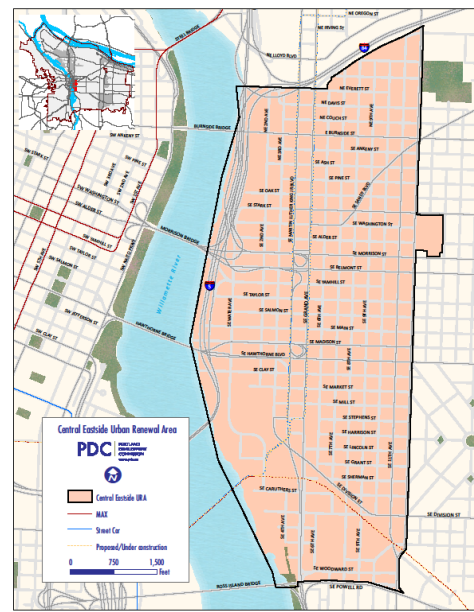

THE EVOLUTION OF PORTLAND'S CENTRAL EASTSIDE

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With its close proximity to the central business district, deep industrial history, celebrated grittiness, and opportunity for innovation, Portland's Central Eastside District (CED) is primed as a destination for urban redevelopment in Portland's Central City. Situated on the east bank of the Willamette River and bound by SE 12th Avenue on the east, Interstate Highway 84 on the north, and SE Powell Boulevard on south, the 692.3 acres of the Central Eastside Urban Renewal Area was established in 1986 by the Portland Development Commission (PDC). Over 17,000 jobs are located in the district that historically served as an industrial manufacturing and warehousing hub, according to Johnson Economics. Job growth of the CED has outpaced all other employment districts in



Source: Portland Development Commission

■ Angela Guo is a Master of Real Estate Development candidate and was a part of the Winter 2014 graduate student NAIOP workshop team that focused on Portland's Central Eastside. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Portland and accounts for over 35% of Portland's job growth in the past five years.

Originally settled in 1845, the Central Eastside, according to the Portland Bureau of Planning and Sustainability, consisted of orchards and hay, the east bank was comprised of marshes, creeks and sloughs making development challenging. With the extension of the East-Side Oregon Central Railroad from Salem to Portland, an economy based on the shipment of agricultural products began to blossom. In 1887,



Source: Portland Bureau of Planning and Sustainability

the Morrison Bridge connected the east and west sides of the Willamette River, which connected the City of Portland to the area known as the City of East Portland, at that time. The new rail lines that connected the Portland area with California and other eastern states spurred a booming agricultural trade centered in East Portland, which was annexed by the City of Portland in 1891.

Produce distribution continued to flourish, and, by the end of the 20th century, the east side was a thriving industrial and commercial district. The railroad and riverbanks were busy transporting and moving product to and from the area, leading to its nickname of Produce Row.

In more recent decades, the buildings that once were the hub for produce distribution or manufacturing have been repurposed to be incubator spaces that foster the development of smaller-scale manufacturing and industrial uses. An Employment Opportunity Analysis (EOA) conducted by Portland has labeled the CED as an “incubator” area and a “hot spot” of where a significant amount of job growth has shifted in recent years.

The job gains have moved from Portland's traditional downtown core toward adjacent areas in the River and Lloyd commercial / mixed use districts and the emerging incubators of the Central Eastside and Lower Albina. As momentum continues to build with these new types of tenants entering and the character of the district shifting, the City, real estate developers, stakeholders and other organizations are focusing on how the CED should and will evolve.

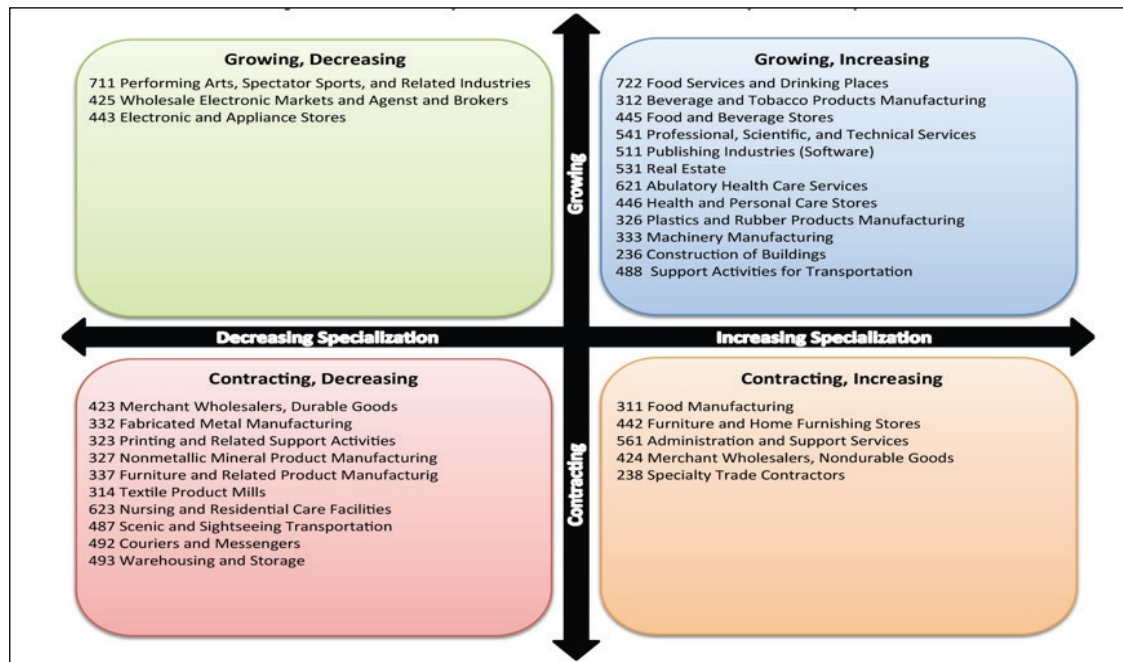
One thing is certain; the CED will not be the next Pearl District. The mostly industrial zoned CED does not permit the same type of development as seen in the Pearl, with the exception of the area around the Grand and MLK corridors that allows for some residential development. Because the district is primarily an “industrial sanctuary,” the zoning was maintained to preserve the types of industrial businesses that have predominantly characterized the area. Zone changes have been contem-

plated and are one of the many discussion points for the stakeholders of the CED as the SE Quadrant of the Central City 2035 plan for the district is being drafted.

Businesses owners in the CED have pushed to keep the industrial sanctuary primarily for distribution and manufacturing. However, as the types of industrial businesses entering the CED are smaller in size, the district instituted an “Employment Opportunity Subarea (EOS),” which works similar to an overlay on the industrial zone IG-1, but does not change the existing zoning code. The purpose of this subarea as written in the zoning code is to promote the preservation of industrial land and development and support the vitality of industrial businesses while providing opportunities for a broad and diverse mix of employment uses that are compatible with industrial activities and that build on the economic strengths, locational advantages and urban character of the Central Eastside.

As a result of the City’s loosening of the definition of an “industrial” use, prominent industries, including professional and financial services, food services and production, software publishing, apparel manufacturing and micro-distilling, have emerged in the CED. Johnson Economics in their study of the district charted the shift in the type of business specialization for the CED, as shown below.

Central Eastside Shift in Specialization (2007-2012)



Source: Johnson Economics

The EOS has created more opportunities for developers to change the type of product that is built in the area. This can be seen in pioneering projects that Beam development has undertaken with the Eastbank Commerce Center and Water Avenue Commerce Center. Businesses in these buildings are “curated,” according to Brad Malsin, co-founder of Beam, to create a community conducive for collaboration and where creativity can thrive.

Many of companies that are growing in the CED fall into six industry clusters that the City of Portland’s Economic Development Strategy has identified for expansion.

1. Athletic and outdoor apparel
2. Software
3. Advanced manufacturing
4. Bioscience
5. Clean-tech
6. Corporate headquarters

These clusters represent a significant departure from the traditional warehousing, distribution and heavy industrial uses that have characterized the CED. As Portland moves towards a more knowledge-based economy, tenant tastes in office spaces have inevitably transformed, as well. Portland has observed a change in the types of tenants (creative, startups, techies, etc.) who are increasingly demanding creative spaces who are willing to pay above market for Class B creative space.



Left: Eastbank Commerce Center; Right: Water Avenue Commerce Center

Thus, as more of these businesses move in, the need for flexible space and technologically capable buildings will increase. Adaptive reuse buildings and new office construction will need to be “plug and play,” with adequate power, high-speed internet and modular space that startup companies can shape according to their needs. In effect, incubator space and incubator districts represent an increasingly important

hybrid or cross-over product between traditional office and industrial service segments of employment building space spectrum.

The CED is poised for industrial office development, especially considering the current office climate. The Urban Land Institute (ULI) listed Portland as a “Market to Watch” in the 2014 Emerging Trends Report. In Cushman & Wakefield’s Market-beat Office Snapshot (Q4 2013), Portland’s office market fundamentals are expected to continue to improve, as confidence in the Portland market as job growth increases and the city re-emerges as a hub for tech-oriented businesses. As one of the tightest office markets in the country, Johnson Economics reports that Portland CBD’s vacancy and lease rates are moving in a positive direction. In the last quarter of 2013, the CED had the lowest vacancy rate in the metro area, according to Jones Lang LaSalle.

Developers have taken notice of the demand for this product type. Some of developments which are in the pipeline include:

Washington High School

Size: 23,040 SF ground floor retail; 50,000 SF Industrial/ Creative Office Space

Developer: PacTrust and Venerable Properties

Status: Currently under construction and actively leasing for retail and office space.



Source: Oregonian

Taylor Electric Building - 240 SE Clay

Size: 70,000 SF

Developer: Killian Pacific

Status: Has not commenced construction, but actively marketing for pre-leases.



Source: Killian Pacific

Old PGE Building - 1510 SE Water Avenue

Size: 44,000 SF

Developer: Killian Pacific

Status: Pre-leased to Viewpoint Construction Software, formerly Coaxis. It is expected to accommodate 150 to 200 additional professionals and be completed in the



Source: Killian Pacific

third quarter of 2014.

Jimmy Tire Building - 1100 SE Division

Size: 10,000 SF

Developer: Intrinsic Ventures

Status: Construction near completion



Source: Costar

The Fair-Haired Dumbbell – 333 E. Burnside St.

Size: 30,000 SF Creative Office; 5,500 SF Ground floor retail

Developer: Guerrilla Development Co.

Status: PDC has agreed to sell the 13,566 SF parcel at the price of \$1.6m in April, 2014.



Source: Daily Journal of Commerce

With an increase in employment in the CED and with a shortage of residential stock in the district itself, multifamily developers have descended in particular on the Burnside Bridgehead property. The PDC owns much of the property and initiated the Burnside Bridgehead Framework Plan (Framework Plan), which was adopted by the PDC Board on May 26, 2010. “The Framework Plan established a strategic design approach for the redevelopment of the Burnside Bridgehead Property involving development in smaller increments and by more than a single developer. As the first step toward implementing the Framework Plan, PDC issued a Request for Interest (RFI) on July 15,



Source: Portland Monthly Magazine

2010 seeking offers from qualified development teams to purchase and redevelop portions of the Burnside Bridgehead Property.” [PDC]

In response to the RFI, the following mixed used development proposals among many others, along with the aforementioned Fair-Haired Dumbell project were submitted for PDC consideration. Residential mixed-use development will inevitably be built along the MLK and Grand Ave corridors where the Exd zoning permits.

Block 67

Size: 276 apartments; 21,000 SF office/ retail

Developer: Key Development

Status: Has yet to be approved. Size may be reduced.



Source: Skylab

419 E. Burnside

Size: 121 apartments; 2,515 SF live/work; 4,480 SF retail

Developer: Jack Paauw

Status: Not under construction yet.



Source: Portland Monthly Magazine

Block 75

Size: 60 apartments; 29,630 SF work; 7,955 SF retail

Developer: Eric Cress

Status: Finalizing Design



Source: Works Partnership

The City of Portland hopes that each development project not only shapes the CED landscape but connect with the changing beat of the district. The City has a unique opportunity to understand the CED from an objective perspective, as one of the four recipient of the ULI Daniel Rose Fellowship for 2014. This yearlong Daniel Rose Fellowship program provides the city an intensive engagement with ULI professionals who can provide technical assistance for the challenges that the city faces. The CED is the focus of the Portland study.

Preliminary recommendations are for the city to keep land values affordable and to keep development pressures, particularly residential and retail, at bay. The ULI professionals also acknowledge that the CED has an attractive grit that can bring in business.

Even outside observers can easily sense that the CED has something special. The mounting synergy of creative food, beverage, apparel and intellectual manufacturing, among many others, will sustain the CED's connection with its rich industrial history as the district launches into a promising future. ■