

Basalt Creek MP Zone Update

Economic Analysis

Date September 2022
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Introduction

This memorandum provides an economic assessment of market-based development and employment opportunities in Tualatin’s Basalt Creek area and the lots zoned Manufacturing Park specifically.

Basalt Creek is an industrial area of regional importance. Employment in industrial real estate, the focus of this memorandum, is primarily limited to the following industries: manufacturing, warehousing and transportation, wholesale trade, and construction. As Basalt Creek is part of the broader market and is impacted by macroeconomic trends, this memorandum includes summaries of the industrial market and employment trends at the national, regional, and submarket levels. The memorandum also includes case studies and a high level assessment of industrial land availability.

This information will be used to inform implementation recommendations to enhance development prospects and create jobs in Basalt Creek.

The memorandum is organized as follows:

Introduction.....	1
National Real Estate Context.....	5
Regional Market Assessment.....	7
Case Studies.....	16
Conclusion and Recommendations.....	20

Methodology

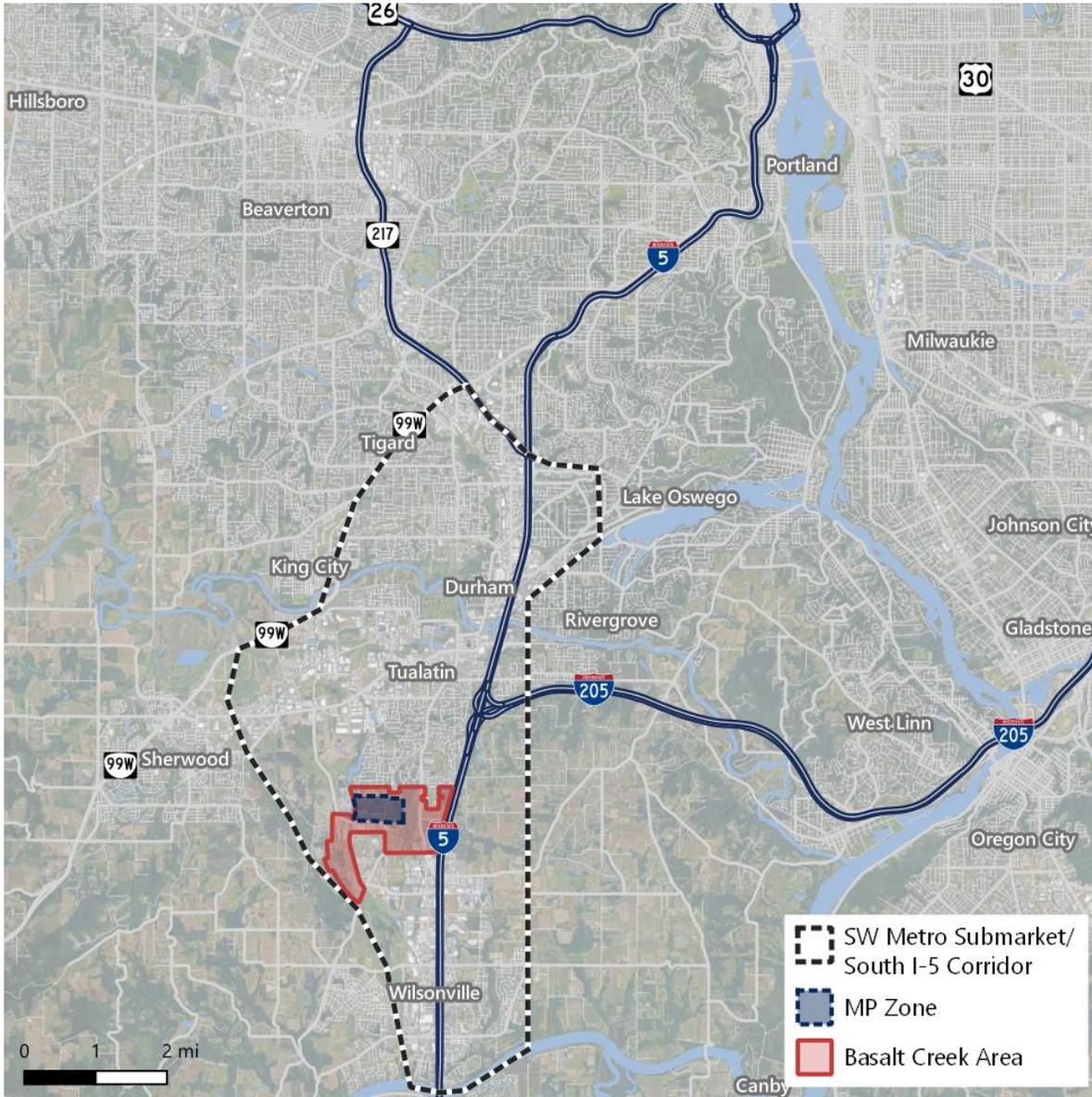
This memo summarizes Leland Consulting Group’s (LCG’s) analysis of economic data and industry trends in the Portland metro region and the southwest I-5 corridor submarket (the submarket). Methods include an assessment of real estate market dynamics (construction and absorption trends, vacancy rates, rental rates, land values, building costs, etc.), a high-level evaluation of buildable industrial land in the submarket, and case study research of comparable zoning codes and employment areas.

Additionally, LCG conducted interviews with local and regional stakeholders, including local agency partners such as neighboring city staff, county staff, and economic development agency staff, and key private sector stakeholders in the industrial development community such as landowners, developers, and brokers. These interviews provided valuable insights regarding barriers to future development and opportunities for industrial and employment growth.

Basalt Creek Area Overview

This section briefly summarizes the Basalt Creek area, including relevant previous/current planning efforts and the physical characteristics of the area. Tualatin is part of the South I-5 Corridor submarket—sometimes called the Southwest Metro submarket by brokers and others in the development community, collectively called the “submarket” in this memo—is considered one of the most diverse industrial submarkets in the state of Oregon. The map below shows the submarket boundaries and the location of the MP Zone within Basalt Creek.

Figure 1. Basalt Creek Location and I-5 South Submarket Boundary



Source: Leland Consulting Group

Planning Efforts and Vision

The Basalt Creek area has been subject to many planning efforts relating to transportation, infrastructure, funding, and economic development. Together, these documents lay out a vision for the area. Below is a list of relevant information extracted from these planning efforts.

The 2018 **Basalt Creek Concept Plan** identifies preferred land uses across the area, recommends high-level designs for transportation and infrastructure systems to support future development, and sets specific action items and implementation measures. Action items and implementation measures are intended to ensure that the zoning and/or development code is updated to enable development in the Planning Area. Generally, annexation is predicated on investor interest, and the expectation is that investors will finance the extension of services.

The market analysis completed as part of the Concept Plan found that existing industry clusters for Tualatin and Wilsonville are expected to continue and provide significant business and job growth in the future. These industry clusters include advanced manufacturing, corporate and professional services, health care and related fields, and other specific industrial clusters such as food processing and light manufacturing

Employment development in the Planning Area will benefit from several competitive advantages. A major feature and competitive advantage of this "Southwest Metro" employment cluster in general, and the Basalt Creek Planning Area in particular, is its immediate access to I-5, the west coast's most important transportation route.

The Manufacturing Park totals 93 acres and is expected to generate 1,897 jobs at 20 jobs per acre of land or approximately 640 jobs per square foot of development (at a standard floor area ratio of 0.3).

The **Transportation Refinement Plan** (2013) establishes a major transportation connection from Tualatin-Sherwood Rd to I-5 in North Wilsonville through the Basalt Creek planning area. This connection was identified as a regional transportation priority to connect and provide access to existing and future hubs of industrial land use.

The City's **Economic Development Strategy** identified five target industry clusters, including advanced manufacturing; health care and related businesses; corporate and business services; food processing, distribution, and wholesale; and wood, paper, printing, and related businesses.

Physical Characteristics of the Area

The area of Basalt Creek that is currently zoned Manufacturing Park is relatively free of development impediments compared to the rest of the Basalt Creek area, where approximately 35 percent (207 acres) of the total land area is constrained. The Land Capacity Analysis in the Basalt Creek Concept Plan Existing Conditions Report outlined some specific considerations, which are listed below.

- **Steep Slopes.** Industrial developments are particularly sensitive to topography due to the prevalence of larger building footprints and the transportation and storage needs. Steep slopes can require significant grading to accommodate these construction and transportation needs which can be prohibitively expensive (largely due to the lower asset value of industrial property). There are several areas of steep slopes (greater than 25%) throughout Basalt Creek. In the MP-zoned area, slopes greater than 25% are relatively limited, but slopes greater than 10% are primarily prevalent in the area east of Grahams Ferry Road. Developers looking to build in this area will likely need greater flexibility to accommodate topographical challenges. The area west of Grahams Ferry Road is relatively flat and, therefore, will not pose similar development challenges.
- **Manmade/Other Constraints.** Utility easements for both PGE and BPA are in the area, creating undevelopable corridors throughout Basalt Creek. While these easements primarily impact the rest of the Basalt Creek area, they also impact the northeast and southwest corners of the MP-zoned area.
- **Existing land uses.** The majority of land within the MP-zoned area is vacant, i.e., free of existing buildings. Some smaller buildings exist in the west and south sections of the area. LCG does not consider these existing

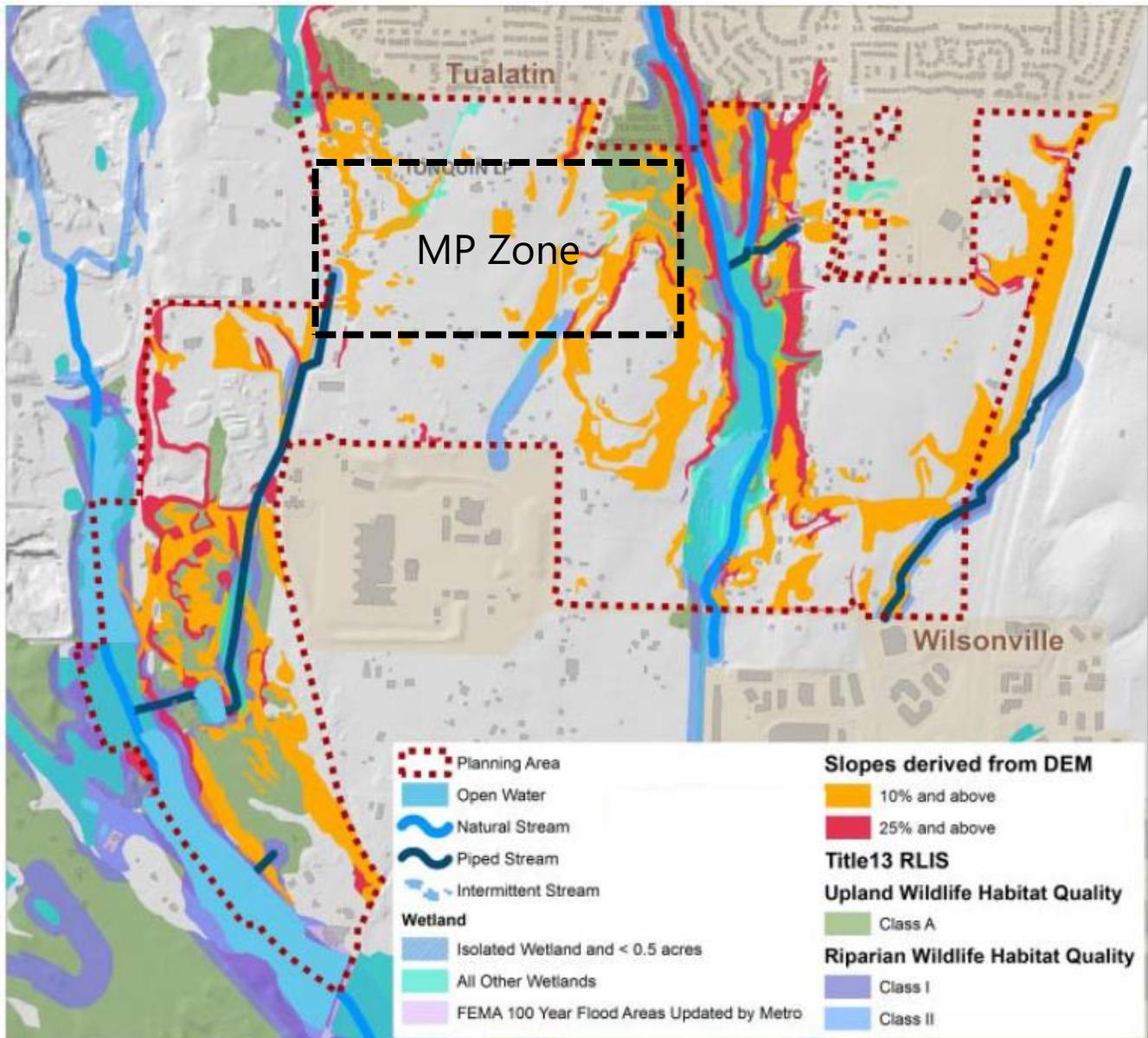
properties impediments to redevelopment due to the recently heightened economics and market pricing of industrial development.

- **Wetlands.** There is a limited number of wetlands, streams, or other bodies of water of significance that impact the MP-zoned area.

Together, these constraints pose little threat to the developability of the MP-zoned area in Basalt Creek. Stakeholders interviewed for this project—including those with land holdings in the area—agree with this statement, citing the need to work with existing constraints given the dearth of industrial land available elsewhere in the Portland region.

The development constraints map below is from the Basalt Creek Concept Plan Existing Conditions Report (2014).

Figure 2. Map of Development Constraints (excluding roads) in the Basalt Creek Planning Area



Source: Fregonese Associates, RLIS 2014 (from the Basalt Creek Existing Conditions Report)

National Real Estate Context

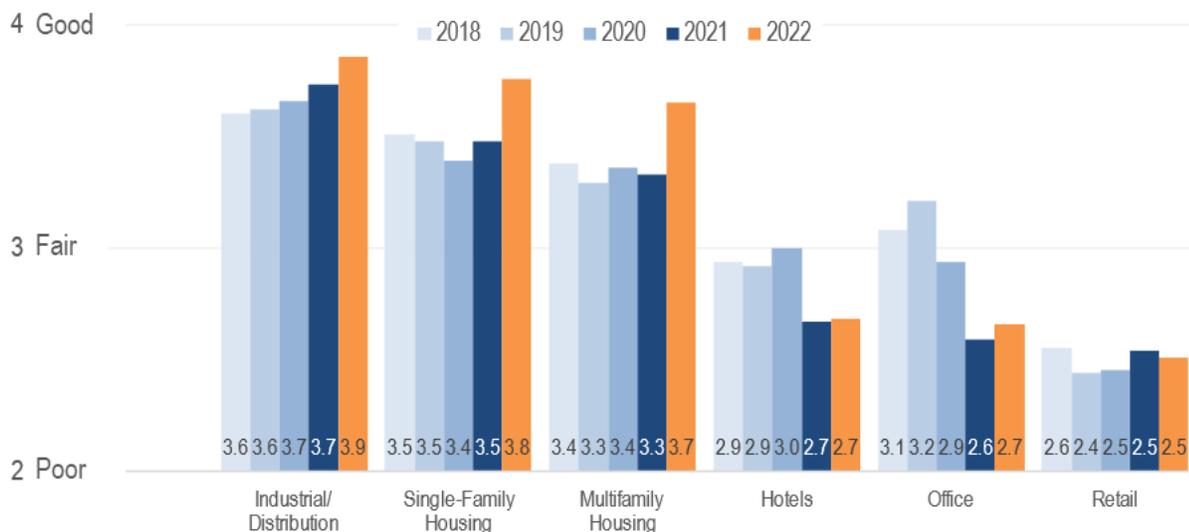
The industrial sector is tied to macroeconomic employment trends more than any other sector. It is therefore important to understand the dynamics impacting nationwide industrial real estate and employment trends.

The Urban Land Institute (ULI) releases an annual report called *Emerging Trends* which highlights real estate trends, prospects, and considerations at the national level and across every major market in the country. The information contained in the report is based on extensive market research and comprehensive surveys of real estate professionals throughout the country.

ULI offers a range of insights into commercial and industrial real estate from the perspective of both developers and investors. For the past five years, ULI has identified the industrial sector as the top-performing sector. This has only intensified since the beginning of the COVID-19 pandemic with the growth of e-commerce, which amplified the need for resilient supply chains, which, in turn, has propelled the demand for logistics real estate. According to ULI, demand for industrial space has been deep and diverse across a range of industries. Robust demand, acute scarcity of supply, and rising replacement costs have accelerated rents across the board, reaching historic double digits in many markets while vacancy rates have fallen to record lows.

The following chart shows development prospects for the six primary real estate classes and how these prospects have changed over the past five years. Industrial and distribution are the only real estate classes whose prospects have increased each year since 2018 while also maintaining the ascendancy relative to other development types, reflecting the strength of the market and the fact that most industrial users remained open throughout the pandemic (as there is no virtual substitute for physical product creation and fulfillment).

Figure 3. Development Prospects by Development Type



Source: ULI

Figure 4 below shows ULI’s survey respondents’ recommendations to either buy, hold, or sell industrial property. As the real estate market is cyclical—often lasting 10 to 20 or more years—these recommendations help demonstrate the likely investment trends in the industrial sector moving forward.

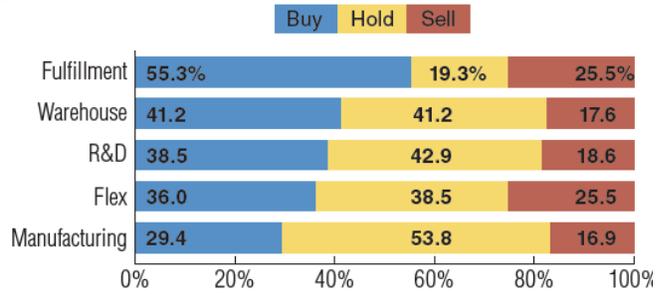
Recommendations to purchase property reflect industry expectations that the market fundamentals (pricing, demand, etc.) for industrial property will continue to improve (i.e., there is strong evidence of a positive return on the initial investment) or that the future is likely to pose greater challenges for buyers (e.g., high interest rates). Conversely, recommendations to sell property reflect industry expectations that certain industrial asset classes are

Figure 5. Prospects for Commercial Subsectors in 2020 (Pre-Pandemic) and 2022



Source: Emerging Trends 2022

Figure 4. ULI Recommendations by Industrial Type



Source: Emerging Trends 2022 (Note: Based on U.S. respondents)

either at peak market value or in a cycle of continued decline. Recommendations to hold property are more nuanced and depend on things like the timing and cost of the initial acquisition, the terms, operating expenses and revenues, etc.

Buying fulfillment centers and warehouses in the industrial and logistics sector in the United States in 2022 was highly recommended by industry experts. Approximately 55 percent of experts recommended buying fulfillment centers, while only 19 percent recommended holding. On the other hand, manufacturing centers were the most recommended to be held in 2022 according to almost 54 percent of industry expert respondents.

For Basalt Creek, the ULI survey suggests that in the near term developers are more likely to investment in new fulfillment and warehousing projects than manufacturing. As there is no existing manufacturing-based property in Basalt Creek, strong recommendations to “hold” property are irrelevant in this case.

Similarly, ULI offers insights into investment prospects for various subsectors. The chart at left shows prospects for 2020 (pre-pandemic) and 2022. Fulfillment again tops the list as ecommerce continues to grow, with warehousing close behind for similar reasons. It is important to note here that while Emerging Trends survey respondents generally agree that industrial is a top investment prospect, there is a significant proportion of respondents who feel that warehouse and fulfillment are overpriced compared with other industrial property types, suggesting that there may be a correction in favor of other industrial development types such as manufacturing. As more investment is made in these subsectors, it will become increasingly important for developers to be selective on location to both avoid the risk posed by the potential oversupply of new space and achieve a positive return on investment.

Other industrial subsectors (warehouse, R&D, flex, manufacturing) remain in the top half and each has improved since 2020. The manufacturing subsector has arguably seen the largest improvements over the past two years, likely due to efforts to ramp up the production of domestic manufacturing to counter the impacts of global supply chain issues. **As federal and state efforts continue to focus on increasing domestic productivity, investment and development prospects for manufacturing will likely continue to rise.**

Employment Outlook

According to the U.S. Bureau of Labor Statistics, total U.S. employment is projected to grow from 153.5 million to 165.4 million over the 2020–30 decade, an increase of 11.9 million jobs. This increase reflects an annual growth rate of 0.7 percent, which is higher than recent cycles and accounts for recovery from low base-year employment in 2020 due to the COVID-19 pandemic and its associated recession.

For industrial sectors, including manufacturing, transportation, and warehousing, the existing numbers and projections are mixed. While the manufacturing sector as a whole is projected to have some recovery-driven employment growth, it also contains 11 of the 20 industries projected to have the most rapid employment declines, and annual manufacturing employment growth is just 0.15 percent. Factors contributing to the loss of manufacturing jobs include continued global competition and the adoption of productivity-enhancing technologies such as robotics. Conversely, occupations related to transportation and warehousing are projected to grow by 1.10 percent annually over the next year, largely due to the trends outlined in the previous section.

As ecommerce continues to drive demand for last-mile facilities and fulfillment, there appears to be no decline in the growth of warehousing and transportation jobs. Conversely, the events of 2020 and 2021 have fueled stronger automation and other cost-saving actions from employers, likely resulting in heightened productivity and fewer workers. Finally, the accelerated digital transformation of both business and consumer activities makes it easier to eliminate routine jobs.

While these are macro-level trends and ultimately have little bearing on near-term development prospects in Basalt Creek, long-term local economic opportunities and trends will generally align with what is happening across the nation. For example, the increasing automation of the manufacturing sector will impact job creation and densities, which the City should take into account when establishing its goals for the area. Finally, as mentioned above, some of these weaknesses in job growth in the manufacturing sector may be offset by an increasing push for “onshoring” of manufacturing, particularly computer chip manufacturing, to alleviate severe supply chain issues that have impacted many industries.

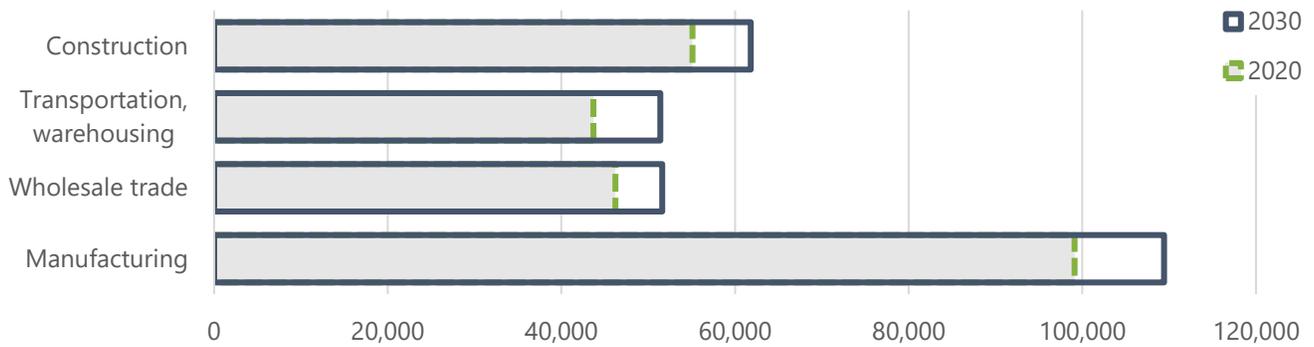
Regional Market Assessment

Given the aforementioned connection between Basalt Creek opportunities and the regional market, this section provides a more granular assessment of industrial trends in the Portland region.

Employment Projections

Portland metro area jobs in core industrial sectors account for about 30 percent of all private jobs in the tri-county region. There are about twice the number of manufacturing jobs as transportation, warehousing, and utility jobs (as well as twice the number of wholesale trade jobs). This is roughly in line with national trends. However, in contrast to the nation, where manufacturing jobs are projected to grow by 0.15 percent annually, manufacturing jobs in the Portland metropolitan area are projected to grow by 0.99 percent annually through 2030. Transportation and warehousing jobs are similarly projected to grow rapidly at 1.64 percent annually, and wholesale trade jobs are projected to grow at 1.11 percent annually.

Figure 6. Industrial Jobs, 2020 (Existing) and 2030 (Projected), Tri-County Region



Source: Oregon Employment Security Department

Market Dynamics

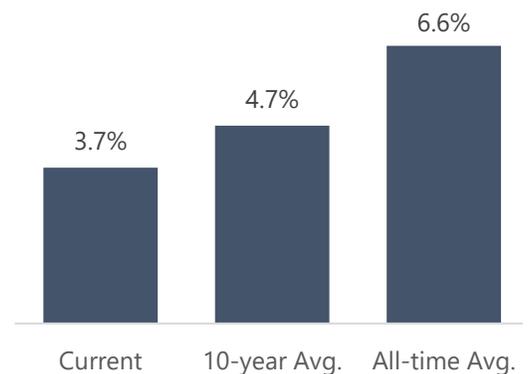
This section provides information about the regional industrial market in order to understand how activity might impact future development in the Tualatin market and the Basalt Creek area specifically.

The Portland metro area has remained an attractive market for new and expanding industrial businesses and has experienced significant demand for industrial warehouse, distribution, and logistics space, largely driven by ecommerce growth. Manufacturing also remains an attractive industry—in keeping with the national trends and development prospects outlined above—especially as the focus increases on the domestic production of goods amid global supply chain issues and technological advances in automation improve productivity (which in turn helps alleviate labor shortages).

Moving forward, the regional economy will continue to support manufacturing and warehousing-oriented real estate as ecommerce growth continues, third-party logistics facilities grow to respond to this heightened demand, and an increasing number of tech employers congregate in the Silicon Forest. This bullish outlook is reflected by strong market fundamentals, which include strong recent leasing activity, high rent and price growth, and historically low vacancy rates that indicate near-term demand for new development. Additional highlights are listed below.

- New leasing over the past year totaled 9.4 million square feet, about 50 percent more than the 6.7 million square feet of new leasing activity recorded in 2020.
- The average industrial vacancy in the metro region now stands at 3.7 percent, significantly lower than the historical average of 6.6 percent and lower than the 10-year annual average of 4.7 percent.
- Pricing has more than doubled over the past decade and continues to rise. Portland’s industrial assets have increased from a historical high of around \$65 per square foot in 2010 to \$169 per square foot today.
- Cap rates have compressed below 6.0 percent, signaling that developers are willing to take more risks to deliver industrial products to market.
- Annual rent growth over the past three years has exceeded 8.0 percent, significantly higher than the 10-year average of 5.2 percent.

Figure 7. Metro Industrial Vacancy



Source: CoStar

As noted above, these market trends demonstrate strong regional demand for continuing industrial development. However, land supply remains critically low in the Portland metro area, resulting in a highly competitive market that has led to rapidly increasing land pricing, building pricing, and lease rates.

These land supply constraints and elevated costs now appear to be impacting construction starts. Despite strong demand fundamentals, only 1.4 million square feet of industrial space was developed in the last year in the Portland metro area, compared to an annual 10-year average of 2.5 million square feet. Additionally, developers are now developing parcels that require more time and money due to issues such as zoning constraints, utility service issues, and topography challenges—parcels that were previously considered “undevelopable” because of the cost of development.

Recent trends also suggest that industrial users are willing to look further afield if land is not available or becomes too difficult or expensive to develop. Secondary markets like Salem, Woodburn, and Newberg—which have historically experienced minimal land sale activity, especially for speculative industrial projects—are now experiencing boosts in industrial activity.

The table below shows industrial development trends for the I-5 South submarket and these secondary markets to the south of the Portland metro area.

Table 1. Projects Built in Various I-5 Submarkets (SW Metro and South), 2010 to Present

Status and Location	Number of Buildings	Total Building Square Feet	Average Building Size (Sq. Ft.)
Built in the past 10 years	121	7,183,050	59,364
Canby	9	892,476	99,164
Newberg	2	167,069	83,535
Salem	38	2,373,534	62,461
Portland I-5 South	54	2,958,085	54,779
Woodburn	18	791,886	43,994
Under Construction	10	6,232,225	623,223
Salem	1	50,000	50,000
Portland I-5 South	6	1,235,173	205,862
Woodburn	3	4,947,052	1,649,017
Final Planning	1	168,610	168,610
Portland I-5 South	1	168,610	168,610
Proposed	29	8,521,187	293,834
Canby	4	1,789,000	447,250
Newberg	4	2,387,670	596,918
Salem	7	3,166,330	452,333
Portland I-5 South	12	848,805	70,734
Woodburn	2	329,382	164,691
Grand Total	161	22,105,072	137,299

Source: CoStar

Key takeaways from the table above include:

- In the past 10 years, the Portland I-5 South/SW Metro submarket has seen the most industrial development (about three million square feet) compared to other submarkets to the south. In the rest of the Portland metro, industrial development has concentrated in Portland (9.7 million square feet), Hillsboro (8.2 million), Gresham (2.2 million), and Troutdale (1.8 million).
- Recent I-5 South submarket projects have been among the smallest on average (55,000 square feet), with only Woodburn having a lower average building size (44,000 square feet). Projects in the pipeline are significantly larger on average, reflecting some of the shifting market trends described in earlier pages.
- The project pipeline is dominated by markets to the south of the Portland metro, with 4.9 million square feet under construction in Woodburn and more than 7.5 million square feet proposed in Canby, Newberg, Salem, and Woodburn. Proposed projects in the I-5 South submarket account for just 10 percent of proposed projects. In the rest of the Portland metro, comparatively, there is currently 1.7 million square feet under construction (1.2 million in Hillsboro) and 4.2 million square feet proposed (2.1 million in Portland, 400,000 in Hillsboro, 820,000 in Gresham, and 880,000 in Clackamas), showing this phenomenon is not limited to the Southwest Portland metro area.

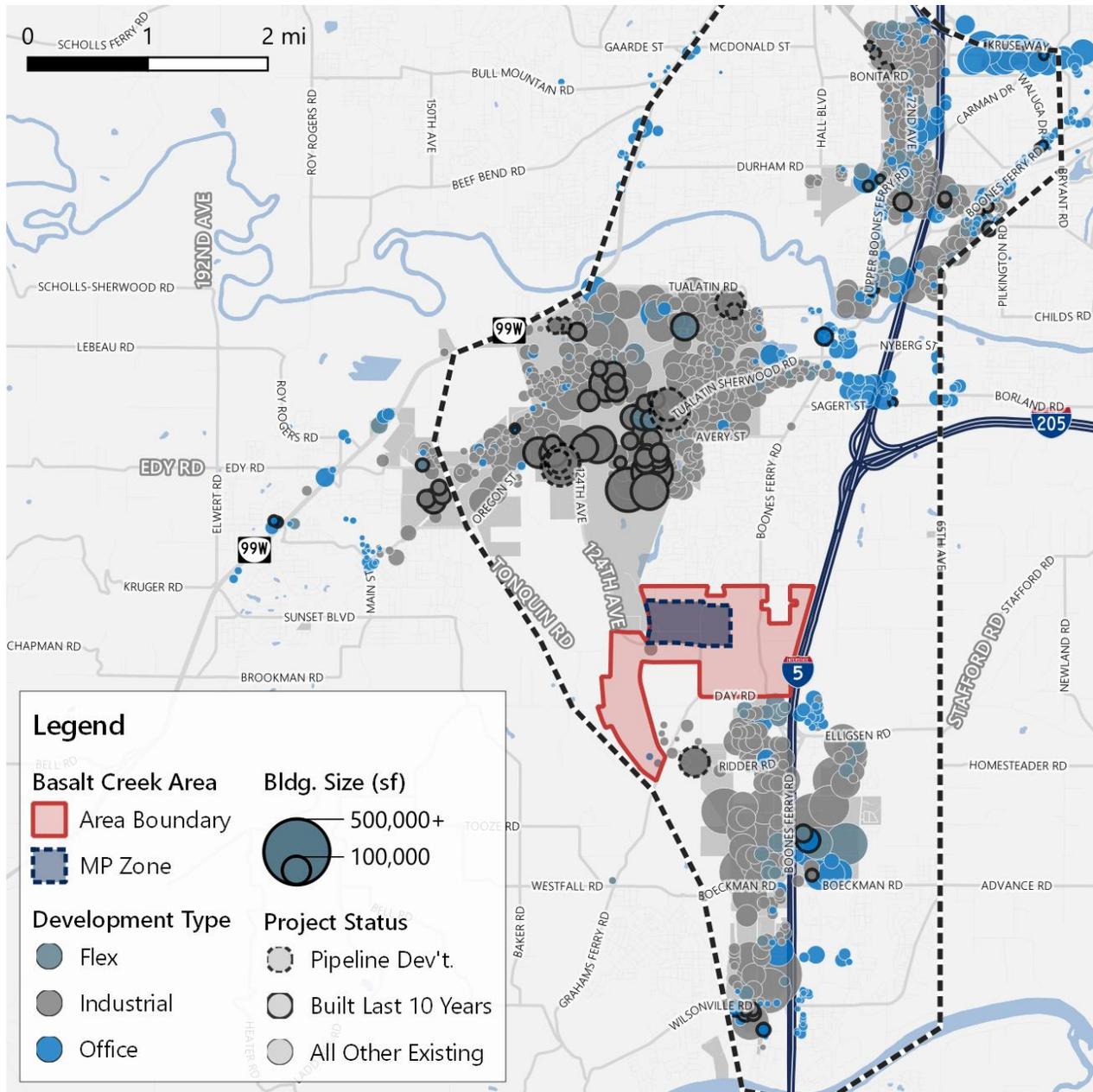
This information raises an important consideration for the City of Tualatin: if the zoning and site conditions of the land in Basalt Creek remain too narrowly focused or challenging, developers may simply choose to invest elsewhere, and the land may remain vacant for many years.

Submarket Development

The South I-5 Corridor submarket has historically accounted for approximately 10 to 25 percent of the metro's industrial construction and absorption in any given year and is a particularly attractive submarket for speculative industrial development. As a light industrial manufacturing submarket historically, Tualatin has now become one of the major industrial nodes within the metro with a wide range of industrial developments and tenants that are more in keeping with greater regional and national trends.

The following map shows industrial development in and near the South I-5 Corridor submarket. New development in the past 10 years, as well as proposed projects, are concentrated in Tualatin and Sherwood Tualatin Sherwood Road.

Figure 8. Submarket Development



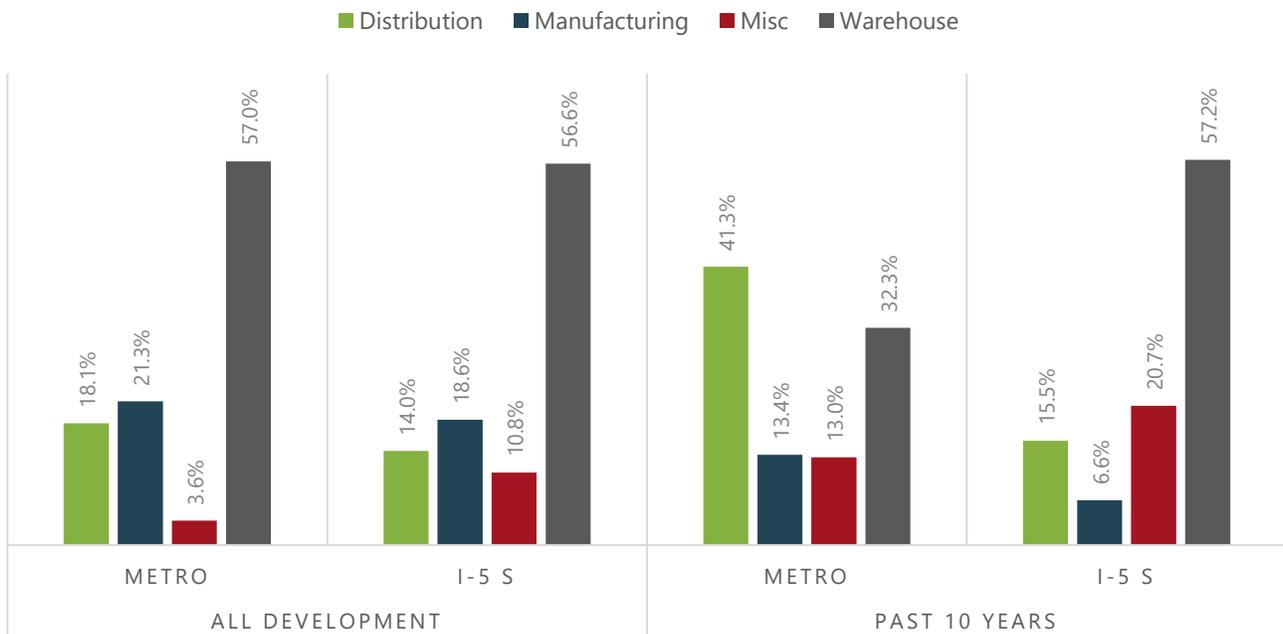
Source: CoStar

The following chart compares the proportion of distribution, manufacturing, warehousing, and "misc." (all other, including multitenant and flex space) industrial development built throughout the Portland metropolitan area and the I-5 South Submarket. The key takeaways are as follows.

- Historically, the development patterns in the I-5 South Submarket have generally aligned with those throughout the Portland metropolitan area.
- Over the past 10 years, distribution (which includes fulfillment) has accounted for a much higher share of industrial development in the metro area and a slightly higher share in the I-5 South submarket.
- Manufacturing (i.e., buildings exclusively used for manufacturing uses) has accounted for significantly less development in recent years, which appears a broader market trend felt throughout the country.

- Manufacturing has accounted for less than seven percent of all industrial development over the past 10 years in the I-5 South submarket, down from almost 19 percent historically. However, “misc.” industrial development has now accounted for more than a fifth of all development over the past 10 years, almost doubling the historical share. This miscellaneous development is difficult to categorize because it includes multitenant and flex industrial space that caters to a wide variety of tenants. The submarket has been an attractive location for this type of speculative development given its locational advantages, historical land availability, and market diversity.

Figure 9. Industrial Development Trends by Use and Location (Percent of Development)



Source: CoStar

The I-5 South Corridor submarket has historically accounted for about 12 percent of all industrial development. While this capture rate has not changed over the past 10 years, the land use types that have concentrated in the submarket have changed significantly—as also shown in the chart above.

Table 2. Industrial Development (Total Square Feet of Building Space) by Use and Location

	All Development		Past 10 Years		I-5 S. Capture Rates	
	Metro	I-5 S	Metro	I-5 S	All Dev't.	Past 10 Yrs.
Distribution	46,597,095	4,472,509	13,032,246	553,045	10%	4%
Manufacturing	55,002,968	5,948,605	4,227,418	237,110	11%	6%
Warehouse	146,905,599	18,087,597	10,177,002	2,040,681	37%	18%
Flex/Other/Misc.	9,379,278	3,437,708	4,108,882	737,695	12%	20%
Total	257,884,940	31,946,419	31,545,548	3,568,531	12%	11%

Source: CoStar

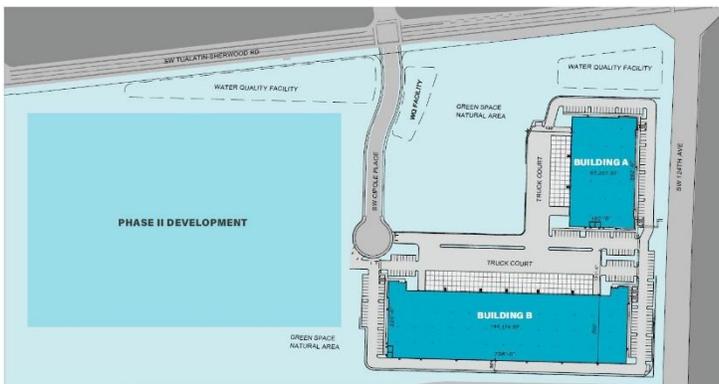
Industrial development characteristics in the submarket over the past 10 years are detailed below. The purpose of documenting the characteristics of these developments is to highlight different features and development patterns that are likely in the Basalt Creek area.

While zoning and development standards vary greatly for each of these, the core characteristics are relatively similar. The ranges described below reflect the 25th and 75th percentiles for several development features.

- Building sizes typically vary from 25,000 to 90,000 square feet (the 25th and 75th percentile), with a median of 42,500 square feet. Developments over the past few years have trended larger (35,000 to 140,000, with a median of 70,000) as warehousing and distribution uses emerged as a top industrial use.
- Buildings typically have ceiling heights of 19 to 30 feet, with between four and 18 loading docks. New development tends to have higher ceilings (24- to 32-foot ceilings) and more loading docks (six to 25)
- Site sizes vary from 2.1 to 9.4 acres, with a median of 4.1 acres.
- FARs vary from 0.2 to 0.4, which is typical for general industrial uses.

Below are a series of development images and site plans for a selection of recently built and under construction projects in the submarket. These projects are relatively typical for the submarket.

T-S Corporate Park, Tonquin Employment Area, Sherwood



Myslony Business Park, Phelan Development, Tualatin



Hedges Creek Business Park, Tualatin



Majestic Tualatin Business Center, Tualatin



Source: CoStar

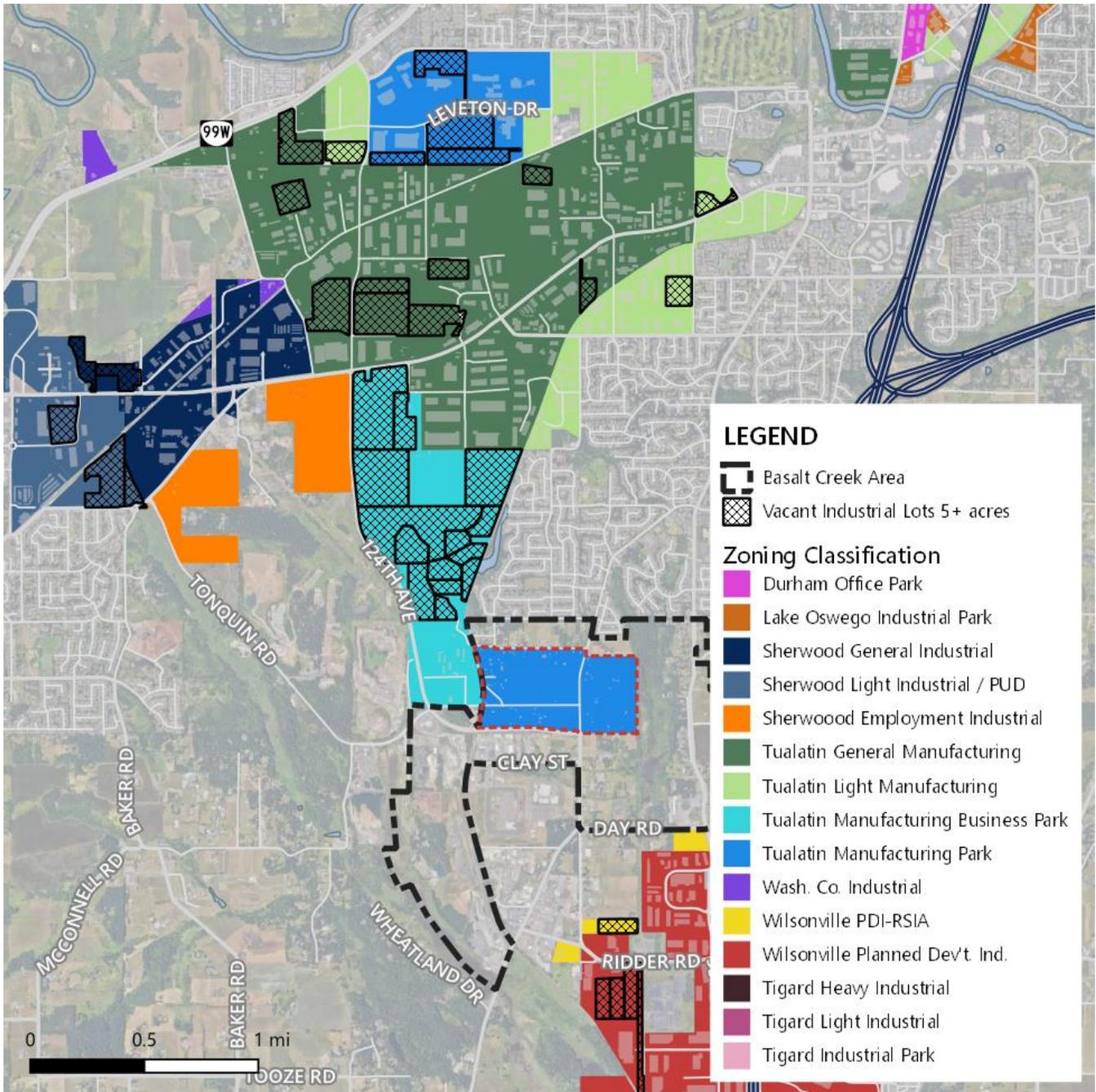
Industrial Land Availability

Basalt Creek will compete for industrial investment with other areas not only nearby but regionwide and beyond (including Salem, Woodburn, and other similar areas). Stakeholders interviewed for this project consistently noted the increasing difficulties in finding sites in the Portland area, especially large, contiguous, shovel-ready sites. As high-

quality industrial sites become increasingly scarce in the Portland region, industrially-zoned land costs and rental rates for existing industrial space have surged.

The following map shows industrial zoning in the southwest metro area overlaid with vacant sites larger than five acres. This analysis does not consider whether development impediments exist on these vacant sites (e.g., wetlands, steep slopes, etc.), therefore it does not necessarily mean these sites can be feasibly developed.

Buildable Industrial Lands, South I-5 Corridor



Source: Leland Consulting Group

Key takeaways from this assessment are listed below.

- There are 1,400 industrially zoned parcels (within existing city limits) shown on this map, and only 45 sites (three percent of the total) are vacant and larger than five acres.
- Those 45 sites translate to 640 vacant acres (14 percent of more than 3,900 acres).
- Of those 45 sites, 17 are in the City of Tualatin (totaling 279 acres).
- Approximately 191 of the existing vacant industrial land is in Tualatin's Manufacturing Business Park zone and is currently occupied by Tigard Sand and Gravel, an existing business using the land as a quarry. Much of this land will be challenging to redevelop due to steep slopes and infrastructure requirements. Thus, the development of this land will be over the long term and should not be included in any inventory of buildable land.

This information demonstrates the importance of Tualatin's industrial land to both the South I-5 Corridor submarket and the region. Given the dearth of buildable land throughout the region, Basalt Creek is a regionally significant industrial development opportunity. However, as recent development trends have shown, limited land availability throughout the Portland metro area is not enough to attract development to Basalt Creek or any other area with buildable industrial land. The regulations attached to that land must allow market-driven uses and support speculative new investment.

Case Studies

A key discussion point during interviews with public and private stakeholders was whether there are examples in the Portland metropolitan area of industrial districts that could illustrate successful implementation, including ones with specific zoning codes. This section summarizes research on some of the model zones highlighted by stakeholders as well as a case study of the Tonquin Employment Area (zoned Industrial Employment – EI) in Sherwood.

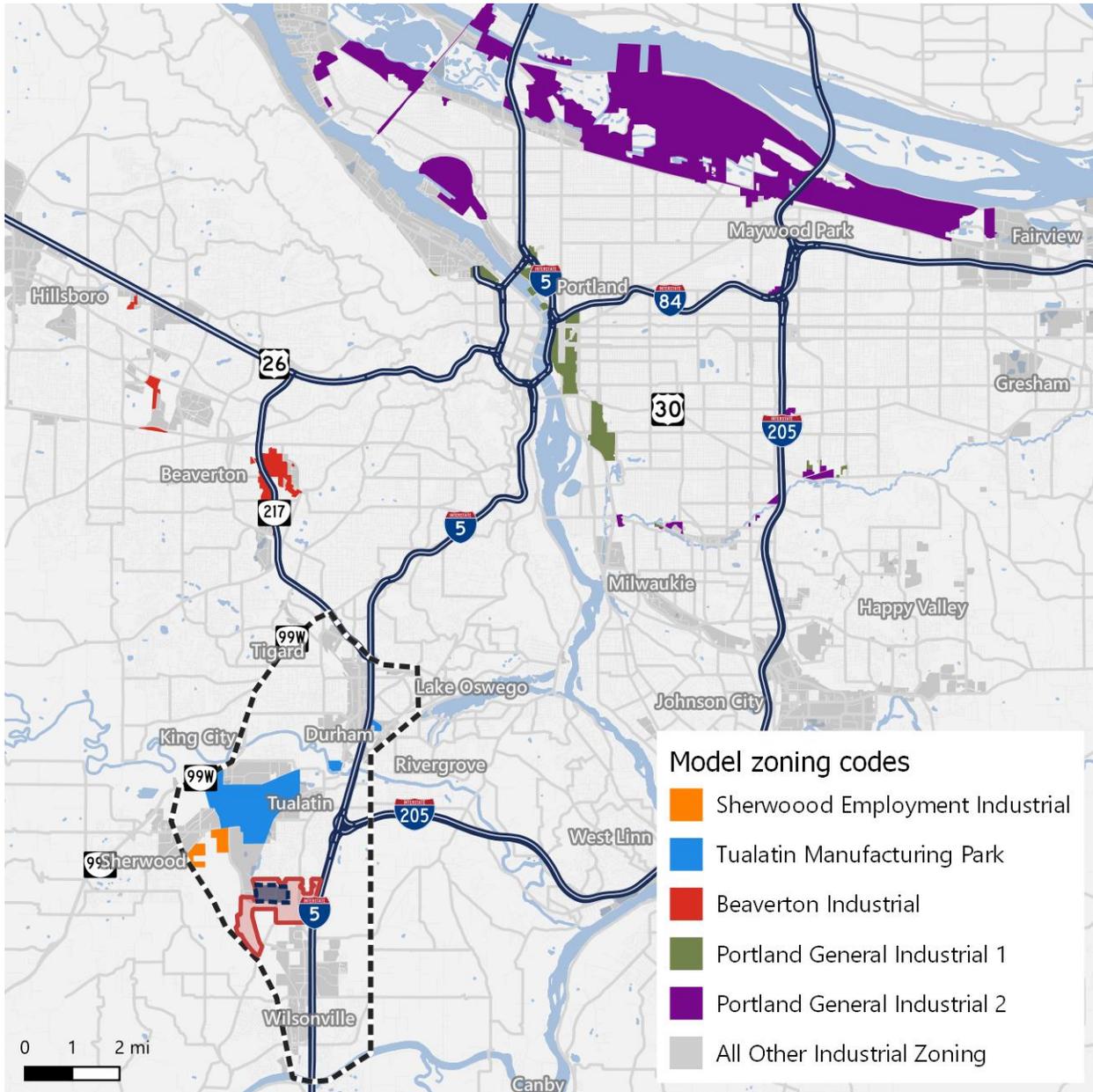
Model Industrial Zones

Several industrial zones throughout the Portland metropolitan area were identified by stakeholders as potential "model" zones. Model zones are those considered supportive of industrial development in keeping with economic trends and market dynamics. Model zones include:

- Sherwood Employment Industrial (EI) Zone,
- Tualatin General Manufacturing (MG) Zone,
- Portland General Industrial (IG1, IG2) Zones, and
- Beaverton Industrial (IND) Zone.

These zones are shown in the map below and the primary characteristics of each are summarized in the table that follows.

Figure 10. Model Zone Locations



Source: Metro RLIS, Leland Consulting Group

Table 3. Zone Comparison

Zone	Allowed Uses	Development Standards	Notable Restrictions
Sherwood Industrial Employment EI	Manufacturing, distribution, warehousing, and storage (preferred: Clean Technology; Technology and Advanced Manufacturing; Outdoor Gear and Active Wear) Distribution and warehousing up to 150,000 square feet, provided product(s) are stored within an enclosed building.	Min 3 acre lots accommodating Large and medium-sized parcels for industrial campuses and other industrial sites that can accommodate a variety of industrial companies and related businesses. Setback: 20 feet (front), none rear or side. Bldg. height max: 50ft Landscaping standards vary greatly	Retail and commercial uses are allowed only when directly supporting area employers and employees. Distribution and warehousing uses greater than 150,000 square feet require a conditional uses permit.
Tualatin General Manufacturing MG	Light and heavy manufacturing, warehouse and freight movement (P/C), wholesale sales (P/C)	Min lot size: 20k sf Setbacks: 30-50 feet (front), 0-50 feet (side) Bldg. height max: 60ft Landscaping: 15% min of the total area	Conditional use required for warehousing of bldg. materials/suppliers; other warehousing uses permitted. Commercial uses are restricted to 20,000-60,000 sq. ft.
Portland General Industrial 1 IG1	Manufacturing, warehouse and freight movement, wholesale sales, industrial services, railroad yards, parks	Smaller lots, high building coverages No max bldg. height, bldg. coverage, or FAR restrictions Setbacks: 0 feet except next to R Zones Landscaping: no requirement	Commercial uses are limited to 20,000 sq. ft. or sq. ft. of the site area, whichever is less.
Portland General Industrial 2 IG2	Manufacturing, warehouse and freight movement, wholesale sales, industrial service, railroad yards, parks	Larger lots, irregular/ large block pattern, less developed No max bldg. height or FAR restrictions Setbacks: 25ft (front); none elsewhere except next to R Zones Landscaping: 15%	Commercial uses are limited to 20,000 sq. ft. or sq. ft. of the site area, whichever is less.
Beaverton Industrial IND	Manufacturing, distribution, industrial uses, and uses requiring processing, fabrication, and storage, including outdoor storage areas, heavy equipment, and other uses not compatible in an Office Industrial area.	No min/max requirements for lot size, FAR, lot dimensions Setbacks: 35 ft (front), 10 ft (side), 0 ft (rear); 75 feet from a residential zone Bldg. height max: 45ft Landscaping: 15% min of the total area	Very few restrictions related to industrial uses Individual retail businesses are restricted to 5,000 sq. ft.

Stakeholders in the development community suggested that codes to avoid include Wilsonville's PDI zone, which is seen as an extreme example of use restrictions and design overlays. One stakeholder highlighted the example of DWFritz, which approached Wilsonville around 2019 for a potential 80,000 square foot development but instead chose the Tonquin area because of the restrictions. DWFritz now employs 120 people.

Tualatin: Tonquin Employment Area

Given its proximity to Basalt Creek, the timing of development (i.e., greenfield development following a UGB expansion), and site conditions (especially limited infrastructure), Sherwood's Tonquin Employment Area (TEA) is an appropriate comparison for Tualatin's Basalt Creek Manufacturing Park Zone. The TEA was brought into the Urban Growth Boundary by Metro in 2004 and the City of Sherwood completed a concept plan for the area in 2010.

The Plan included draft policies and implementation measures that support the growth of employment in the area, including a new Employment Industrial (EI) zoning district that regulates development in the Tonquin Employment Area. The EI zone was originally aimed at supporting high-tech manufacturing and traded sector job growth. However, the TEA remained largely unincorporated and undeveloped for many years following the plan's adoption in 2010.

Stakeholders interviewed for this project highlighted the challenges of developing in the TEA following the concept plan and UGB activity, citing a narrowly defined set of allowed uses in the zoning code, site constraints, and relatively restrictive development standards as reasons for the lack of initial development in the area.

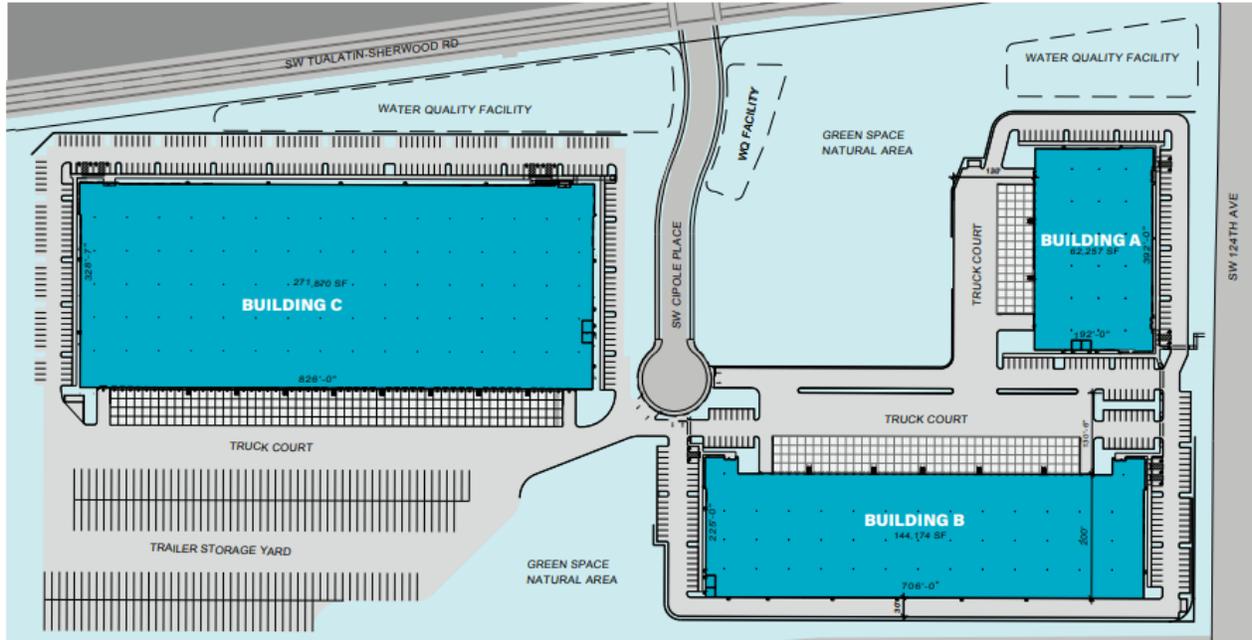
In 2014, the City of Sherwood embarked on an implementation plan that focused on infrastructure and financial tools and refined the focus of the EI Zone on "mid-size manufacturing and flex space." One of the main recommendations that came out of this process included expanding the allowed uses in the EI zone to attract more investment. Stakeholders cited this added flexibility to the EI zone as instrumental in facilitating the recent wave of new investment activity in the TEA.

In addition to broadening the uses, the City of Sherwood implemented additional restrictions (including size limitations) that balanced their goals with the opportunities in the market. The building size limitations were intended to mitigate the risk of getting undesirable uses, such as large distribution and fulfillment-type warehousing uses that may not achieve the target industry job growth envisioned in the 2010 Concept Plan. Warehousing uses below 150,000 square feet are allowed by right, while warehousing uses above 150,000 square feet require a conditional use permit.

Trammell Crowe recently underwent the conditional use permit process for a proposed building that exceeded the 150,000 square foot threshold in the T-S Corporate Park. According to staff, there was little pushback regarding the overall size of the building from the planning commission at the time, as commissioners are generally more focused on design standards, landscaping, and the style of development. If a developer cannot meet the baseline design standards, they can go through a discretionary process that incorporates additional standards relating to wages and jobs. City staff has acknowledged the challenges of enforcing criteria relating to jobs, density, and wages, and that this approach balances market realities with long-term economic goals.

Several industrial buildings totaling 535,000 square feet are now in various phases of planning and development at the T-S Corporate Park—the first project since the creation of the concept plan in 2010 (the site plan is presented below). Other projects are in the early stages of planning in the TEA, per the City, including plans for multiple multi-tenant flex industrial buildings (that also include distribution and manufacturing uses) totaling 900,000 square feet on 60 acres. Between these prospects and additional interest in new development in the TEA, there is reason to believe that most of the 200 acres of usable land in the TEA will be accounted for soon.

Figure 11. T-S Corporate Park Site Plan, Tonquin Employment Area, Sherwood



	BUILDING AREA (SF)	CLEAR HEIGHT	DOCK DOORS	DRIVE-IN DOORS	TRAILER PARKING	PARKING SPACES	DELIVERY DATE
BUILDING A	62,257	30'	14	2	-	87	July 2021
BUILDING B	144,174	34'	33	2	-	127	Nov 2021
BUILDING C	271,870	36'	50	2	191	303	April 2022

Source: Macadam Forbes

Conclusion and Recommendations

Overview. The City of Tualatin is poised to capture a significant share of industrial-focused employment growth over the next 20 years. Land supply is critically constrained. Land value has increased five times over since 2018 as a result and it is becoming increasingly difficult to develop in the Portland metro; many industrial users are now seeking industrial land outside of the Portland metro in places like Ridgefield and Salem. Demand for industrial space is at an all-time high, especially for warehousing, distribution, and logistics; however, these uses are not consistent with the existing Manufacturing Park zone in place in Basalt Creek, nor do they reflect the desires of the City of Tualatin as outlined in the 2018 Concept Plan.

Target Uses. Manufacturing buildings—the primary use currently allowed in the MP zone—have accounted for less than seven percent of all industrial development over the past 10 years in the I-5 South submarket (down from almost 19 percent historically). Meanwhile, warehouse and distribution buildings have continued to make up the largest share of new development, and multitenant and flex industrial buildings have accounted for more than one-fifth of recent investment (up two-fold from historical averages).

Demand for multi-tenant flex industrial buildings will continue to grow in the future. These buildings tend to be smaller, speculative developments (no more than 150,000 square feet) that cater to a wide variety of tenants—including tech, manufacturers, suppliers, wholesalers, services, contractors, as well as traditional distribution and warehousing tenants—

house relatively job-dense tenants from a broad market spectrum, and are well suited to the I-5 submarket given its locational advantages, historical land availability, and market diversity. These developments have also been in zones that allow warehousing and distribution. For example, most of the new tenants in the T-S Corporate Park are manufacturing-based companies but the zoning code also allowed warehousing and distribution space that allowed developers to build more speculative developers that could cater to the broadest spectrum of the market as possible.

Model Zones. The assessment of select industrial zones throughout the Portland metropolitan area found that the most suitable or “model” zones (per feedback from stakeholders) are generally less restrictive than the Manufacturing Park zone in Basalt Creek relative to the types of allowed uses, development standards (e.g., heights, setbacks, etc.), and landscaping requirements (typically no more than 15 percent of the total land area).

Development Feasibility. Given that Basalt Creek is undeveloped, lacks infrastructure, and requires annexation into the City of Tualatin, there are several challenges related to feasibility a developer must address before proceeding with any development. These challenges add a level of complexity and cost to the development that is further exacerbated by the narrowly defined list of allowed uses and some of the development standards in the existing Manufacturing Park zone.

While industrial land is highly constrained in the market, the City should not assume that developers will conform to existing standards simply because there is available land, as demonstrated by the increasing industrial development activity in historically secondary markets like Woodburn, Salem, and Newberg where there is more regulatory flexibility. Without revisions to the code and or other development standards, available land in Basalt Creek may stay vacant indefinitely, as developers may be reluctant to take on the risk of development in a zone that excludes vast segments of the market.

Recommended Actions. Specific actions to address the barriers and leverage regional opportunities described in this memorandum include:

- Expand the allowed use table to be more inclusive of other industrial uses and to be better aligned with market demand that includes flex, distribution, manufacturing, and warehouse space. Allowed uses should reflect the economic diversity of the South I-5 Corridor market. The industrial market is dynamic and moves quickly, so flexibility in the zoning code is critical to mitigate risk and attract investment over the long term.
- Revise development standards to reflect some of the model zones outlined in this memorandum. Landscaping requirements should total no more than 15 percent of the total land area, and setbacks should be reduced while continuing to provide additional buffers between industrial and residential areas with larger setbacks.
- In conjunction with expanding allowed uses, consider adding some restrictions—such as maximum building sizes—to maintain some control over future uses and likely tenants.