ECONOMIC OVERVIEW – COWLITZ COUNTY AND THE WOODLAND AREA

I. MARKET AREA DELINEATION

The Primary Market Area (PMA) is the geographic area from which the subject is likely to draw the majority of its demand. For the proposed project, we consider this area to be the I-5 corridor between the Lewis River and the Kalama River. We would expect establishments emerging from the areas north and south of this region to gravitate toward the Kelso-Longview and Ridgefield areas, respectively.

The delineated market area includes the cities of Woodland, Kalama, and La Center, plus surrounding unincorporated areas. Employment trends identified within this region are considered particularly relevant when assessing the feasibility of an incubator park in Woodland. General trends within Cowlitz County will also be given some weight in this overview, as most of the PMA lies within this county.

FIGURE 1: DELINEATION OF THE PRIMARY MARKET AREA

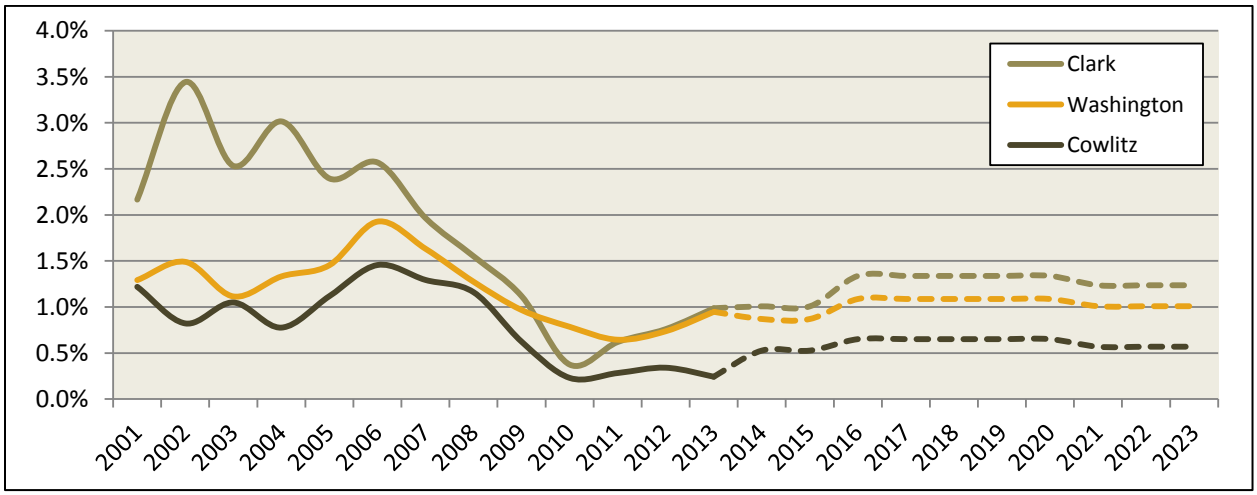
Source: MapPoint and JOHNSON ECONOMICS

II. Population Growth

Cowlitz County Population Growth

Cowlitz County had a total population of 103,300 in 2013, according to the Washington State Office of Financial Management (OFM). The county has lagged the remainder of Washington State in recent times, including Clark County. Over the last decade, the average annual growth rate has been 0.8%. The OFM projects a 0.5% annual growth rate through 2015 and 0.6% thereafter.

Figure 2: Historical and Projected Annual Population Growth, Cowlitz and Clark Counties



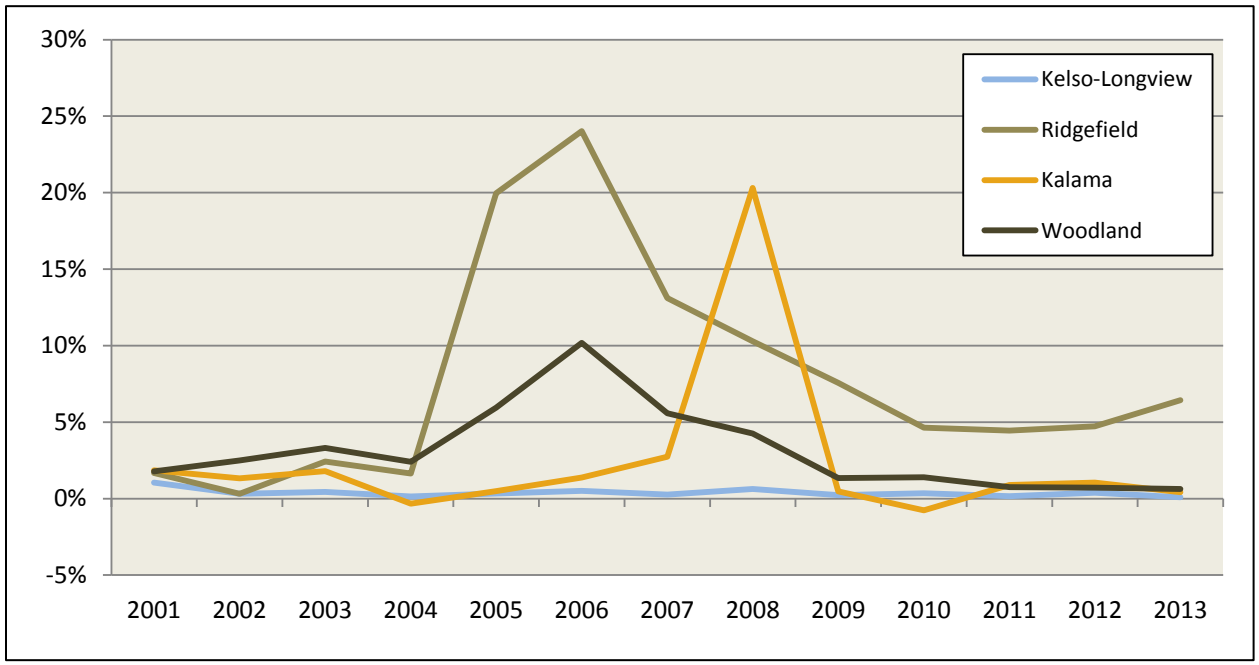
Source: Washington State Office of Financial Management

The county's lackluster employment growth is reflective of the weak trend of the Kelso-Longview area. The two cities account for nearly half of the county's population, and have grown at an annual average rate of 0.3% over the last decade. For the remainder of the county, the average growth rate has been 1.2% - the same as the overall statewide rate. However, since the end of the recession, the growth has been weak throughout the entire county.

Woodland and Kalama Population Growth

The City of Woodland enjoyed strong growth during the pre-recession boom, but has since stagnated. A total of 5,650 individuals lived within the city limits in 2013, according to the OFM. When growth due to annexation is excluded, the city has added only 155 residents since the recession. Kalama, which had an estimated population of 2,400 in 2013, added a mere 38 residents over the same period. The weak growth in these cities stands in some contrast to the trend in Ridgefield, to the south. An estimated 5,545 people lived in this city in 2013, an increase of almost 1,000 since 2009 (figure 3).

FIGURE 3: COMPARISON OF ANNUAL POPULATION GROWTH[1] IN WOODLAND AND NEIGHBORING CITIES



[1] Population increase due to annexation since 2001: Kelso-Longview, 629; Ridgefield, 109; Kalama, 282; Woodland, 162.

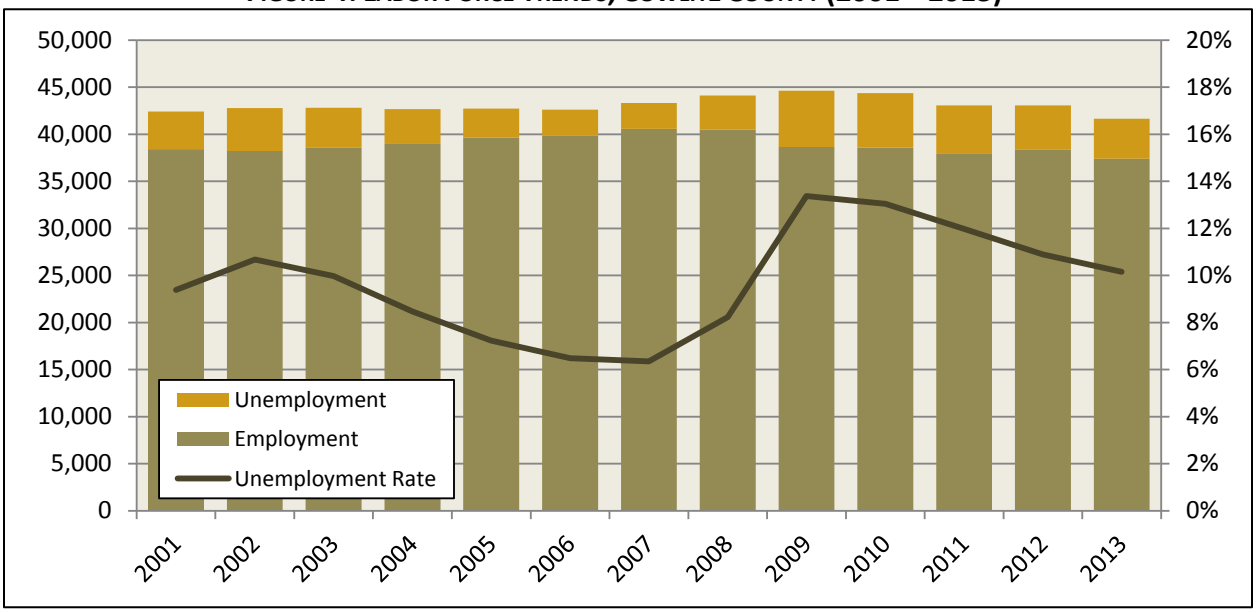
Source: Washington State Office of Financial Management

III. EMPLOYMENT GROWTH

County Employment Growth

Cowlitz County has continued to suffer employment losses in the wake of the last recession. A total of 37,410 workers were employed in 2013, according to the Washington State Employment Security Department (ESD). This represents a loss of 3,200 jobs (-8%) since 2007, and a loss of 1,000 jobs since 2012. Meanwhile, the labor force continues to shrink as discouraged workers give up looking for work and older workers retire. This helps push the official unemployment rate down. Currently, 9.2% are unemployed in Cowlitz County, compared to 7.4% in Clark County and 6.5% statewide.

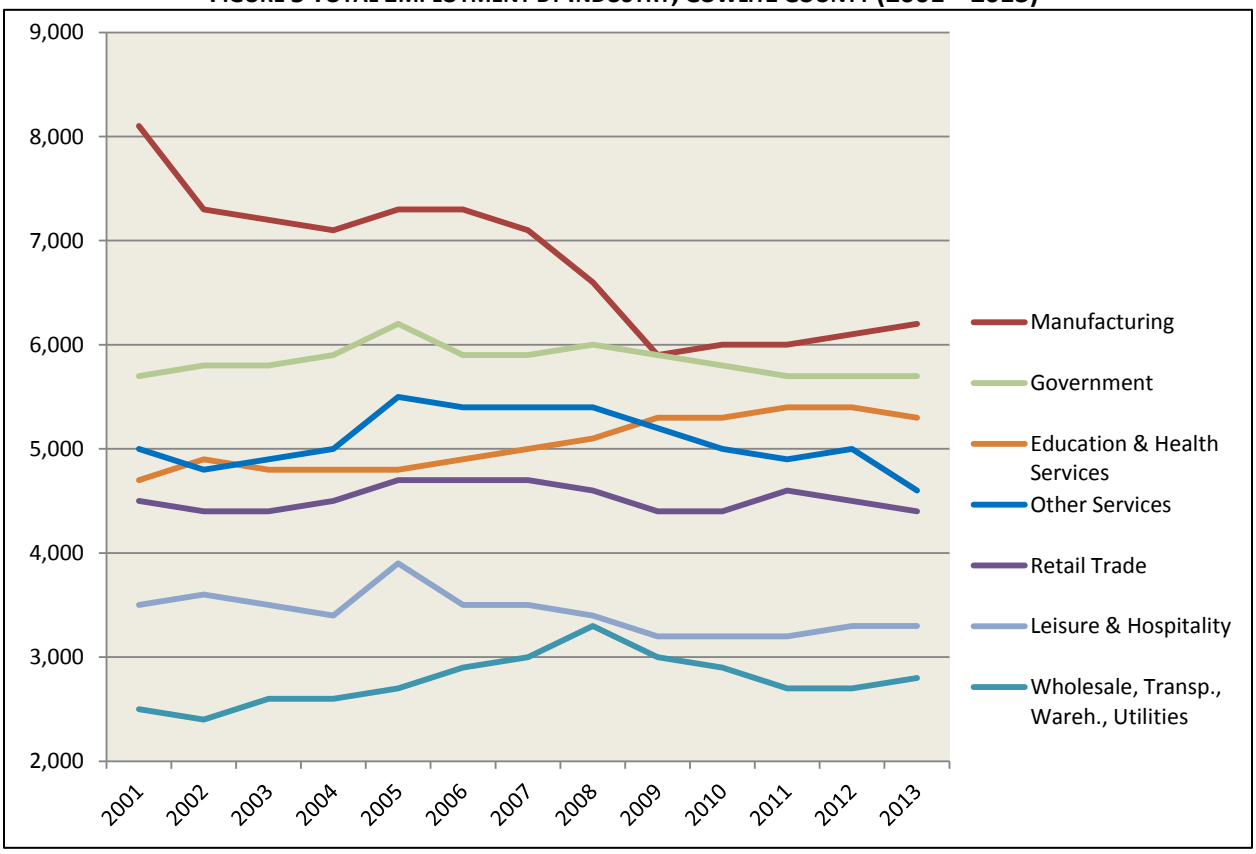
FIGURE 4: LABOR FORCE TRENDS, COWLITZ COUNTY (2001 – 2013)



Source: Washington State Employment Security Department

With respect to individual industries, Cowlitz County exhibits weakness across most of the service sector (figure 5). Further, the construction industry has not bounced back like it has elsewhere in the region. The manufacturing industry, which is the largest industry in the county, is the only industry with significant growth in recent years. Around 300 jobs have been added in this industry since 2009, at an average annual growth rate of 1.2%.

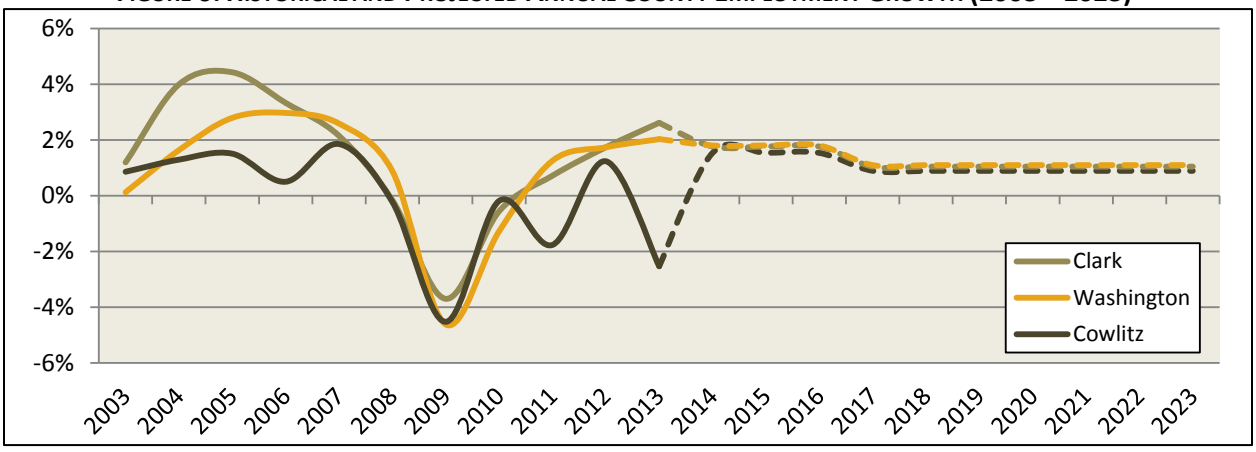
FIGURE 5 TOTAL EMPLOYMENT BY INDUSTRY, COWLITZ COUNTY (2001 – 2013)



Source: Washington State Employment Security Department

The ESD does not produce county-level employment projections, but applying its forecasts for the major industries in the entire Southwest Washington region to current industry employment in Cowlitz County indicates an overall annual growth rate of around 1.5% through 2016 and 0.9% thereafter. Using the same approach for Clark County indicates equivalent growth rates of 1.8% and 1.0%, respectively.

FIGURE 6: HISTORICAL AND PROJECTED ANNUAL COUNTY EMPLOYMENT GROWTH (2003 – 2023)



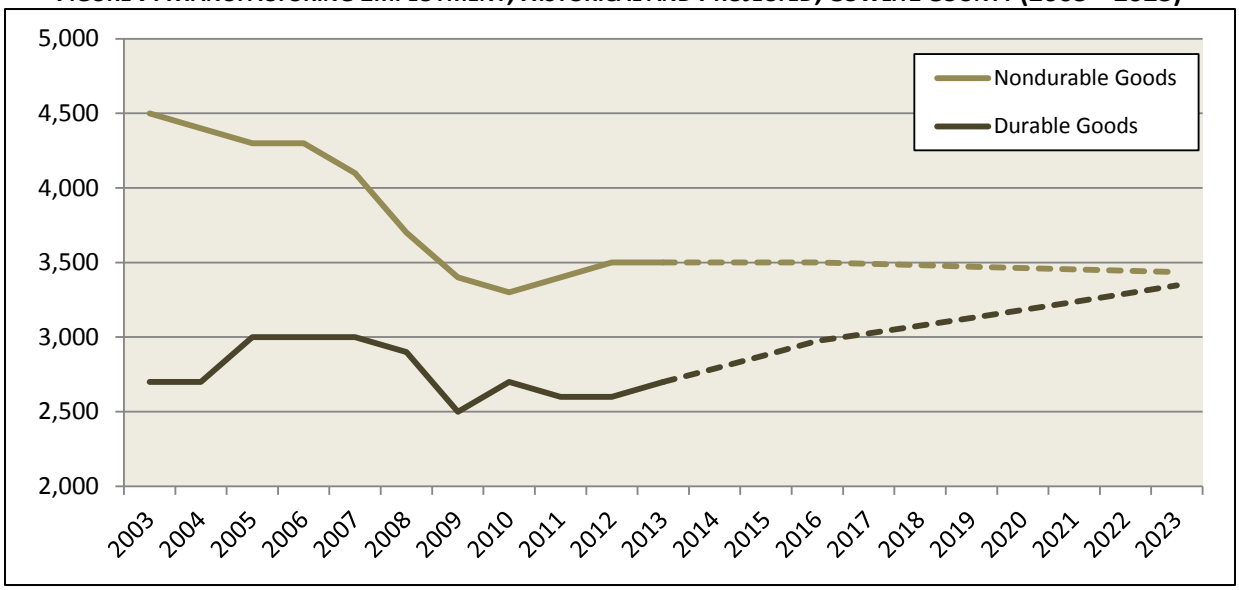
Source: Washington State Employment Security Department, JOHNSON ECONOMICS

Manufacturing Employment

Support for a new light-industrial incubator building in Woodland is most likely to come from the manufacturing industry. Over the coming decade, the ESD projects annual growth in Southwest Washington's durable goods industry at a rate of 3.3% through 2016 and 1.7% thereafter. However, for nondurable goods manufacturing, no change is expected through 2016, and an annual decline of 0.3% is expected thereafter. Applying these rates to Cowlitz County indicates that around 650 new durable goods manufacturing jobs will be created over the next ten years, while around 60 jobs will be lost in the nondurable goods industry.

(Durable goods: wood products, nonmetallic mineral products, metal, machinery, computers and electronics, appliances, transportation equipment, and furniture. Nondurable goods: food and beverage, textiles, leather, apparel, paper and printing, petroleum and coal, chemicals, and plastic and rubber products.)

FIGURE 7: MANUFACTURING EMPLOYMENT, HISTORICAL AND PROJECTED, COWLITZ COUNTY (2003 – 2023)

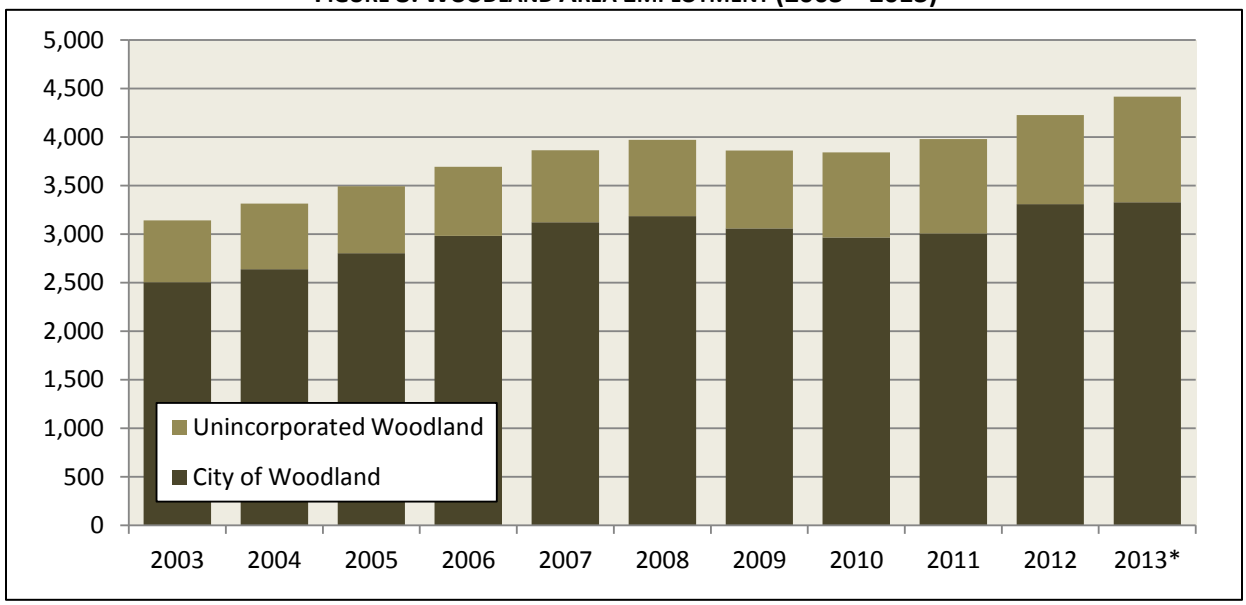


Source: Washington State Employment Security Department, JOHNSON ECONOMICS

Woodland Employment Growth

The Woodland area has seen somewhat stronger growth than Cowlitz County as a whole. Based on the ESD's mid-2013 employment estimates, around 3,300 workers were employed within the City of Woodland in 2013. Another 1,100 workers were employed within the unincorporated areas surrounding Woodland. In total, the Woodland area has added roughly 550 workers since the recession, at a healthy average annual rate of 3.4%. In a ten-year perspective, this rate is 2.8%.

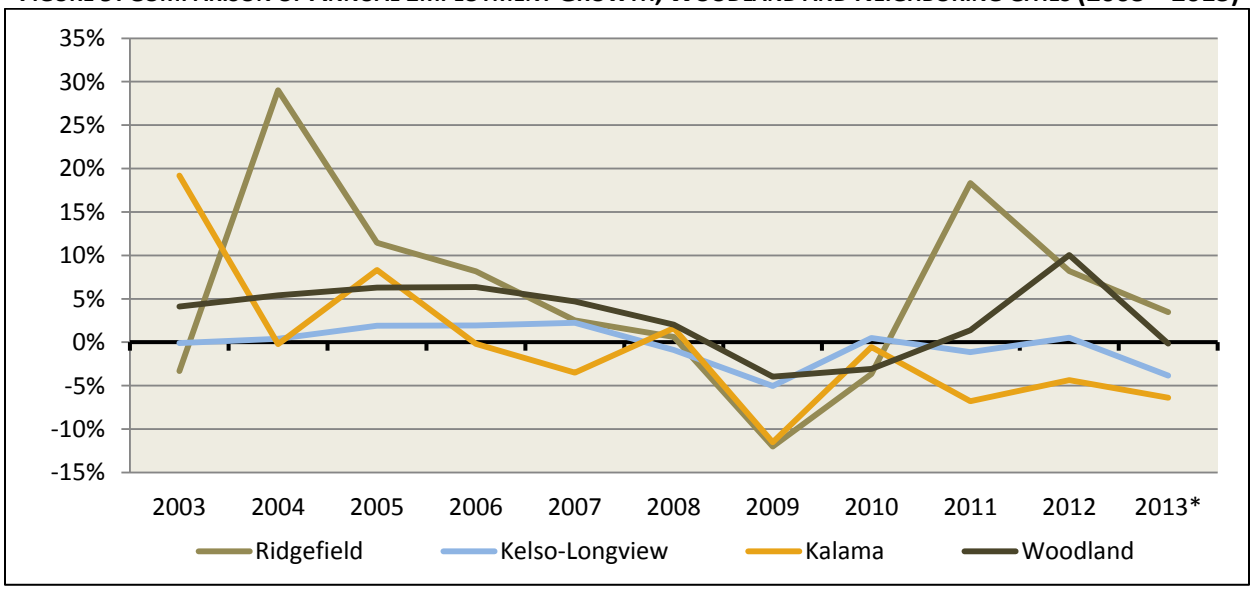
FIGURE 8: WOODLAND AREA EMPLOYMENT (2003 – 2013)



** 2013 estimate based on June y-o-y growth rate applied to 2012 numbers.*
Source: Washington State Employment Security Department, JOHNSON ECONOMICS

Compared to its closest neighbors, Woodland's employment growth over the past ten years has only been surpassed by Ridgefield, which has enjoyed spectacular growth before and after the most recent recession. For Kalama, including surrounding unincorporated areas, around 130 jobs were lost during the last four years. This translates to an average annual loss of 2.1% over the period, and follows a trend that began before the downturn.

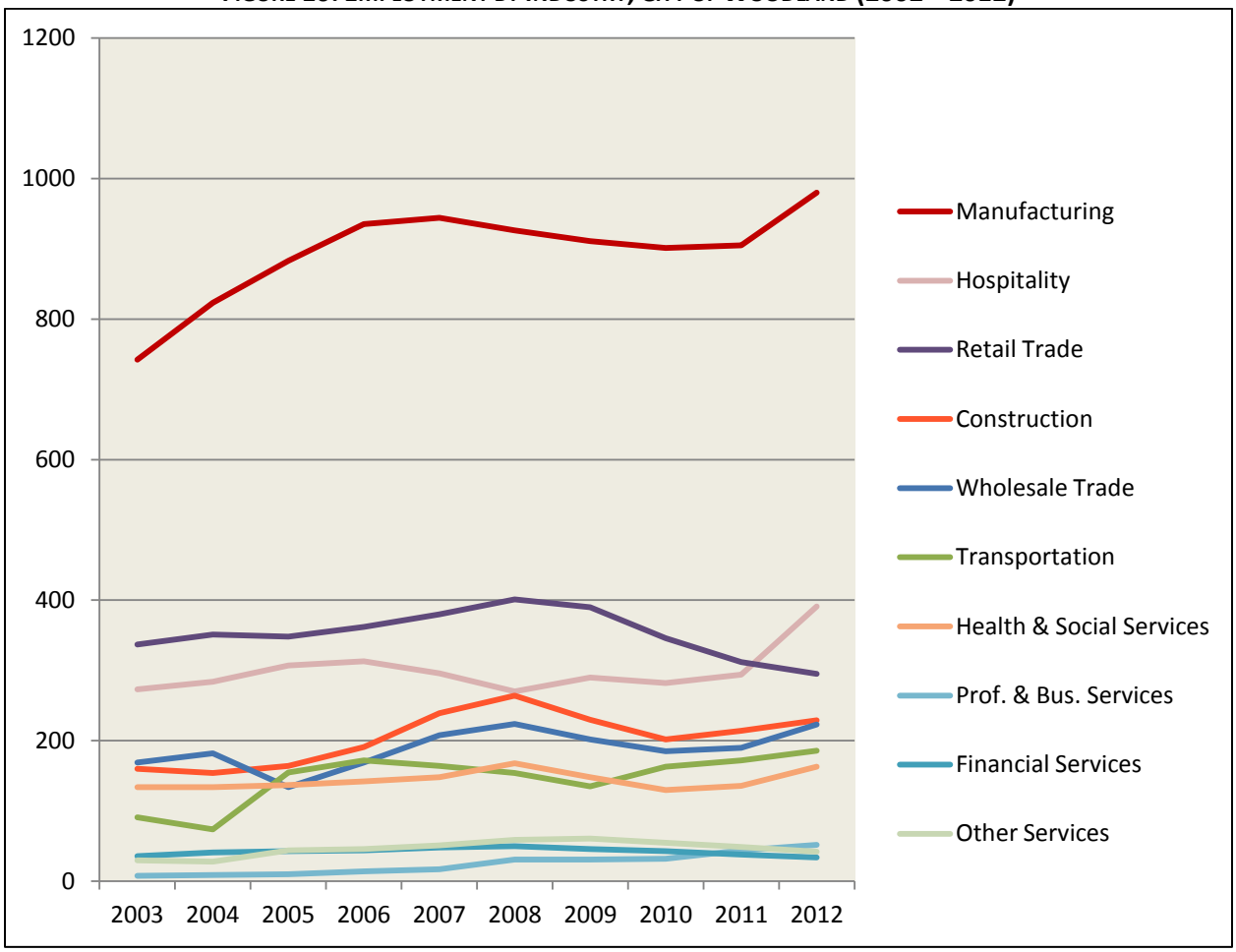
FIGURE 9: COMPARISON OF ANNUAL EMPLOYMENT GROWTH, WOODLAND AND NEIGHBORING CITIES (2003 – 2013)



** 2013 estimate based on June y-o-y growth rate applied to 2012 numbers.*
Source: Washington State Employment Security Department, JOHNSON ECONOMICS

The manufacturing industry is by far the largest in Woodland, accounting for 30% of the city's employment. This industry saw a gradual decline between 2007 and 2011, when it lost a total of 39 jobs. A significant bounce took place in 2012, however, as 75 manufacturing jobs were created. (Data for 2013 is not yet available at the industry level).

FIGURE 10: EMPLOYMENT BY INDUSTRY, CITY OF WOODLAND (2002 – 2012)



Source: Washington State Employment Security Department

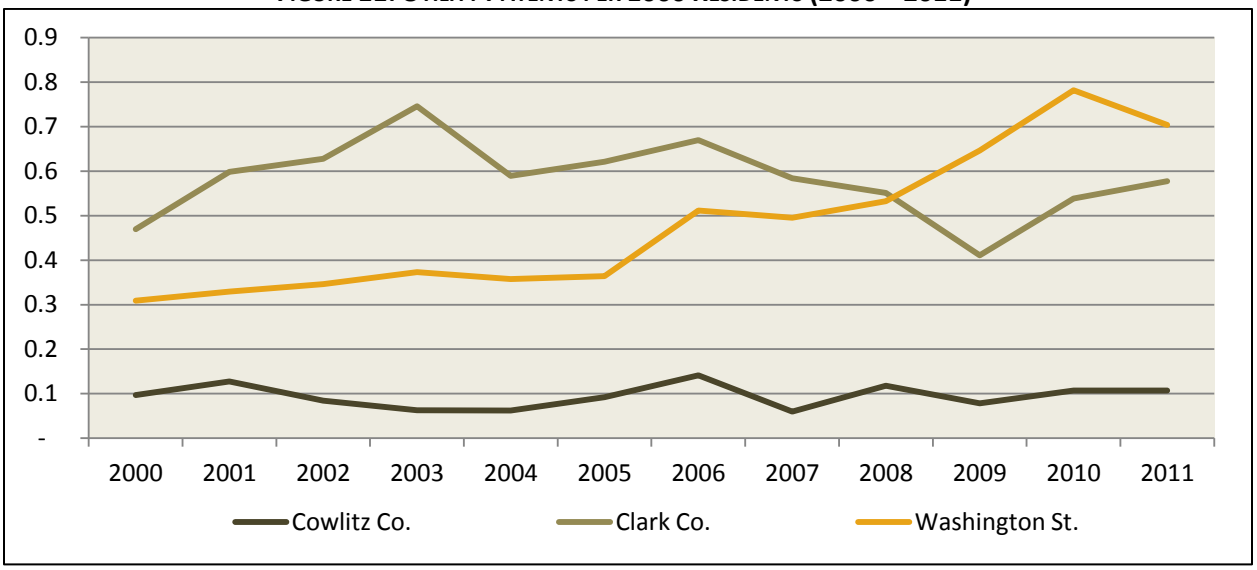
As an indication of future employment growth within Woodland's manufacturing industry, we would use the average annual growth rate over the last ten years, which is 3.8%. Applying this rate to 2012 employment indicates potential growth of 200 new manufacturing jobs over the next five years and 450 new jobs over the next ten years.

IV. INNOVATION AND SMALL-BUSINESS GROWTH

Innovation

As a gauge of innovation, we rely on data on patent issuance from the United States Patent and Trademark Office (USPTO). We limit our focus to utility patents, which best reflect innovation. Over the past ten years, Cowlitz County has produced a small but steady number of utility patents. In 2011, the most recent year for which data is published, 11 patents were issued. This translates to a rate of 0.1 patents per 1,000 residents. For Clark County, the equivalent rate is 0.6, and the statewide rate is 0.7. In general, urban centers have higher rates of issued patents due to higher concentrations of firms and universities involved in research. For Washington State as a whole, the rate has more than doubled since 2006, whereas the rates have remained relatively stable in Cowlitz and Clark Counties.

FIGURE 11: UTILITY PATENTS PER 1000 RESIDENTS (2000 – 2011)



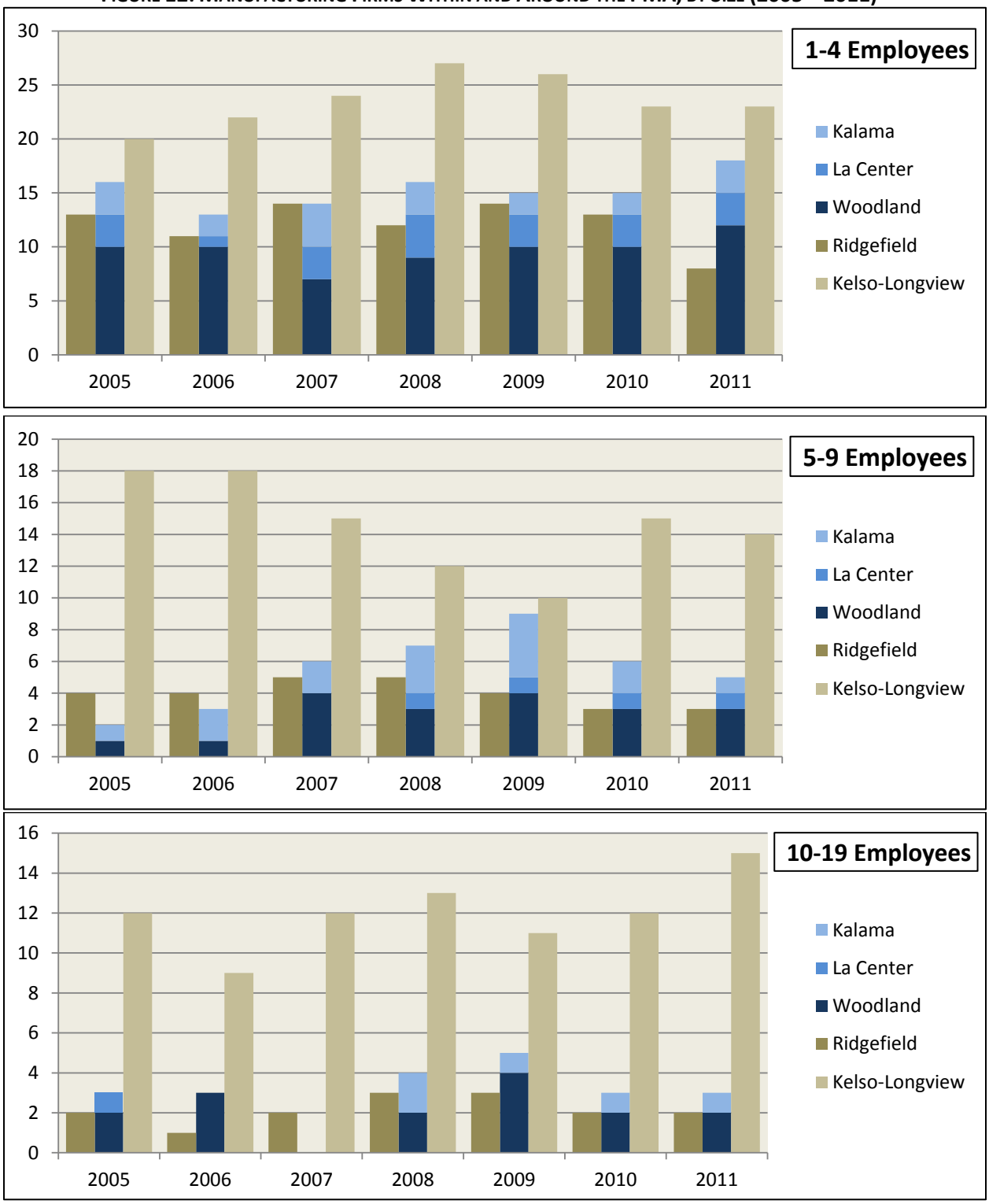
Source: U.S. Patent and Trademark Office

Most of the patents issued to establishments within Cowlitz County are issued to large firms that have their main research facilities in Clark County or the Portland Metro Area. These include Sharp, Tektronix, and SEH America. With these excluded, the annual number of patents issued to Cowlitz County firms and individuals hover around five. The patents have a wide range of applications and are not concentrated in any particular field.

Small-Business Growth

The U.S. Census Bureau provides an annual count of firms with paid employees within geographies down to a zip code level. The most recent data are from 2011. For the manufacturing industry, the data indicates growth among the smallest firms (1 - 4 employees) in the PMA, after a slowdown following the recession. The Woodland area shows a particularly promising trend (figure 12). For larger firms, the development has been somewhat weaker. This might indicate that manufacturing firms within the PMA currently face obstacles to growth. An incubator park might help remove some of these obstacles.

FIGURE 12: MANUFACTURING FIRMS WITHIN AND AROUND THE PMA, BY SIZE (2005 – 2011)*

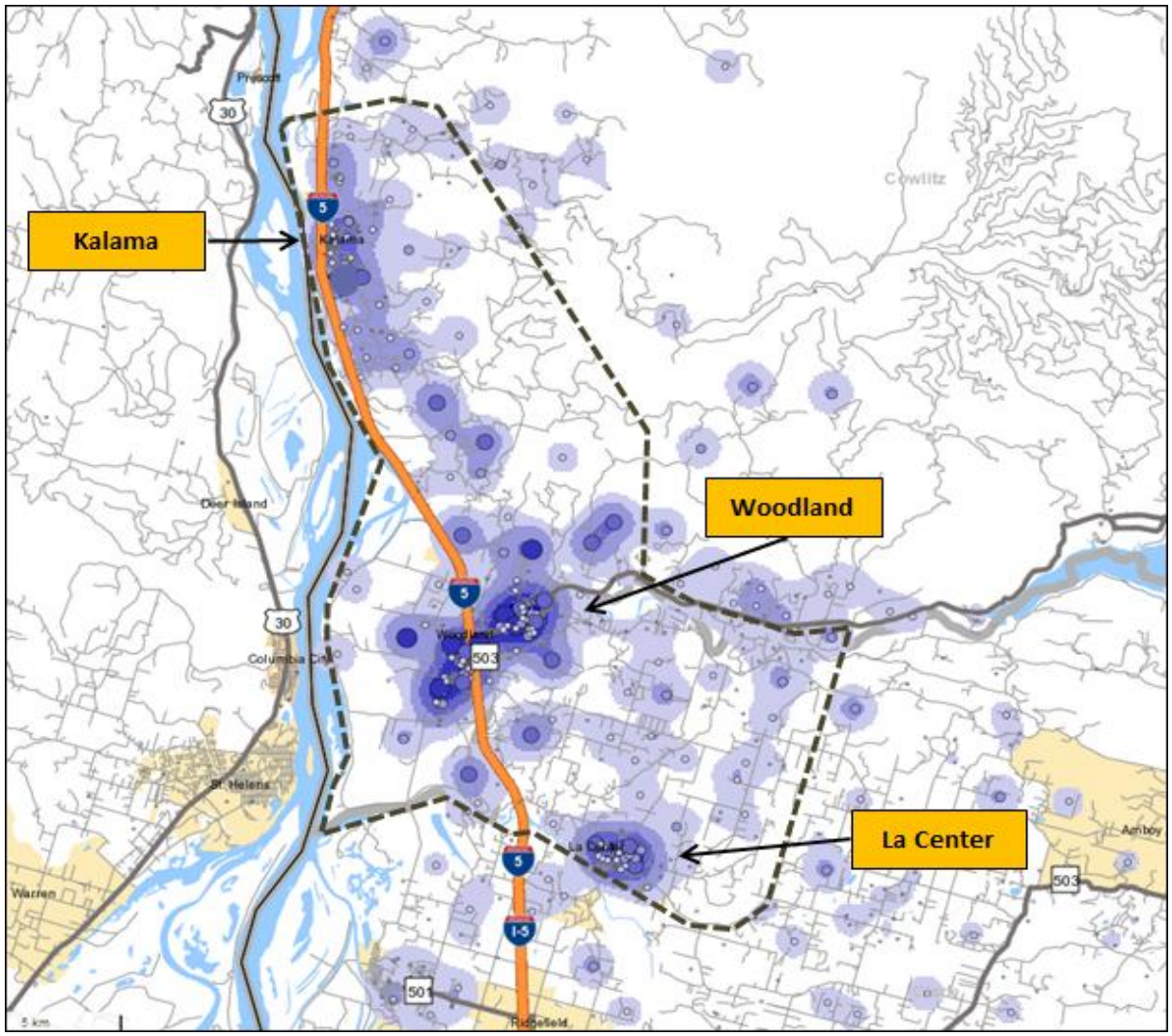


** The count follows zip codes and includes unincorporated areas surrounding the cities.*
Source: U.S. Census Bureau

V. COMMUTING PATTERNS

The U.S. Census Bureau produces data sets in collaboration with the Bureau of Labor Statistics that reveal commuting patterns within geographies down to the census block group level. By combining the block groups that make up the PMA, the commuting patterns of residents and workers within the PMA can be analyzed. The most recent available data is from 2011.

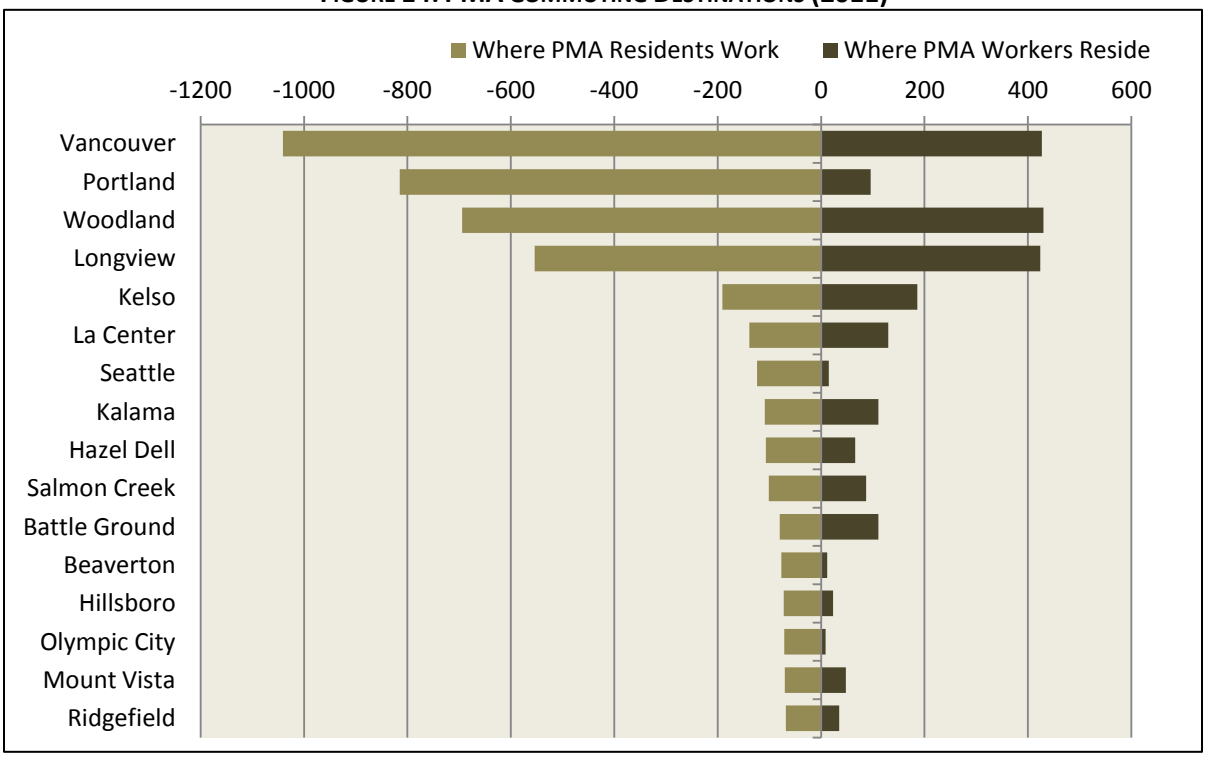
FIGURE 13: EMPLOYMENT CONCENTRATIONS WITHIN THE PMA



Source: U.S. Census Bureau, JOHNSON ECONOMICS

In 2011, the PMA exhibited a net outflow of almost 1,300 commuters. In total, 5,262 PMA residents commuted to areas outside the PMA while 3,977 workers commuted from the outside into the PMA. An estimated 1,159 individuals both worked and resided within the PMA – a relatively small number that reflects the mobility afforded by the I-5 freeway. There has been a gradual increase in the net outflow in recent years due to the weak employment growth within the PMA. The following chart displays the most important commuting destinations with corresponding counts of commuters based on 2011 data:

FIGURE 14: PMA COMMUTING DESTINATIONS (2011)



Source: U.S. Census Bureau, JOHNSON ECONOMICS

The City of Woodland saw a net inflow of around 800 commuters in 2011. An estimated 2,529 outside residents worked within the city, while 1,721 city residents worked outside the city and 339 worked within. The willingness of non-PMA residents to commute to Woodland (figure 9) might indicate that significant secondary support for the proposed incubator park might come from outside the PMA.

FIGURE 15: WOODLAND COMMUTING DESTINATIONS (2011)

Source: U.S. Census Bureau, JOHNSON ECONOMICS