

City of Portland Economic Opportunities Analysis, Volume 1. Trends, Opportunities and Market Factors

Discussion Draft, March 2022

Executive Summary

Oregon's land use planning system requires that cities update their comprehensive plans periodically and provide for adequate 20-year growth capacity, based on an Economic Opportunity Analysis (EOA) and a housing needs analysis (HNA). The EOA analyzes and forecasts growth in Portland's industrial and other business districts, then designates an adequate 20-year supply of developable land for businesses and jobs. The City of Portland is updating the existing EOA, adopted in 2016, to align 2045 growth expectations with current market trends and community choices.

The EOA consists of three volumes:

- Volume 1 (this report) analyzes economic growth trends and market factors by business district type, considering Portland's national and regional context.
- Volume 2 compares the 20-year demand and current supply of developable land in each of Portland's employment geographies, identifying shortfalls for further analysis and planning.
- Volume 3 identifies community choices to meet employment land needs and economic development policies in relation to other city goals.

Focus areas of EOA update

Portland's existing EOA is relatively current, adopted in 2016. The existing EOA benefitted from the once-in-a-generation of Portland's Comprehensive Plan, which rewrote the policies of the 1980 Comprehensive Plan through an integrated planning process. The Portland Plan and 2035 Comprehensive Plan set three overall policy directions for economic development:

1. A diverse and growing city economy.
2. Competitive traded sectors.
3. Equitable household prosperity.

The 2016 EOA demonstrated that Portland's industrial districts have the greatest capacity to implement the equitable prosperity and traded sector goals of this vision. But our tightening industrial land supply and interrelated goals to improve environmental health in these districts warrant updated strategies to achieve multiple benefits. In other parts of Portland, the EOA identified an ample land supply to meet office, retail and campus institutional development needs well beyond 2045.

Therefore, this EOA update is expected to focus on three goals:

- Analyze industrial growth capacity to optimize multiple objectives.
- Promote inclusive prosperity and reduce BIPOC income disparities.
- Analyze and provide adequate short-term and 2045 goals for businesses and jobs.

What types of trends are reviewed in this report and why?

Most of the EOA contents meet specific requirements of Statewide Planning Goal 9 (Economic Development) administrative rules. The Goal 9 Rule calls for analysis of growth and market trends, which are the focus of this report, as a basis of 20-year and short-term forecasts for developable employment land that will be included in EOA Volume 2. City job growth rates are compared to regional and national trends in this report. Growth trends are also compared by general land use type in terms of employment, economic output, land development, business district growth, and marine freight volume. In addition, this report includes performance trends on Portland's overall economic goals of diverse growth as an economic center, traded sector competitiveness, and equitable prosperity.

Comparing the pace of national, regional and local job growth

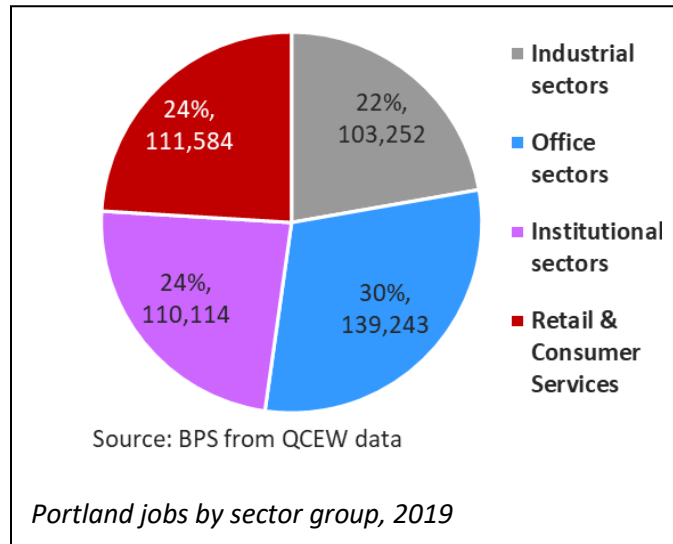
Takeaway: Portland and the region are generating diverse job growth about 60% faster than the nation.

- Job growth is accelerating in Portland, expanding at pace with the region and substantially exceeding the national trend in the last business cycle (2008-2019).
- Portland added 71,000 new jobs at a 1.5% average annual growth rate (AAGR) in this recent business cycle (2008-2019), accelerating from 0.9% AAGR in the last two business cycles (2000-2019) and Multnomah County's 1.1% AAGR in the last three cycles (1990-2019). Job sprawl trends of previous decades, in which suburban job growth widely outpaced core cities, may be receding in Portland, consistent with trends in several other large cities.
- The regional economy continues to widely outpace national job growth. The 7-County Region (Portland-Vancouver-Hillsboro MSA) added 174,800 jobs at 1.4% AAGR in the last business cycle (2008-2019), compared to the job national growth rate of 0.9% AAGR. Jobs in the Portland Region grew 63% faster than the national economy in the last business cycle, 62% faster over the last two business cycles, and 57% faster over the last three cycles.
- Portland is the diverse job center of the regional labor market, having a 38% market share of the 7-County Region's jobs in 2019 and a 41% capture rate of regional job growth in the last business cycle. Portland's location advantages as a job center include economies of scale as Oregon's largest city, above-average in-migration of young, educated workers, diverse specializations, and other sector-specific advantages. Typical of large cities, Portland is a working city more than a residential city. Portland had 70 jobs per 100 residents in 2017, compared to 48 jobs per 100 residents in the region, which are typical of shares over the last 20 years.

What types of jobs and business districts do we have in Portland?

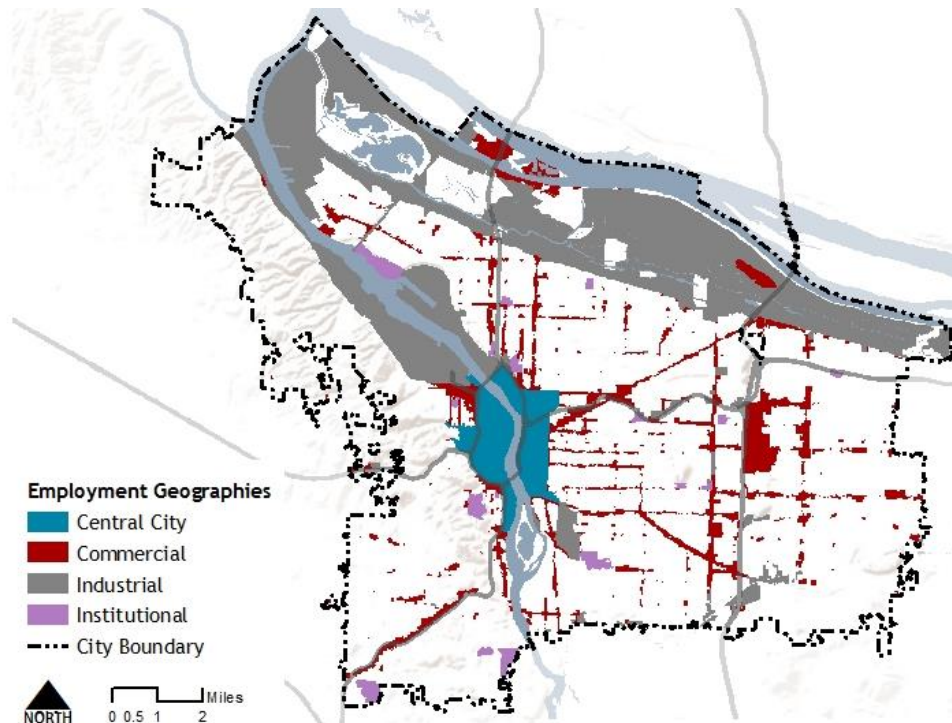
Takeaway: The growing economy has diverse land needs. The office, industrial, institutional, and neighborhood commercial sectors each provide about a fourth of city jobs.

- Portland and the region have a relatively balanced mix of jobs among four 'land-use sector types' including: office, industrial, institutional, and consumer-service sectors. These sector types each generate roughly a quarter of total jobs, reflecting Portland's economic and employment land diversity.



- Portland's office sector jobs are concentrated in the dense upper-floor space of the Central City business district, as shown in the map and chart below. The industrial sectors of production and distribution locate primarily in the industrial districts along the Portland Harbor and the Columbia Corridor. Retail and consumer service sectors are most concentrated in neighborhood commercial centers and corridors. The 15 large college and hospital campuses make up a core part of the City's education and health care jobs.

Business districts vary by sector specialization



- The regional economy had diverse, robust job growth in the recent business cycle (2008-2019), ranging from 2.1% AAGR in healthcare and education to 1.5% in retail and consumer services, 1.2% in the office sectors, and 0.9% AAGR in the industrial sectors.
- Portland's job growth was relatively balanced in most of Portland's employment geographies over the last business cycle, ranging from 1.1% AAGR in the Central City to 1.0% AAGR in Industrial Areas, 1.0% AAGR in Institutions, 1.9% AAGR in Neighborhood Commercial areas. The leading growth sectors in Neighborhood Commercial areas were healthcare and food service.
- Long-term job growth trends are especially affected by recession job losses. Comparing recent economic swings, the industrial sectors had the largest regional job losses in the 2001 and 2008 recessions, while consumer services had the largest job losses in the 2020 COVID recession.
- The manufacturing sector is an anomaly. The manufacturing sector was the largest source of the region's real GDP growth in each of the last two business cycles, but regional manufacturing jobs have been relatively flat between 2000 and 2019. The job growth in the industrial areas is mainly in the warehouse and distribution, construction, and office headquarters sectors.

Development trends in business districts

Takeaway: Industrial land supply is tightening, due to robust growth of industrial building space, approaching buildout of vacant industrial space, and industrial displacement through redevelopment in commercial districts.

- Development trends tell a somewhat different story than job trends. Total occupied space grew fastest in industrial buildings at 0.9% AAGR (adding 19.4 million square feet), compared to office space growth at 0.8% AAGR, and retail space growth at 0.5% AAGR.
- As Portland's vacant land is building out, a shift to growth through redevelopment at higher density is meeting employment land demand unevenly. Gaps include displacement of lower-density industrial and Class B/C office space in commercial zones, which is tightening vacant land supply in industrial districts.
- Industrial and flex space were the tightest building markets in Portland and the region during the last business cycle, based on faster rising rents and declining vacancy rates.
- Portland's Columbia Corridor and harbor industrial districts added 6.6 million square feet (sf) of occupied industrial space in the last business cycle - at pace with the region. But Portland also lost 2.0 million sf of occupied industrial space and about 3,200 industrial sector jobs (manufacturing, wholesale, and transportation) through displacement in the Central City and other neighborhood commercial areas - generally through higher-density redevelopment.

Traded sectors, economic specializations, and marine industry

Takeaway: Portland is a core location for a mix of growing target clusters that drive regional prosperity and is Oregon's export gateway.

- Portland is an important location for Oregon's traded sectors, which bring income and jobs into the state. A wide range of state, regional and city target industries are major employers in Portland. Most of these target industries are concentrated in the industrial and office sectors.
- The Portland region's exports are concentrated in manufacturing, measuring the output and income of traded sectors in global markets. This region ranked 17th among U.S. metropolitan

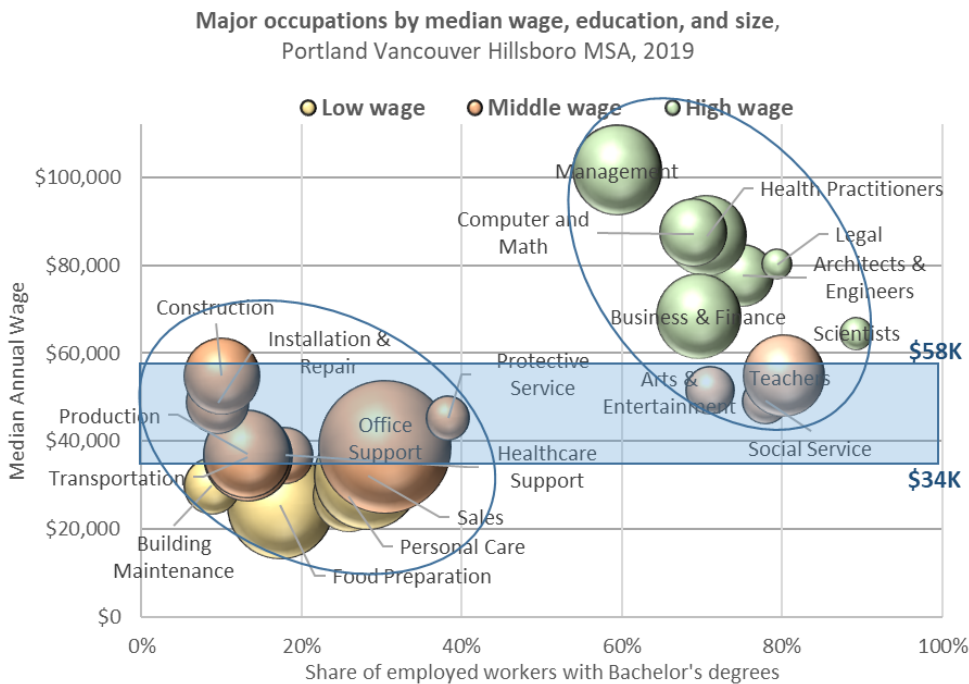
areas in real exports in 2017. Among the region’s largest export sectors, semiconductor and computer equipment manufacturing accounted for 40% of the region’s \$21.0 billion in export income and other manufacturers made up an additional 30% of total exports.

- Prosper Portland’s target industries are Athletic & Outdoor, Green Cities, Metals & Machinery, and Technology & Media, which represent local specializations among the region’s traded sector clusters.
- Large-city economic specializations that are not target industries are also generating some of the largest levels of local job growth. Examples include warehousing and wholesale trade, building construction and building contractors, drinking places (tourism), miscellaneous (specialty) stores.
- Portland’s marine industrial growth trends are mixed. Oregon’s largest export gateway is constrained particularly by limited land availability and liability uncertainty of the Portland Harbor Superfund project for new investors. ECONorthwest estimated growth opportunities (base case forecast) at 110 acres of land development by 2040 for new marine terminals and 260 acres for marine production and marine services development, which would conservatively support 1,900 new on-site jobs plus an additional 3,000 regional jobs.

Economic equity

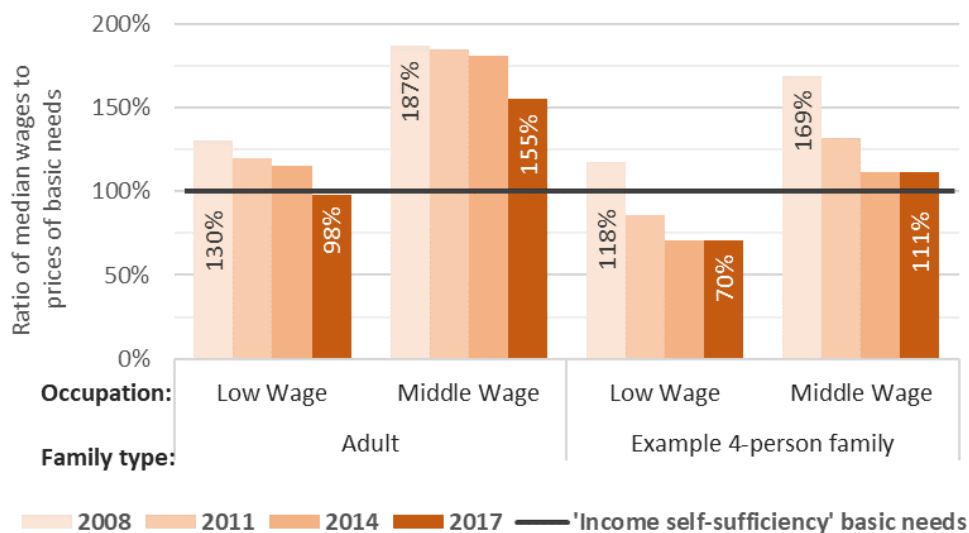
Takeaway: Portland is backsliding on economic equity goals, as wage-polarized job growth is increasing income inequality, racial income disparities, and the share of poor households.

Three inequitable growth trends stand out in the last two decades, which have primarily burdened workers without bachelor’s degrees and people of color: increasing income inequality, persistent racial income disparities, and declining affordability. Core land use policies that support wage-polarized job growth and constrain middle-wage growth contribute to these trends. The prosperity benefits of the region’s growing economy since 2000 were concentrated in the top third of the income distribution.



- 'Middle-wage jobs' support inclusive prosperity for nearly half of the workforce, as shown in the chart above. High-wage jobs typically require bachelor's degrees or higher, but only 44% of regional workers and 36% of BIPOC workers have bachelor's degrees (IPUMS, 2019 5-year average). Middle-wage jobs are a higher-paying alternative to low-wage occupations. The upward wage mobility opportunity over careers of most middle-wage jobs ranges from \$45,000 to \$53,000 (75th wage percentile in 2020). Industrial occupations made up over half of these middle-wage jobs held by people without bachelor's degrees, and office support occupations made up over one-fourth.
- Increasing income inequality is occurring faster in the Portland region than other parts of the country. The region's wage-polarized job growth since 2000 has been concentrated at the top quarter and (to a smaller extent) bottom quarter of the wage distribution. The middle-wage occupations that made up 58% of regional jobs in 2000 have had minimal growth since then.
- The regional labor market has wide BIPOC income disparities (Black, Indigenous, and People of Color). The deepest disparities affect Black and Native American households, whose median income was only 56% and 69% respectively of the regional median for all races in 2016 (5-year average).
- Industrial- and (to a lesser extent) office-sector jobs stand out in raising BIPOC incomes relative to other sectors, while Portland's faster job growth in the neighborhood commercial and institutional sectors is reducing BIPOC incomes relative to other sectors.
- Declining income self-sufficiency (or affordability) is another inequitable impact of widening income inequality, as rising local prices of basic needs outpaced the relatively flat wages of low- and middle-wage occupations. Multnomah County's share of households in need, measured by the Income Self-Sufficiency Standard, increased from 23% in 2008 to 34% in 2017. Concentrated local growth of high-wage jobs and high-income households puts upward market pressure on local prices of basic needs (such as housing and childcare).

Declining real wages of low- and middle-wage occupations,
Multnomah County, 2008-2017



Source: BPS from OES and ISS data (Pearce). Nominal \$ (not inflation adjusted) Example 4-person family: 2 working adults, preschooler and school-age child.

COVID recession recovery

Takeaway: While the economy has recovered to full employment, COVID trends signal adjustments in upcoming land demand, including somewhat less office space and more industrial space.

- As of November 2021, the regional economy had fully recovered the 171,000 jobs lost in early 2020 and 50,000 Portland jobs (LAUS data), and the labor market is back to full employment. The region's peak unemployment rate of 13.1% in April 2020 had recovered to 3.4% by October 2021 and 3.5% in the City of Portland.
- The COVID recession's primary job losses were in different sectors than other previous recessions. The region's biggest job losses of this recession have been in food service, healthcare, education, and entertainment. The industrial sectors accounted for most regional job losses in the previous three recessions, but had moderate job losses in the COVID recession, and transportation had the economy's fastest recovery.
- Potential long-term economic impacts of COVID recession trends: reduced demand for office space due to expanded work-from-home options; faster industrial job growth due to moderated 2020 losses; and public health innovations in the consumer service and institutional sectors that may expand their building space needs.

Conclusion: Takeaways from Volume 1. Trends, Opportunities and Market Factors

- Portland and the region are generating robust and diverse economic growth, which is expanding the land needs of industrial, office, institutional and consumer-service businesses.
- Job growth has been unequal, concentrated in the top and bottom fourths of the wage distribution.
- Middle-wage jobs raise incomes of nearly 400,000 regional workers without bachelor's degrees, mostly (61%) in industrial occupations. Most provide upward-mobility potential of \$45,000-53,000 per year (75th percentile wage), compared to \$30,000-34,000 in most low-wage jobs.
- BIPOC workers have higher incomes in the industrial and office sectors, reducing racial income disparities.
- Industrial land supply is tight and getting tighter.