional Overview and Market Area



Source: TIGER, Leland Consulting Group

National and Regional Context

Development Context and Market Trends

Development and Land Use Types

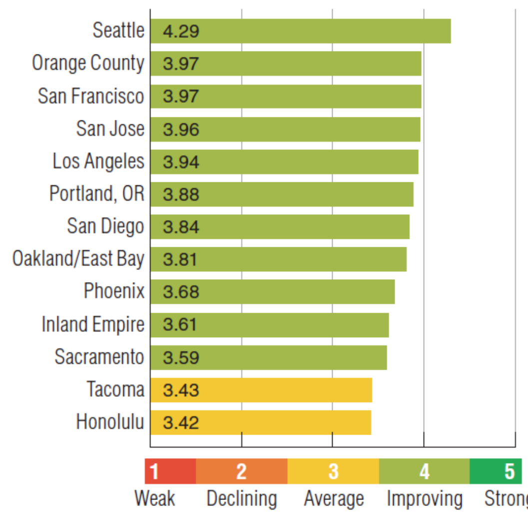
This section includes excerpts from the Urban Land Institute's (ULI) Emerging Trends in Real Estate report for 2019, an annual publication that assesses the state of real estate markets both nationally and locally based on interviews and surveys with experts in development and finance. Both national and regional trends have an impact on future land uses in the study area: they set the stage for the types of investments that are desirable for real estate developers and investors.

Emerging Trends[2] suggests that access to talent (i.e., well-educated workers) is what drives the economies of many of the Pacific Northwest markets.

The Portland metropolitan region[3] is described by ULI as a "solid 18-hour city" whose strengths include strong economic growth due to increased wealth in the market, a high quality of life and attractive outdoor activities, and a diverse workforce that helps to supply trained labor to industries.

While the regional economy is not considered as strong as other Pacific Coast major metropolitan regions, it has experienced the benefit of being able to offer a more competitive cost structure to its more expensive neighbors along with a high quality of life for residents. This is a prime example of how quality of life can drive an economy and one that McMinnville can continue to leverage, especially given the affordability challenges facing the Portland metro.

Figure 3. Local Outlook: Pacific Northwest



Source: ULI

Indeed, the main challenges in the Portland metropolitan area are housing affordability and critical infrastructure enhancements, where the median home value is $338,000 and the median household income is $68,100. McMinnville's relationship to the Portland metropolitan region may be nuanced, but affordability appears to be a factor. According to 2015-2016 migration data from the IRS (which is based on the address on annual tax returns), Yamhill County attracted approximately 230 households from Multnomah County, with only 173 households migrating *from* Yamhill to Multnomah during this same period. In general, Yamhill's migratory relationship with other Oregon counties is more prevalent than Multnomah: approximately 65 percent of incoming households to Yamhill County in 2015 to 2016 were from Oregon, compared to only 37 percent for Multnomah. Further, 69 percent of households *leaving* Yamhill migrated to other Oregon counties, compared to only 51 percent of Multnomah households.

---

[2] URL

[3] Since McMinnville is on the periphery of the Portland metropolitan area, Portland directly impacts McMinnville's economy.

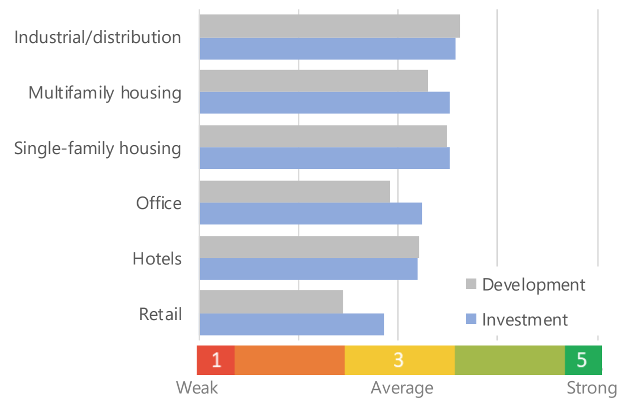
National Real Estate Development Prospects

Emerging Trends also provides guidance about the types of development that are likely to be most desirable in the coming years from a developer and investor perspective. While this is a national outlook, the guidance is relevant for most local markets, including McMinnville.

The following figure shows ULI's high-level summary of national investment and development prospects for 2019. Several notable features are described below.

Industrial and distribution are favored development types, largely because of the acceleration of online retailing, and the need for distribution points for these goods. However, developers will seek to locate online distribution centers near the center of metropolitan areas where the density of residents and businesses is greatest, therefore the impact of this trend in McMinnville is likely to be modest. Single-family housing has picked back up significantly; for many years following the great recession the development of single-family housing was much slower. Multifamily housing is also seen as having fair to good development prospects. Hotel development is judged to be just above fair.

Figure 4. National Development Prospects, 2019



Source: ULI

LCG's experience is that hotel development is a specialized form of development, which will continue to work in specific locations, often with an established base of major employers or a major tourism draw, as McMinnville has. Office development is less desirable,[4] in part because the new generation of white-collar employees requires less space: many hard-wall offices have been eliminated in favor of open floor plans, more employees are working remotely, and paper filing and other "analog" space requirements have become digitized. A majority of new office development has also taken place in close proximity to central business subareas (e.g., downtown Portland), where many young professionals locate and where job growth has been fastest.

New retail development is seen by investors as the riskiest and least desirable type of development, primarily due to the rapid expansion of online retailers who are capturing market share from mall anchors and commodity retailers. Sears, Macy's, Toys R Us, Sam's Club, J.C. Penny, and Payless Shoes are among the chains that have completed major store closures. The retrenchment of these traditional retailers and years of high vacancies have made retail developers cautious. Nevertheless, there may be opportunities for retail growth in under-served markets or areas with significant population growth.

The Impact of Tourism on Development

There are several emerging trends in traveler behavior and consumer preferences that have a significant impact on tourism, and therefore should be considered in terms of potential investment decisions. While investments

[4] However, two office-related businesses have recently moved to Three Mile Lane because they outgrew downtown locations. Office market characteristics provided later in this report shows a low vacancy rate in the office market of 1.4 percent, suggesting a significant lack of available office space.

are typically related to commercial estate, tourism can often also result in residential demand as visitors are drawn to a particular quality of life (for example, young, emerging professional looking to relocate or retirees looking for a place to retire). Some of these trends are described below.

- **Authenticity** – Travelers are increasingly seeking authenticity in the places they visit, where they can experience deeper and more personal connections. According to a travel trend poll of travel agents by American Express in 2014, more than one-third (34 percent) of respondents said customers are seeking to immerse themselves in unique and authentic aspects of their travel destinations.
- **Interactive/Experiential Tourism** – It is more likely that a visitor will be motivated to travel to a destination, extend their stay or return for a future visit if the attractions and assets allow for direct interaction. This has significant implications for the art/culture, entertainment/festival, culinary and other sectors of the McMinnville visitor offering.
- **Culinary/Food Tourism** – Authentic food experiences have become a popular motivator for travel, according to research conducted by TrekkSoft, an international tour operator software company. In a worldwide survey of nearly 150 tour operators, respondents described food markets, tasting sessions, cooking lessons and vineyard/farm visits as growing in popularity.
- **Health and Wellness** – Health-conscious consumers are now seeking to enhance their well-being through travel experiences. In 2017, Booking.com found that 40 percent of travelers are interested in a health and well-being travel experience, such as locally sourced menus, improved access to recreational activities such as yoga, and wellness- or fitness-oriented events.
- **Leveraging Waterfronts** – Both large- and mid-sized communities throughout the country have invested in their scenic waterfronts by planning and supporting the development of shopping districts, outdoor restaurants and river walks. Cities such as Grand Rapids (MI), Bend (OR), Pueblo (CO), Reno (NV) and many others have developed extensive plans and zoning adjustments to add riverside cafes, unique retail, gondolas, craft breweries and other assets that build on these invaluable natural assets.

The Impact of Airports on Development

The 650-acre McMinnville Municipal Airport is located within the Three Mile Lane Study Area on the south side of Highway 18. The facility can accommodate private jet aircraft, but there is no commercial airline that services McMinnville. Most of the aircraft housed at the airport are small planes owned by private individuals. There are also a few jets and a significant helicopter presence due to the helicopter flight school.

While there is not currently commercial air service operating out of the airport, it is important to acknowledge any impact it has on the area's prospects, including any related development opportunities. An assessment of national trends in general aviation and related development helps provide context for possible opportunities.

Nationally, many modern airports now generate most of their revenues from sources other than aviation. Airport authorities are no longer stale bureaucracies. They have quietly been morphing into what can best be called entrepreneurial landlords.

Depending on local circumstances, airports have seen the following types of development (in addition to the usual airport facilities like parking, etc.), either on their lands or directly adjacent to their lands (many of these are in high demand and, therefore, currently at a premium):

- Hotel developments
- Conference/convention centers
- High-end outlet malls
- Destination shopping centers
- Corporate head offices
- Mixed-use developments (shop, work, play, stay)
- Office buildings
- Post-secondary education facilities, specifically aerospace-related
- High-tech business parks
- Industrial developments (manufacturing, warehousing)
- Cargo facilities
- Casinos
- Entertainment destinations
- Recreational facilities
- Botanical gardens
- Butterfly gardens
- Residential developments
- Libraries
- International sports facilities
- Local amenities

Demographics

This section provides an overview of past, existing, and projected demographic conditions.

Household and Population Characteristics

In 2018, the project study area was home to just over 2,000 residents—approximately six percent of McMinnville's total population and three percent of the market area. The market area—which is mostly located in Yamhill County—contains about three-quarters of the County's population.

The study area's population has grown at the fastest rate versus the city, county, and state, although total numerical growth has been relatively little. McMinnville, in general, has generally experienced significant population growth—particularly from 2000 to 2010.

Table 1. Population Counts

	Study Area	McMinnville	Market Area	Yamhill Co.	Oregon
2000 Total Population	1,536	27,198	59,834	84,992	3,421,399
2010 Total Population	1,856	32,187	69,597	99,193	3,831,074
2018 Total Population	2,086	34,366	75,125	104,675	4,185,014
00-10 Annual Growth Rate	1.9%	1.7%	1.5%	1.6%	1.14%
10-18 Annual Growth Rate	1.5%	0.8%	1.0%	0.8%	1.11%
00-18 Annual Growth Rate	1.7%	1.3%	1.3%	1.2%	1.13%

Source: ESRI and Leland Consulting Group

Selected household characteristics are provided in the following table. Generally, existing households in the Three Mile Lane study area are slightly smaller, have higher incomes, and are significantly older, more diverse, and less educated than McMinnville and the wider region. Further, home values are higher than the City and market area average, yet lower than the county and state, likely because despite there being relatively few homes in the study area, most were built post-2000.

Table 2. Select Demographic and Housing Characteristics, 2018

	Study Area	McMinnville	Market Area	Yamhill Co.	Oregon
Avg. Household Size	2.58	2.65	2.74	2.73	2.50
Median Home Value*	$291,043	$277,574	$292,514	$307,273	$301,025
Median HH Income	$55,460	$53,456	$57,553	$61,863	$57,902
Per Capita Income	$27,729	$26,783	$27,420	$28,571	$31,775
Median Age	40.9	35.7	38.1	38.0	39.7
Non-white Pop	20.6%	17.8%	16.5%	14.6%	16.4%
Bachelor's +	19.0%	24.4%	22.2%	26.3%	33.4%

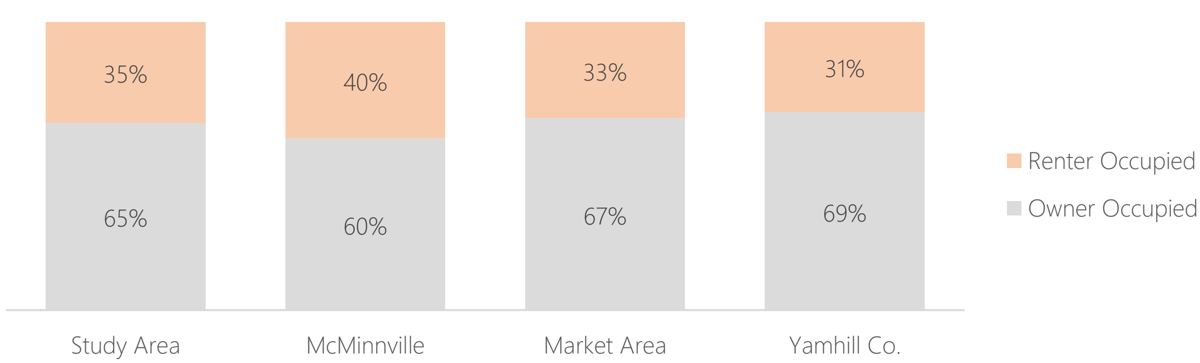
Source: ESRI and Leland Consulting Group
**Owner-occupied housing only*

As shown in Figure 5, the study area has a greater proportion of renters compared to market area and county (where owner-occupied households are the norm), but less than the City of McMinnville. This is likely reflective of the higher proportion of older and higher-income households in the study area versus McMinnville.

The Pew Research Center indicates that certain demographic groups—such as young adults, nonwhites, and those with less educational attainment—have historically been more likely to rent than other groups, and rental rates have increased among these groups over the past decade. However, rental rates have also increased among some groups that have traditionally been less likely to rent, including whites and middle-aged adults.[5]

In fact, although renting is most common among young adults, nearly everyone rents at some point in their lives—whether by choice or by necessity. However, rental housing is particularly important for low-income and minority households, about half of whom are renters. As a result, supplying affordable units in a variety of structure types and neighborhoods is a critical national housing policy priority.[6] [7]

Figure 5. Tenure, 2018



Source: ESRI and Leland Consulting Group

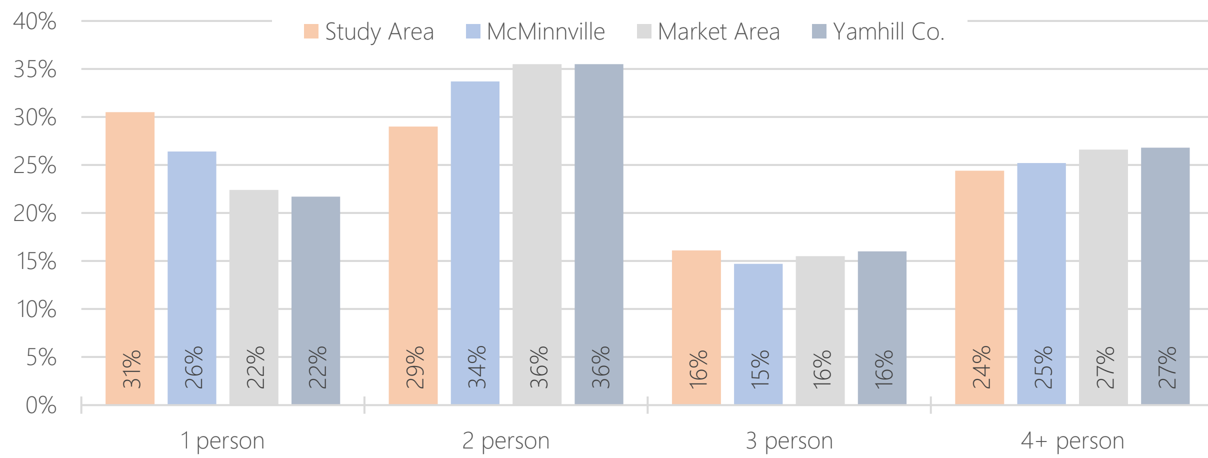
[5] Pew Research Center, "More U.S. households are renting than at any point in 50 years," 2018, URL

[6] From "Renter Demographics" by the Joint Center for Housing Studies of Harvard University, URL

[7] At the time of writing, McMinnville was undertaking a Housing Needs Analysis (HNA), the preliminary results of which show housing affordability as a growing challenge in McMinnville.

Figure 6 shows the proportion of households by size for each comparison area. The study area currently has the greatest proportion of one-person households but is consistent with al comparison areas for households with three or more people. Generally, one- and two-person households are the most common household size.

Figure 6. Households by Size, 2010



Source: ESRI and Leland Consulting Group

Residential Forecasts

Population growth is a key indicator and driver of demand for both residential and commercial development, and therefore, population forecasts are critical in estimating future demand. The projected growth—or lack thereof—of the population, households, and employment help to inform future growth rates which are used in the demand analyses presented in this report.

The Population Research Center at Portland State University (PSU) produces annual population estimates for Oregon and its counties and cities, as well as estimates by age and sex for the state and its counties.

The population is projected to grow faster within the limits of the McMinnville UGB than in Yamhill County as a whole. As such, an increasing share of the county's population is expected to reside in McMinnville over the next 40 years (32 percent in 2018 and 35 percent by 2067).

While McMinnville will have high actual population growth, other cities in Yamhill County have higher projected growth rates over the next two decades. These cities include Dundee (1.84 percent), Newberg (1.81 percent), Lafayette (1.7 percent), Carlton (1.6 percent), and Yamhill (1.2 percent).

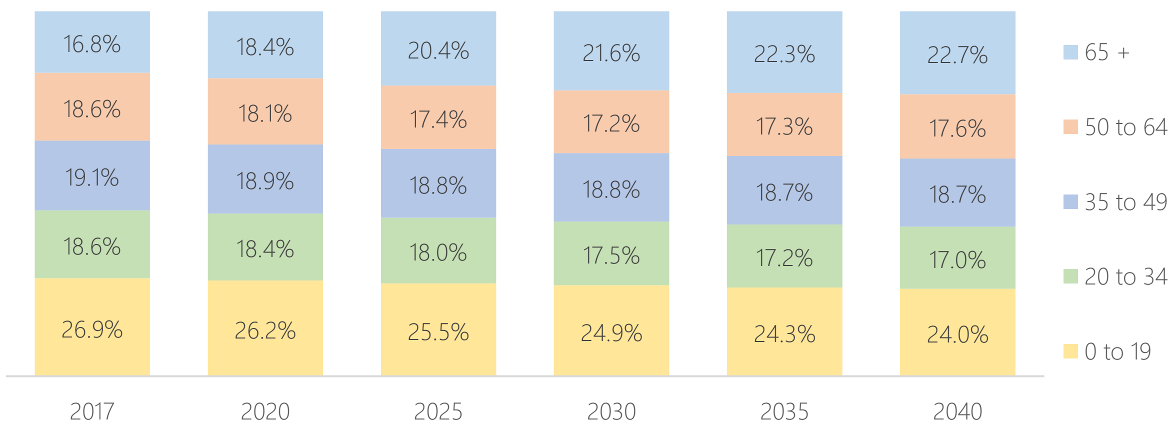
Table 3. Population Forecasts, 2017-2040

Area / Year	2017	2020	2025	2030	2035	2040
Yamhill County	106,555	111,101	119,339	127,404	135,096	142,311
Annual Growth Rate	N/A	1.40%	1.44%	1.32%	1.18%	1.05%
McMinnville UGB	34,293	35,709	38,437	41,255	44,122	46,956
Annual Growth Rate	N/A	1.36%	1.48%	1.43%	1.35%	1.25%

Source: Portland State University

The 65-and-over age group is projected to experience the most growth in the next two decades as the entire baby boomer generation enters retirement age. After 2030, the millennial presence is projected to significantly increase the proportion of the population aged between 50 and 64. Access to essential services and a sufficient range of appropriate housing options will be critical in accommodating these aging demographics. These shifting demographics are likely to have a significant impact on residential development. For example, growth in the number of seniors will result in demand for senior housing (age-restricted apartments or assisted living facilities) and small and maintenance-free dwelling units. Growth in the Millennial generation will result in demand for affordable single-family, townhomes, and multifamily housing.

Figure 7. Population by Age, Yamhill County, 2018-2040



Source: Portland State University

Employment

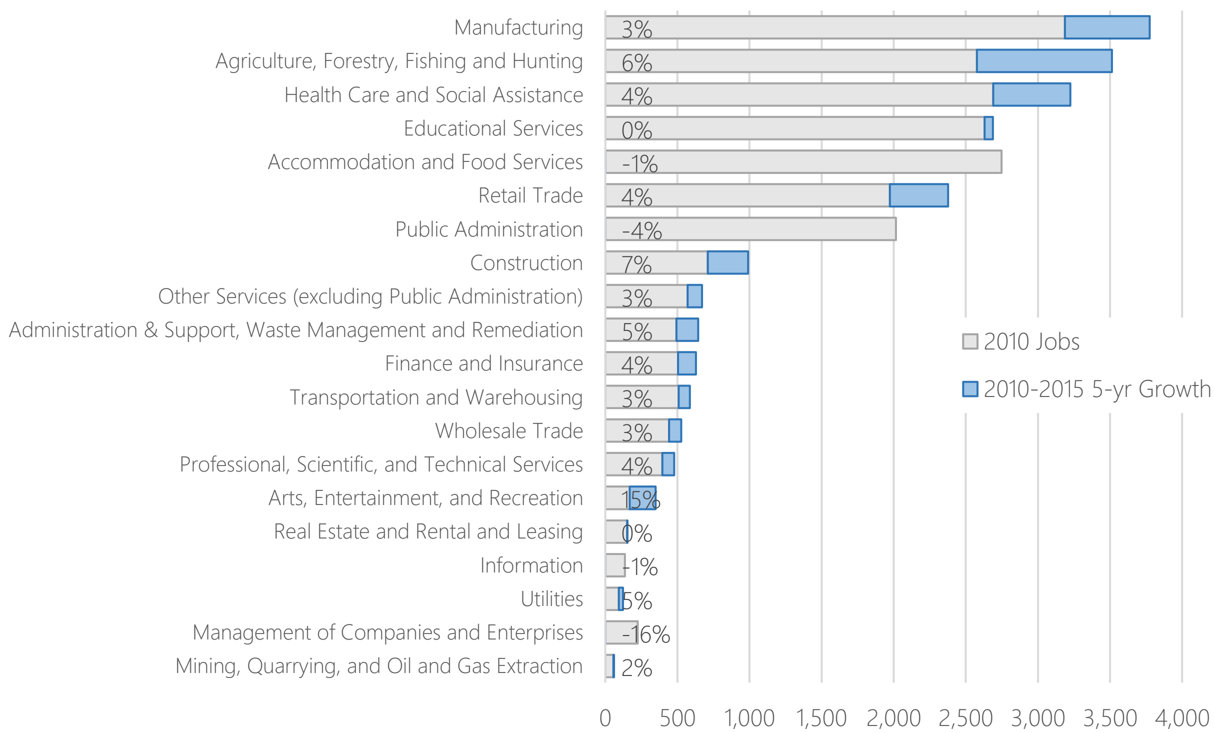
This section provides an overview of past, existing, and projected employment conditions.

Total job counts for 2010 and 2015 and annual employment growth are shown in Figure 8. Employment in the McMinnville market area predominantly consists of jobs in manufacturing, education, healthcare, accommodation and food services, and retail. These five industries were responsible for over 71 percent of all jobs in 2015. Approximately one-quarter of all jobs in 2015 were in the manufacturing industry. Of these top five industries, all but Educational Services experienced high annual growth of over two percent.

- The fastest growing industries between 2010 and 2015 were:
    - Arts and entertainment (15.5% annually). While this sector is relatively modest in size, its growth has been the highest among all other sectors, likely due to the increase in tourism in the area.
    - Construction (6.9% annually).
    - Agriculture, forestry, fishing, and hunting (6.4% annually). Not only in this the third-fastest growing sector in the market area, but it is also the second-largest in terms of total jobs. One of the inputs into this sector is the wine industry, in which McMinnville has continued to experience growth.
    - Administrative & support, waste management & remediation services (5.5% annually)
    - Utilities (5.4% annually)

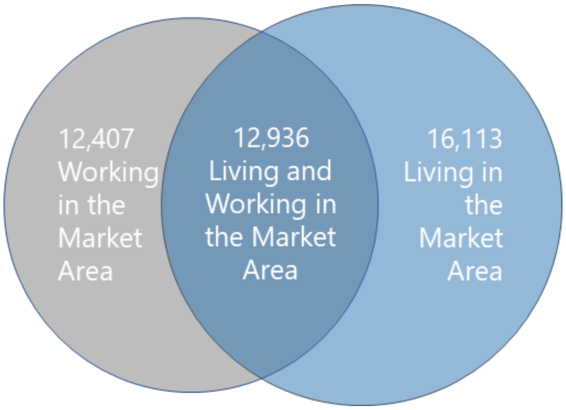
    - Finance and insurance (4.5% annually). The majority of speculative office demand is typically generated by this sector and the following sector. This growth improves development prospects for new office development, but in terms of total jobs, these sectors remain relatively minor in the region.
    - Professional, scientific and technical services (3.9% annually).
- The only industries to lose jobs in the five-year period between 2010 and 2015 were:
    - Management of companies and enterprises (-15.6% annually)
    - Public administration (-3.7% annually)
    - Information (-1.3% annually)
    - Accommodation and food services (-0.7% annually).

Figure 8. Employment Profile, McMinnville Market Area



Source: LEHD. Percentages shown above are compound annual growth rates for the past five years.

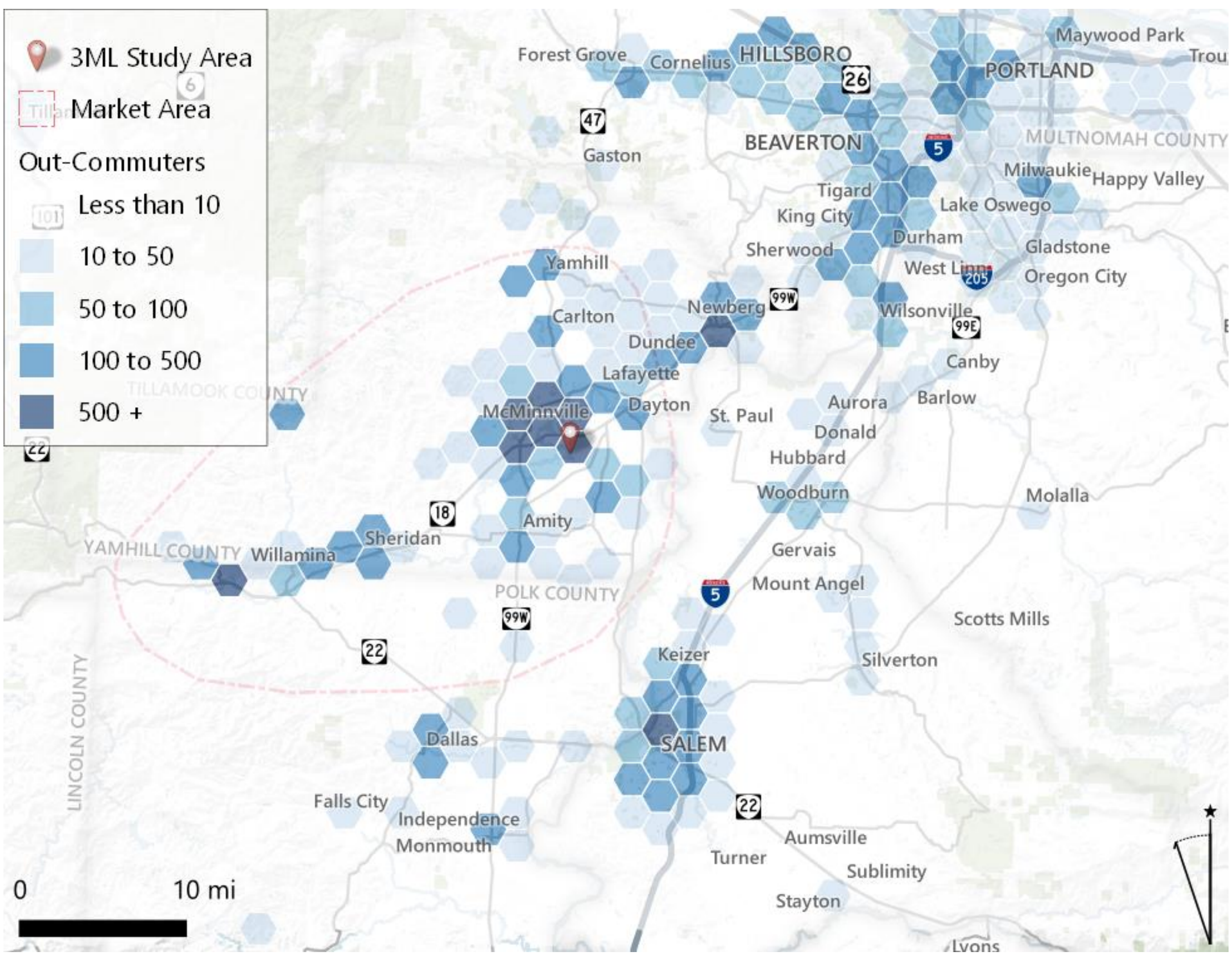
Figure 9. Commute Patterns, Inflow-Outflow, McMinnville Market Area, 2015



The number of people that both live and work in the McMinnville market area generally increased from 2005 to 2015, suggesting that McMinnville's employment market has strengthened over the past decade. Approximately half of the people working in the market area as of 2015 also live there, up from 41 percent in 2005.

Figure 10 below shows where residents of the market area commuted to work in 2015. The highest concentration of employees living in the market area is within McMinnville. However, a significant number of market area residents commute to Newberg and Salem, as well as further afield to various cities in the Portland metropolitan area. Few residents commute to the coast, although there are small concentrations of employment in cities and towns to the southwest of McMinnville—namely Sheridan and Grand Ronde.

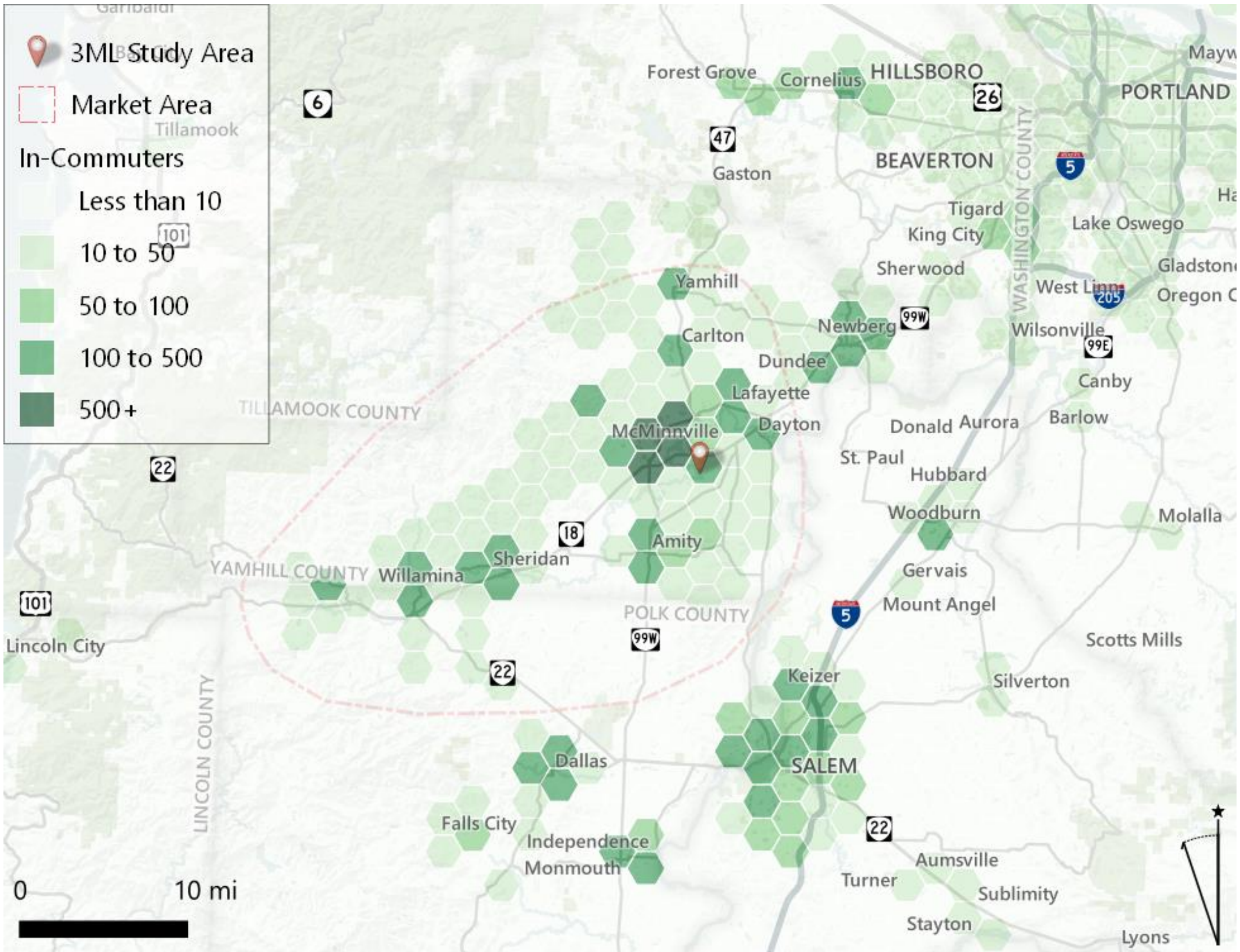
Figure 10. Where Market Area Residents Commute To, 2015



Source: LEHD OnTheMap and Leland Consulting

As the following map shows, there is a significantly greater concentration of employees that also live in the McMinnville area. Few employees working in McMinnville and the surrounding market area live in Salem and even fewer in areas of the Portland Metro.

Figure 11. Where Market Area Employees Commute From, 2015



Source: LEHD OnTheMap and Leland Consulting

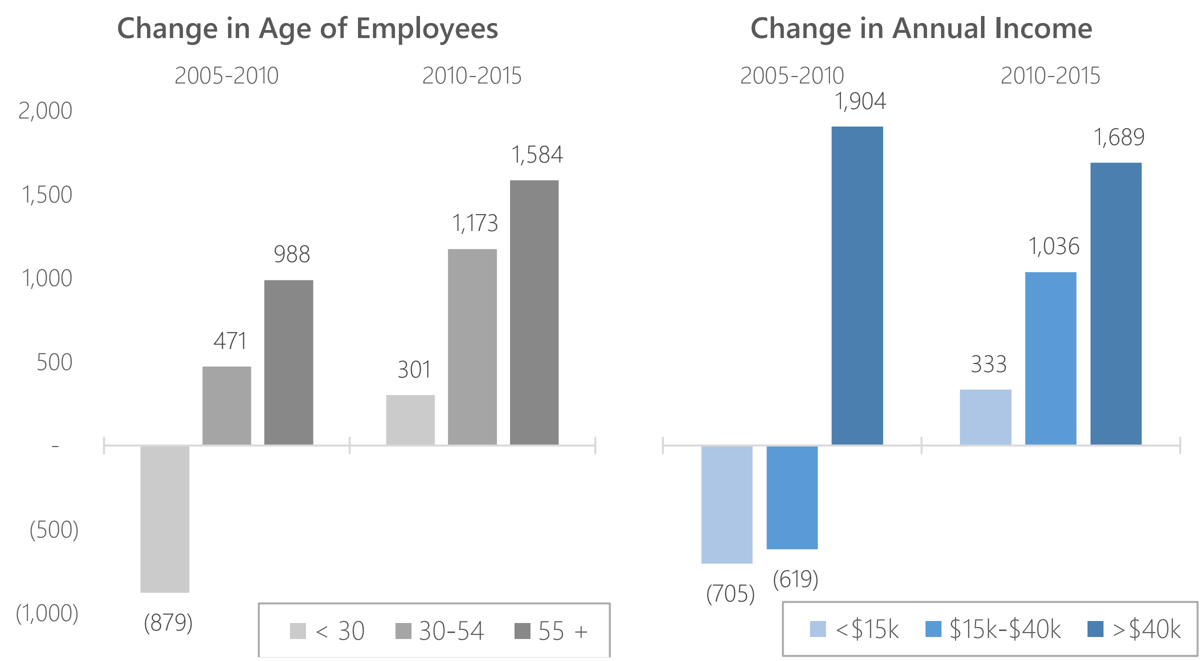
Figure 12 below shows the proportion of market area employees by both age and annual income in 2005, 2010, and 2015. Generally, employees in the market area were significantly older in 2015 than in 2005 but earned significantly more on an annual basis. In fact, employment grew by almost 2,600 jobs in the 55-and-over age category. During this same period, workers in the under-30 age category declined by almost 600.

Some of the key takeaways about McMinnville's employment associated with both the aforementioned commute data and this trend data is summarized as follows.

- McMinnville as an aging community that is failing to attract or retain its younger workforce. Comparatively, the same data source shows a similar yet less significant trends for the City of Portland.
- People over the age of 55 are moving to McMinnville as they near retirement age, skewing the average employee age upwards. In contrast, almost half of all new employment growth in Portland between 2010 and 2015 was for employees aged between 30 and 54. Similarly, however, the metro

also showed a decline in workers younger than 30 between 2005 and 2010, and only modest growth between 2010 and 2015. Ultimately, this shows Oregon to be an attractive place for workers well into their career already rather than younger, entry-level workers.

Figure 12. Change in Number of Employees by Age and Annual Income, McMinnville, 2005-2015

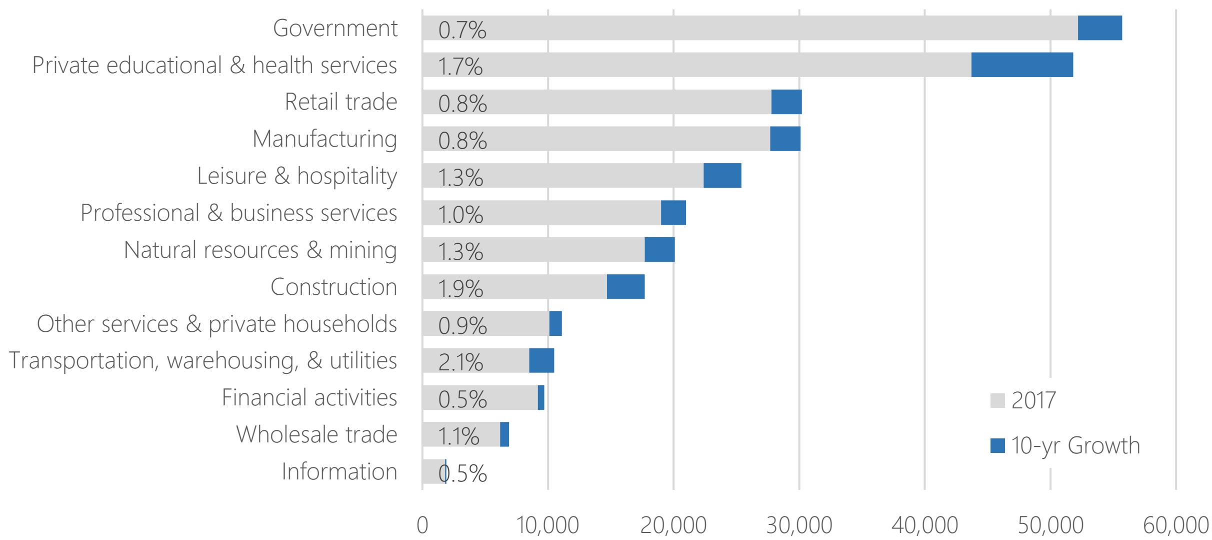


Source: LEHD

Employment Projections

For employment forecasts, we use the State Employment Department's 10-year projections for each industry. Over half of all projected employment growth is expected to occur in the industries of Educational and Health Services, Government, Construction, and Leisure and Hospitality. The fastest growing industry is Transportation, Warehousing, and Utilities. New, specialized office demand may arise from significant growth in education and healthcare, while employment growth in leisure and hospitality is indicative of the region's burgeoning tourism presence, particularly with regard to the wine industry.

Figure 13. Projected New Employment Growth, Mid-Valley Region*, 2017-2027



Source: Oregon Employment Department (QualityInfo.org)
**Includes the four-county region of Marion, Polk, Washington, and Yamhill*

However, caution is required with these projections. Not only do they apply to a larger geographic area than the residential projections (a four-county region versus the McMinnville UGB), but the employment projections are given by industry, likely resulting in a significant margin of error. As such, it is likely to be just as instructive to consider historical trends (e.g. from the last five to 10 years) in projecting future employment in the market area. The demand estimates for new office and industrial development that are presented later in this report are based on an average of historical and future growth rates.

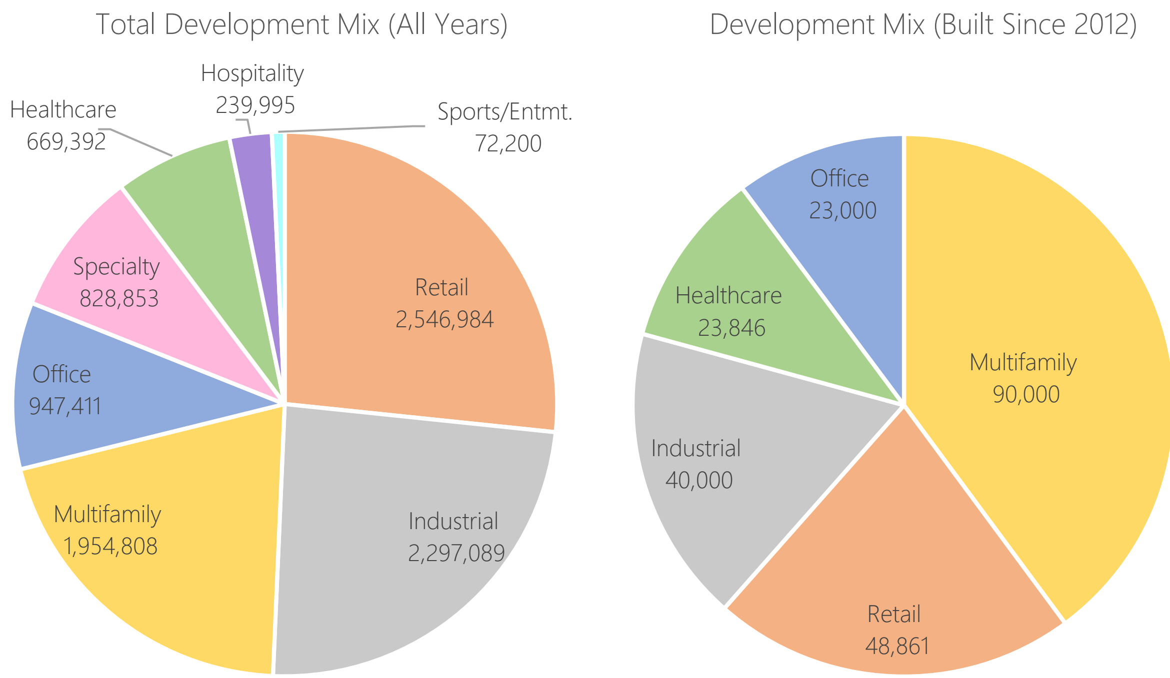
Real Estate Market

This section covers the residential market, which includes both single-family and multifamily housing; the retail market; and the market for "employment" space, which includes both industrial and office land uses. Market conditions—such as the development pipeline, building vacancies, rents, and other market trends—are critical to establishing the market's strength and subsequent level of financial feasibility for new development.

However, more recent development in McMinnville has been mostly multifamily residential (predominately apartments), which is consistent with national trends and consumer preferences, despite weaker market conditions. With the growing demand among younger and older generations for apartments, tighter mortgage lending requirements, and many years of limited apartment production, there remains pent-up demand for apartments in most markets. Coupled with a changing commercial market in which office space use is declining every year and retailers are closing at an unprecedented rate in face of e-commerce, multifamily has generally become the dominant type of new development. This trend appears to be applicable to the McMinnville market area as well. With that said, construction costs and increasing land prices continue to increase feasibility barriers. If rents are not high enough to justify new construction to mitigate these barriers, then additional funding will be necessary to bridge the feasibility gap.

Figure 14 shows commercial and multifamily real estate development (excluding institutional and single-family residential) by total square footage within the market area. The chart on the left shows all development built across all years. The land use mix is relatively evenly spread across many development types, with retail and industrial comprising over half of all development.

Figure 14. McMinnville Market Area Land Use Mix, Commercial and Multifamily Development (Square Feet)

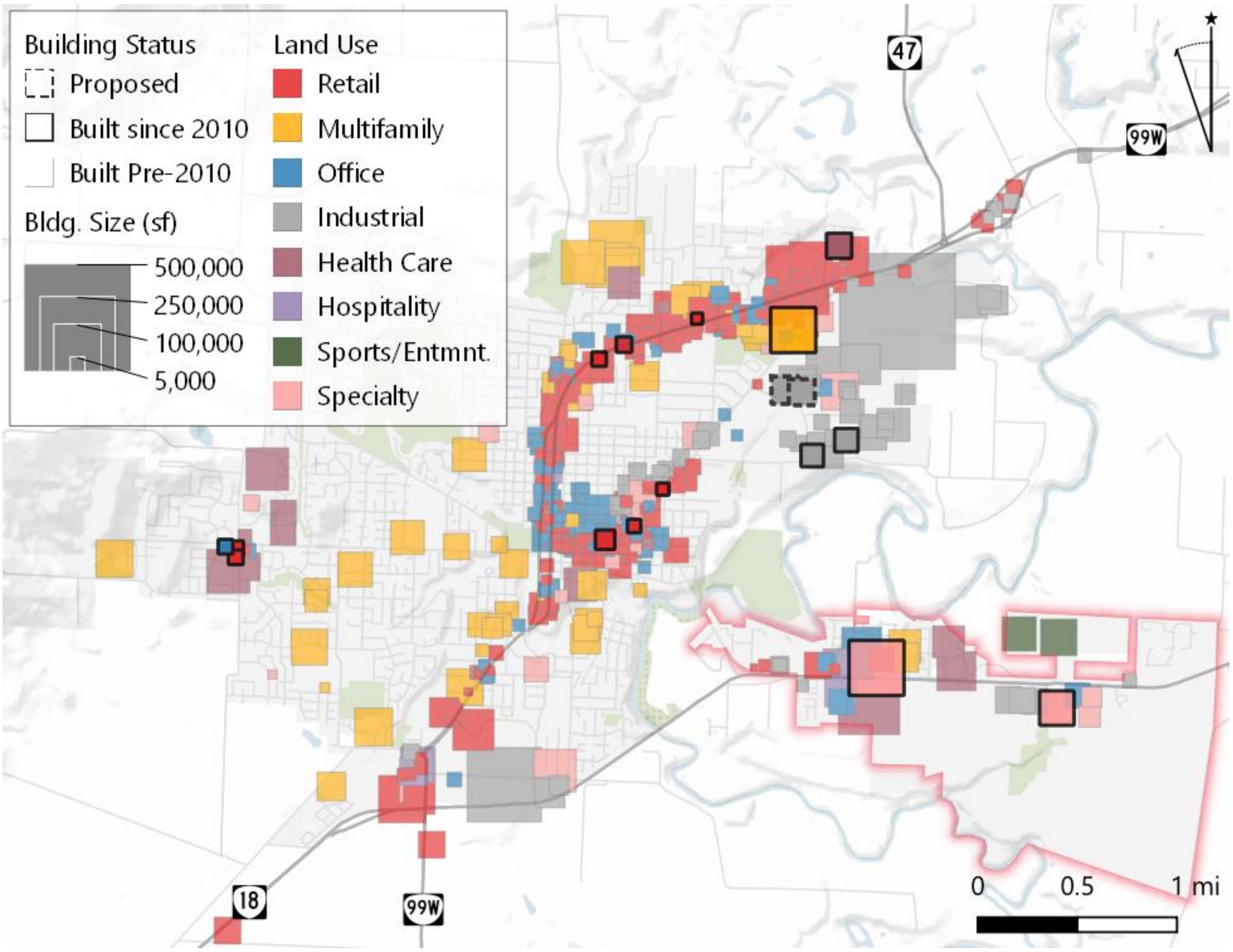


Source: Costar

Figure 15 shows the location and size (by total building square footage) for each land use. Squares with bold outlines indicate recent construction and buildings under construction, while squares with dashed or no outlines indicate proposed projects planned for 2019 or beyond. It is worth noting that some of these proposed projects have been in the pipeline for a long time, such as the proposed retail projects in the Three Mile Lane study area. This analysis—to a certain extent—will identify whether some of these projects are indeed feasible.

There has been relatively little new development in McMinnville, and most recent construction has occurred in the northern sections of the city, with some smaller retail projects along the Highway 99W corridor.

Figure 15. Development by Land Use* and Year Built, City of McMinnville



Source: Costar and Leland Consulting Group
**Excludes institutional and single-family residential land uses*

Residential Market

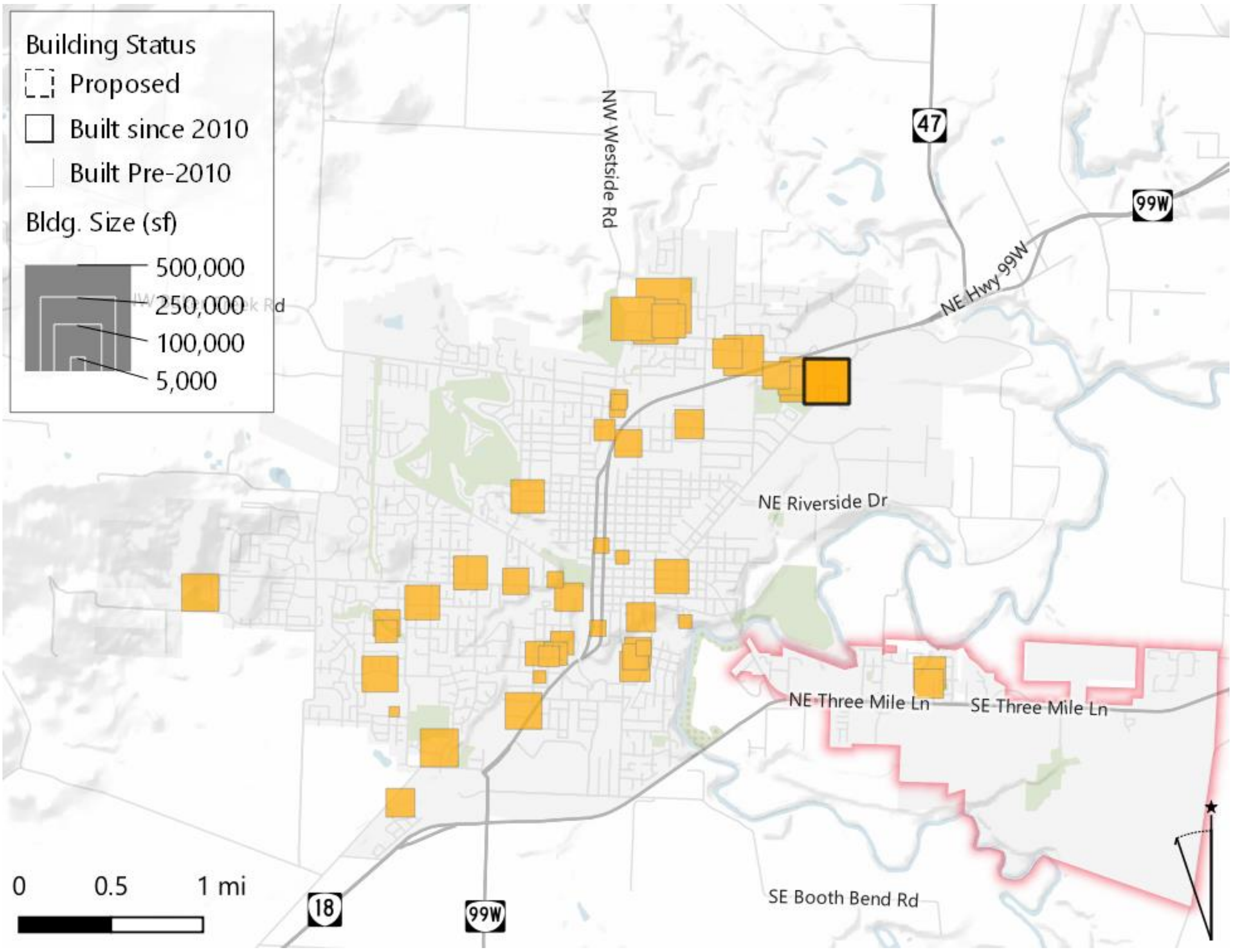
The residential market includes both single-family and multifamily development—both renter-occupied and owner-occupied.

Multifamily Rental Market Summary

Nationally, apartment demand and occupancy remain strong and demographics are favorable to the apartment sector. However, apartment growth tends to be most apparent closer to the center of large metropolitan areas.

The regional market is largely rural and features a sizable proportion of renters, underpinned by demand from students at several local colleges and universities. Deliveries have been limited in this cycle, though lease-up has been rapid in new projects. Generally, there have been tighter vacancies and higher rent growth than in the wider Portland metro region. The primary inventory is for "workforce housing," and there are no high-end communities (designated by CoStar as 4 or 5 stars) in the submarket. Investment in Yamhill County is limited, with fewer than 10 properties typically trading each year between primarily local firms and investors.

Figure 16. Multifamily Residential Development



Source: Costar, Leland Consulting Group

Within McMinnville, 13 of the 37 apartment buildings with 20 or more units are non-market-rate[8] (senior or affordable). Market-rate apartments rent—on average—from about $1.00 to $1.20 per square foot. The vacancy rate is very low, with the only vacancies near or above five percent in buildings older than 1980. Units in newer buildings typically achieve higher rents.

Only one apartment project has been completed within the market area since 2012—Lafayette Place Apartments. This project is pictured below along with a summary of its key attributes.

Lafayette Place Apartments. A 132-unit market-rate apartment project, completed in 2017, located in north McMinnville. The buildings are wood-frame, three-story "garden walk-ups". At $955 for a 1-bedroom apartment ($1.32 per square foot) and $1,196 for a 2-bedroom apartment ($1.26 per square foot), the Lafayette Place Apartments are the highest renting multifamily

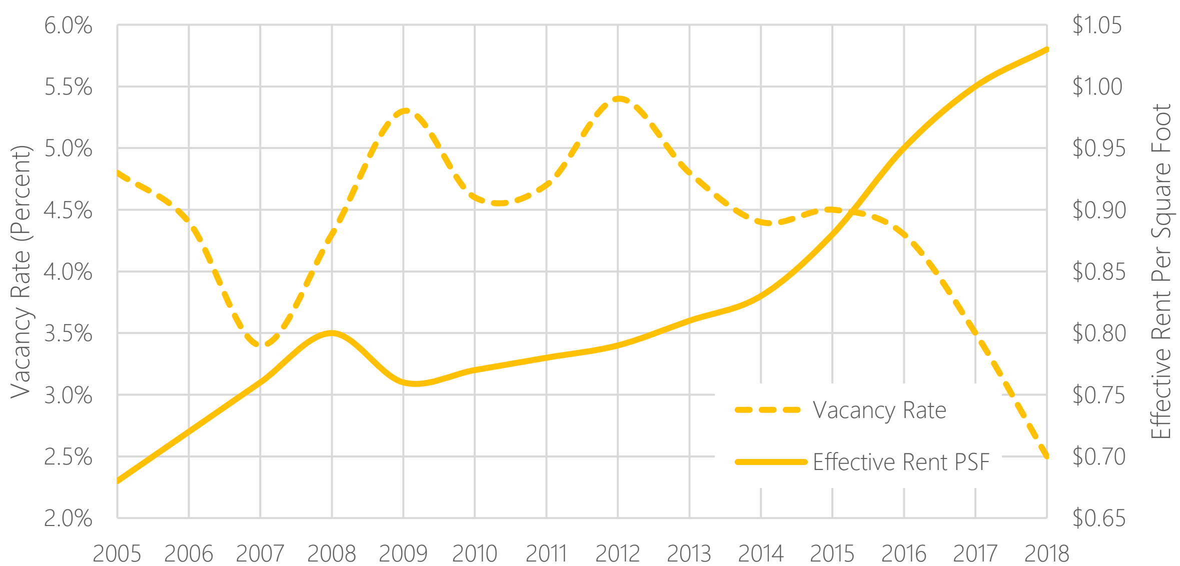
[8] Market rate housing is an apartment that has no rent restrictions

property in the market area. Parking is 100 percent onsite surface lots.

Figure 17 below confirms that the multifamily market in the McMinnville market area is tight. Average rents have been climbing over the last decade, while vacancies have been very low and have rapidly declined since 2012, indicating demand for new multifamily construction.

In fact, this market strength and potential demand is underlined by the fact that vacancy rates in McMinnville's multifamily housing market remained low and rent growth was largely positive during the recession—a period of time where most apartments in similar markets saw the exact opposite trends occurring.

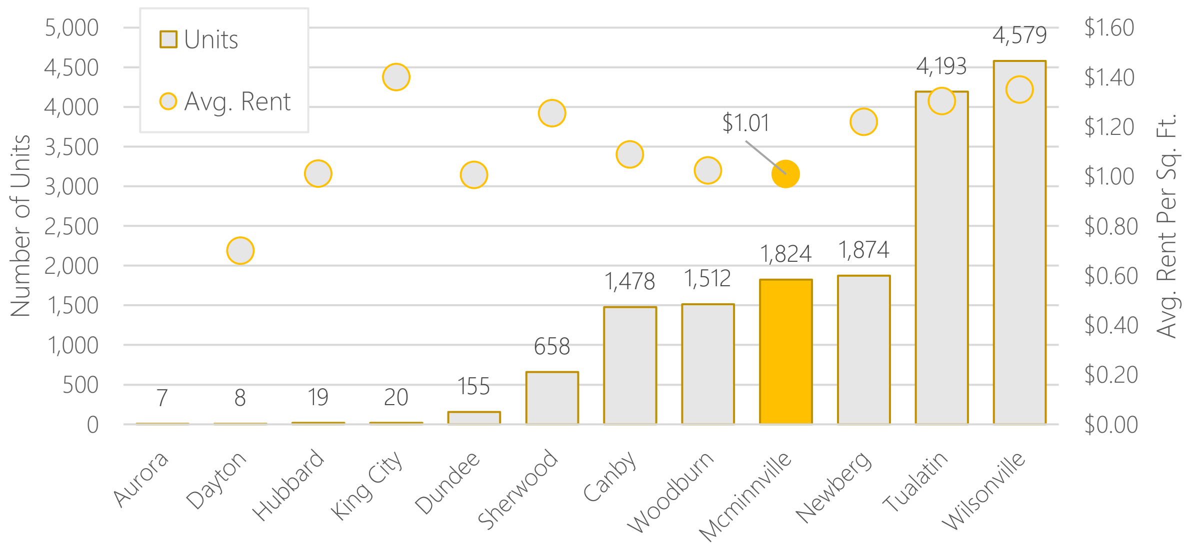
Figure 17. Market Area Multifamily Rent and Vacancy Trends, 2005-2018



Source: Costar, Leland Consulting Group

However, the average rent per square foot for multifamily apartments in McMinnville is lower than those in Newberg, Tualatin, and Wilsonville, which benefit from their proximity to the larger job centers in Portland and Washington County. Some of McMinnville's newer or higher quality multifamily properties, however, have seen rents higher than the historical average. For market-rate properties only, the average rent increases to about $1.11 per square foot.

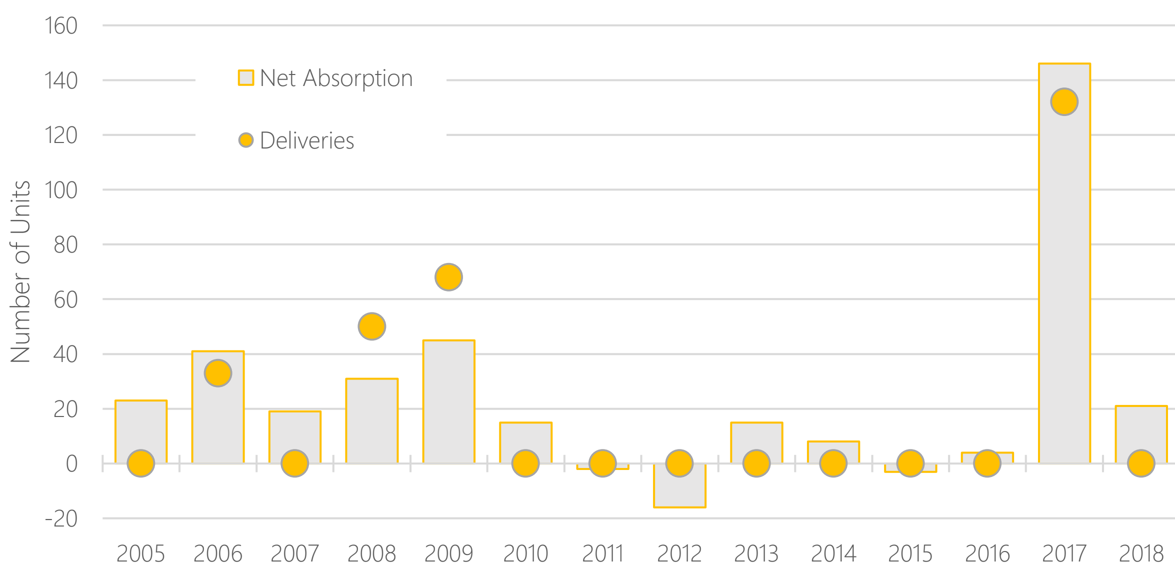
Figure 18. Regional Multifamily Residential Summary



Source: Costar, Leland Consulting Group

Vacancies decreased gradually and then significantly from 2012 through 2018, despite the completion of the 132-unit Lafayette Place Apartments in 2017, largely due to continued positive absorption. The instant absorption of the first new apartment project in a decade indicates strong demand for new rental housing.

Figure 19. Market Area Multifamily Net Absorption and Deliveries (units), 2005-2018

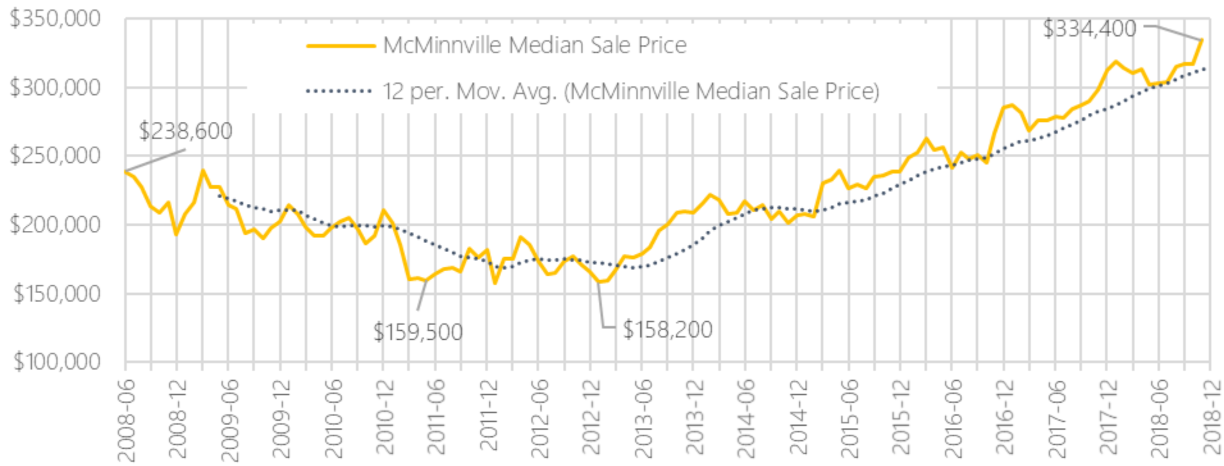


Source: Costar, Leland Consulting Group

Single Family Market Summary

Single-family home prices have been increasing rapidly since the 10-year low of $158,000 in 2013 Q2. The pre-recession median price of $239,000 was surpassed going into 2016. Per Figure 20, McMinnville's single-family market appears strong and hasn't experienced the same volatility in the market over the past 10 years as many other municipalities.

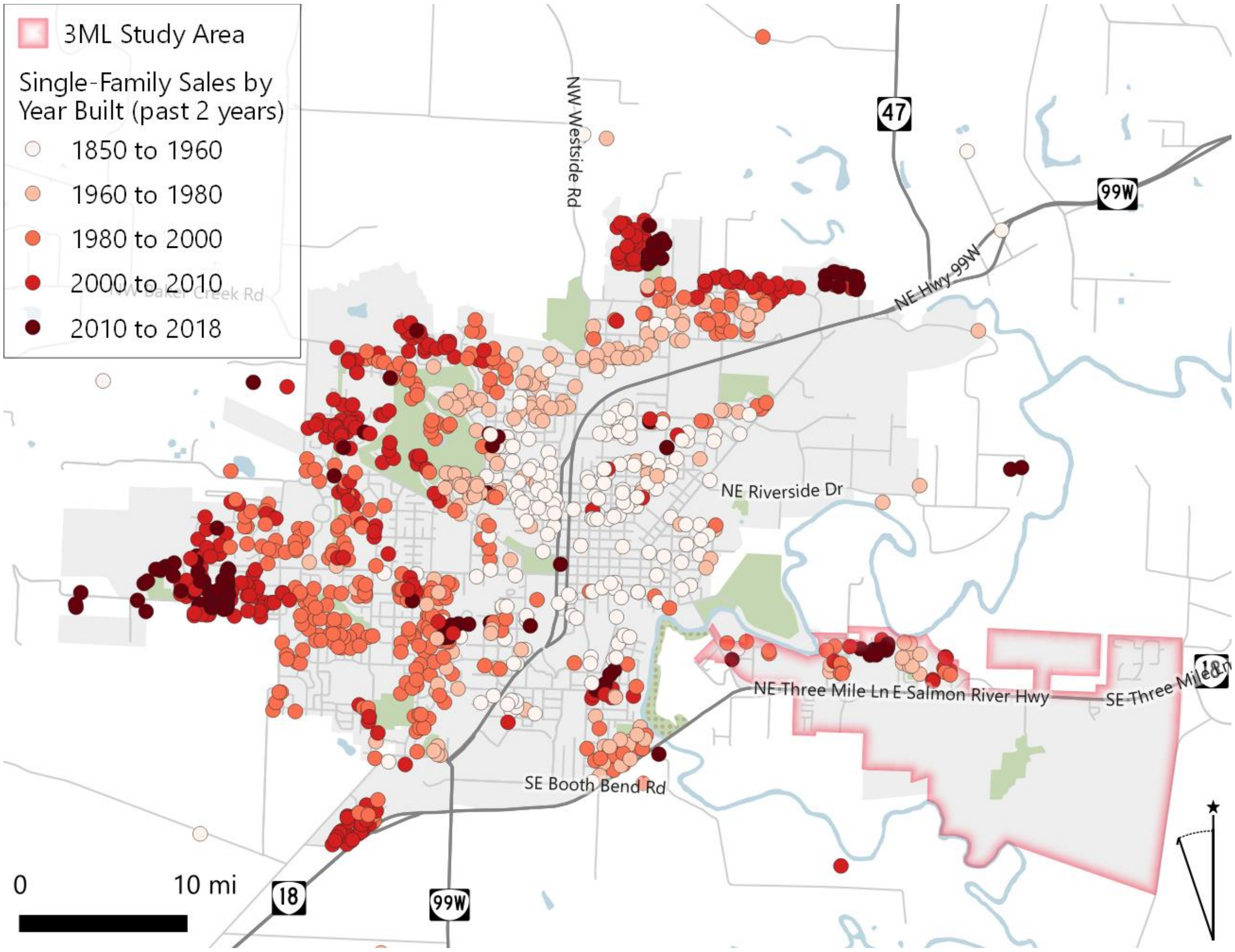
Figure 20. McMinnville Single-Family Median Home Sold Price (2008 to 2018)



Source: Zillow Real Estate Research

Figure 21 shows the location density of residential sales for the past two years. Sales have been driven by new single-family construction in subdivisions, mostly in the western and northern edges of the city. However, some new development has occurred in the Three Mile Lane project area.

Figure 21. Single-family Residential Sales, Past Two Years



Source: Redfin, Leland Consulting Group

Table 4 below shows data relating to single-family sales and absorption for the past 24 months, as well as current for-sale listings, and estimated months of inventory. Months of inventory are often referenced when determining whether it's a seller's market or a buyer's market: If there are zero to four months of inventory, meaning that all current listings can expect to be sold within 4 months, it is considered a seller's market because houses are selling very quickly.

Key findings and general takeaways include:

- Over the last 24 months, approximately 1,127 homes were sold (all new homes and resales), over 92 percent of which were single-family detached homes.
- There are no existing townhomes listed for sale.
- The single-family market is considered tight, with only three months of inventory currently listed for sale. The market for housing under $400,000 is particularly tight, with very little inventory listed for sale and the highest rate of absorption across all home types and price ranges.

Table 4. Owner-occupied Housing Market Summary, McMinnville, 2018

	Sales in Last Two Years	Percent of Total	Absorption (Units Sold per Month)	Listings	Months of Inventory
Single-Family Homes					
Under $200k	68	7%	3	0	0
$200k to $300k	373	36%	16	9	1
$300k to $400k	365	35%	15	31	2
$400k to $500k	141	14%	6	43	7
$500k to $600k	59	6%	2	12	5
$600k +	38	4%	2	23	15
Subtotal	1,044		44	118	3
Attached Homes*					
Under $200k	12	14%	1	0	0
$200k to $300k	58	70%	2	0	0
$300k to $400k	13	16%	1	0	0
$400k +	0	0%	0	0	0
Subtotal	83		3	0	0
All Housing					
Under $300,000	511	45%	21	9	0
Over $300,000	616	55%	26	109	4
Total	1,127		47	118	3

Source: Redfin and Leland Consulting Group
**Attached includes condominiums and townhomes*

The following table—which shows various data for sales over the past 24 months for all housing (all construction years) and new housing (built since 2010) by the number of bedrooms—provides further confirmation of the tight single-family market and relatively strong demand for middle-income, mid-sized, high-quality housing. Housing built since 2010 tends to cost about 22 percent more on average than the local single-family market. New housing—and homes with two and three bedrooms—spend the least time on the market (not including one-bedroom housing, which comprises only one percent of the market).

Table 5. Single-Family Sales Within the Last Two Years by Number of Bedrooms

Number of Bedrooms	Percent of Sales	Avg. Price	Avg. Price per Sq. Ft.	Avg. Size (sq. ft.)	Avg. DOM	Avg. Year Built
All Construction	100%	$333,904	$185	1,865	370	1985
1	1%	$263,451	$255	1061	188	1971
2	9%	$254,814	$205	1,276	374	1962
3	62%	$315,474	$188	1,710	368	1985
4	23%	$393,456	$173	2,303	375	1992
5	5%	$424,828	$156	2,772	382	1997
6	1%	$498,520	$151	3,344	351	1984
Built Since 2010	14%	$408,298	$203	2,029	313	2016
1	1%	$275,000	$393	700	133	2017
2	2%	$328,000	$201	1,648	288	2012
3	33%	$379,286	$199	1,902	283	2015
4	49%	$408,915	$186	2,202	375	2016
5	16%	$442,392	$171	2,590	366	2016

Source: Redfin, as of July 2018

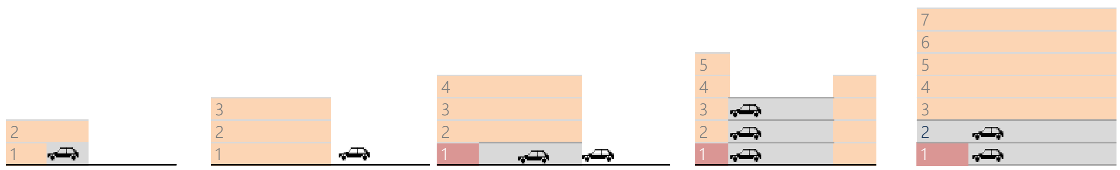
Housing Development Prototypes

Most housing can be categorized within a set of "prototypes," which are shown below (single-family residential is not included). The prototypes increase in scale and density moving from left to right. Parking is a key factor that affects housing density and financial feasibility. Typical types of parking are surface, tuck under, structured, and below-grade structured. Surface parking is the least expensive and below-grade structured parking is the most expensive. Structured parking can add tens of thousands of dollars of construction cost per housing unit, which often means that only hot housing markets with high rents can accommodate higher-density housing types with structured parking. Construction materials also change as housing density increases. Townhomes, low-rise (garden) apartments, and low-rise apartments with tuck-under parking (urban garden apartments) are typically entirely wood-frame buildings; while wrap and mid-rise/podium structures require concrete construction for parking areas; in addition, steel is sometimes used instead of wood for the apartment areas. The construction complexity and specialization required for these building types also increases costs.

Single-family, townhomes and low-rise apartments appear to be the most financially feasible housing development types in the near- and mid-term. Single-family homes will also be feasible. Urban garden apartments (which include tuck-under parking and sometimes ground-floor retail) may be feasible in the mid- and long-terms. Wrap and mid-rise projects are only likely to be feasible after significant "place-making" improvements have been made, and/or if the market changes. Affordable and/or mixed-income projects can sometimes achieve higher densities than market-rate projects since they have access to additional public funding sources. While the vacancy rate across multifamily apartments is practically zero and net absorption continues to increase, rents remain too low for market-driven high-density developments. However, the tight market may generate significant rent growth, subsequently improving the feasibility of higher density developments.

Figure 22. Housing Development Prototypes

	Housing				
Name	Townhomes	Garden Apartments	Urban Garden Apts.	Wrap	Mid-Rise / Podium



Parking	Surface / tuck under	Surface	Surface / tuck under	Structure	Structure
Structure	Wood frame	Wood frame	Wood over concrete	Wood with concrete	Wood over concrete

Market Trends

The recession had a profound and lasting effect on the housing market, and while the recovery is now almost over, more people are renting than ever before. For many people, financial barriers such as rising student debts, access to credit, and large down payments have forced them to rent. For many others, the choice to rent is simply a choice. Indeed, it is well established that the two most populous generations—the Baby Boomers (ages 54 to 72) and the Millennials (ages 22 to 37)—are currently the primary drivers of demand for residential units in walkable, urban locations that offer flexibility and a range of amenities.

As Baby Boomers reach retirement age and see the last of their children leave home, they are increasingly attracted to smaller move-down or "lock-and-leave" housing which requires less maintenance and affords more flexibility. As such, age-restricted and senior multifamily housing has risen near the top of the list for best investment choices (per ULI's "Emerging Trends in Real Estate 2018").

For Millennials, the situation is more nuanced and difficult to forecast. The common rhetoric for many years was that Millennials desire urban living and will continue to reside in urban cities because of financial conditions and choice. However, while demand for urban rental apartments has remained high among Millennials, they are increasingly forming households and having children, looking at select suburbs and secondary markets because of the quality of life, lower cost, and space and yard availability. Indeed, 70 percent of Millennials expect to be homeowners by 2020, even though only 26 percent own today (per ULI's "Gen Y and Housing"). With that said, generational trends associated with the next emerging generation—Gen Z (ages 21 and below)—are relatively unknown.

Other reports have recently documented important trends in housing. Findings include:

- Cost of housing, neighborhood safety; proximity to work; K-12 school quality; and community character, ambiance, and visual appeal were the top five critical community features for survey respondents.[9]

[9] Urban Land Institute (ULI), Gen Y and Housing: What They Want and Where They Want it, 2015

- Urban setting; proximity to shopping, dining, and entertainment; walkability; and availability of mass transit are all also important—but not critical—features in a community. [10]
- The more walkable the community, the more satisfied residents are with their quality of life.[11]
- Access to public transportation is much more important to those earning under $50,000 per year, while walkability is also more important to those with lower incomes. [12]
- Sixty percent of residents would spend at least a little more for a house in a walkable community. [13]
- Four-in-ten people prefer a walkable community and a short commute. Millennials, in particular, are swayed by a shorter commute. [14]

Talk of generational shifts, however, sometimes misses the point. Ultimately, people are waiting longer to make significant life choices, such as buying a home or having children, and quality of place has emerged as a primary desire for almost all prospective residents across all demographic groups. Quality of place is simply the components that make any given place enjoyable to live, such as availability of and access to good schools, parks, quality healthcare, transit, shops, entertainment, and cultural amenities.

Residential Demand

As noted earlier, projected growth rates tend to vary significantly depending on the source and the geography in question. Therefore, it is important to carefully consider the “middle-of-the-road” option and note that actual demand is likely to change. With that said, PSU’s projections for the McMinnville Urban Growth Boundary align with projections for Yamhill County as well as the “baseline” growth rate, which applies the historical household growth rate from 2010 to 2018 in the market area to current households.

For the residential and retail demand forecasts, we assume that actual household growth will be approximately 1.3 percent. Based on this household growth rate, we project market area demand for an additional 3,800 units over the next 10 years within the market area, or about 380 units per year. We anticipate that the most demand for new *rental* units will be from households with incomes less than $75,000, and the most demand for new owner-occupied housing to be from households earning between $50,000 and $150,000. We expect about 32 percent of future housing demand to be for renter-occupied units, resulting in about 1,200 rental units and 2,500 owned units.

---

[10] Ibid.

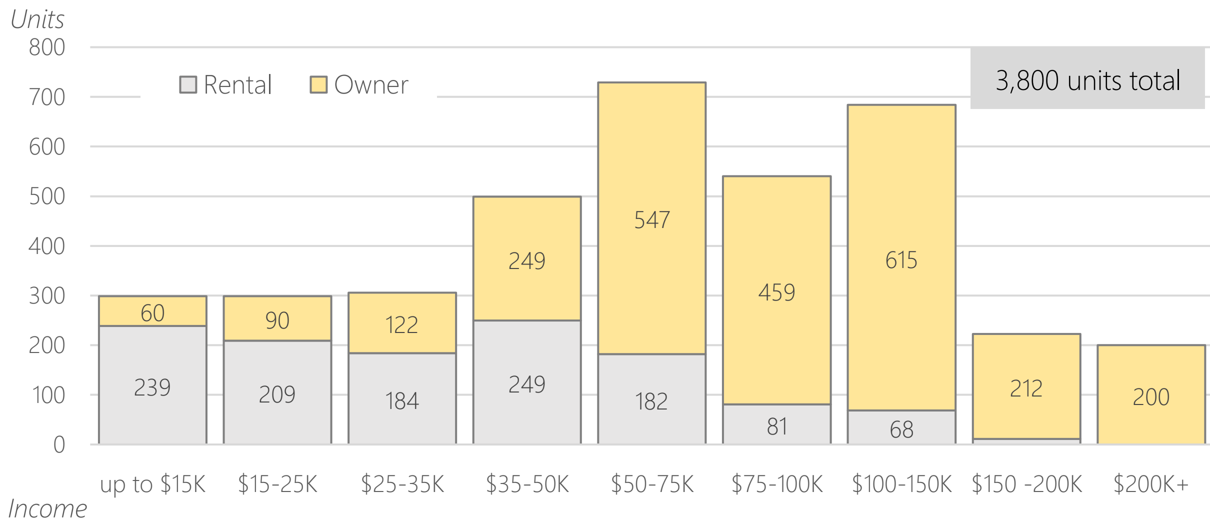
[11] National Association of Realtors (NAR), National Community and Transportation Preference Survey, 2018

[12] Ibid.

[13] Ibid.

[14] Ibid.

Figure 23. 10-year Market Area Unit Demand



Source: Leland Consulting Group

Table 6. Annual Income Range and Attainable/Affordable Monthly Rent and Housing Price

HH Income	$15k	$25k	$35k	$50k	$75k	$100k	$150k	$200k	$200k+
Attainable Monthly Rent	$375	$625	$875	$1,250	$1,875	$2,500	$2,500+	$2,500+	$2,500+
Attainable Home Price	$45k	$75k	$105k	$150k	$225k	$300k	$450k	$600k	$600k+

Source: ESRI, Leland Consulting

While projected residential growth suggests demand for a total of 1,200 multifamily rental apartments, the past five years has only delivered a total of 132 multifamily apartment units, significantly lower than the necessary rate of development required to get to 1,200 within the next decade. Of course, townhomes and—to a lesser extent—single-family homes may also be renter-occupied, but multifamily apartments will be responsible for the majority of new renter-occupied units. With the trajectory of the past five years, the multifamily market will continue to be constrained, potentially increasing rents and attracting developers to the region. However, the City should explore ways in which to incentivize new housing development and bridge any potential feasibility gaps preventing new construction.

Table 7. Historical and Forecasted Multifamily Residential Trends, Market Area

	Past 5 Yrs.	Next 10 Years
Net MFR Absorption	175 units	275 units
MFR Deliveries	132 units	350 units

Source: Costar and Leland Consulting Group

Three Mile Lane Study Area Absorption

With such a tight single-family and multifamily market, as well as few major tracts of vacant tracts for greenfield development inside urban areas, we expect the project study area to capture a significant amount of new residential demand over the next 10 years.

While the vacancy rate is currently almost zero, development activity should theoretically increase, and we anticipate the multifamily market to subsequently stabilize near five percent vacancy (typically considered the point of market equilibrium for multifamily). For this reason, we anticipate deliveries to be higher in the Three Mile Lane project area than net absorption. This assumes that land supply and zoning is able to accommodate new multifamily development.

For single-family, we anticipate single-family development to build out to the extent allowed. Given the existing industrial zoning, there are few places which could accommodate such residential development. Much fewer single-family units could be accommodated simply due to the density of single-family development and land required relative to multifamily residential.

Retail Market

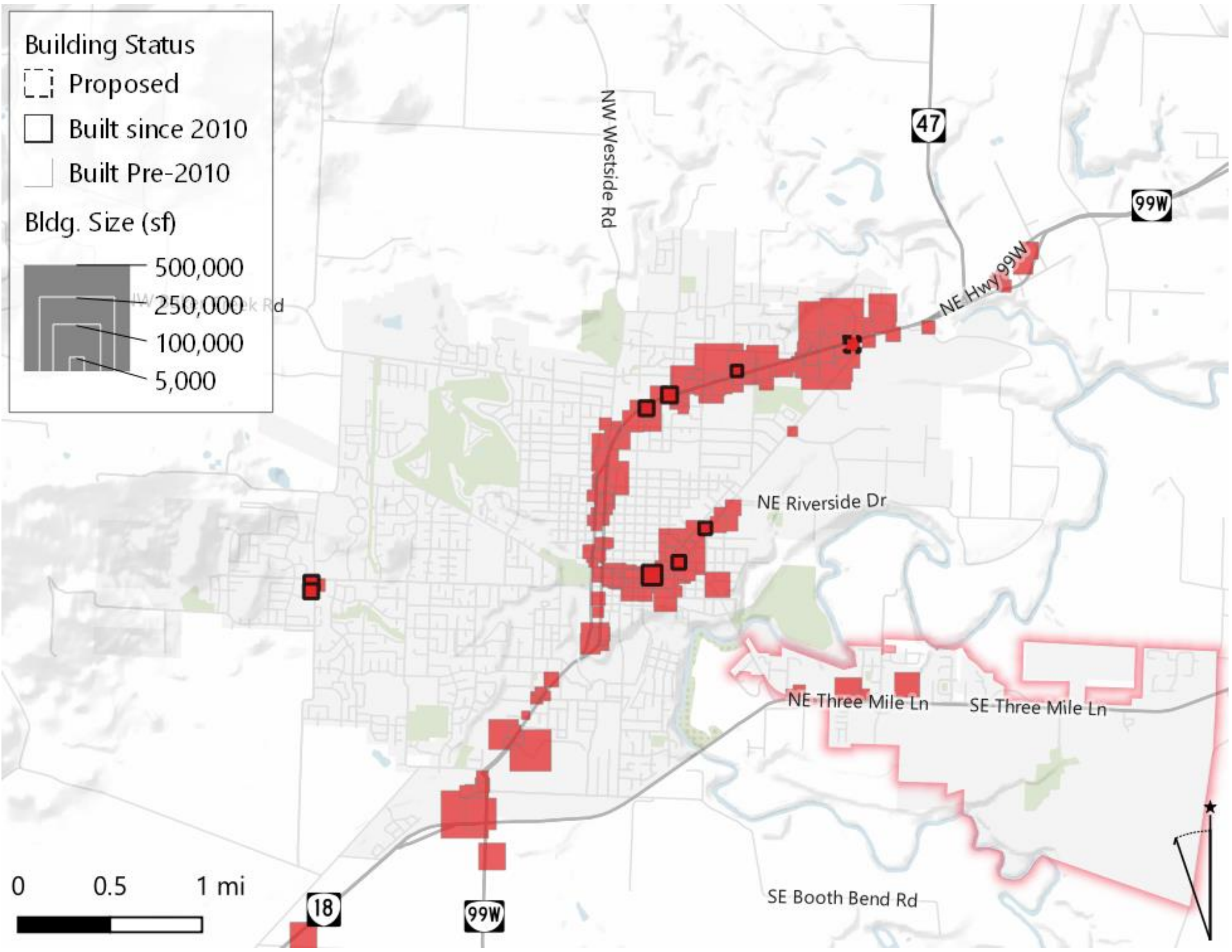
Market Summary

For retail, the analytic goal of defining a "market area" is generally to encompass likely customers whose spending power will fuel a significant majority of sales in future shops and eateries in the study area. Competitive supply (both existing and potential) will also, logically, tend to fall within that same market area. Neighborhood stores such as supermarkets tend to have much smaller market areas than big box stores, which in turn have smaller catchment areas than regional malls or other larger-scale projects.

CoStar reports that the McMinnville market area has 268 buildings totaling 2.5 million square feet of retail space. The market has a low vacancy rate of 1.4 percent. Rents vary widely by retail property type, condition, and configuration. Generally, asking rents for quality retail space range from around $14 to $18 per square foot, but a few quality, well-positioned retail spaces are achieving upwards of $24 to $30 per square foot triple-net, such as some pad sites along Highway 99W. No comps currently exist for brand new, first-generation retail space.

Figure 24 illustrates the relative size of retail development by total square footage. Retail development is largely concentrated along State Highway 99W. Generally, retail is small-scale—especially along Baker Street and near downtown—while larger neighborhood-serving retail—such as McMinnville Town Center, Lowe's, Wal-Mart, WinCo Foods, and Bi-mart—is located in the northern and southern areas of the city.

Figure 24. Regional Retail Development



Source: Costar, Leland Consulting Group

Understanding the pattern of retail spending within a community is critical. By looking at estimated demand from existing households and current estimated sales, we can identify the relative strength or weakness of each retail category. Retail sectors in which household spending is not fully captured are called "leakage" categories, while retail categories in which sales are higher than estimated household demand generated by existing residents are called "surplus" categories.

A retail sales surplus indicates that a community pulls consumers and retail dollars in from outside the trade area, thereby serving as a regional market. Conversely, when local demand for a specific product is not being met within a trade area, consumers are going elsewhere to shop, creating retail leakage.

Table 8 shows the current annual retail leakage for various retail categories. Most retail categories show a sales leakage occurring, with Food and Beverage (grocery), Building Materials and Garden Equipment, Health and Personal Care, and Miscellaneous Retailers showing a surplus. This indicates that the McMinnville area is a weak retail market with a lot of spending potential leaving the area. General Merchandise shows the highest leakage, but these retailers—such as Walmart and Target—have large catchment areas and it's very possible that McMinnville residents travel to larger metros, such as Salem and Portland to shop at these stores.

While leakage usually presents an immediate opportunity to increase new retail development activity and capture some of the demand leaving the area, this may be unlikely for many of the retail categories in the table and following chart below given McMinnville's proximity to several regionally-significant retail centers. For example, both Bridgeport Village and the Woodburn Outlets—which provide an extensive range of low-cost, high-quality products—are about a 45-minute drive of McMinnville.

Table 8. Retail Leakage Analysis, McMinnville Market Area

	Est. HH Demand	Current Est. Sales	Current Leakage ($)
Furniture and Home Furnishings	$25,459,215	$9,815,869	15,643,346
Electronics and Appliance	$25,779,334	$10,205,468	15,573,866
Building Material, Garden Equip	$56,286,379	$89,349,237	-33,062,858
Food and Beverage (grocery)	$132,402,012	$244,668,336	-112,266,324
Health and Personal Care	$49,511,435	$59,825,939	-10,314,504
Clothing and Accessories	$39,384,538	$5,785,467	33,599,071
Sporting Gds, Hobby, Book, Music	$27,981,058	$12,792,050	15,189,008
General Merchandise	$138,540,476	$41,383,114	97,157,362
Misc. Store Retailers	$38,326,257	$81,493,693	-43,167,436
Foodservice and Drinking Places	$83,233,240	$53,518,658	29,714,582
Other (including cinema, prof./med. office, consumer banks, etc.)	$92,535,592	$91,325,675	1,209,917

Source: ESRI

Figure 25. Market Area Retail Demand: Surplus/Leakage

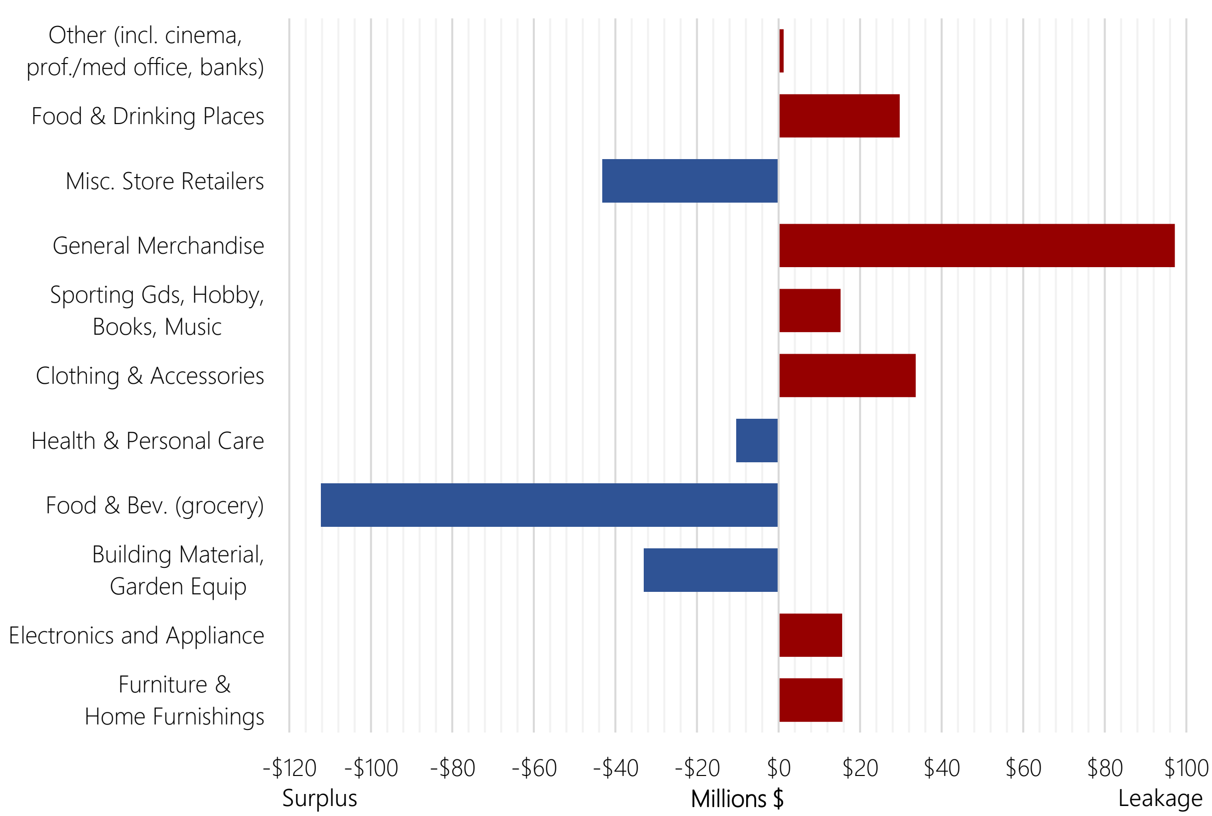
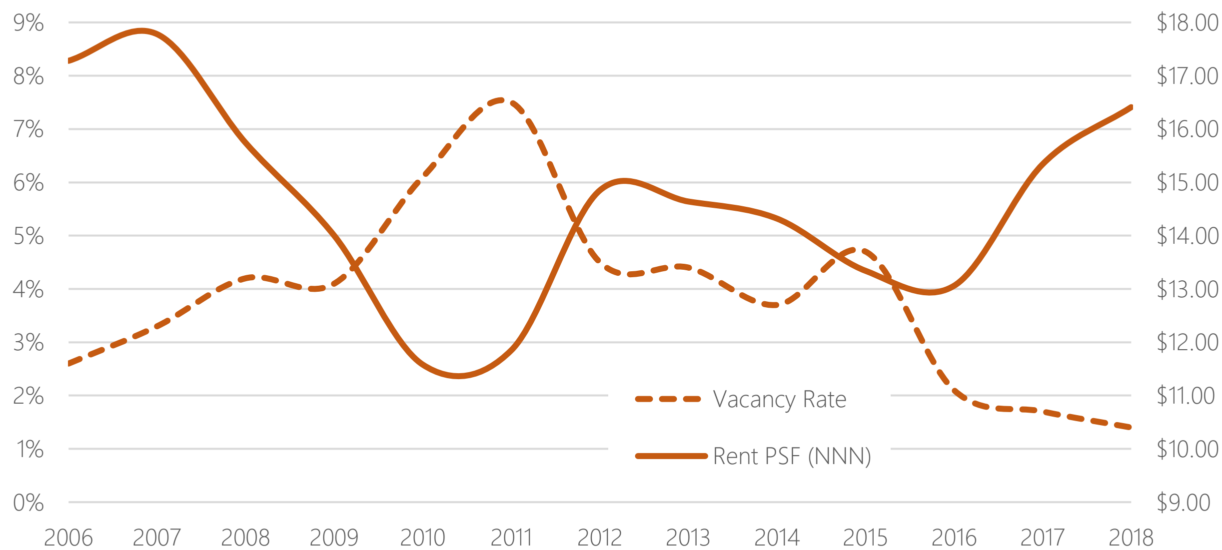


Figure 26 provides rent and vacancy trends for retail development in the McMinnville market area. Rents and vacancies tend to have an inverse relationship, and this has been the case with local retail. Rents were at their lowest rates and vacancy at its highest during the recession, and rents have yet to recover to the 12-year high of almost $18 per square foot triple-net (NNN) in 2007, despite Costar data showing the vacancy rate at record lows.

While such low vacancies typically suggest demand for new retail development, this may be small-scale. The changing face of the retail sector is resulting in record closures of national retailers, and other large regional retail centers—such as the Woodburn outlet mall and Bridgeport Village—are far more competitive and already established.

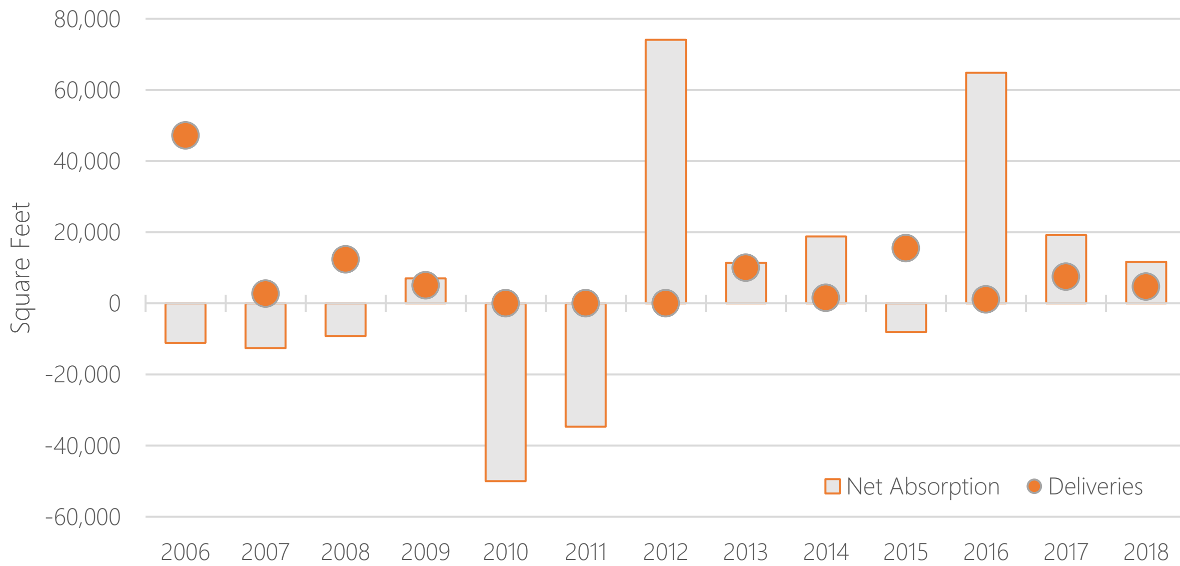
Figure 26. Market Area Retail Rent and Vacancy Trends, 2006-2018



Source: Costar

Figure 27, which shows the net absorption and total retail deliveries by year for the past 12 years, demonstrates why the spike in the vacancy rate occurred in 2010 and 2011. Clearly, some major retail space was vacated during and immediately following the recession, but the market appeared to have bounced back in 2012 with a relatively strong year of positive absorption. In terms of deliveries, there have been few significant developments over the past decade.

Figure 27. Market Area Retail Net Absorption and Deliveries (sq. ft.), 2006-2018



Source: CoStar

Market Trends

The goods-based consumer retail industry is undergoing a seismic shift and transformation. Big name retailers are declaring bankruptcy and closing hundreds of stores as online purchases grow and American buying habits change. Last year saw a record number of store closings. This is having a trickle-down effect on communities, as some see their brick-and-mortar retail bases slowly eroding, with impacts felt in shopping centers and along traditional Main Streets.

Planners in some cities and counties are taking proactive approaches to the shifting retail landscape. They're commissioning studies of the marketplace and developing new strategies to maintain and foster better retail environments. Also, many retail-only zoning classifications are being modified to allow a variety of new uses in ground-floor, street-fronting spaces. The idea is to liven up the street with pedestrian activity without relying on retail, with new uses ranging from offices to fitness facilities.[15]

Table 9 summarizes the anticipated growth and decline of primary retail types. This information is based on research conducted by commercial real estate company Cushman & Wakefield and reflects changing preferences. Online shopping is having a significant impact on "commodity retail." Retailers selling products that can easily be ordered and shipped from Amazon or others face a challenging environment and must have a competitive advantage against online competition—whether that is the convenience, experience, customer service, or something else. Commodity retailer categories include electronics, office supplies, and video stores.

By contrast, experiential consumerism is an emerging trend in which retailers offering a special experience, or offering services that cannot be procured online, have the potential to thrive. A prime example is dining—as one retail guru has said, "you can't eat the internet;" and you certainly cannot dine with family and friends on the internet. Therefore, food and beverage establishments have become a larger and larger part of the retail

[15] URL

experience, on both main streets and larger shopping centers. Another growing "retail" sector is healthcare. Small, neighborhood-scale providers are moving into both main street and retail center locations.

Table 9. Retail Trends: Growing and Declining Retail

Growing	Declining
	
• Retail that offers a special experience • Food! • "Fast Casual," i.e. Little Big Burger • Food Halls, artisanal markets • Trucks to Bricks • Grocery: Ranging from discount, to organic, to small format, and ethnic • Medical users, incl. ZoomCare • Apparel: Fast fashion, off-price, active sportswear • Sporting clubs • Fitness/Health Clubs • Marijuana dispensaries • Auto repair • Convenience stores • Car dealerships • Home improvement and home furnishings	• Commodity retail • Food: Casual dining, weaker fast food chains • Mid-priced apparel and shoes; children's • Dollar Stores • Pet supplies • Electronics • Office Supplies • Bookstores • Toy Stores • Video stores • Bank Branches

Source: Cushman & Wakefield, Leland Consulting Group.

The Rise of E-commerce

Between 2001 and 2015, total online retail sales grew at a 21.8 percent annual growth rate and accounted for 22 percent of total retail sales growth. During the same period, brick-and-mortar stores grew at a rate of only 3.7 percent annually, decreasing their share of the total retail market from 98 percent to 89 percent. While still only a small total market share, estimates indicate that up to 20 percent of total US sales will be attributed to e-commerce by 2019.

The rise of online retail has also had a major impact on the way retailers are doing business. As more people turn to the internet to do their shopping, traditional brick-and-mortar stores are altering their store formats and incorporating an online platform into their business concepts. Omnichannel retail strategies, where a retailer operates through both physical locations and online sales, have proven to be a necessity in today's market.

The list of top online retailers reinforces this point, as many also have a significant brick-and-mortar presence. Of the top 25 companies with the highest online retail sales in 2016, 18 were more traditional brick-and-mortar retailers. These include companies such as Walmart, Best Buy, Macy's Inc., Nordstrom Inc., Target Corp., Gap Inc., and Neiman Marcus.[16] That said, Amazon remains king among online retailers, with almost six times the sales volume of the second-ranked retailer, Walmart.

Employment Market

The McMinnville market area has 97 office buildings with a total of 785,000 square feet of rentable space, comprising entirely of Class B and C buildings. Most are wood-framed buildings built between 1970 and 2000. Office vacancy stands at 3.2 percent according to CoStar; this is down from a 10-year high of 10.5 percent in 2011, indicating demand for new space.[17] Gross office rents currently average around $18.20 per square foot per year.

There are 85 industrial buildings with a total of 2.4 million square feet of rentable space, although almost one-quarter of this total is from the steel mill in the north of the city. Industrial vacancy stands at 0.4 percent according to Costar, down from a 10-year high of 15.8 percent in 2014. Industrial rents average around $8.40 per square foot.

Market Summary

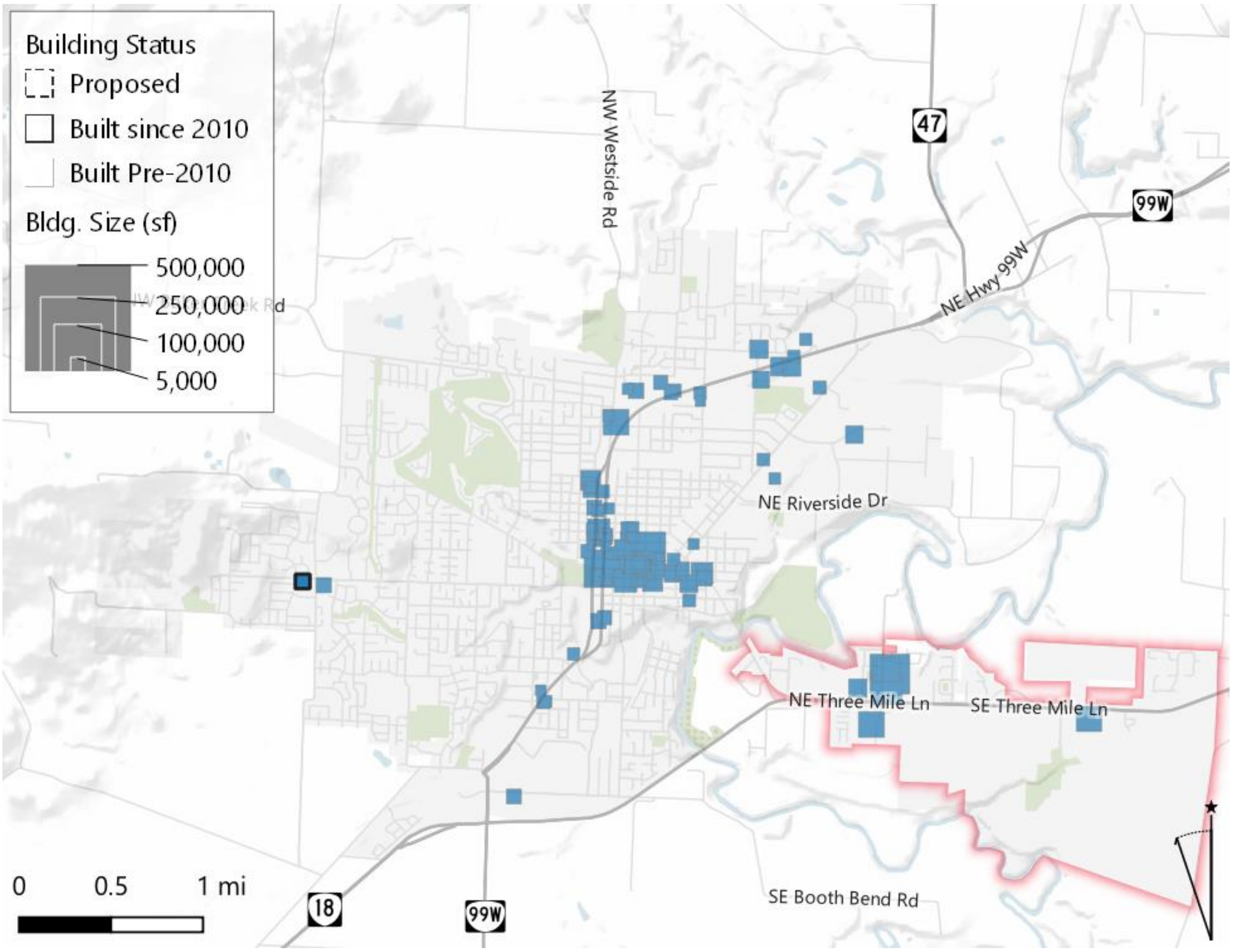
With an economy centered on agriculture, the Yamhill County office market is relatively quiet, and its tenants and investors are predominantly local. The vacancy rate is tight, due in part to moderate absorption but largely because of limited inventory and the lack of new construction. Rents experienced back-to-back years of growth in 2015 and 2016 but contracted in the past year. Over the cycle, the submarket has consistently posted minimal investment activity and nearly no new supply.

As shown in Figure 28, new office construction in the region has been limited to the Portland Metropolitan Area and other close-in cities.

[16] wwd.com/business-news/financial/amazon-walmart-top-ecommerce-retailers-10383750/

[17] Anecdotal evidence suggests an immediate need/demand for mid- and large-scale Class A office space, although the extent of which is likely limited, based on projected regional employment growth rates.

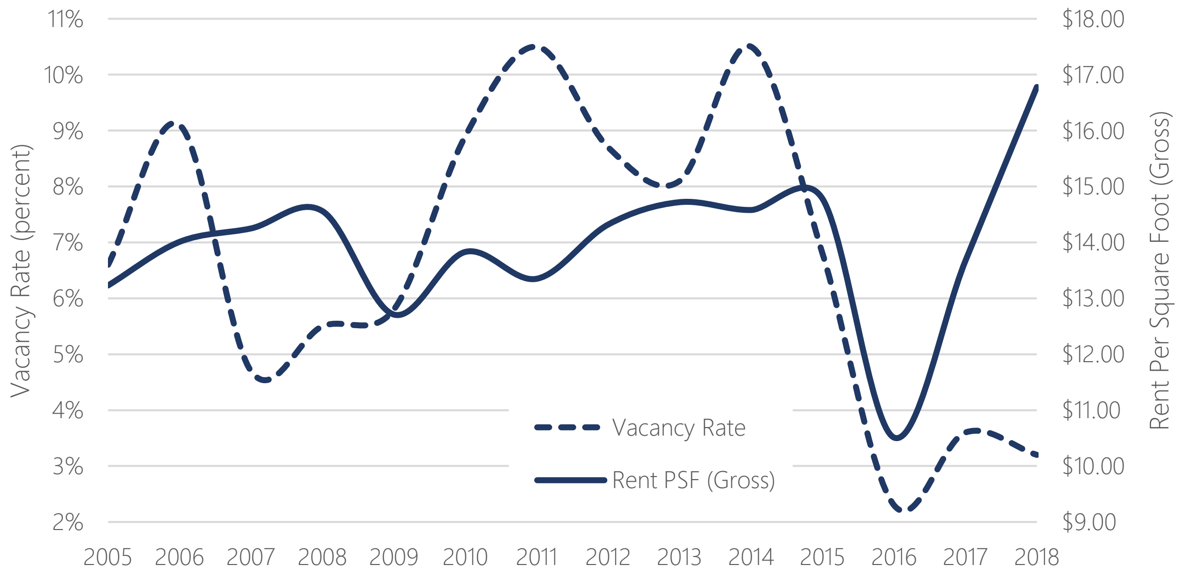
Figure 28. Regional Office Development



Source: Costar, Leland Consulting Group.

There has been little to no rent growth in the market area over the past decade, and vacancy rates have been erratic, declining significantly from 2014 and settling near three percent in 2018. However, the following chart shows the volatility of the office market.

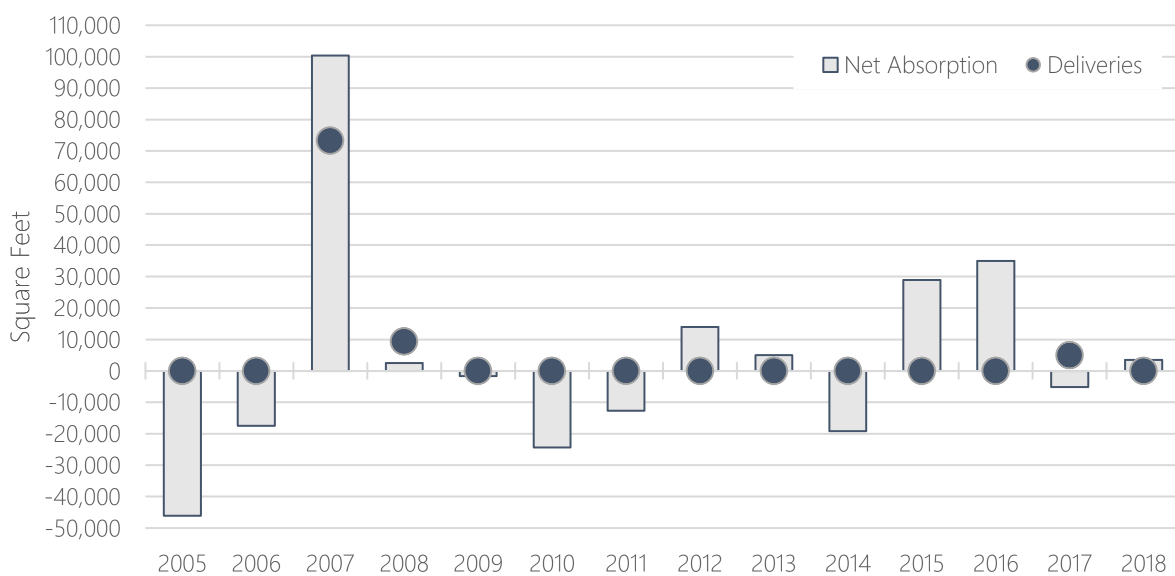
Figure 29. Market Area Office Rent and Vacancy Trends, 2005-2018



Source: Costar

Net absorption of office space has been largely positive, albeit minimal, and essentially no new office space has been constructed in the past decade. This is reflective of the fact that more competitive and significant employment clusters are located elsewhere in the region, largely throughout the Portland Metropolitan Area, such as Wilsonville. However, this may also partially due to the lack of appropriately zoned land for office.

Figure 30. Market Area Office Net Absorption and Deliveries (sq. ft.), 2005-2018



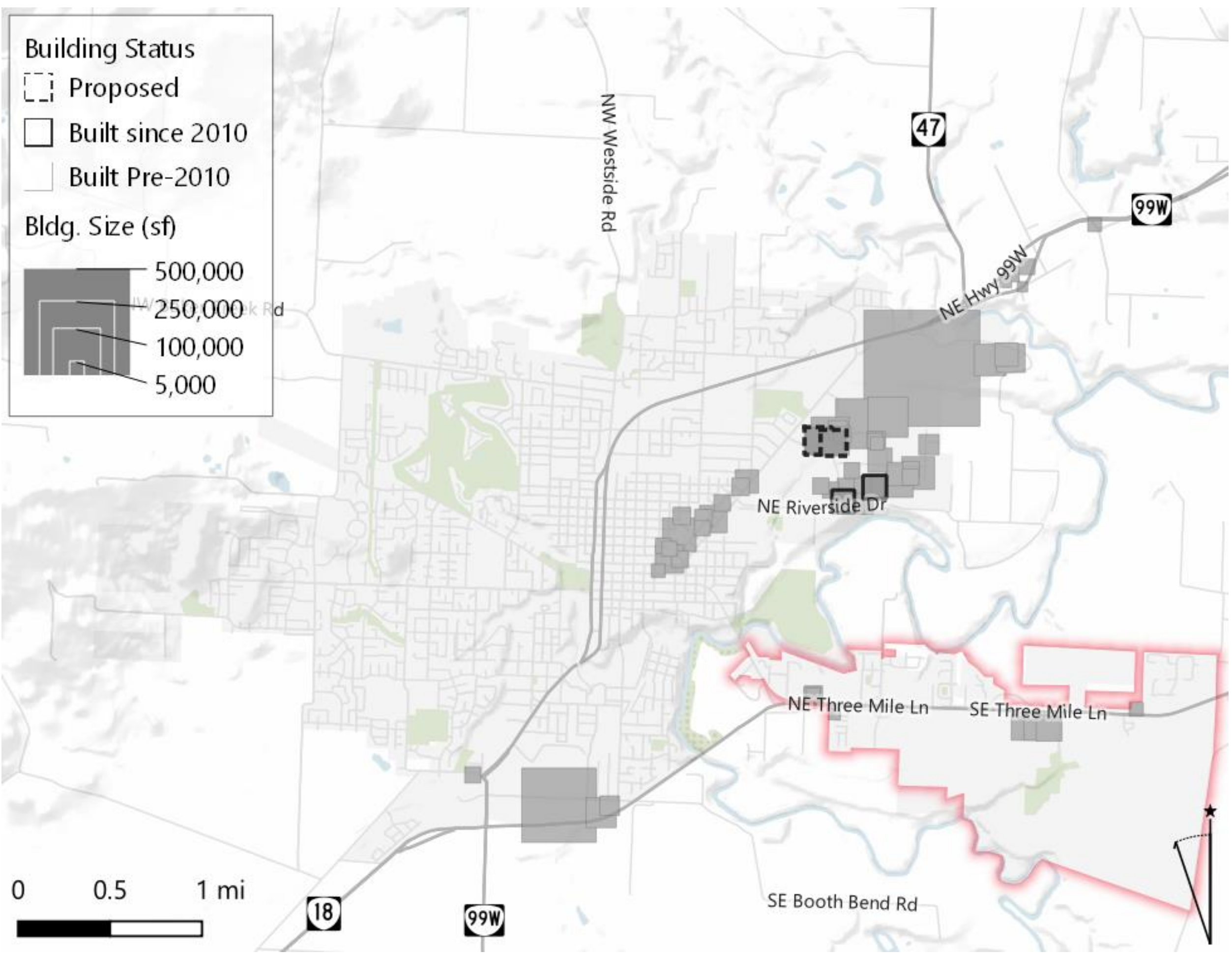
Source: Costar

For industrial, the market is marginally stronger than for office. However, like office, industrial development has also clustered elsewhere in the region in locations that are arguably better suited for continued expansion.[18] Locations such as the Tualatin, Tigard, and Wilsonville benefit from close proximity to Interstate-5 and access to talent in Portland. These locations have rapidly built up their manufacturing industries, among others. While McMinnville has seen recent development, it is unlikely to compete with these other centers.

With that said, Three Mile Lane may have a locational advantage for industrial development due to its proximity and access to the airport. Nationally, many modern airports now generate most of their revenues from sources other than aviation. While small and lacking commercial service, the McMinnville airport may have positive impacts for a hotel (including conference spaces), office space, business parks, industrial development (particularly manufacturing and warehousing), cargo facilities, sports facilities, among others.

Extending the airport runway to accommodate larger aircraft may further improve development prospects and accelerate the rate of development. However, doing so is understood to be challenging as the only place to extend is to the northeast, which would require moving Highway 18.

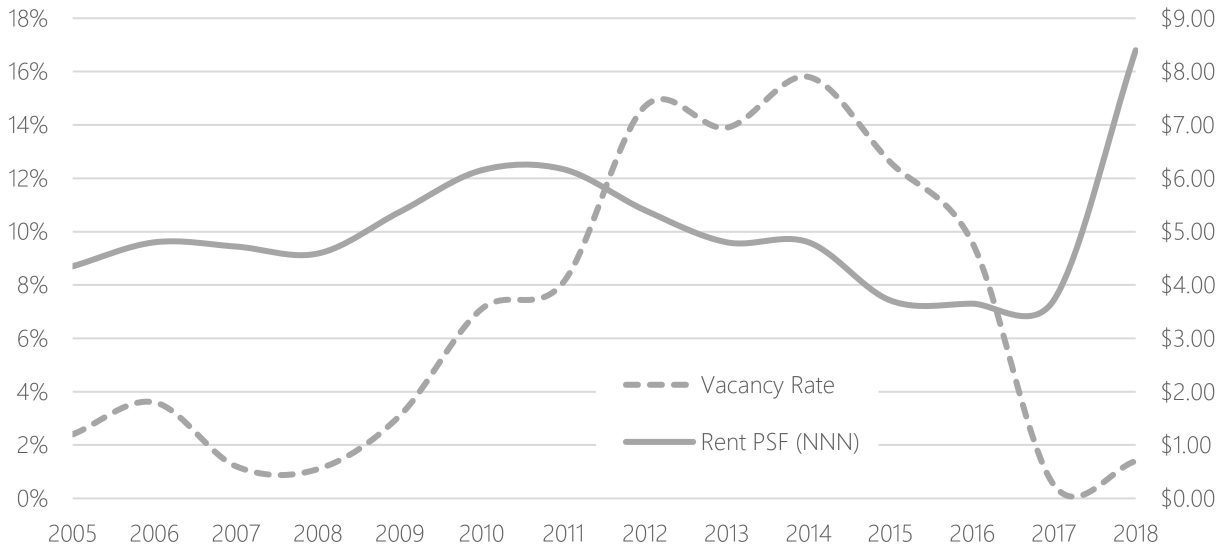
Figure 31. Regional Industrial/Flex Development



[18] The data that populates the corresponding map often neglects to show owner-occupied buildings, such as the Jackson Family Wines building, built in 2017 in the Three Mile Lane corridor.

While the industrial vacancy rate is virtually zero, rents have only just climbed to pre-recession levels. A hike in vacancy rates between 2009 and 2014 resulted in negative rent growth. However, with the wine industry such a significant component of the Mid-Valley industrial market, there is a reason to believe that typical rent and vacancy characteristics may not truly represent the McMinnville market area's industrial market.

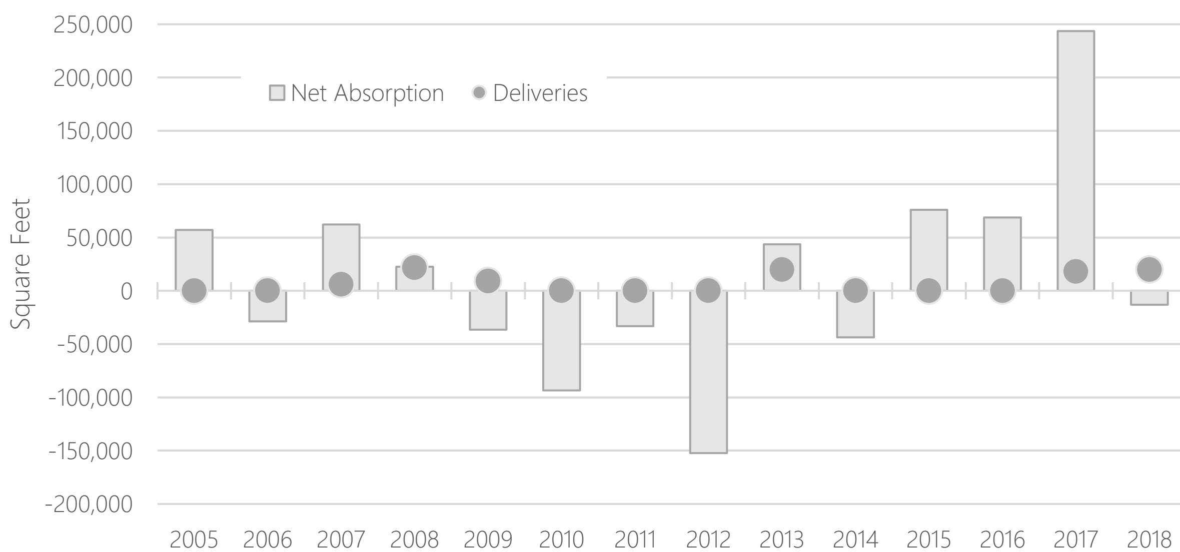
Figure 32. Market Area Industrial Rent and Vacancy Trends, 2009-2018



Source: Costar, Leland Consulting Group

Net absorption has been largely positive since several years of negative absorption between 2009 and 2012—likely as a result of the recession, with a huge surge in absorption in 2017 which has resulted in almost zero vacancies in the market area. There have been few industrial deliveries over the past decade.

Figure 33. Market Area Industrial Net Absorption and Deliveries (sq. ft.), 2005-2018



Source: Costar, Leland Consulting Group

Planned and Proposed Projects

Per Costar, there are only two proposed industrial buildings in the McMinnville area, both of which are planned for either office or industrial. Both buildings are located in McMinnville's industrial district (zoned General Industrial M-2) along a Portland Western Railroad rail spur.

Figure 34. Proposed Industrial Development, McMinnville

Source: Kidder Matthews

Market Trends

While people once followed the jobs, corporations and professional firms are now following people back to the city. These companies have increasingly seen prospective employees choosing to live, work, and play in more interesting—often urban—locations, and now they have realized that attracting these employees requires them to be in these places too. As such, the authenticity of a place has become a sought-after commodity. This is likely one of McMinnville's strongest assets. Companies and workers now look for the genuine, the idiosyncratic, the unique and, most importantly, the personality of a place that matches their own. In fact, a recent Newmark study identified a significant rent premium for office properties with transit access, dining operations, and open floor plans of around 50 percent higher than those with obsolescent characteristics.

For cities, this means that opportunity lies in attracting more investment and focusing on placemaking to make themselves the place where the best and brightest live, work, and shop. This might require updating office and industrial areas to reflect the way we now do business and work day-to-day. And, as the finance, utility, and even government sectors continue to consolidate, cities will need to backfill their buildings with new tenants to keep downtown an interesting and lively place.

Location Preferences

Across the United States, traditional office development is increasingly considered obsolete in today's shifting market. Since the Great Recession tenant preferences have shifted to central, walkable, amenity-rich locations as companies find it tougher to recruit the Millennial and emerging Gen Z workforce to sterile, single-use buildings and in auto-dependent neighborhoods. These locations have typically been in inner-city areas, but more recently office investors have been refocusing their attention to suburban communities that increasingly offer a better value for investors than urban products, mainly in areas where developers are creating live-work-play environments. The migration of millennials to the suburbs should ease investor concerns about demand for suburban office space.

Workplace Trends

General trends impacting the office workspace include a steady decline in the number of square feet per employee, the increase in standardized workspaces and non-dedicated (shared) office space with more amenities, more tolerance for telecommuting and collaborative workspaces, and a greater emphasis on higher space utilization, innovation, and productivity. Within the private sector, Class A office space continues to be the primary driver of new office demand, yet "creative" office environments—the repositioning of established office space (typically Class B) to open, modern workspaces—are becoming ever more popular. Real estate investors are wondering whether the office sector is next in line for a painful shakeup, as tenants continue to use office space more efficiently.

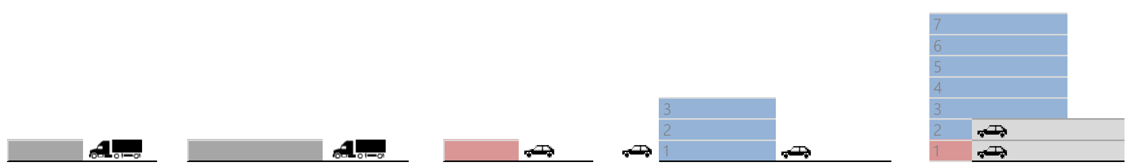
The impact of tenants' push for greater space efficiency has created winners and losers within the office market. Fitting more employees into less space has enabled office tenants to sign smaller leases or afford higher-end space. This is a particularly compelling tradeoff in the current market, as tenants are increasingly relying on amenity-rich office environments to help recruit the highly skilled workers who are now in short supply.

Commercial Development Prototypes

Commercial development prototypes are shown below. Once again, parking is a major driver of building form. Only one commercial development prototype—mid-rise office—includes structured parking; this building type is unlikely to be feasible due to the high cost of structured parking.

Figure 35. Commercial Development Prototypes

	Industrial		Retail	Office	
Name	Adaptive Reuse Craft Industrial	New Construction	Spec or Build to Suit	Creative Office Spec or Build to Suit	Mid Rise
Parking	Surface	Surface	Surface	Surface	Structure
Structure	As built	Concrete tilt-up	Steel or concrete	Steel and concrete	Steel and concrete

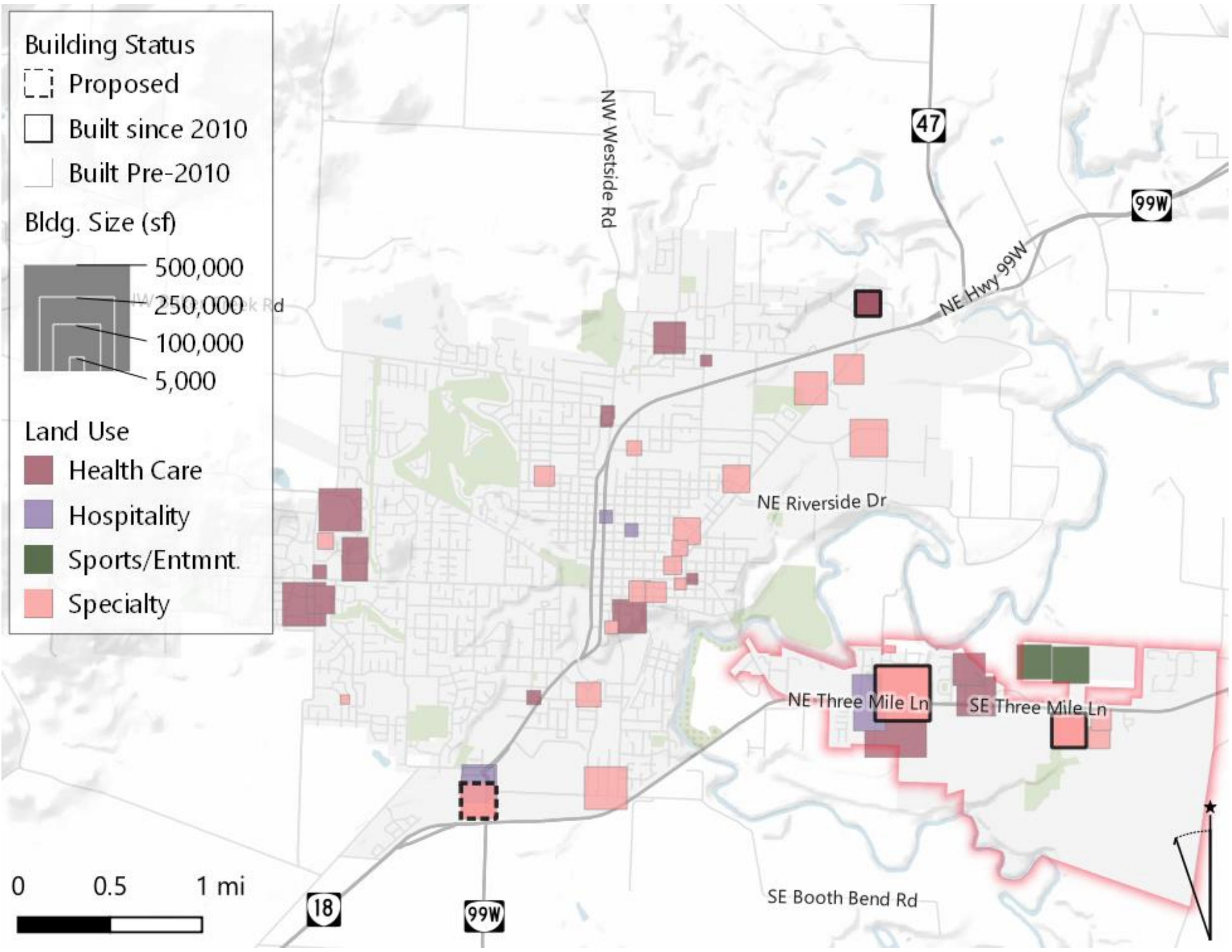


Lodging, Hospitality, Specialty, and Recreation

Development Summary

Since 2010, there have been only a handful of new properties built in these categories, including one health care facility (skilled nursing facility/assisted living), and two specialty properties (Chemeketa Community College and an airplane hangar).

Figure 36. Regional "Other" Development



Source: Costar, Leland Consulting Group

Tourism

The tourism region of the Willamette Valley includes Benton, Linn, Marion, Polk, Yamhill and portions of Clackamas and Lane counties. The region stretches from the crest of the coast range to the crest of the Cascade Range. The Willamette Valley offers more than 500 wineries in 150 miles, historic towns and cities, craft breweries, farm stands, and hiking, paddling, and cycling.

The region continues to be a big draw for locals and tourists alike, with tourism rates in Oregon rising 54 percent in the last three years[19] (as of December 2018). In 2018, the Willamette Valley was the second-most visited destination in Oregon for overnight tourists, attracting almost 20 million visitors (Portland was first with 26.4 million, and the Oregon Coast was third with 18 million)[20]. New wine country restaurants and boutiques have made the area even more appealing.

---

[19] http://www.wweek.com/culture/2018/10/09/two-oregon-natives-are-opening-a-bougie-new-hotel-in-downtown-mcminnville/

[20] http://industry.traveloregon.com/content/uploads/2018/05/Dean-Runyan-FINAL-2018.pdf

The wine industry has brought new economic activity and tourism, and industry growth, bringing more jobs, increased tourism, and international recognition, and growing support of arts and culture opportunities.

The arts and culture environment in Yamhill County is a growing field of increasing vitality. Artist studios and monthly wine walks increasingly attract visitors from outside the region. Events such as the two annual international wine conferences at Linfield College and monthly art and wine walks provide critical exposure both for area artists and for local vineyards. Key institutions – such as Chehalem Cultural Center, George Fox University and Linfield College – play significant roles in providing robust art and cultural offerings to their communities. The vibrancy of the environment varies across the county, and the accessibility of arts and cultural opportunities may not be equitable across different populations.

High quality of life and robust arts and culture offerings are often considered the most attractive aspects of Yamhill County for residents or businesses considering the location. They are also tourism draws. Other attractors include the region's natural beauty, small-town feel, good schools, and quality higher education institutions. The area's proximity to Portland while remaining rural and independent is also a positive attribute.

The following table provides high-level tourism data for the Willamette Valley.

Table 10. Willamette Valley, Direct Travel Impacts, 2012-2018

	2012	2018	Change
Direct Employment	18,830	21,890	16%
Employee Earnings ($M)	$385	$522	36%
Visitor Spending ($M)	$1,423	$1,629	14%
Taxes (State/Local) ($M)	$59	$79	34%

Source: Dean Runyan, Oregon Travel Impacts, May 2018

Per the Oregon 2015 Regional Visitor Report for the Willamette Valley Region,[21] approximately seven percent of all overnight trips in 2015 were for business, 53 percent were to visit friends or relatives, and 40 percent were considered "marketable" (i.e. leisure). Of these marketable trips, most people were visiting for the outdoors, a special event, or touring—and mostly during the spring and summer months. In terms of spending, 30 percent of the $706 million spent in the region was on lodging, and 27% was on restaurant food and beverage.

The Willamette Valley attracts visitors that are typically older, higher-income, and often childless or retired individuals and couples. The average age of overnight visitors to the Willamette Valley was 49 in 2015, older than the state average of 46. A significantly greater proportion of visitors aged 45 and over visit the Willamette Valley (61 percent of all visitors versus 49 percent).

Lodging & Hospitality

Near Term Hotel Development Prospects.

The primary demand driver for hotel development include:

- Tourism and tourist destinations,

[21] http://industry.traveloregon.com/content/uploads/2016/11/Oregon-Willamette-Valley-Region-2015-Visitor-Final-Report.pdf

- Entertainment activities,
- Business activity (number of jobs and businesses),
- Business conferences and conventions, and
- Travel patterns (visibility).

McMinnville's Three Mile Lane arguably possesses three of the five drivers listed above, which is a positive sign for future lodging and hospitality development. Despite this, in the near term (zero to five years), hotel development in Three Mile Lane will be difficult for the following reasons:

- **Distance from downtown amenities.** Visitors to the hotel would probably drive, not walk, to the restaurants, wine-tasting, boutiques, retail, and other amenities in downtown. There are no commercial amenities at the Three Mile Lane today and therefore a hotel at the Three Mile Lane would need to create its own sense of place and stand on its own. This would require a significantly higher level of investment, potentially in place making amenities, restaurants, meeting facilities, etc.
- **The current setting is somewhat industrial**. This is not a highly desirable hotel setting. Uncertainty about what will happen to the Evergreen properties and the surrounding area will also make hotel developers more reluctant to invest.
- **Land constraints** impact the ability of the market to support the development of moderate-cost hotels, which are needed to support the burgeoning tourism industry.

Long Term Hotel Development Prospects.

In the long term, this could be an excellent site for a hotel. Numerous amenities would improve prospects for hotel development, including:

- Additional parks, open spaces, and festival venues.
- Restaurants and retail.
- Wine tasking and wine-related uses.
- Other residential and commercial development.

The more that a hotel developer needs to create these amenities "from scratch," the more difficult the economics will be.

Many of the new hotels recently built in the region are unique and interesting, with amenities oriented to local tourism draws—such as the wine industry. Some of these new hotels are profiled below.

The Allison, Newberg, Oregon. The Allison is an 85-room, 5-star resort hotel in Newberg, Oregon which opened in 2010. Room rates average between $435 and $475 per night.

Located in the Willamette Valley in 35 acres of grounds, this luxury spa resort is within 10 miles of dozens of wineries and 2 miles from Chehalem Glenn Golf Course. Amenities include an upscale restaurant and wine cellar, a spa offering wellness treatments, an indoor pool and hot tub, and yoga classes.

Atticus Hotel, McMinnville, Oregon. Atticus is a new 36-room luxury boutique hotel in downtown McMinnville, at the corner of N.E. 4th St. and N.E. Ford St. The property—which takes the place of a vacant parking lot—is a 22,640 square-foot, four-story building, and was developed by the Odd Fellows Building (OFB) LLC. It is leased in its entirety by Live McMinnville LLC., which will operate the Atticus Hotel.

Eighteen wineries and tasting rooms are located within walking distance along the town's quaint and historic downtown stretch. The Atticus offers a variety of studio and one-bedroom suites from $300 per night, as well as a 2-bedroom 2.5-bath penthouse. The hotel features amenities including a conference room, exercise facility, business center, private dining space, and a restaurant and bar. Guests can expect a full accouterment of services, including valet parking, in-room dining, 24-hour concierge, and group sales coordination.

The Hotel at Independence Landing, Independence, Oregon. A boutique hotel is expected to open in Independence, Oregon in May 2019. The developer, Tokola Properties, was selected by the City of Independence after they bought the waterfront property in 2015 and sent out a request for qualifications for developers to outline their vision for the site.

The Independence hotel, featuring "warm and contemporary" architecture that compliments the historic downtown area, will have 75 rooms.

Embarcadero Hospitality Group will manage the hotel. Seasonal rates for rooms will range from around $125 on winter weekdays up to $300 or more for certain suites during summer weekends, developers said.

Recreation & Open Space

Infrastructure—the physical facilities and systems that support economic activity—is a key driver of real estate investment and development. Historically, real estate was influenced by the quality and location of roads, bridges, and other forms of auto-oriented infrastructure. The Interstate Highway System, for example, was a critical factor in the growth of suburban America.

More recently, transit-oriented development has become a common term in the lexicon of real estate and transportation officials. Transit-oriented development is characterized by compact, mixed-use, residential, and commercial development that is clustered around a transit stop or a rail station. Today, bike trails, bike lanes, bike-share systems, and other forms of active transportation infrastructure are helping spur a new generation of "trail-oriented development." This trend reflects the desire of people around the world to live in places where driving an automobile is just one of a number of safe, convenient, and affordable transportation options. The Urban Land Institute's America in 2015 report found that, in the United States, over half of all people (52 percent) and 63 percent of millennials would like to live in a place where they do not need to use a car very often; half of U.S. residents believe their communities need more bike lanes.

Active transportation was, until recently, an overlooked mode of travel. However, in recent years, investments in infrastructure that accommodates those who walk and ride bicycles have begun to reshape communities.

Shared themes among active transportation projects include the following:

> **Active transportation infrastructure can catalyze real estate development.** Trails, bike lanes, and bicycle-sharing systems can improve pedestrian and bicyclist access to employment centers, recreational destinations, and public transit facilities, thereby enhancing the attractiveness of developments along active transportation corridors. In some cases, former industrial districts and towns outside urban cores have benefited from active transportation infrastructure due to improved walking and cycling connectivity.
>
> **Investments in trails, bike lanes, and bicycle-sharing systems have high levels of return on investment.** Regions and cities have found that relatively small investments in active transportation can have outsized economic returns due to improved health and environmental outcomes and reduced negative externalities, such as automobile traffic congestion and poor air quality.

Bike-friendly cities and towns are also finding that bicycle facilities boost the tourism economy and encourage extended stays and return visits. Tourism is one of the world's largest industries. The U.S. Travel Association explains that U.S. residents spend over $800 billion a year on travel and recreation away from home.

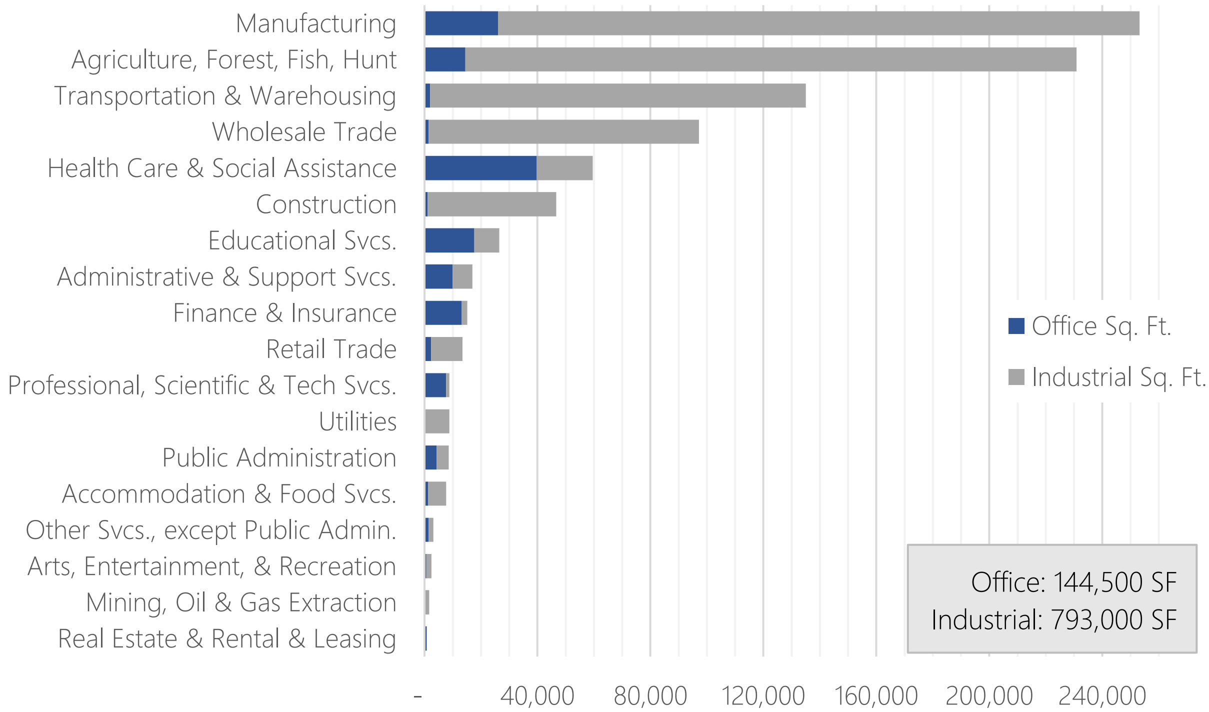
Demand for Commercial/Employment Development

This section provides an estimate of future 10-year market demand for residential development, office and industrial development, and retail development.

Office and Industrial Demand

Based on the respective strength of the office and industrial markets, most employment-based demand for new development is likely to be in the industrial sector, specifically manufacturing and agriculture (tied to the wine industry). With that said, this is largely dependent on McMinnville's ability to compete with other cities in the region where industrial development has been more prevalent. Figure 37 shows LCG's office and industrial development forecast for the market area, based on job growth forecasts made by the U.S. Census.

Figure 37. 10-Year Office and Industrial Demand



Source: Leland Consulting Group

For office, employment growth in the industries of healthcare and social assistance and educational services can be expected to drive most of the demand for new office development.

However, the Census' employment forecast likely overstates demand for industrial and office space. The following table shows historical employment growth rates along with historical office and industrial deliveries documented over the past decade. These historical trends are useful in suggesting office and industrial construction for the next decade in the market area.

Because little new office space has been built (despite the addition of several thousand new employees), it is possible that there will be little to no demand for office space in the next decade; however, the limited development may be due to a limited supply of appropriately zoned land. Likewise, the total demand for new industrial space may be lower than would be projected using employment forecasts.

Three Mile Lane may be a prime location for **light or craft industrial** which could align with the City's vision for the area and provide secondary tourism benefits if new development includes experiential or retail components. This is discussed further in the following "Retail Absorption" section. Larger or heavy industrial users are likely to be attracted to existing business and industrial parks, such as that in the north of the City.

Table 11. Historical and Forecasted Office and Industrial Trends, Market Area

	Past 5 Years	Next 10 Years
Net Office Absorption	48,102	70,000
Office Deliveries	5,000	75,000
Net Industrial Absorption	82,500	175,000
Industrial Deliveries	58,000	200,000

Source: Leland Consulting Group

Three Mile Lane Office Absorption

While employment is projected to continue to grow in the market area, the industries projected to experience the most growth and dominate future employment are not traditionally significant office users. This is also true of the past five years, during which time very little new office space was built, suggesting a limited office market outside of healthcare.

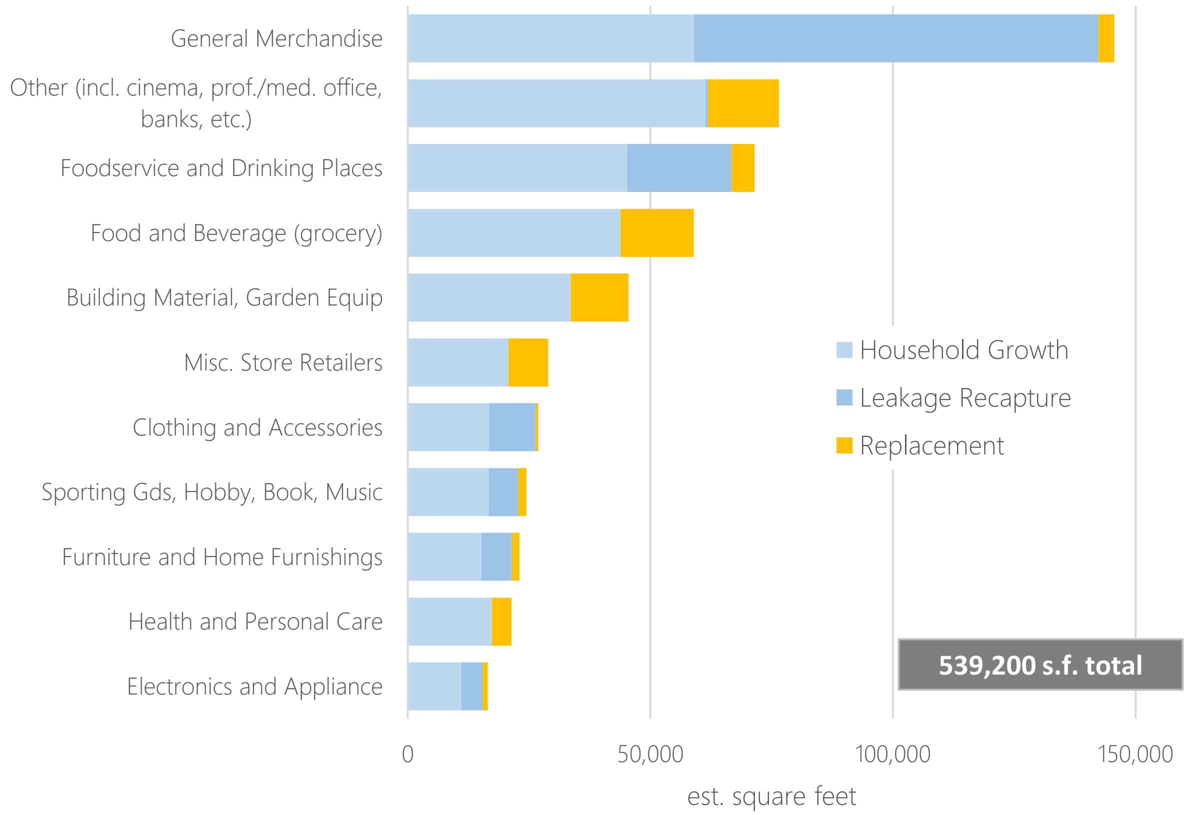
As office rents are too low to justify the high costs of new, high-quality speculative office development, new construction is only likely if large office users can be attracted to the area, or if one or more tenants are looking for a special site and campus environment, particularly near existing health care facilities. McMinnville's high quality of life, business incentives, and proximity to the Portland metro region may indeed be sufficient in attracting these larger companies, but this is almost impossible to forecast. Additionally, target users could include existing companies looking to expand.

Speculative office development is therefore likely to be minimal or nonexistent in the Three Mile Lane area in the near- and mid-term. On the other hand, recent trends for owner-occupied (often called build-to-suit) buildings in the Three Mile Lane corridor are positive indicators for both the office and industrial markets. The recent presence of two large companies—Jackson Family Wines (industrial/flex) and The Springs Living (office/flex)—in the corridor prove that a market exists for new space, reinforced by the very low vacancy rate in both markets. However, as build-to-suit opportunities are typically less driven by traditional market forces—because they are often to fill specific niches in the market and rent growth is less important—new build-to-suit opportunities are more challenging to forecast that speculative office.

Retail Demand

Using the household growth projections and leakage analysis described earlier, we forecast demand for approximately 529,000 square feet of additional retail development within the market area over the next decade. The general merchandise, "other" (cinema, medical and professional office, etc.), and foodservice and drinking places (restaurants and bars) retail categories are responsible for about half of total demand. Grocery demand would likely support one or two additional stores.

Figure 38. 10-year Market Area Retail Demand by Source



Source: Leland Consulting Group

The following table shows total retail absorption and development for the past five years, and forecasted development based on the same historical trends. Note that these forecasted numbers are significantly lower than those presented above. This is merely to highlight that there may be pent-up demand well into the future if the development trends of the past continue. Increasing the rate of development may, therefore, require significant public interventions.

Table 12. Historical and Forecasted Retail Trends, Market Area

	Past 5 Yrs.	Next 10 Years
Net Retail Absorption	117,900	200,000
Retail Deliveries	40,300	150,000

Source: Costar, Leland Consulting Group

Three Mile Lane Retail Absorption

The Three Mile Lane project area is relatively well-positioned for retail development due to high visibility, ease of access, high traffic counts along Highway 18, and there are few alternative urban areas between McMinnville and the coast, providing opportunities to capture spending from those visiting the Oregon coast.

Additionally, as one of the few locations in the market area with large, contiguous, vacant tracts of land within city limits, Three Mile Lane should be able to capture a significant portion of market area demand over the next 10 years.

However, significant challenges remain, including:

- Existing retail in the project area is virtually non-existent;
- Many retailers—particularly bars, restaurants, and other small-format stores—are likely to prefer a downtown location, where there is existing activity, authentic and interesting buildings, and less risk; and
- There are many other large, successful retail centers within a reasonable drive-time with which any major retail development would compete.

As such, retailers in Three Mile Lane are likely to be auto-oriented, with convenience and general merchandise retail potentially feasible in the short-term. Significant household growth in the area—as projected—is likely to generate demand for further dining and grocery options over the longer term, but not in the near-term as current retail spending data indicates a major surplus of grocery stores in the region.

The tourism and wine industry, especially, is burgeoning, increasing opportunities for development that would leverage the wave of visitors to the area during the warmer months. Specifically, this may take the form of experiential or "destination" retail and commercial uses. Commercial tenants in this category include restaurants, wine-tasting and wine sales, unique Willamette Valley food growers and vendors, other food and beverage vendors (coffee, ice cream, bakeries), and outdoor recreation suppliers. Secondary commercial tenants can fill space alongside these "anchor" tenants. Indeed, a larger building with production, warehousing or light manufacturing in the back and a front-facing retailer—such as a tasting room or craft store—would fit the existing industrial, auto-oriented character of the Three Mile Lane study area while increasing activity in the corridor.

Conclusion

This market analysis assessed the market conditions for residential, commercial, office, and industrial development, and subsequently identified opportunities for the Three Mile Lane corridor based on existing land assets.

Projected residential and employment growth over the next 20 years will drive demand for new residential, commercial, and industrial development. Potential development in the Three Mile Lane corridor is likely to be driven by these market forces, as well as more nuanced needs for housing and retail in particular. Existing market conditions indicate that development will likely remain low-density and surface parked, at least until rents increase and development feasibility of higher-density building types improves. For residential uses this may translate in the near-term to townhomes and apartments up to four stories, as well as single-family and multiplexes. Based on projected demand, retail development is likely to be surface parked, low-rise, and community-serving (potential grocery store, restaurants, etc.), and as part of mixed-use residential and/or office developments over a longer time period.

The growing tourism industry, airport activity, and existing needs for meeting space should drive demand for hotel. However, with speculative office demand relatively low in comparison to housing and retail, hotel prospects are reliant on existing employment and tourism.

With few large flat land tracts left in the area and moderate to high employment growth projected in the industries of manufacturing, agriculture, transportation and warehousing, and wholesale trade, there is strong industrial demand. However, a housing-focused vision for the area is likely to be incompatible with significant industrial development. Less impactful industrial—light or "craft," particularly if retail or experiential components are included—would be compatible with adjacent land uses and help generate a live-work-play environment.

In short, opportunities for new development are prevalent given the prevalence of large, greenfield sites in the study area. As such, it is positioned to capture a significant share of regional demand for retail and commercial development, as well as housing, industrial, and other mixed uses.