



August 11, 2021

Honorable Mayor Scott Keyser and Molalla City Council
City of Molalla
117 N Molalla Ave
Molalla, OR 97038

RE: Public Testimony in Opposition to Proposed Ordinance No. 2021-10

Honorable Mayor Keyser and Members of the Molalla City Council,

We represent I&E Construction in the execution of a series of land use applications that seek to entitle needed multi-family residential homes in the City's General Commercial (C-2) Zoning District. These applications were submitted prior to the potential adoption of the amendments proposed by Ordinance No. 2021-10 and will subsequently be reviewed under the existing rules. However, we are compelled to share our testimony in opposition to Ordinance 2021-10 with you because we believe these proposed amendments do not ultimately serve the City's interest nor do they achieve the objective of the proposed ordinance, which we understand is to promote employment, and retail and service uses on commercially-zoned land in the City.

To be clear, we are in full support of the City's efforts to promote commercial and economic development opportunities in Molalla, however, we believe the current proposal is counter-productive to this and other equally important efforts for the following reasons:

- The amendments in Ordinance No. 2021-10, and the assumptions upon which they are based, understate the City's significant deficit of land that is available for multi-family homes and overstates the need for, and potential job creation and economic benefits associated with, small-scale vertical mixed-use commercial spaces;
- These amendments, and the assumptions behind them, overlook the practical challenges and limitations of vertical mixed-use development (ground floor commercial with multi-family homes on the upper floors of a single structure) and ignore the benefit of horizontal mixed-use development (commercial and residential uses are mixed across a single property or several adjacent properties); and,
- The amendments fail to acknowledge the range of permissible commercial uses in the City's C-2 Zone and the likelihood that such land could be developed with uses that are a lower priority to the City than multi-family housing.

For these reasons, we implore the City to reconsider Ordinance No. 2021-10. We encourage you to postpone this decision so that you may take time to speak with stakeholders from your local business and housing community and jointly develop meaningful solutions to address the City's jobs and housing needs.

Background

Molalla's C-2 Zoning District currently permits new multi-family homes, as a special use, throughout the district. For C-2 zoned properties abutting Highway 211, the District prohibits residential uses on the ground floor; ground-floor residential uses are permitted however, in all other locations in the C-2 District. Ordinance No. 2021-10 would extend the prohibition on ground floor residential uses to all properties in the C-2 District.

The City’s justification for the amendment is based on their understanding that there is a shortage of commercial land in the City’s Urban Growth Boundary (UGB) and that allowing multi-family residential development, exclusive of any commercial component, in the City’s C-2 district, worsens this situation¹.

Arguments in Opposition

1. *The Ordinance overstates the need for leasable floor area for small-scale retail and service users.*

In 2017, three years following the most recent update of the Molalla Comprehensive Plan (2014), the City commissioned an Economic Opportunities and Employment Land Need Analysis (prepared by Johnson Economics) to update the 2009 analysis (Hovee) upon which the commercial land needs established in the 2014 Comprehensive Plan are based. In contrast to the 96-acre deficit of commercial land stated in the 2014 Comprehensive Plan, the Johnson Economics analysis found a deficit of only 19 acres of commercial land (see Table 1, below).

Table 1: Comparison of Commercial Land Need Between 2009 Hovee- and 2017 Johnson Economic Needs Analyses		
	Hovee (2009)	Johnson Economics (2017)
20-year Demand (Acres)	148	54
Buildable Supply (Acres)	52	35
Surplus/(Shortage) in Acres	(96)	(19)

Source: Economic Opportunities & Employment Land Need Analysis, DRAFT (August 2017; Staff Report for Ord. No. 2021-10, accessed online August 10, 2021)

The Johnson Economics analysis is a more reliable estimate of the current commercial land need not only because the data upon which its findings are based are more recent, but also because the analysis of commercial land need is more closely focused on the specific employment growth characteristics and employment trends in the City of Molalla. Additionally, the Johnson Economics analysis includes a breakdown of growth estimates by individual employment sectors (e.g., agriculture/forestry, retail, office, professional and business services, financial activities, etc.) and then applies those growth estimates across 6 building typologies (i.e., Office, Institutional, Flex/Business Park, General Industrial, Warehouse, and Retail) to develop their forecast of employment space and land need through the year 2036. Johnson’s commercial land need forecast is summarized in Table 2, below.

Table 2: Employment Space and Land Need Forecast through 2036			
Building Typology	Estimated Need (Acres)		
	2016	2036	Net Need
Office	16.4	26.1	9.7
Institutional	15.5	24.9	9.4
Flex/Business Park	17.6	27.1	9.5
Retail	44.2	69.8	25.5
Total	93.7	147.9	54.1

Source: Economic Opportunities & Employment Land Need Analysis, DRAFT

¹ City of Molalla Staff report, Ord. No. 2011-10 for 8/11/2021 City Council Hearing

After accounting for the nearly 35-acre supply of buildable land available for commercial uses, the Johnson Economics analysis concludes that there is a deficit of slightly more than 19 acres of commercial land to accommodate the forecasted growth in commercial activity between 2016 and 2036 (see Table 3).

Employment Land Category	20-Year Demand (Acres)	Buildable Supply (Acres)	Surplus/(Shortage)
Commercial	54.03	34.85	(19.19)

Source: *Economic Opportunities & Employment Land Need Analysis, DRAFT*

We believe the Johnson Economics analysis likely dramatically underestimates the City’s supply of buildable land. Upon inspection of the City’s current zoning map and the map prepared by Johnson Economics to establish developed, vacant, partially vacant, and constrained commercially zoned (C-1 or C-2) properties, it appears that there are approximately 31-acres of additional land, beyond the 34.85-acre supply in the Johnson findings, that are either vacant or partially vacant. The inclusion of these properties in the Johnson Economics analysis would yield an 11.81-acre surplus of commercial land. Additional surplus land could also be found in the several thousands of square feet of existing leasable commercial space that is currently listed for sale in downtown and other commercial areas of the City.

As a final note on the actual demand for commercial land, it is worth mentioning that several of the parcels comprising the 31-plus-acres of additional commercial land (that is partially vacant and zoned C-2) in our review, are large (one-half acre-plus) parcels that are in use as single-family residences or to a lesser degree, outdoor storage yards. If a real demand for commercial land existed, it is likely that there would be a higher rate of turnover, from the existing residential homes to new commercial uses, on these properties than has occurred to-date. Similarly, if such demand existed, we would expect a lower vacancy rate in existing commercial space.

2. *The Ordinance understates the need for multi-family housing.*

The most recent evaluations of housing need and supply in Molalla are published in the 2014 Comprehensive Plan (2009 Housing Needs Analysis) and a 2017 Residential Buildable Land Inventory prepared by Winterbrook Planning. While the Comprehensive Plan’s analysis is aged and does not separate residential uses into subcategories (i.e., single-family, two-family, multi-family) it does provide a comparison between the need for residential uses relative to commercial uses in 2009 and offers some support, by virtue of the significant disparity between the deficit of housing land and the surplus of employment land, for the argument that there is likely more demand for multi-family homes than small scale retail or office uses as would be benefitted by the proposal in Ordinance No. 2021-10.

Land Use	Land Need (Gross Acres)	Buildable Acres	Land Surplus/(Deficit)
Housing	289	71	(218)
Employment	121	212	91

Source: *2014 City of Molalla Comprehensive Plan*

Additionally, the 2017 Residential Buildable Lands Inventory prepared by Winterbrook concludes that there are approximately 103 acres available for residential uses, 16-acres of which may be used for multi-family housing. Applying the updated buildable lands numbers from the Winterbrook report to the 2009 Needs

Analysis suggests that there is still a significant deficit (2009 deficit of 218 acres plus 34 additional buildable acres (net buildable acres between 2009 and 2017) equals an approximate updated deficit of 184 acres) of residential land in Molalla. Based on Staff’s findings in response to Ordinance No. 2021-10, it is likely that this deficit could be even larger given Staff’s findings that residential growth has outpaced previous forecasts.

Table 5: Residential Buildable Land Inventory			
Residential District	Lots	Acres	Buildable Acres
Multi-family	31	22.11	16.43
Single-family	83	92.56	77.46
Two-family	23	11.58	9.45
Total Buildable	137	126.25	103.34

Source: Winterbrook Residential Buildable Land Inventory, 2017

3. *The City should consider several important practical limitations associated with vertical mixed-use development.*

Integrating commercial and residential uses within a single building introduces several important cost- and design-related challenges that are not present with standalone multi-family residential buildings. First, construction costs are higher because additional commercial building code requirements apply. Additional fire separation and suppression requirements for commercial spaces, more rigorous noise suppression requirements, more stringent ADA accessibility requirements, and additional plumbing requirements are just a few of the items that contribute to higher construction costs in vertical mixed-use buildings.

Second, there are practical and design problems with vertical mixed-use buildings. If the ground floor of a mixed-use building may not include residential uses, upper floor multi-family homes either need to be accessible to persons with physical disabilities or accessible homes may not be offered. The most common approach to providing accessibility to upper floor homes is through the addition of elevators. Elevators contribute significantly to the total construction and maintenance cost of new buildings.

Vehicle parking is another challenge associated with mixed-use buildings. Commercial uses typically generate more vehicle trips and more unpredictable vehicle trip characteristics compared to single-use residential buildings. These trips can pose safety risks for residents and often require special design attention. These additional vehicles can also require land that would otherwise be used for new homes to be set aside for vehicle parking spaces. Additionally, commercial uses invite non-residents into predominately residential communities and subsequently, more thoughtful design solutions to address potential safety and security issues, are necessary.

Horizontal mixed-use is an alternative design approach that achieves the walkability and efficiency goals of mixed-use development without the limitations listed above. Horizontal mixed-use involves both commercial and residential development occurring throughout several single-use buildings on a single site or multiple adjacent properties, as is the current approach with our Client’s Cascade Center site at Hwy 211/Leroy Ave. This is the approach that the City of Salem is currently promoting. Horizontal mixed-use creates several wins for both commercial and residential users, an important one of which is that there is a built-in supply of customers/patrons that have easy access to a much wider range of commercial goods and services than could be offered in a ground floor commercial space in a mixed-use building.

- 4. The City should consider that the planned prohibition on ground floor residential uses in the C-2 zone could have the unintended consequence of encouraging the use of this land for other commercial activity that is less important to the City than housing and job creation.*

The Staff Report acknowledges that Ordinance No. 2021-10 is a stopgap that is intended to preserve commercially zoned land while staff and the Planning Commission work to develop a more thoughtful approach toward mixed-use development. A thoughtful approach that considers the unique needs of Molalla and is based on current housing and employment projections, one that incorporates feedback from local housing and business stakeholders, and one that ultimately is supported by a consensus of residents and members of the City Council, will likely take several years to develop. In that time, we believe that it is likely that the amendments proposed by Ordinance No. 2021-10 would encourage property owners and developers to pursue potentially more economically viable uses that are permitted in the C-2 zone, such as self-storage facilities (the original Cascade Center concept included approximately 550 self-storage units in the area we are now planning for multi-family homes). It is our belief that such development is not in line with to the City's higher priority need to provide more housing choices to its residents.

Conclusion

As addressed above, we believe it is in the City's best interest to postpone a decision on Ordinance 2021-10. The idea of co-locating commercial enterprise and residential uses is compelling to growing communities, and images of vibrant, walkable, and high-density neighborhoods are alluring to many policy makers, residents, and land development staff. Successful mixed-use development, however, is borne out of an acknowledgement of the unique aspects of a community and current and forecasted market conditions. This requires that developers have confidence that they will achieve a reasonable profit in return for their costs in permitting, designing, constructing, managing, and maintaining these areas. The ability of the local market to bear the cost of rents that are necessary for a developer to realize a profit from a mixed-use development is ultimately what will determine whether such a project would be constructed relative to another allowable use on that same piece of land. Acknowledging the economics of this development equation can help the City ensure that commercial and residential development is long-lasting and serves the most important needs of the community.

Thank you for the opportunity to participate in this important decision. We hope that you find the points above worth considering and are happy to discuss your questions related to these and other issues.

Sincerely,

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