

Phase I Report: Demand Analysis for Hood River Technology Center

Prepared for

Port of Hood River

by

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Executive Summary

ECONorthwest assessed the demand for a technology center in Hood River, looking at the following potential uses of the technology center:

- Technology-related incubator space
- Worker training and post-high school education, including community college offerings
- Corporate training for technology skills

TECHNOLOGY BUSINESS INCUBATOR

The size of other technology incubators in the U.S. ranges from 3,500 to 445,000 square feet, with a median size of roughly 24,000 square feet. Given that Hood River is a rural community with a small population relative to most other cities with technology incubators, it is reasonable to expect that the size of any technology incubator would be at the low end of the scale. We use a range of 7,500-25,000 square feet as a starting point for the feasibility analysis. Though the upper end of that range may be large for Hood River, advice from industry experts suggests that a minimum of about 21,000 gross square feet is necessary for an incubator with an array of support services to be self-sustaining (i.e., for the annual revenues from leases to approximately cover annual operating costs).

Characteristics of Hood River relevant to the demand for incubator space include its size and location, the educational attainment of its residents, and the presence of higher educational offerings. The City of Hood River has a smaller population and is located in a more rural setting than most other cities with a technology incubator. This may indicate a smaller labor force, a smaller pool of entrepreneurs, and less of a critical mass of existing technology firms. The educational attainment of the Hood River area is typical of the state of Oregon but is less than that of many other cities with technology incubators. This may indicate a less skilled labor pool and a smaller source of technology entrepreneurs. Hood River County also lacks a research university or college. Many other technology incubators are affiliated with a research university or college, which can provide demand for space from faculty and students, a supply of technical expertise, and a supply of facilities and specialized equipment.

Representatives of Oregon's technology industries give a mixed reaction to the idea of a technology incubator in Hood River. They refer to the demographic and economic characteristics, highlighting the lack of a critical mass, the necessity of a skilled workforce, and the lack of a college or university. On the positive side, they cite the proximity to the Portland market, and the natural amenities of the area.

The regional growth in technology industries supports the idea of a technology incubator, but the definition of “technology firms” should be broad (not just, for example, “high technology”).

Only 23 firms exist in Hood River County in the technology sectors of computer equipment, electronics, instruments, computer and data processing services, and communications. The Portland metro area is, however, a large potential source of technology entrepreneurs.

For an incubator to cover its operating costs without outside funding, a size of 21,000 square feet is recommended. This size would support approximately 26 average-sized startup technology firms. Assuming each tenant remains for an average of three years, the incubator would have to attract nine tenants annually to maintain full occupancy. At that size, it would either have to attract 26 firms in its first year of operation, or accept operating losses for some years as it ramped up to full occupancy.

To meet this annual goal of nine new tenants, the incubator would need to attract 50% of the annual average of nine new technology firms in Hood River County, plus 0.70% of the annual average of 641 new technology firms in Washington, Multnomah, Clackamas, Wasco, Clark, Skamania, and Klickitat Counties.

To attract this number of firms, it would probably have to look beyond the obvious technology sectors we analyzed to the many new technology firms created annually in the Mid-Columbia and Portland metro area in other sectors. The incubator could also offer space to non-technology firms.

That analysis suggests that a better size for the Hood River facility is smaller: 7,500 to 15,000 square feet, supporting 9 to 19 tenants. A facility of this size would probably not realize the economies of scale of a 21,000 square foot facility, so rents would not cover operating costs and some outside subsidies would be needed.

We started this project with the assumption that the incubator facility was to be a self-sustaining entity, in the sense that it would require no outside funding to cover its operating costs. We found, however, that most incubators tend not to cover their operating costs unless they are a sufficient size to spread their fixed costs over a large number of tenants. Moreover, very few incubators are able to cover debt service for capital costs in addition to operating costs.

But we found evidence of many incubators that were smaller than this “break-even” threshold that were operating on a continual basis. These incubators typically required outside subsidies to cover their operating costs, but apparently the incubator sponsors and the grant sources viewed an incubator as a legitimate use for outside funds.

Thus, there is a policy decision here that our analysis can inform but cannot make: Are the several benefits of an incubator (employment, increased wages, diversification, education, ancillary use of the facility) worth

what our analysis suggests will be some net operating costs? The public goals of growing the technology sector and providing employment opportunities are legitimate goals, and they have typically been seen as such by incubator sponsors and grant sources throughout the U.S.

HIGHER EDUCATION SERVICES

Successful technology incubators tend to be located in communities that provide higher education services. Today, most Hood River residents leave the County to obtain those services.

We focus our demand assessment on community college services, which appear to be the next logical step for Hood River. Potential forms of an educational center in Hood River range from a small computer training facility, to a mid-sized distance-education or college outreach facility, to a larger teaching facility of 4000-9000 square feet.

Hood River County currently sends a smaller percentage of its residents to a community college and to the Oregon University System than the state average. Proximity to a community college affects enrollment. We predict that the construction of a college center in Hood River would increase enrollment by 780 County residents, the equivalent of 90 full-time equivalent students (FTEs). In addition to this latent demand, the college center would serve the students who currently take community college classes at Hood River Valley High School and up to 50% of the students who now commute to Columbia Gorge Community College (CGCC) in The Dalles. Total enrollment in the college center could be 250-300 FTEs.

Target educational offerings would include the developmental education and self-improvement classes, which are currently a significant area of study for Hood River County residents, as well as lower-division collegiate classes and some professional and technical classes. The incubator facility could in time stimulate demand for scientific or technical classes in Hood River.

Potential suppliers of community college services include Columbia Gorge Community College (CGCC) and Mt. Hood Community College (MHCC). Most Hood River County residents enrolled in a community college attend CGCC, and CGCC may be more likely to offer single-section classes in Hood River due to Hood River's proximity to The Dalles, but MHCC is a larger institution and offers a wider selection of courses.

Capital costs for a 6000-square-foot facility would range from \$300,000 to \$600,000, plus costs of furniture and equipment. Operating costs at community colleges average about \$4800 per FTE. Operating revenues would include \$2300 per additional FTE from the state, and \$1600 in tuition per full-year FTE. The shortfall could be offset by increasing property taxes in Hood River County, accessing regular state reimbursement for Hood River County residents currently served in The Dalles, or scaling back the quality

or quantity of services provided per FTE to match that offered by lower-cost institutions.

CORPORATE TRAINING

The relative attractiveness of Hood River over the Portland area as a site for corporate training depends on several factors. Hood River has an advantage in terms of the natural and recreational opportunities available, but is at a disadvantage in terms of transportation costs and accessibility—two factors that meeting planners consider to be among the most important.

The two markets that Hood River could serve with a site for technology-related corporate training are the local Mid-Columbia area market and the Portland area market. We interviewed 20 of the largest employers in Hood River and Wasco Counties and found that 60% would consider using a technology-related training facility in Hood River. The Portland area generates over 67,000 trainees, but there is significant competition from Portland-area facilities. A “fair share” analysis suggests that a 1700 square-foot training facility with a capacity of 100 trainees in Hood River would only attract 339 trainees annually spread over 7 training meetings.

Given the missions of the incubator and education components of the facility, the provision of technology-based training represents a complementary activity that could yield an additional stream of revenue. Our analysis of the training market, however, suggests that demand for the services will not grow to a level that would make the training center a major, or stand-alone, component of the facility.

Despite this assessment, we recommend that the Port incorporate the corporate training concept as satellite function. The proposed facility design has ample flex-space to accommodate this use without an additional up-front investment. In this exploratory period, the Port could devote between 850 and 1,700 square feet to the corporate-training function, which would accommodate between 50 and 100 trainees at a time. If, through implementation, the Port discovers that the demand for training services justifies an expansion, the training facility could expand into underutilized sections of the incubator or educational facility, or the Port could expand the facility as a whole.

INTEGRATED TECHNOLOGY CENTER

The benefits of integrating the technology incubator with a community college center include economies from scale, interaction, and communication. By locating in the same facility, costs for shared services such as telecommunications, common areas, and building management and operation could be shared. Business would benefit from skilled local residents, and the college would benefit from internship and training opportunities.

Possible disadvantages to integration relate to the complexity of the undertaking and the resulting possibility of delay, the potential mismatch between the student-oriented community college and the business-focused technology incubator, and the potential scheduling conflicts with respect to shared facilities.

We believe that an integrated facility is feasible and recommend that it be developed on one site. We estimate the total size of the Technology Center at between 11,000 and 21,000 square feet. We believe a purpose-built facility is most desirable, and that it should be located on waterfront property owned by the Port of Hood River to take advantage of connectivity, river views, and proximity to the central business district.

Capital costs of a 21,000-square-foot facility, exclusive of land acquisition and infrastructure, are likely to range from \$1.8 million to \$2.7 million, depending on the standards of finishing, detailing, and landscaping.

RECOMMENDATIONS

The following set of recommendations are designed to help Hood River capitalize on its strengths and overcome any barriers to the development of a Hood River Technology Center. Many of the recommendations relate primarily to the incubator component or the community college component, while others relate to the Technology Center as a whole. The full report describes these recommendations in more detail.

INCUBATOR RECOMMENDATIONS

- Attract Portland market
- Pursue outside funding for capital and operating costs
- Keep a flexible definition of technology
- Attract an anchor tenant
- Go beyond “bricks and mortar” to provide a range of support services
- Promote local professional service provision
- Emphasize natural amenities and proximity to Portland

COMMUNITY COLLEGE RECOMMENDATIONS

- Pursue the establishment of a community college teaching facility
- Consider both Columbia Gorge Community College (CGCC) and Mt. Hood Community College (MHCC) as the education provider
- Explore funding options

CORPORATE TRAINING CENTER RECOMMENDATIONS

- Make space available in the Technology Center for corporate training

OVERALL TECHNOLOGY CENTER RECOMMENDATIONS

- Attempt to locate the incubator and education center in the same building
- Locate the Technology Center on waterfront property
- Design the building to foster interaction among tenants while addressing security issues
- Explore the potential of a corporate sponsor