



MEMORANDUM

Date: September 16, 2022

To: Oakland Planning and Building Department

From: Hausrath Economics Group

Subject: **Comparative Analysis of Housing Outcomes:
Downtown Oakland Specific Plan Zoning Incentive Program and
California Density Bonus Law**

This memorandum presents analysis of how the Downtown Oakland Specific Plan Zoning Incentive Program (ZIP) compares to California Density Bonus Law (Government Code Sections 65915 – 65918) with respect to both market-rate and affordable housing supply and resources for affordable housing production in Oakland.

Principal Features of the Two Programs

California Density Bonus Law has been in effect since 1979, and Oakland’s Density Bonus and Incentive Procedure implementing the law locally was first adopted in 2001.¹ The proposed Zoning Incentive Program introduced with the Downtown Oakland Specific Plan has some of the same features offered by California Density Bonus Law. Both programs offer increased residential development density in return for provision of on-site affordable housing. The ZIP is a key component of implementing the DOSP: encouraging higher density development downtown while capturing some of the value of the increased development capacity in support of community benefits, one of which is on-site affordable housing. (The ZIP offers the same increases in residential density in exchange for other types of community benefits, but this analysis focusses on affordable housing.) California Density Bonus Law applies statewide with the purpose to reduce the need for public subsidy for affordable housing by offering more development capacity and other regulatory concessions to offset some of the costs of providing on-site affordable housing.

While the ZIP is primarily a land use regulatory tool to incentivize higher density development in the DOSP area and generate resources for community benefits including affordable housing, the California

¹ City of Oakland Planning Code, Chapter 17.107 – Density Bonus and Incentive Procedure.

Density Bonus law—targeted to increase the supply of affordable housing—offers a broader array of incentives to encourage private developers to include below-market-rate units in their projects. In addition to more market-rate units than allowed under base zoning, the housing developer providing on-site affordable units is entitled to incentives, concessions, and waivers that reduce project costs, thereby enhancing project feasibility. Examples of incentives and concessions are reductions in development standards or modification of zoning code or architectural design requirements.² In addition, developers are allowed waivers or reductions of development standards that physically prevent the project from being built at the permitted density. These do not count against the allowed incentives/concessions, and there is no limit on waivers. Examples include setbacks, lot coverage, and open space requirements. Incentives, concessions, and waivers apply to the entirety of the proposed housing development. Finally, as implemented in Oakland, the City does not require payment of the Affordable Housing Impact Fee for any of the market rate units in a Density Bonus project.

The chart below summarizes the key features of each program as analyzed for this memorandum.

	DOSP Zoning Incentive Program	California Density Bonus Law
Objective	Encourage high density development downtown while capturing value for community benefits	Encourage on-site affordable housing by offering higher density and regulatory concessions
Voluntary Program	Yes	Yes
Additional Density	+11% - 808% more density 65% of cases more than double allowable density	+20% more density is least costly option for higher density development in DOSP
Other Incentives	None	Other incentives, concessions, and waivers to facilitate housing development by reducing project costs
On-site Affordable Housing	Can choose as community benefit; amount and type dependent on benefit area requirements	5% very low-income units on-site
Payment of Affordable Housing Impact Fees	Yes – base development Yes – additional density	No – base development No – additional density

² One incentive or concession is allowed for the case of a 20% bonus for 5% very low-income units. Up to three incentives/concessions are allowed for higher percentages of affordable units. Four are allowed for 100% affordable housing.

Approach to Quantitative Analysis

To assist with public review of the proposed Zoning Incentive Program (ZIP), Hausrath Economics Group (HEG) prepared quantitative analysis to illustrate the variation in outcomes for housing supply and resources for affordable housing production in Oakland under each program.

The analysis was conducted for a set of 26 development sites within the ZIP intensity areas. The sites were identified during the economic analysis for the Zoning Incentive Program to represent the full range of development situations under the proposed zoning amendments, primarily based on differentials between proposed base and ZIP maximum height and intensity standards. The analysis of these sites does not represent a future or build-out scenario for residential development in downtown Oakland. It was prepared solely to quantify the differentials in the contributions to housing supply and financial resources for housing under the two programs that offer increased residential development density in return for on-site affordable housing.

Housing Supply Parameters Evaluated in this Comparative Analysis

For this quantitative analysis, HEG estimated the following housing supply parameters for each development site:

- ◆ Total residential units allowed under base height and intensity standards
- ◆ Total residential units allowed under ZIP maximum height and intensity standards
- ◆ Density bonus residential units allowed under State law for a given amount of on-site affordable housing units
- ◆ ZIP requirements for on-site affordable housing at equivalent affordability

HEG's analysis of the economics of providing on-site affordable housing in the DOSP area indicates that, using the California Density Bonus, the least costly option per bonus unit is to allocate 5% of the base units as on-site units affordable to very-low-income households. This entitles the housing developer to 20% more market-rate units than allowed under the base zoning.

HEG's quantitative analysis uses the 20% density bonus for 5% very low-income housing units as the basis for comparison to the ZIP. As a result, the ZIP benefit in exchange for maximum density is calibrated to provide the required number of very low-income units. For simplicity, all units are assumed to be one-bedroom units.

Financial Resources for Affordable Housing also Considered in Comparative Analysis

In addition to differences in market rate and affordable unit counts, each program generates different financial resources for affordable housing in Oakland. First, all market-rate housing units under the ZIP (base units plus bonus units) are subject to Oakland's Affordable Housing Impact Fee. Under the Density Bonus program, no market rate housing units (base or bonus units) are subject to the Affordable Housing Impact Fee requirement. Second, the differences in market-rate development translate to different levels

of property tax revenue and therefore to different revenue allocated through the “Boomerang” for Oakland’s Housing Trust Fund.³

ZIP and California Density Bonus Programs Compared

The analysis compares the following parameters for the representative set of downtown development sites analyzed:

- ◆ Total housing units (base + bonus)
- ◆ Market-rate units (base + bonus)
- ◆ Very Low-Income units on-site
- ◆ Affordable Housing Impact Fee revenue to Oakland’s Housing Trust Fund
- ◆ Percent increase in Boomerang dollars for Oakland’s Housing Trust Fund

Table 1 (on the following page) summarizes the results of the quantitative analysis. Results are presented for the 26 development sites analyzed across all three benefit areas identified from the Zoning Incentive Program economic analysis. The purpose of the analysis is to compare results under the ZIP to results under the California Density Bonus program for the same set of development sites. The top part of the table shows how the totals for housing supply and Affordable Housing Impact Fee Revenue compare. The second part compares the incremental differences from what would be expected under DOSP base zoning.

The higher density potential in most areas under the ZIP generates more total units and more market rate units for the same development sites

The table first compares the variation in density offered by the ZIP to the Density Bonus case analyzed. The ZIP offers density increases ranging from 11% up to 800%. Maximum densities more than double in about two-thirds of the cases. California’s Density Bonus program offers density increases from 20% up to 50%, although the 20% case is analyzed here as the most likely case for residential development in the DOSP intensity areas.

In all intensity areas, for the same development sites, the ZIP generates more total housing supply and more market-rate units than does the most likely Density Bonus Scenario (20% density bonus for 5% very low-income units). On average for these representative development sites, across all intensity areas, total housing supply and total market-rate housing supply under the ZIP are about two times that of the incremental housing supply offered by the Density Bonus program.

³ Since the plan area lies within former Redevelopment Project Areas, Oakland policy allocates 25% of the incremental property tax from development in those areas to the Housing Trust Fund. Oakland’s Housing Trust Fund relies on these funding sources: Affordable Housing Impact Fee, Jobs-Housing Impact Fee, and the Boomerang (City of Oakland, Housing and Community Development Department *2021-2023 Strategic Action Plan*, page 25).

TABLE 1
Summary of Housing Supply and Affordable Housing Resource Results
Zoning Incentive Program Compared to California Density Bonus
Selected Representative Development Sites in DOSP Area

All Intensity Areas	DOSP Zoning Incentive Program	California Density Bonus for 5% VLI Units	
	11% - 808% more density	20% more density	
Total Housing Units (base + bonus)	9,862	5,393	
Market Rate Units (base + bonus)	9,745	5,160	
Very Low-Income Units On-Site ¹	117	233	
Affordable Housing Impact Fee Revenue to Housing Trust Fund ²	\$260,000,000	\$0	
Increment over Base Zoning			
All Intensity Areas	DOSP Base Zoning	DOSP Zoning Incentive Program	California Density Bonus for 5% VLI Units
Total Housing Units	4,489	5,373	904
Market Rate Units	4,489	5,256	671
Very Low-Income Units On-Site ¹	0	117	233
Affordable Housing Impact Fee Revenue to Housing Trust Fund ²	\$120,000,000	\$140,000,000	\$0
Percent Increase in Boomerang Dollars for Housing Trust Fund ³		123%	21%

1. For the ZIP requirement, calculated from Table 5 in Hausrath Economics Group, *Economic Analysis for DOSP Zoning Incentive Program*, prepared for Oakland Planning Department, August 2022. Requirement based on providing one-bedroom very-low-income units. The requirement varies by development site depending on location by ZIP Residential Benefit Area. For the Density Bonus requirement, 5% very low-income units are required for a 20% bonus.

2. Assumes Zone 1 Affordable Housing Impact Fees in effect as of 7/1/2022. Applies to *all* market rate units under the ZIP. Under the Density Bonus program, market-rate units do not pay the Affordable Housing Impact Fee.

3. Property tax is assessed on all market rate units. This analysis focusses on the differences in the incremental market rate units under each program since the base units generate similar levels of property tax revenue (and therefore boomerang revenue) under each.

Source: City of Oakland and Hausrath Economics Group

The Density Bonus program requires more on-site affordable housing

The Density Bonus program does provide more on-site affordable housing, at 5% of the base units under the case analyzed here.⁴ The comparable percentages under the ZIP are 2% – 3% very low-income units depending on Residential Benefit Area.

The ZIP generates substantially more revenue for affordable housing in Oakland

One of the most significant differences between the ZIP and the Density Bonus programs is the treatment of bonus units for the purposes of impact fee assessment. Under the ZIP, all market rate units (base plus bonus) are subject to Oakland’s Affordable Housing Impact Fee, and the revenue accrues to the Housing Trust Fund. Under the Density Bonus program as implemented in Oakland, none of the market rate units (base or bonus) are subject to the Affordable Housing Impact Fee. The ZIP is a means of generating substantially more impact fee revenue for the Housing Trust Fund than would be the case under the Density Bonus program. The Housing Trust Fund invests in affordable housing throughout the city, including within the DOSP and greater downtown areas.

The ZIP’s benefit to the Housing Trust Fund is magnified by the contributions from the Boomerang. Because most development sites under the ZIP generate more bonus market rate units, there is more property tax revenue and thus more Boomerang contributions to the Housing Trust Fund. (See footnote 3.)

These additional resources for the Housing Trust Fund under the ZIP are further enhanced to benefit affordable housing production in Oakland because they **leverage other funding** from federal, state, and county sources. In recent years, the leverage ratio has been as high as \$7 for every one local dollar when Alameda County Measure A1 funding was available. Since that funding source is depleted, the ratio is in the range of \$4 for every one local dollar. The success of regional housing funding measures could increase leveraging opportunities in the future.⁵

Some Downtown projects could benefit by adding the Density Bonus for on-site affordable housing on top of the ZIP density to take advantage of cost savings that would apply to the entire project

The concessions, incentives, and waivers from various development regulations and standards can offer significant cost savings to residential developers in return for providing higher percentages of affordable housing than required under the ZIP. These cost savings would apply to the entire development, reducing costs per unit or per square foot. Some DOSP residential development sites may be candidates for projects that layer the Density Bonus on top of the ZIP. These projects would add the benefit of more on-

⁴ Although not analyzed here because of the cost to add higher percentages of affordable housing in high-rise development in downtown Oakland, the California Density Bonus program does offer increased density for higher percentages of affordable units. For density increases up to 50%, the affordable unit percentage increases to 15% very-low-income units, 24% low-income units, or 44% moderate-income units.

⁵ City of Oakland, Housing and Community Development Department *2021-2023 Strategic Action Plan*, page 22.

site affordable units to the ZIP benefits of more Affordable Housing Impact Fee revenue for the base plus ZIP bonus market rate units, and more Boomerang funding for the Housing Trust Fund. (See footnote 3.)