

DATE: November 20, 2024
TO: City of Wilsonville
FROM: ECONorthwest: Nicole Underwood, Michelle Anderson, and Bob Parker
SUBJECT: WILR Phase 1: Redevelopment Feasibility of Contractor Establishments -
DRAFT

The cities of Tualatin and Wilsonville adopted the Basalt Creek Concept Plan (BCCP) in 2018 after a lengthy joint planning process. Now, in 2024-25, the City of Wilsonville is working to advance the Basalt Creek Planning Area (BCPA) beyond the concept plan to a development-ready status by designating zoning and refining infrastructure plans. However, since adoption of the BCCP, economic conditions at national, state, regional, and local levels have shifted significantly, and must now be considered.

To address these evolving conditions, the City hired ECONorthwest to conduct a market assessment and industrial lands study focused on Wilsonville's portion of the BCPA. This study comprises several interconnected tasks:

- ◆ An **Economic Inventory** that evaluated current market trends and identified industries suitable for the area (completed).
- ◆ An updated **Buildable Lands Inventory (BLI)** that reflects recent land developments, adjusted constraints, and revised capacity estimates (ongoing).
- ◆ A **Site Suitability Analysis** that evaluates three key opportunity sites for their potential to support target industries based on attributes like size, location, and access (ongoing).
- ◆ An **Analysis of Future Development of Contractor Establishments in the BCPA** given prevailing lease rates and market conditions (this memorandum).

This memorandum addresses the fourth task by evaluating the redevelopment potential of contractor establishments within the BCPA. Currently, the Wilsonville portion of the BCPA falls under Washington County's Future Development, 20-acre District (FD-20) zoning, which allows a variety of low-intensity uses. The area has limited development, with much of the developed land used for contractor establishments, which typically include small offices (often converted residences), storage buildings, and laydown yards. While these uses contribute to jobs and economic activity, they yield limited employment opportunities and lower property values compared to those envisioned in the BCCP or typically expected for land within the Metro Urban Growth Boundary (UGB) and city limits.

The primary question we address in this task is: What is the redevelopment potential of existing contractor establishments in the BCPA, given prevailing lease rates and market conditions? This analysis will help the City understand what types of development the market will support, which desired development types identified in the BCCP are viable

under current economic conditions, and what conditions might be necessary in the future to support desired development.

The findings from this analysis will guide recommendations on policy interventions and strategic actions the City can take to support desired development and promote redevelopment feasibility. These efforts are part of a broader initiative to position Basalt Creek as a key area for regional job growth and long-term economic success.

Redevelopment Feasibility of Existing Contractor Establishments

The Economic Inventory identified a range of industrial users who may find Basalt Creek particularly attractive due to its prime location in the Southwest Metro area, access to a skilled workforce, availability of industrial land, strong transportation networks, and proximity to existing industrial clusters. Discussions with stakeholders also highlighted strong regional demand for industrial space.

However, several challenges complicate redevelopment efforts. Many existing contractor establishments generate significant income for property owners, reducing their motivation to sell or redevelop the land for higher-intensity industrial uses. Additionally, relocation options for businesses currently occupying these sites may be limited, creating further barriers to redevelopment.

These challenges raise critical questions about whether current market rents and sales prices are sufficient to make redevelopment feasible in the BCPA. This analysis evaluates the conditions needed to support redevelopment in Basalt Creek.

WHICH SECTORS MAY BE ATTRACTED TO BASALT CREEK?

Below are the potential sectors that may be particularly attracted to Basalt Creek as identified in the Economic Inventory report.

Semiconductor Sector Supply Chain:

Companies providing materials, equipment, and services to chip manufacturers.

Clean Tech, including Battery Technology:

Businesses involved in renewable energy technology, energy efficiency solutions and sustainable manufacturing processes.

Advanced Manufacturing: Companies using technology such as robotics, 3D printing, and computerized systems to manufacture specialized products or components.

Distribution and Logistics: Storage, transportation and delivery of goods.

Data Centers: Facilities used to house computer systems and associated



Methods and Approach

What are the key questions?

While there is clear demand for industrial space in the BCPA, the question remains: **What conditions (e.g., market, ownership, site, zoning) are needed to promote and incentivize urban industrial development as envisioned in the BCCP?** To answer this core question, ECONorthwest identified several sub-questions to guide the analysis.

- ◆ What types of property owners are in the study area and who is respectively occupying the site (e.g., does the owner occupy or a tenant)?
 - Understanding ownership and occupancy dynamics helps assess the financial motivations of property owners and determine whether redevelopment offers an incentive.
- ◆ What are the potential future uses for these sites?
 - Identifying potential future uses informs construction costs, market rents, and site utilization. Evaluating the likely range of site utilization (based on constraints and zoning) helps determine whether redevelopment would offer higher returns compared to current uses.

By addressing these supporting questions, ECONorthwest evaluated scenarios where ownership, occupancy, and future uses align to incentivize redevelopment. This structured approach provides insights into the conditions necessary to drive redevelopment in the BCPA.

How did we answer the key questions?

ECONorthwest used a detailed pro forma model to evaluate multiple potential development scenarios. These scenarios incorporated variations in current ownership and occupancy, potential future uses, and site utilization (for additional details, see Appendix). For this quantitative analysis, we focused on conditions that could support new development, either on recently acquired properties (e.g., speculative purchases) or on land likely to transact for redevelopment in the future.

WHAT IS A PRO FORMA?

The pro forma method, a standard tool in real estate feasibility studies, replicates the decision-making process of investors and lenders. It assesses the balance between development costs, expected revenue, and financing structures to identify potential viability gaps.

The pro forma considers the site utilization and potential building program of each scenario, development hard costs (construction labor and materials), other development costs (soft



costs, contingency, developer fee, etc.), costs of capital, relevant operating costs, and land acquisition costs. For each scenario, the pro forma calculated the rent levels required to cover these costs and achieve financial feasibility.

DATA LIMITATIONS AND METHODOLOGY

While the quantitative analysis provided valuable insights, data limitations in the study area and the I-5 South Submarket, such as limited observations of contractor establishment rents, posed some challenges. These limitations are typical for studies in smaller submarkets. To address this, we supplemented the analysis with qualitative methods, including interviews with developers and brokers, to validate assumptions and refine recommendations. We also conducted a range of sensitivity testing to account for potential variance (e.g., higher and lower potential contractor establishment rents) instead of basing the results of our analysis on one assumption. As a result, we believe the findings accurately reflect current market conditions in Wilsonville and provide a reliable basis for evaluating redevelopment feasibility in the BCPA.

ASSUMPTIONS AND INDUSTRY STANDARDS

We based several assumptions on industry standards to ensure consistency and accuracy:

- ◆ **Construction Costs:** Used national averages adjusted with a Portland-metro-specific multiplier to account for regional building conditions.
- ◆ **Other Development Costs and Operating Costs:** Applied standard rates for soft costs (architectural design, site engineering, permitting and entitlement fees, capital carrying costs, etc.), contingency, and developer fees.

For a more detailed overview of the data, assumptions, and methodology, please refer to the Appendix.

WHY IS DEVELOPMENT FEASIBILITY AND PRO FORMA ANALYSIS IMPORTANT?

Development can be costly and risky. Getting funding to construct new development requires lenders and investors to be reasonably confident they will earn enough financial return to justify the risks.

Economic or market feasibility is generally assessed by comparing the expected revenues (rents, sales prices) against the costs of development. If a development project is not profitable, it is not feasible; it will not be built. While some of the factors that determine market feasibility are outside a jurisdiction's direct control (e.g., labor and materials costs, interest rates, market rents), local jurisdictions can provide incentives (such as tax exemptions or land donations); or adjust building, utility, and zoning fees, zoning, programs, and other regulations that can have a substantial impact on whether development could be feasible or not.



UNDERSTANDING THE PRICE OF LAND IN THE BCPA: HOW THIS IS FACTORED INTO FEASIBILITY RESULTS

Predicting the price that a landowner would require when selling property for development is an imperfect science – each landowner has reasons to sell or hold their land. Some property owners are willing to develop their land without selling, but based on interviews, we determined this would be rare in the study area. For the purposes of this analysis, we assumed the value of the property (i.e., the price of the land at which an owner would be willing to sell) could be derived from current comparable property sales prices in the area, a **“comps approach”** as well as using an **“income-based approach”** that considers the revenue stream from current tenants on the property. Therefore, this memo analyzes the rent needed based on the range of land values given these two approaches.

We identified vacant land sales (including contractor establishment sales) in the I-5 South Submarket using CoStar data. Most of the vacant land properties recently transacted (over the last 4 years) for approximately \$7 to \$17 per square foot of land. One improved land transaction (with a contractor establishment) had a sale price that indicated it transacted for \$26 per square foot of land. These observations served as our range of land prices using a comps approach. Many of these comps, both vacant land and contractor establishments, might have been leased to tenants and generated income, however, the prices they sold for could have been decided via an unknown variety of methods (including an income-based approach and then a subsequent negotiation). Therefore, for the purposes of this analysis, we refer to all these observed transactions as being within the “comps approach” method.

The income-based approach relied on data collected during interviews that indicated the rent for contractor yards in the area could range from \$0.18 to \$0.23 per square foot of land per month. We considered this gross annual revenue, net of approximately 5 percent for various operating costs, and divided by a range of capitalization (cap) rates (5 percent to 7 percent) to estimate the value. Using a cap rate is a common valuation approach in the commercial real estate industry. This analysis resulted in a range of \$19 to \$52 per square foot of land – considerably higher than most of the results from the comps approach. This approach more appropriately accounts for the value that current owners might apply to their future revenue stream from existing tenants and therefore the hurdle needed to incentivize owners to sell and change the use on the property. Although this income-based value could eventually be negotiated during a potential sale, we still use this range in our analysis to reflect values that a landowner might



Key Findings

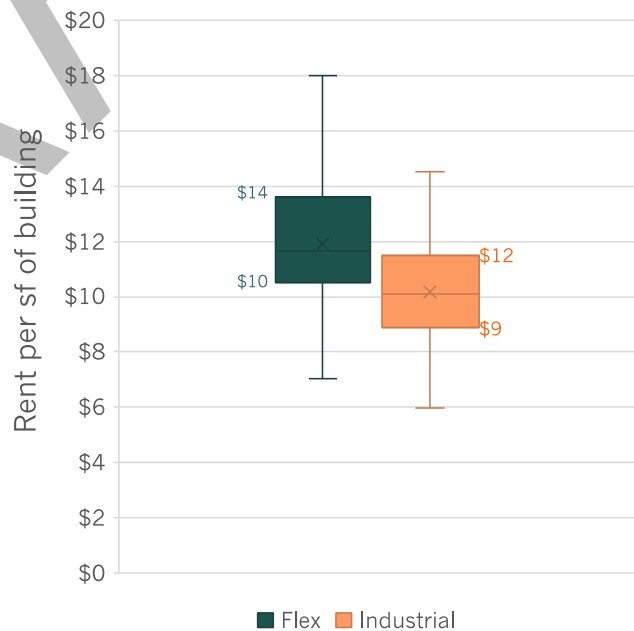
Current uses are generating substantial revenue with minimal management effort or risk.

Our market research and interviews highlighted that the rent for current uses ranged based on whether the site was mostly open land or if a building was present as well. Sites without buildings typically structured their rent per square foot of land, and this typically ranged from \$0.18 to \$0.23 per month. For example, a 1-acre site could generate annual gross rent of approximately \$95,000 to \$120,000 with minimal management effort or operating costs. (This is intended for illustrative purposes only and can scale to larger site sizes.)

Over the past four years, vacant land in the area has sold for around \$7 to \$17 per square foot. For the same, illustrative 1-acre site, this translates to sale prices ranging from \$305,000 to \$750,000. The resulting ratio of annual gross lease revenue to property value ranges from 13 percent (at \$0.18 per square foot rent per month relative to \$17 per square foot land value) to 39 percent (at \$0.23 per square foot rent per month relative to \$7 per square foot land value). This means that property owners who recently purchased land and rent it to contractor establishments could recover their investment within 2.5 to 8 years. For long-term landowners who have already paid off their investment, rents represent additional income with minimal effort. Either way, given the substantial revenue from these uses, a landowner has very little incentive to redevelop.

For sites with buildings and yards, rents are typically based on the building area and range from \$0.85 to \$1.30 per square foot of building per month, or \$10.20 to \$15.60 per square foot per year. In comparison, flex and industrial spaces in the I-5 South Submarket rent for \$9 to \$14 per square foot per year, meaning that rent for an existing contractor establishment building, with yard, is already achieving similar market rents to potential future uses. Not only are some of these contractor establishments already achieving comparable rents to flex and industrial uses, but they are also doing so without the risks of redevelopment (which include new capital investment, entitlements, the time to convert the land to the new use and generate revenue, and opportunity cost, among others).

Figure 1. Market Rent of Potential Future Uses



Source: EConorthwest analysis, CoStar



Rents would likely need to increase by at least one-third (33 percent), if not double (100 percent), to fund construction and create incentive to flip existing contractor establishments.

For our pro forma analysis, we evaluated a range of scenarios based on the variation in ownership and occupancy, future uses, future site utilization, and land acquisition costs (see Appendix for more detail). As previously discussed, ECONorthwest solved for the rent needed to cover these various costs and then compared to the potential market rent of the flex and industrial uses observed in the I-5 South Submarket. We show these results, for a range of potential land acquisition prices and construction costs.

We analyzed results for three different physical scenarios based on observed comparable developments (using the relationship between building square footage and site square footage):

- ◆ **Very high site utilization** based on 45 percent site coverage similar to Graham’s Ferry Industrial Center. Note: future development in some portions of BCPA may face constraints due to natural site features or zoning standards that may make achieving this site utilization challenging.
- ◆ **High site utilization** based on 35 percent site utilization, similar to the Sherwood Commerce Center
- ◆ **Low site utilization** based on 20 percent site utilization, similar to observed flex and industrial uses built over the last 20 years in the I-5 South Submarket

INTERPRETING THE RESULTS CHARTS

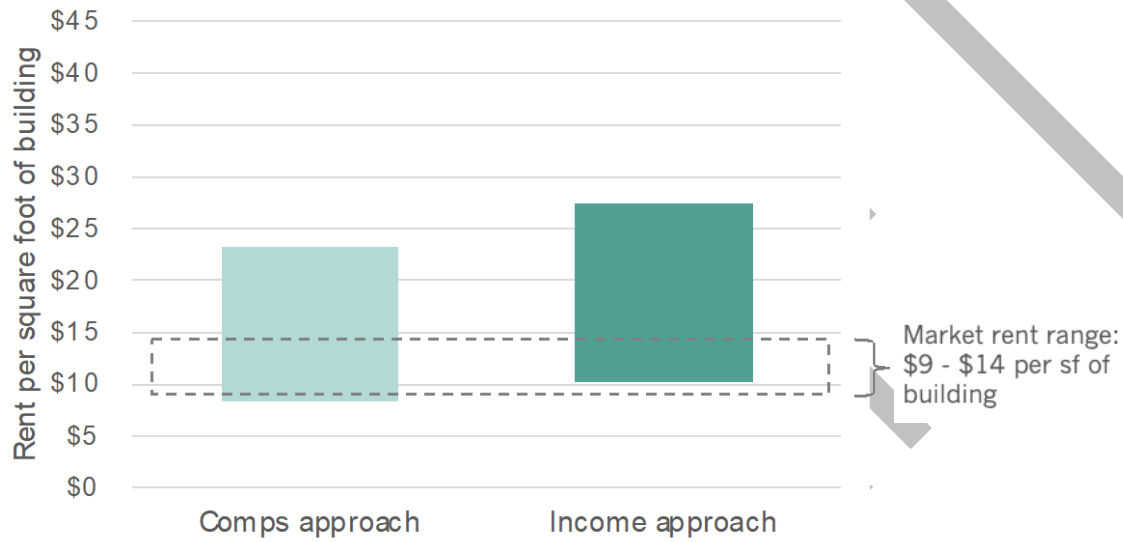
Development feasibility hinges on a range of different assumptions. Rather than picking one specific set of assumptions, the results charts shown in this memo encompass a range of potential assumptions, namely land acquisition costs and development costs.

ECONorthwest compared the feasibility results to both the comps approach and income approach - **one column** in the following charts showing the resulting range of rents needed if assuming a comps approach and **one column** showing the range needed based on an income approach. **Both columns** also include sensitivity testing given a range of construction costs and land prices which is reflected in the size of the bars (the same range is assumed for each of the land price method scenarios). **A dashed box** is also shown to represent the range of observed rents for potential future uses. The rent results would ideally be within, if not lower, than this range for the development to be feasible.



In the **very high site utilization** scenario, future flex and industrial uses are only feasible when land acquisition costs remain low—below \$20 per square foot—and other development costs are average or low. This combination of assumptions results in rents similar to the existing market rents of \$9 to \$14 per square foot of building (see comparison to gray bar shown in results chart in Figure 2). For properties with land costs higher than \$20 per square foot (common for land with existing uses), the market rent for flex and industrial uses would likely need to increase by at least one-third, if not double, (while construction costs remain constant) to make redevelopment feasible.

Figure 2. Rent needed for very high site utilization (45%)

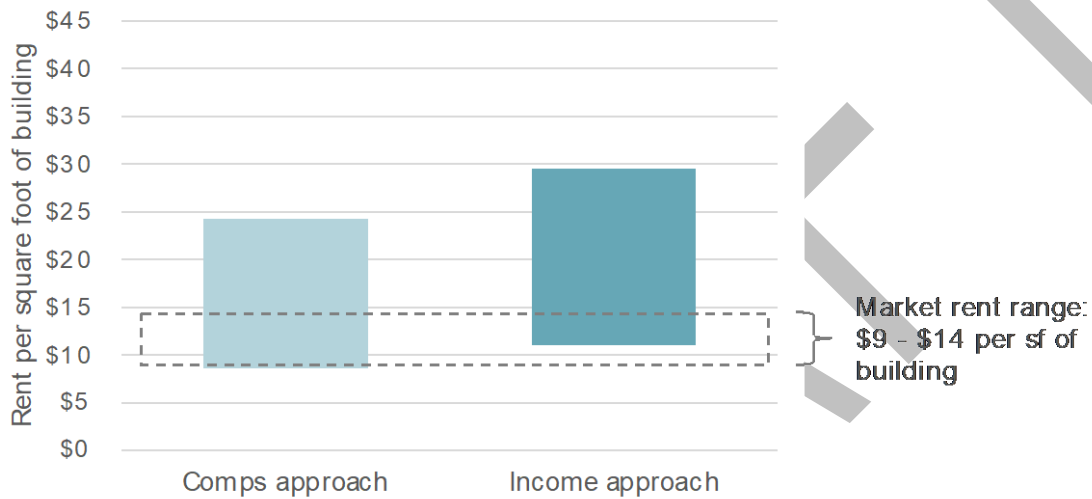


Source: ECOnorthwest analysis



In the **high site utilization scenario**, the results are similar to the very high site utilization, but rents would need to increase more, relative to the very high site utilization scenario, to cover the same ranges of land and development costs. Future flex and industrial uses are only feasible when land acquisition costs remain low—below \$20 per square foot—and other development costs are average or low. This combination of assumptions results in rents similar to the existing market rents of \$9 to \$14 per square foot of building (see comparison to gray bar shown in results chart in Figure 3). For properties with land costs higher than \$20 per square foot (common for land with existing uses), the market rent for flex and industrial uses must increase by at least forty percent, if not double, (while construction costs remain constant) to make redevelopment feasible.

Figure 3. Rent needed for high site utilization (35%)

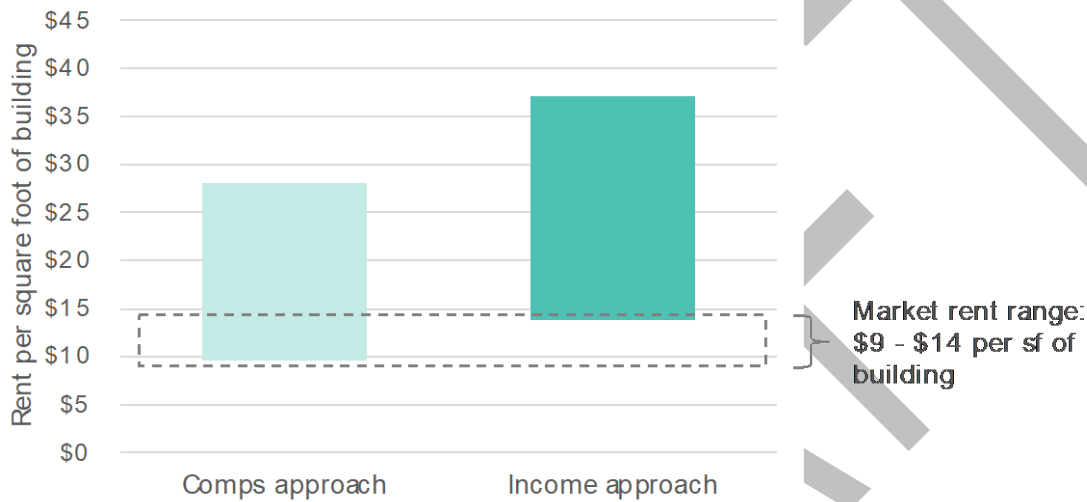


Source: ECOnorthwest analysis



In the **low site utilization scenario**, future flex and industrial uses are only feasible when acquisition costs are assumed to be low, less than \$10 per square foot of land (based on the low end of recent comparable sales of vacant land) and other development costs are low. This combination of assumptions results in rents similar to the existing market rents of \$9 to \$14 per square foot of building (see comparison to gray bar shown in results chart in Figure 4). For properties with existing uses (where land is likely to transact between \$19 and \$52 per square foot), the market rent for flex and industrial uses must double while construction costs remain constant to make redevelopment feasible.

Figure 4. Rent needed for low site utilization (20%)



Source: ECONorthwest analysis

Owner-occupied sites face greater feasibility challenges when landowners want to maintain their business operations.

Owner-occupied sites present more complex financial considerations compared to vacant or tenant-occupied properties. Landowners using their property for their own business must account for additional costs if they relocate, including relocation expenses, higher rents (or purchase prices) for new properties, and potentially higher ongoing business costs. For example, moving farther from suppliers or services could result in increased fuel or labor expenses.

To justify relocating their business, landowners would likely need to sell their property at an even higher price than what the quantitative analysis assumes. This requirement would, in turn, translate to higher rents than those shown in the results charts (Figure 3 and Figure 4). However, if the landowner does not intend to maintain their business, financial considerations would be less complex. Without the need to account for future business costs or the loss of contractor tenant income, necessary rents could align more closely with those projected in the comps approach.



Conclusion and Next Steps

Current contractor establishments generate significant revenue with minimal effort or risk, reducing financial incentives for redevelopment.

Rents for existing contractor establishments, particularly those with buildings, are already comparable to market rates for industrial and flex uses in the I-5 South Submarket. Therefore, for redevelopment to become financially feasible, market rents would likely need to rise by at least one-third, if not double, depending on site utilization, land acquisition costs, and construction costs. Higher site utilization scenarios present some redevelopment feasibility when land acquisition costs are low (below \$20 per square foot). Conversely, properties with higher land costs or existing uses would require either substantially higher rents or have other development costs (e.g., construction, financing) reduce to achieve feasibility.

Owner-occupied properties are less likely to redevelop if the owner wants to maintain their business operations. Redevelopment is difficult for owner-occupants, as they must consider relocation costs and potential increases in operational expenses. Limited regional industrial land supply could push these businesses to relocate further from their markets, increasing costs for labor, transportation, and operations. Without substantial increases in land values or rents, redevelopment for these properties remains unlikely.

Achieving the City's development vision for Basalt Creek will require strategic interventions. Potential approaches could include purchasing and aggregating properties to create development-ready parcels, subsidizing infrastructure costs, adjusting system development charges (SDCs), offering other development incentives, or other strategies yet to be identified.

The findings in this memorandum are preliminary and will be refined through further analysis and discussions. This study is being conducted alongside updates to the buildable lands inventory and site suitability analysis. Ultimately, these components will be synthesized with insights from the Economic Inventory into a comprehensive final report that outlines key findings and actionable recommendations.



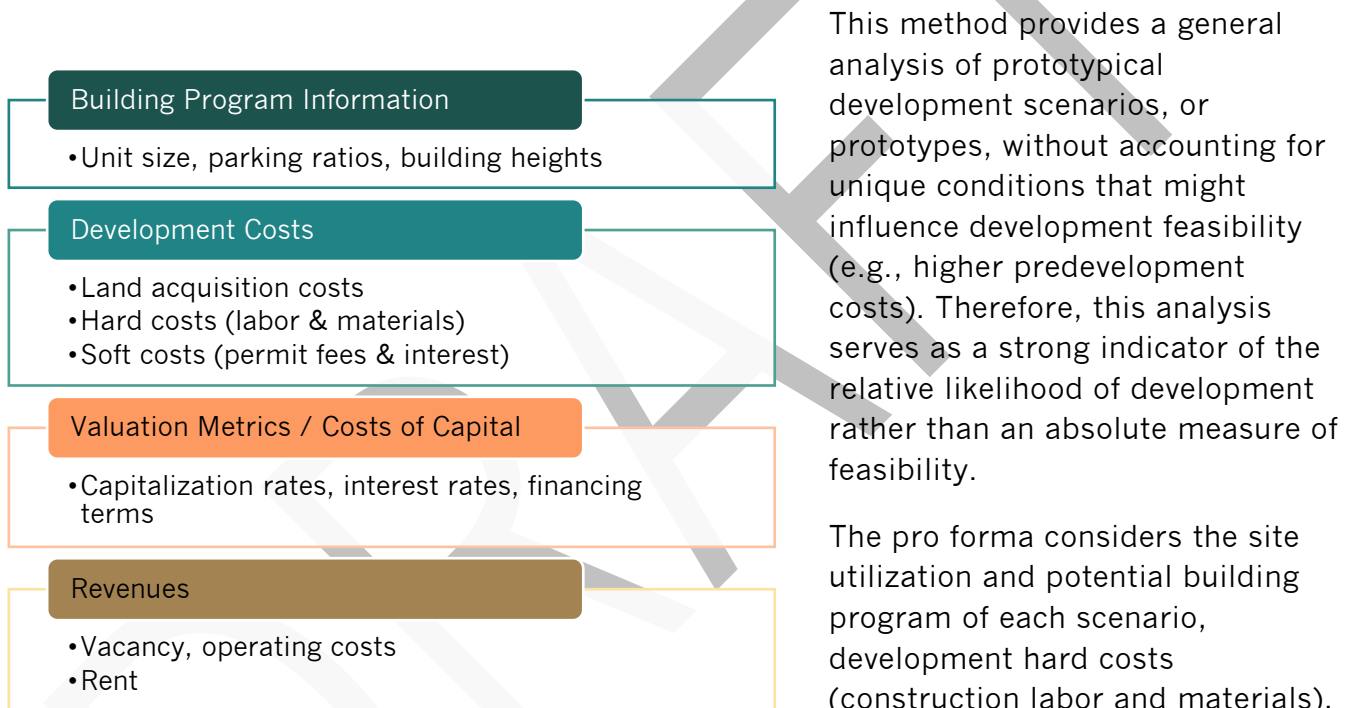
Appendix

Financial Feasibility Methods

To model development feasibility, ECONorthwest employed a pro forma model which is a common method used in real estate feasibility studies as it simulates the decision-making process of investors and lenders. The pro forma assesses the balance between development costs, expected revenue, and financing structure, which helps to identify viability gaps.

Figure 5. Factors used in the pro forma analysis

Source: ECONorthwest



This method provides a general analysis of prototypical development scenarios, or prototypes, without accounting for unique conditions that might influence development feasibility (e.g., higher predevelopment costs). Therefore, this analysis serves as a strong indicator of the relative likelihood of development rather than an absolute measure of feasibility.

The pro forma considers the site utilization and potential building program of each scenario, development hard costs (construction labor and materials), other development costs (soft costs, contingency, developer fee, etc.), costs of capital, relevant

operating costs, and land acquisition costs. It then calculates the rent required to cover these costs for each scenario.

Scenarios Evaluated

To establish relevant assumptions for the pro forma model, we first identified the scenarios needed to address the research questions. These scenarios were based on variations in current ownership and occupancy, potential future uses, and site utilization.



CURRENT SITE OWNERSHIP AND OCCUPANCY

We started with an understanding of the current site ownership and occupancy. Based on our understanding, there were three main categories:

- ◆ **Owners of vacant or unused land.** This category includes people who recently purchased land with the intent to develop and existing owners potentially interested in selling their land for new development.
- ◆ **Owners renting to contractor establishment tenants.** These owners might sell their property but would need compensation for the foregone future revenue from their tenants.
- ◆ **Owners using the land for their own contractor establishments.** Financial considerations for this group vary substantially. Landowners would need to account for upfront and ongoing costs associated with relocating their businesses, making this scenario more complex to quantify compared to vacant or tenant-occupied sites.

APPROACH TO ESTIMATING LAND PRICE

- ◆ **Vacant and underutilized land:** We used a comparable sales (“comps”) approach to estimate land price, which accounts for the sales price of recently purchased land, especially by those intending to develop (see the callout box on page 5 for details on the comps approach).
- ◆ **Tenant-occupied land:** For owners renting to contractor establishment tenants, we used an income-based approach to estimate the financial hurdle of land price. This better reflects the potential foregone revenue from tenants (see the callout box on page 5 for details on the income-based approach).
- ◆ **Owner-occupied land:** Due to varied business conditions of landowners who are using the land for their own contractor establishment, we evaluated this scenario qualitatively, considering insights from the other scenarios.

FUTURE BUILDING PROGRAMS

We then considered the potential future building programs that could occur on these former contractor establishment sites. We based the building square footage of our two prototypes on observed comparable flex and industrial spaces, based on CoStar data from the I-5 South Submarket. Key considerations included:

- ◆ **Site Utilization:** Over the past 20 years, average site utilization (building area relative to site area) in the I-5 South Submarket was about 20 percent. Recent developments like the Sherwood Commerce Center achieved 35 percent site utilization and Graham’s Ferry Industrial Center achieved 45 percent site utilization but this was enabled by maximizing impervious coverage for parking and truck logistics. Future development in some portions of the study area may face constraints due to natural site features or



zoning standards. We therefore modeled three prototypes to capture a range of potential future development conditions:

- **Low utilization:** 20 percent
- **High utilization:** 35 percent
- **Very high utilization:** 45 percent

CONSTRUCTION COSTS

Lastly, for the scenarios we modeled we evaluated a range of potential construction costs for flex and industrial uses. We referenced the **2024 National Building Cost Manual** by Craftsman to arrive at a range of potential construction costs for various building types that could house future flex and industrial uses. We conducted sensitivity testing of the potential rents needed to cover low to high construction costs, and the results that informed our key findings are inclusive of the range used.

The land cost, site utilization, and building costs were all assumptions that varied in our analyses as we conducted sensitivity testing of different scenarios (e.g., high site coverage, high land costs, high construction costs). All other pro forma assumptions we held constant. We describe the specifics of these assumptions in the section below.

Detailed Methods and Assumptions

To evaluate future flex or industrial rental uses, we began by calculating development costs. This involved applying the cost per square foot values (see Table 1) to the building square footage derived from the site utilization. From that construction cost we calculated the soft cost, contingency, and developer fees to arrive at the total development cost.

Given the potential range of sources of money to fund these projects, we used a high-level approach and assumed all sources of money that funded the project would require a 6 percent annual return based on a 30-year term. We calculated a payment inclusive of this return, based on the total development cost, to arrive at the rent needed to cover these annual costs. We also assumed these rents would be triple net and therefore the operating costs would be passed on to the tenant, which is common for flex and industrial lease terms. We highlight the specific assumptions of this analysis, and any relevant ranges, in the table in Table 1.



Table 1. Scenarios and Assumptions Used

Source: ECOnorthwest, CoStar, Redfin, Craftsman, Stakeholder Interviews

Assumption	Values
Land price	Ranged from \$7 to \$26 based on observed sales comps of vacant land as well as one sale observation of a contractor establishment. Ranged from \$19 to \$52 per square foot based on income-based approach.
Building program	(3) square footage estimates based on a calculation of 20% site utilization, 35% site utilization, 45% site utilization
Construction cost	\$75 to \$200 per square foot of building; \$20 per square foot of paving
Soft Costs	20% of hard costs
Contingency	5% of hard and soft costs
Developer fee	5% of hard and soft costs plus contingency
Costs of capital	5-7% annual interest range, 30-year term for all funding sources
Operating costs	Assumed triple net rents

DRAFT

