

DOWNTOWN OAKLAND SPECIFIC PLAN

STATUS REPORT ON THE ZONING INCENTIVE PROGRAM ECONOMIC STUDY

DECEMBER 5, 2019



City of
Oakland



Economic & Planning Systems, Inc.
The Economics of Land Use

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EPS

REAL ESTATE ECONOMICS

PUBLIC FINANCE

LAND USE & TRANSPORTATION

ECONOMIC DEVELOPMENT & REVITALIZATION

FISCAL & ECONOMIC IMPACT ANALYSIS

HOUSING POLICY

PUBLIC PRIVATE PARTNERSHIPS (P3)

PARKS & OPEN SPACE ECONOMICS



AGENDA



1. Study Background
2. Zoning Incentive Case Studies
3. Downtown Oakland Market Overview
4. Development Prototypes
5. Financial Feasibility Results
6. Q&A / Discussion

STUDY BACKGROUND

SCOPE OF WORK

- Zoning Incentive Case Studies
 - Market Assessment
 - Development Prototypes
 - Financial Feasibility Analysis
 - Stakeholder Outreach
 - Incentives Valuation Estimates
 - Program Recommendations
 - Implementation Advisory
 - Comprehensive Study Deliverable
-
- Q3 2019
- Q4 2019
- Q1 2020

NEXT STEPS

- Stakeholder Outreach Dec/Jan
- Incentives Valuation Estimates Dec/Jan
- Program Recommendations Jan/Feb
- Implementation Advisory Feb/March
- Comprehensive Study Feb/March

ZONING INCENTIVE PROGRAM CASE STUDIES

POLICY CONSIDERATIONS

Formulaic

Specific development incentives are exchanged for pre-defined community benefits

- Pros:
 - More certainty
 - Lower admin cost
- Cons:
 - Cannot respond to unique project challenges
 - Not responsive to fast-changing market conditions

Hybrid

Benefits are formulaic for certain categories or projects, but negotiation also is possible in some cases

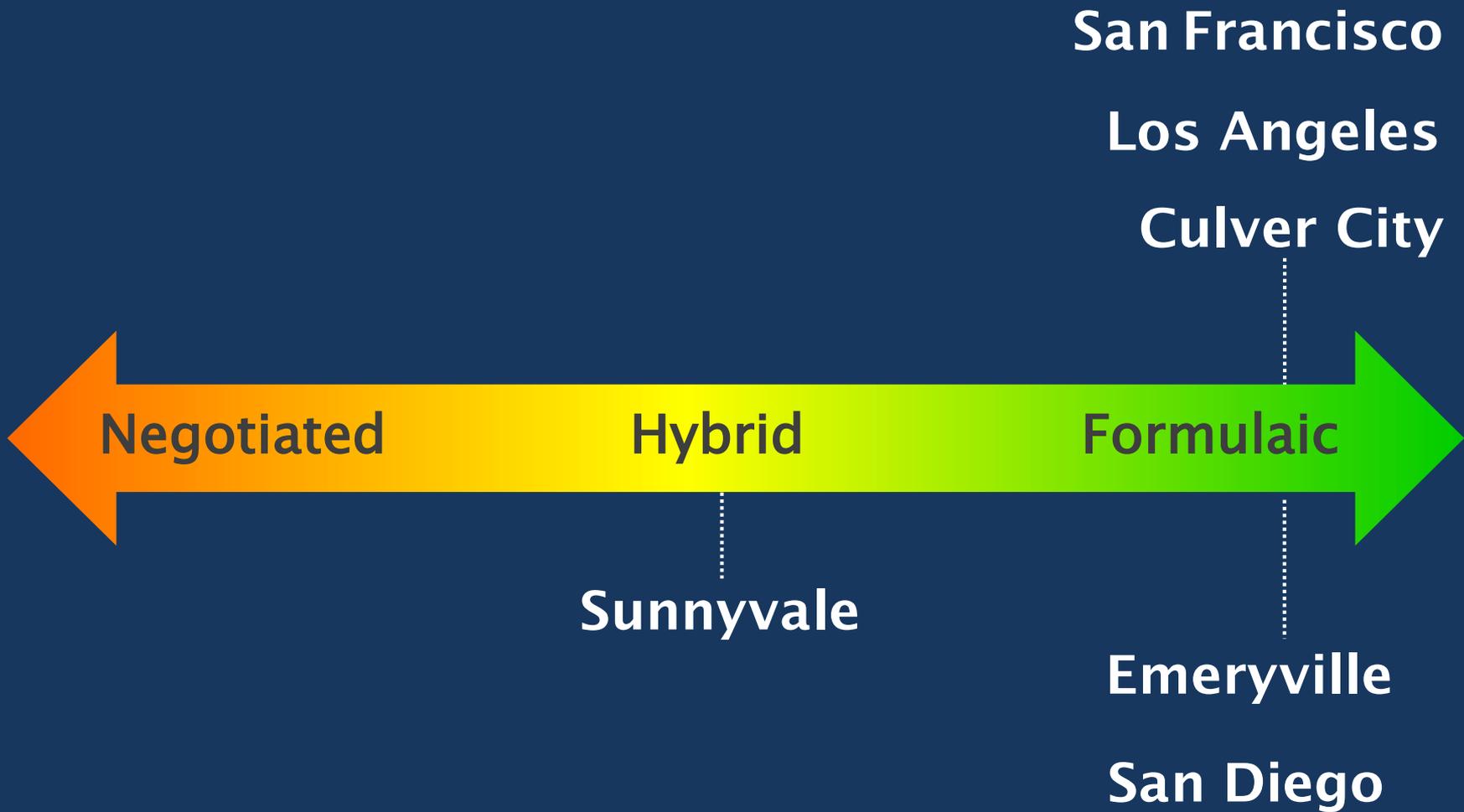
- Pros:
 - Some ability to respond to market conditions
 - More certainty in some cases
- Cons:
 - Can be costly to administer

Negotiated

Benefits are agreed upon between the municipality and the project proponent.

- Pros:
 - Flexibility to change requirements
- Cons:
 - Higher admin cost
 - Uncertainty for developers
 - Often not practical for smaller projects

INCENTIVE PROGRAM CASE STUDIES



CITY OF SAN DIEGO



The City of San Diego Downtown Plan offers a **formulaic** Floor Area Ratio Bonus Program with clearly defined incentives:

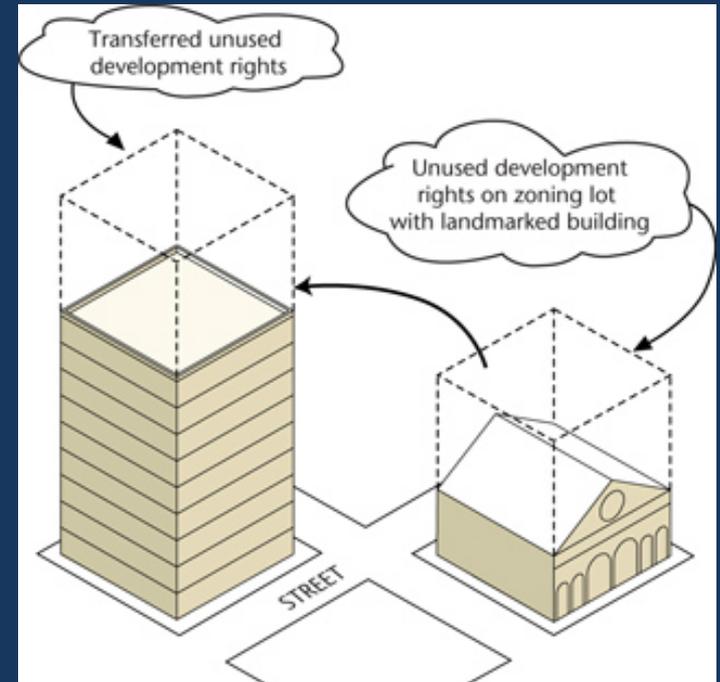
<u>Benefit Category</u>	<u>Projects/Share</u>	<u>Benefit Value</u>
FAR Payment	16 / 19%	Over \$10 million generated for public parks
Green Building	16 / 19%	Construction of more sustainable buildings
Eco-Roof	12 / 14%	Landscaped roofs (bio-filtration and cooling)
Affordable Housing	14 / 16%	Production of 377 affordable DU
Three-Bedroom Units	10 / 12%	Production of 242 3-BR DU
Urban Open Space	5 / 6%	Production of 5 open spaces areas
Employment Use	1 / 1%	Sempra Building
Public Parking	1 / 1%	200 public spaces

CITY OF SAN FRANCISCO

Transferable Development Rights (TDR)

San Francisco's program was created in 1985 in the Downtown Commercial district.

- **The City simultaneously downzoned this area, making TDR in high demand.**
- Within the district sending and receiving sites could be located anywhere (not limited to direct proximity).
- The City's Planning Department **does not serve as a broker of sales** but they do oversee the program, monitoring TDR transfer, use, and cancellation.
- Today, TDR desirability is limited by the fact that the TDR is held by relatively small blocks that on their own wouldn't warrant enough value to a developer on an individual level.
- Therefore, **assembling of multiple sites is required**, creating a hurdle and disincentive from a potential buyer's perspective.



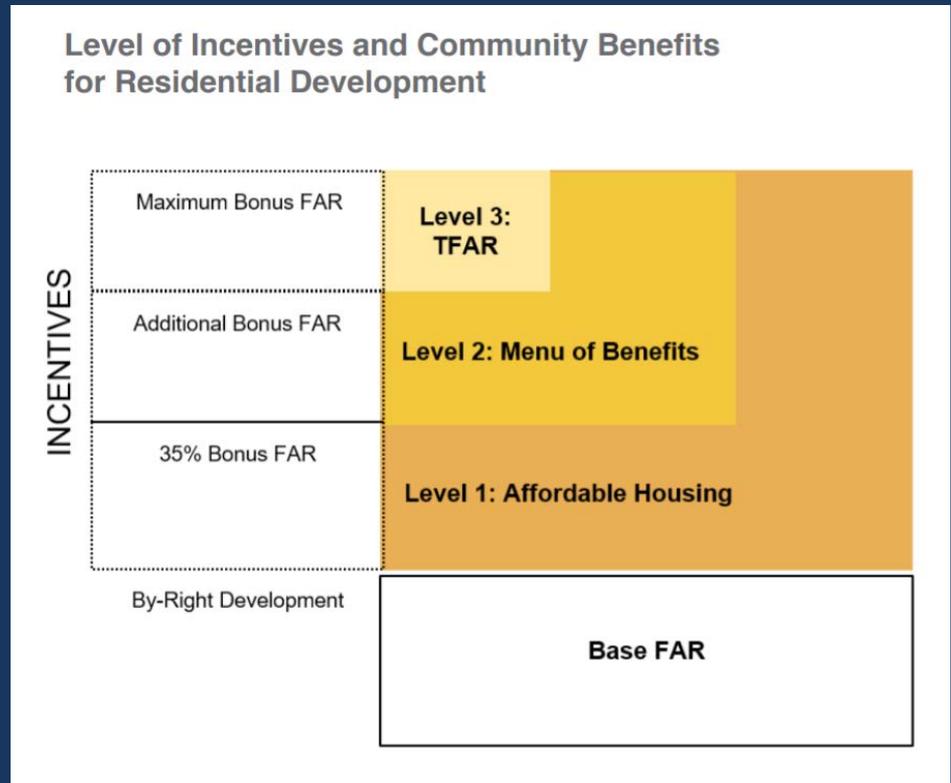
TDR enables a parcel's unused development potential to be allocated to a different parcel - adding more density and therefore more value to the receiving development. For the selling parcel, an idle property right is turned in to payment.

CITY OF LOS ANGELES

Transfer of Floor Area Rights (TFAR) Program

- Established in 1975
- Relieves market pressure on low and medium rise historic buildings by permanently removing their development potential
- Allows designated sending sites to sell/transfer their **unused floor area rights** to eligible receiving sites in the Central City TFAR area
- Receiving sites must provide a Public Benefit Payment

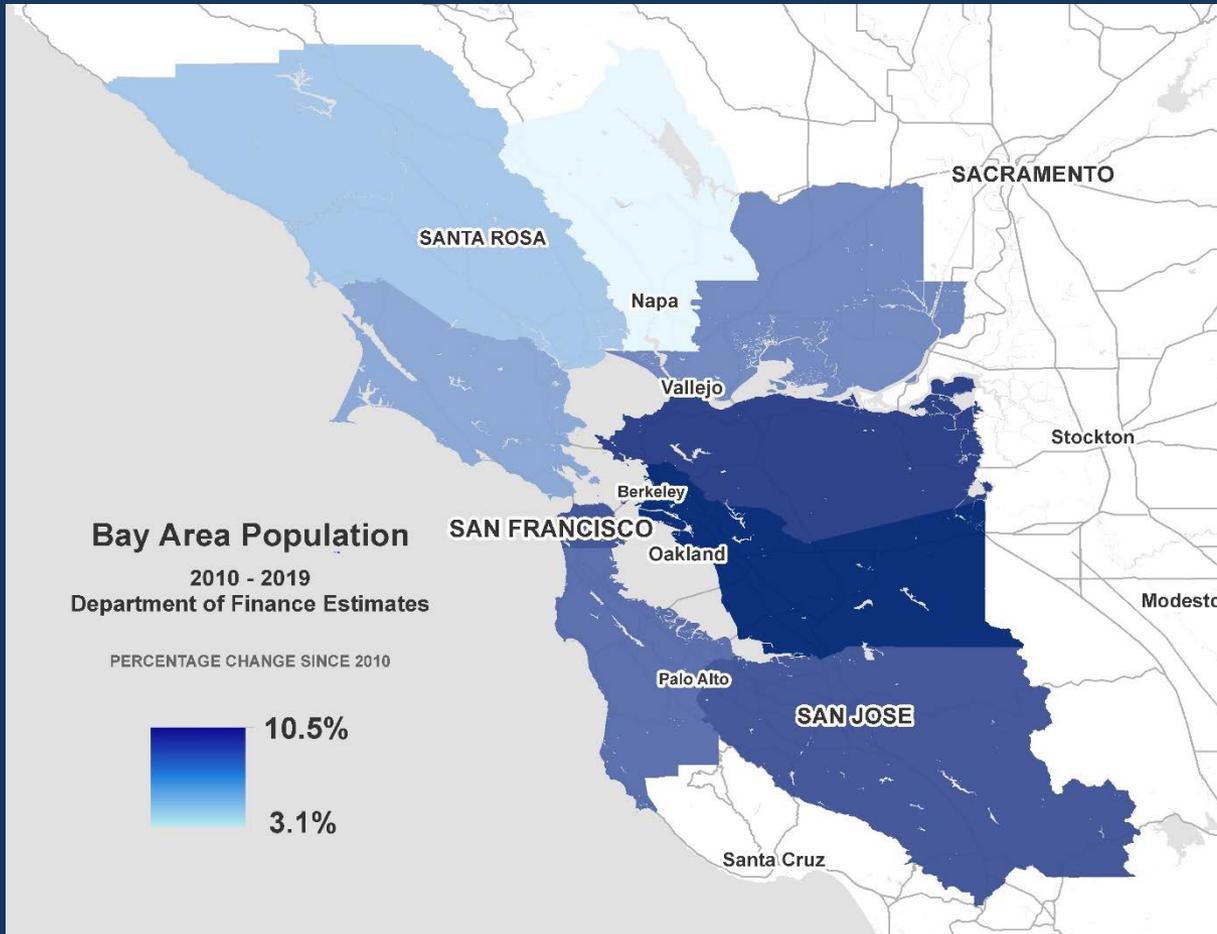
Downtown Community Plan Community Benefits Program with TFAR



Only projects located in the TFAR area have the option to utilize the TFAR program under Level 3

REAL ESTATE MARKET OVERVIEW

BAY AREA REGIONAL POPULATION GROWTH TRENDS

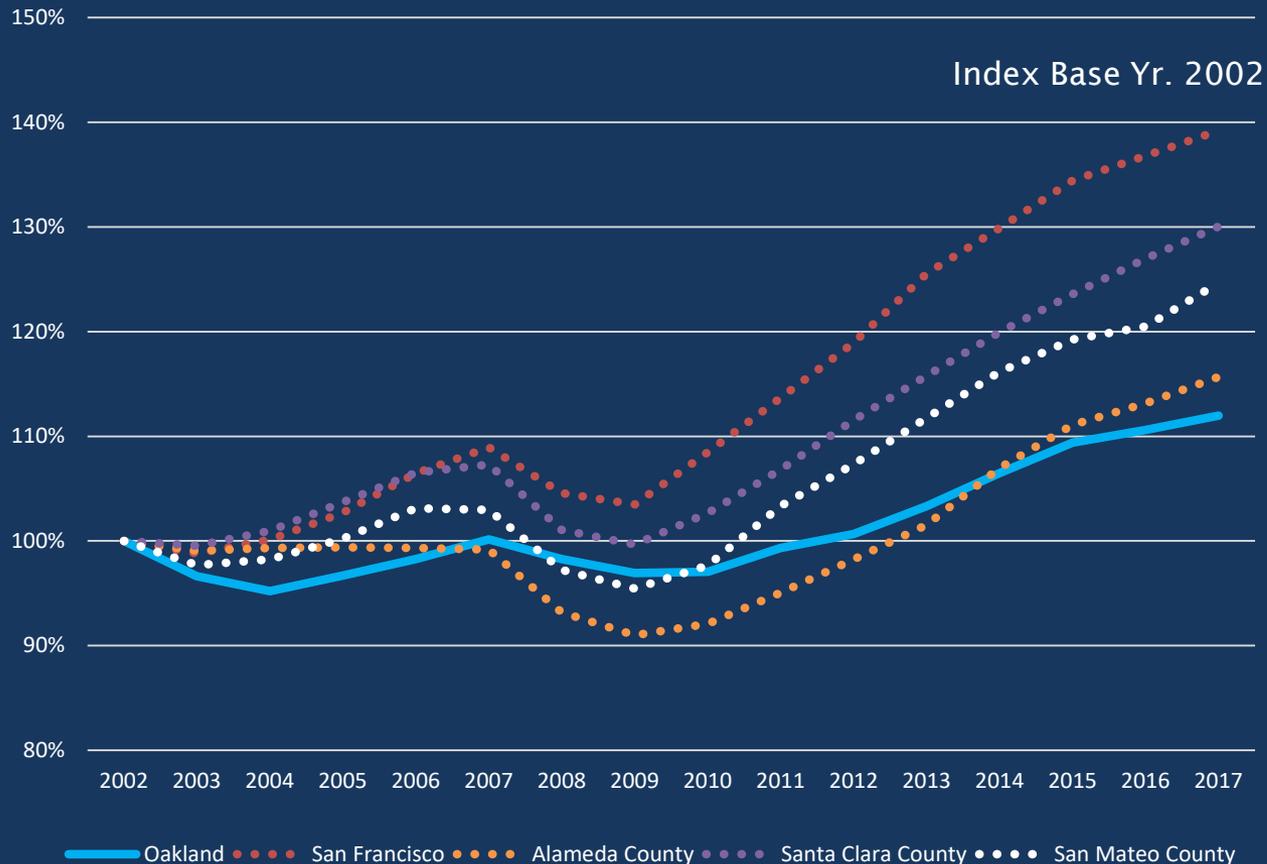


- Alameda County has experienced the highest population growth of any Bay Area county since 2010

Source: Department of Finance, Economic & Planning Systems

BAY AREA REGIONAL EMPLOYMENT GROWTH

REGIONAL COMPARISON – INDEX

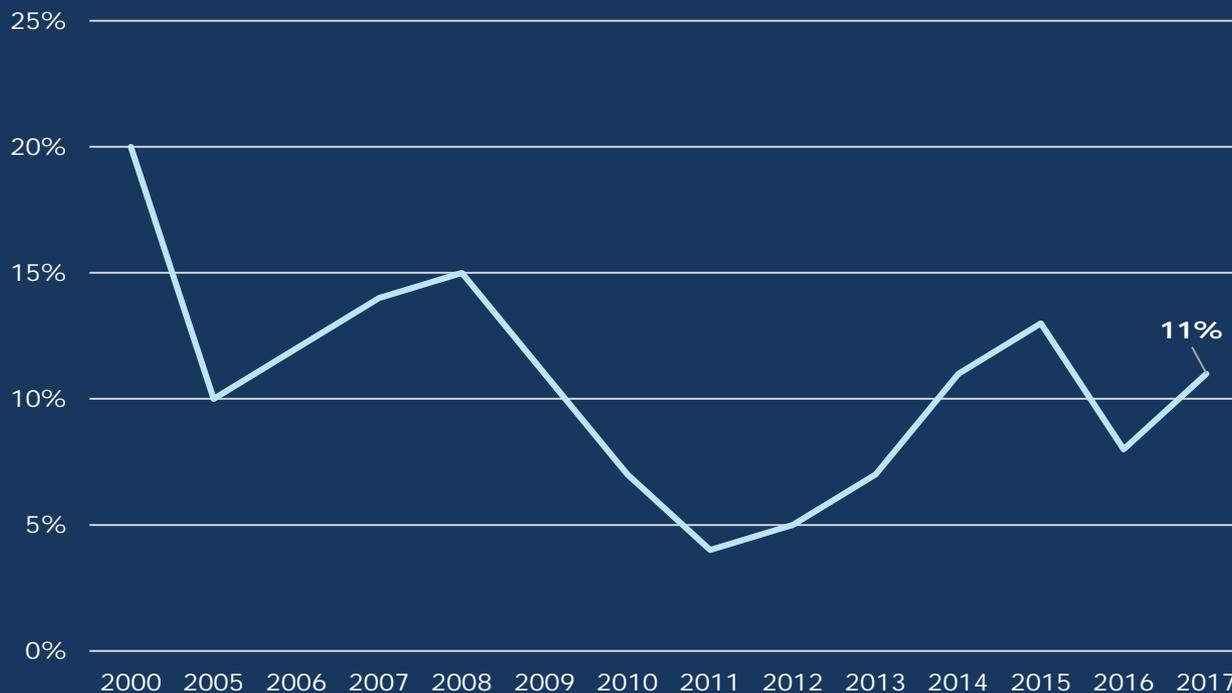


- Rapid employment growth in SF and Silicon Valley
- Oakland and Alameda County employment has grown too, but with far less dramatic gains

Source: LEHD, Economic & Planning Systems

BAY AREA REGIONAL MEDIAN INCOME GROWTH

INFLATION-ADJUSTED PERCENT CHANGE SINCE 1970



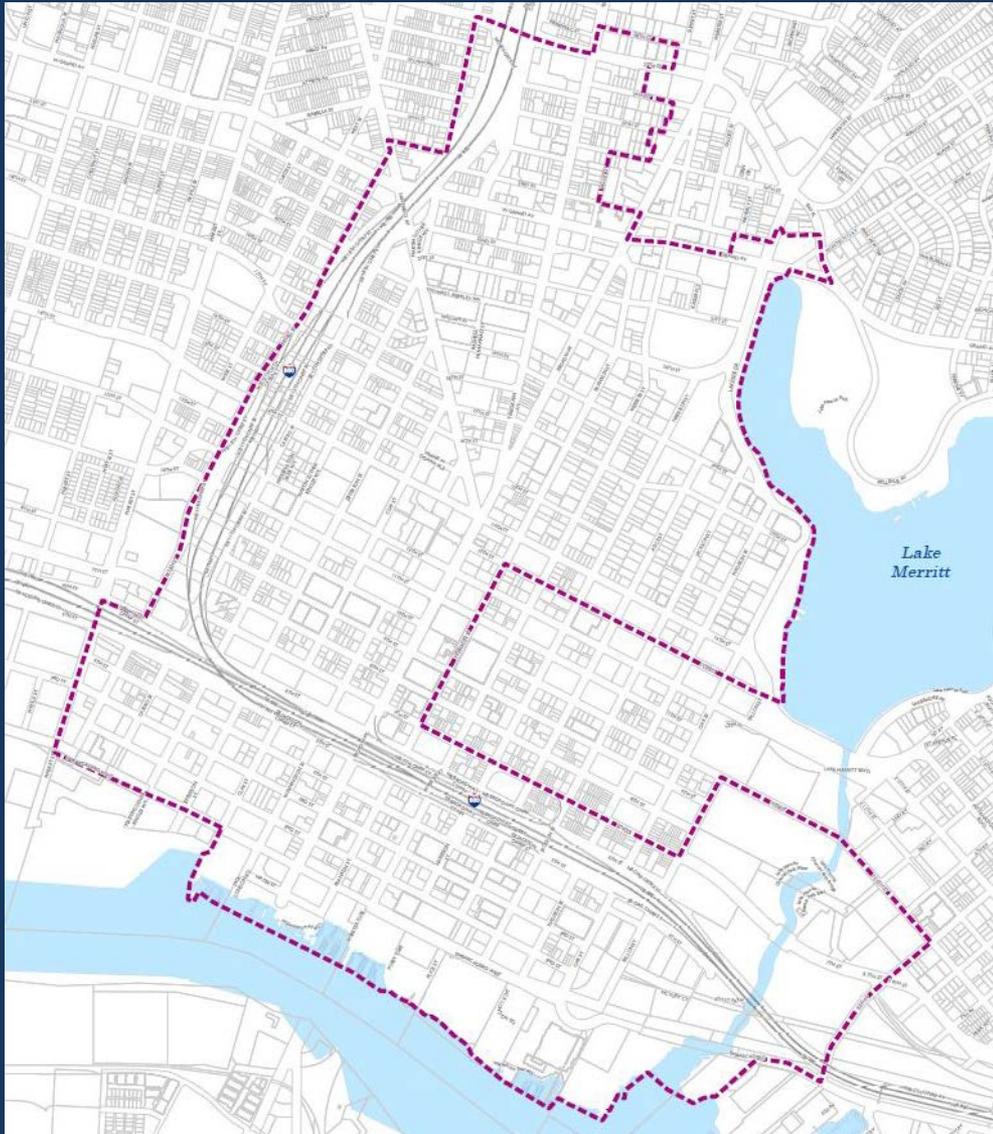
Source: Metropolitan Transportation Commission.

- Median income growth in the Bay Area has fluctuated
- Higher compensation contributes to housing price escalation
- Incomes are down in real terms since 2000

DOWNTOWN OAKLAND MARKET

OFFICE

DOWNTOWN OAKLAND BOUNDARY



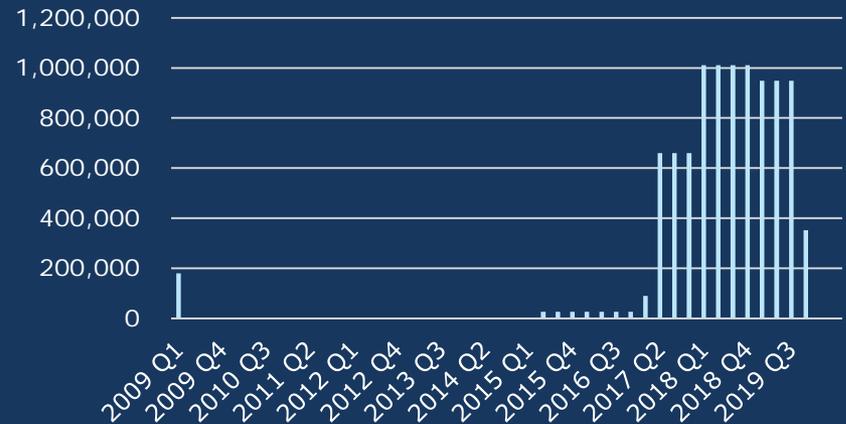
OFFICE MARKET TREND DOWNTOWN OAKLAND

INVENTORY

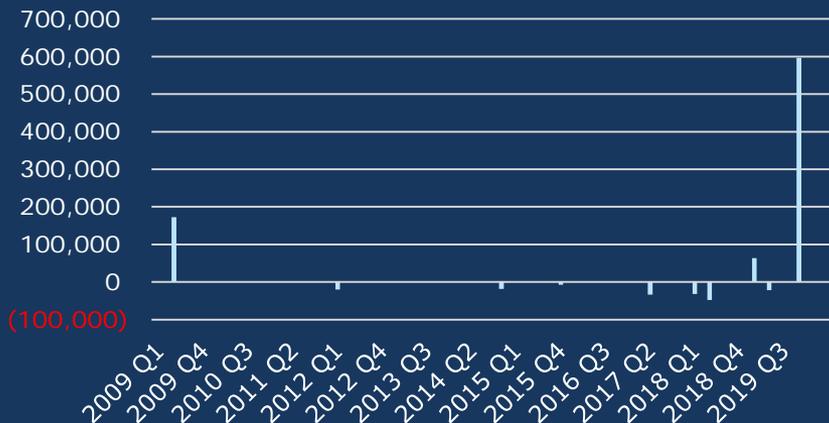
Existing Buildings	293	↑
Under Construction Avg SF*	351 K	↓
12 Mo Demolished SF	21.7 K	↓
12 Mo Occupancy % at Delivery	41.9%	
12 Mo Construction Starts SF	0	↓
12 Mo Delivered SF	660 K	↑
12 Mo Avg Delivered SF	330 K	

*Q4 to date

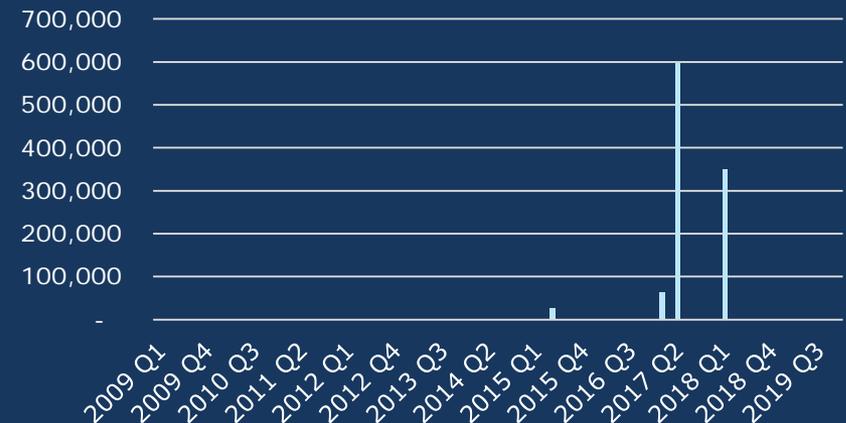
Under Construction



Net Deliveries

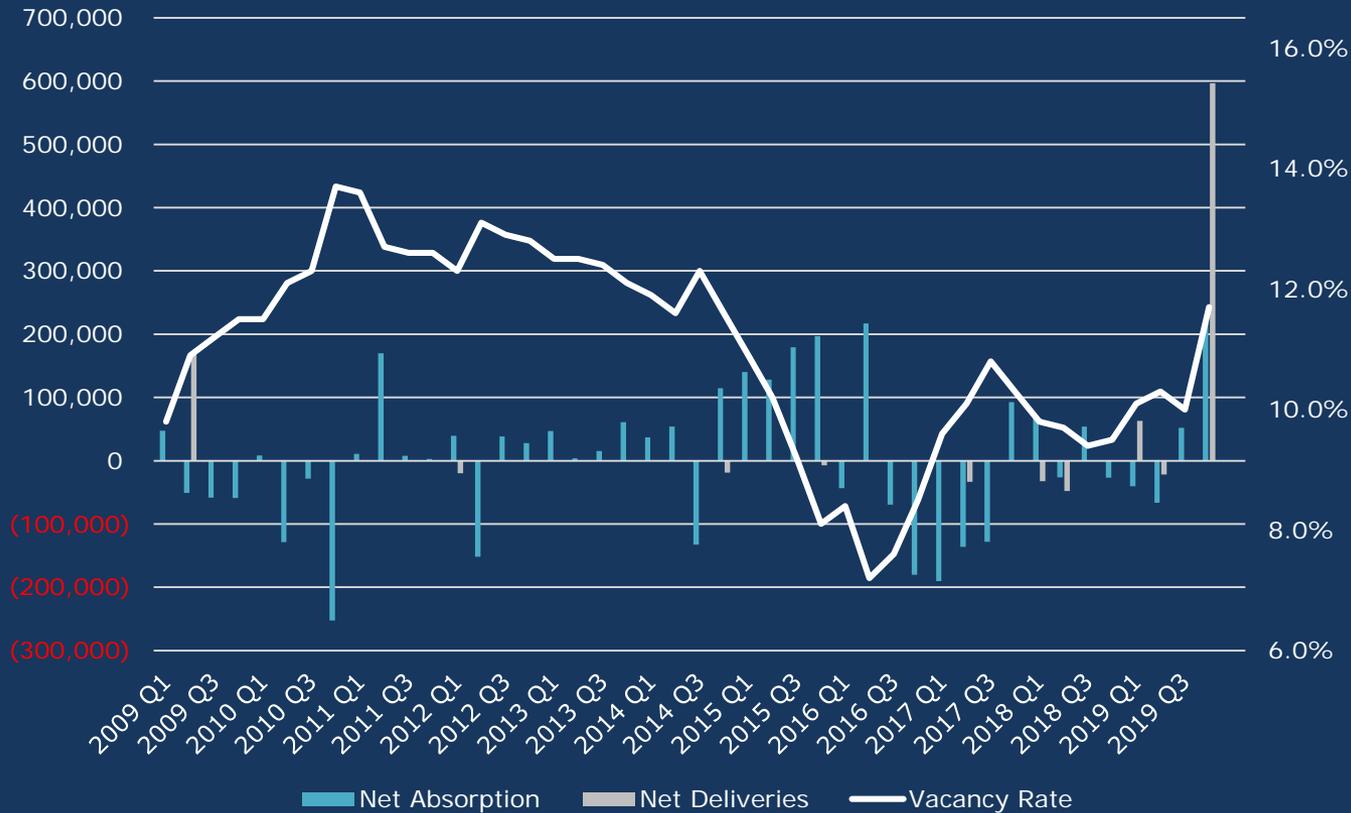


Construction Starts



DOWNTOWN OAKLAND OFFICE MARKET TRENDS

NET ABSORPTION, NET DELIVERIES, AND VACANCY

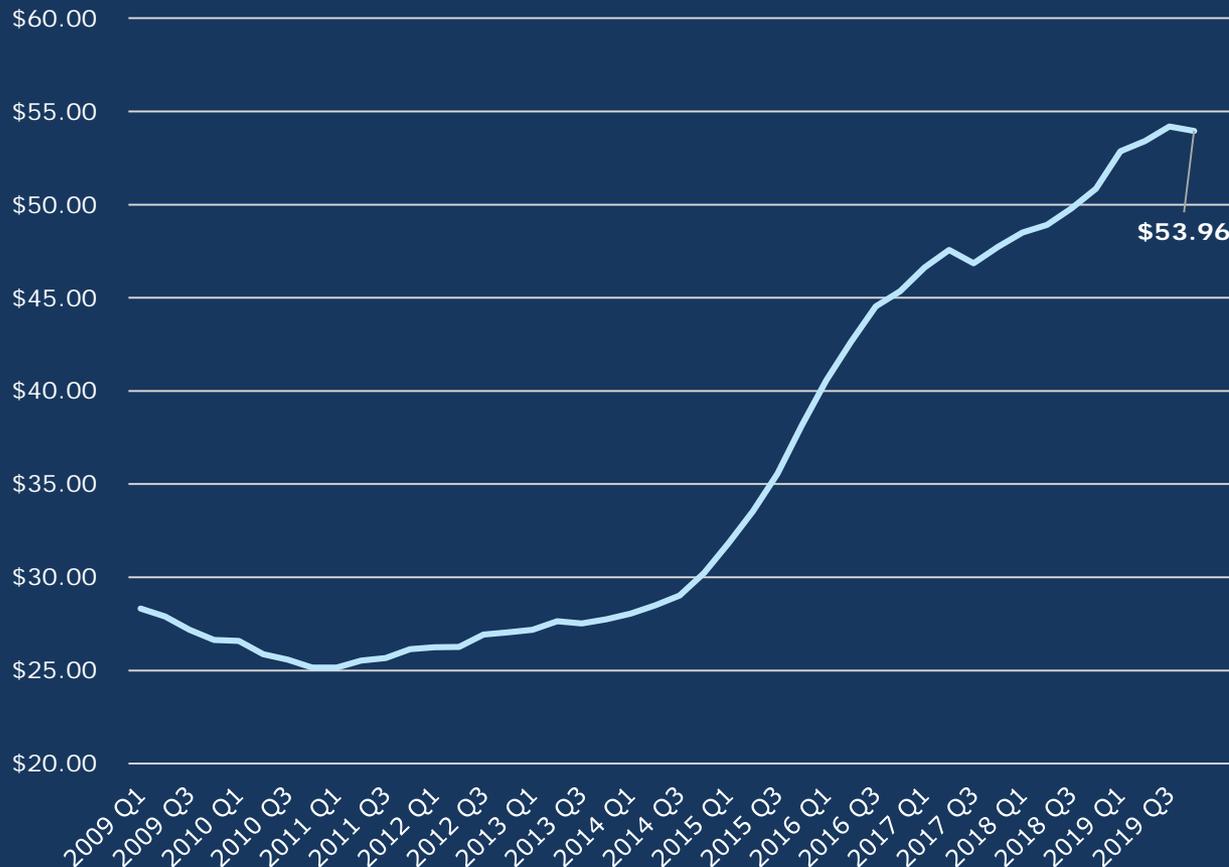


- New office absorption has not kept pace with recent deliveries
- QTD Vacancy is about 12 percent
- Additional absorption or new anchors tenants likely needed to stimulate office development

Source: CoStar

DOWNTOWN OAKLAND OFFICE MARKET TRENDS

MARKET RENT PER SQUARE FOOT (ANNUAL, FULL SERVICE)

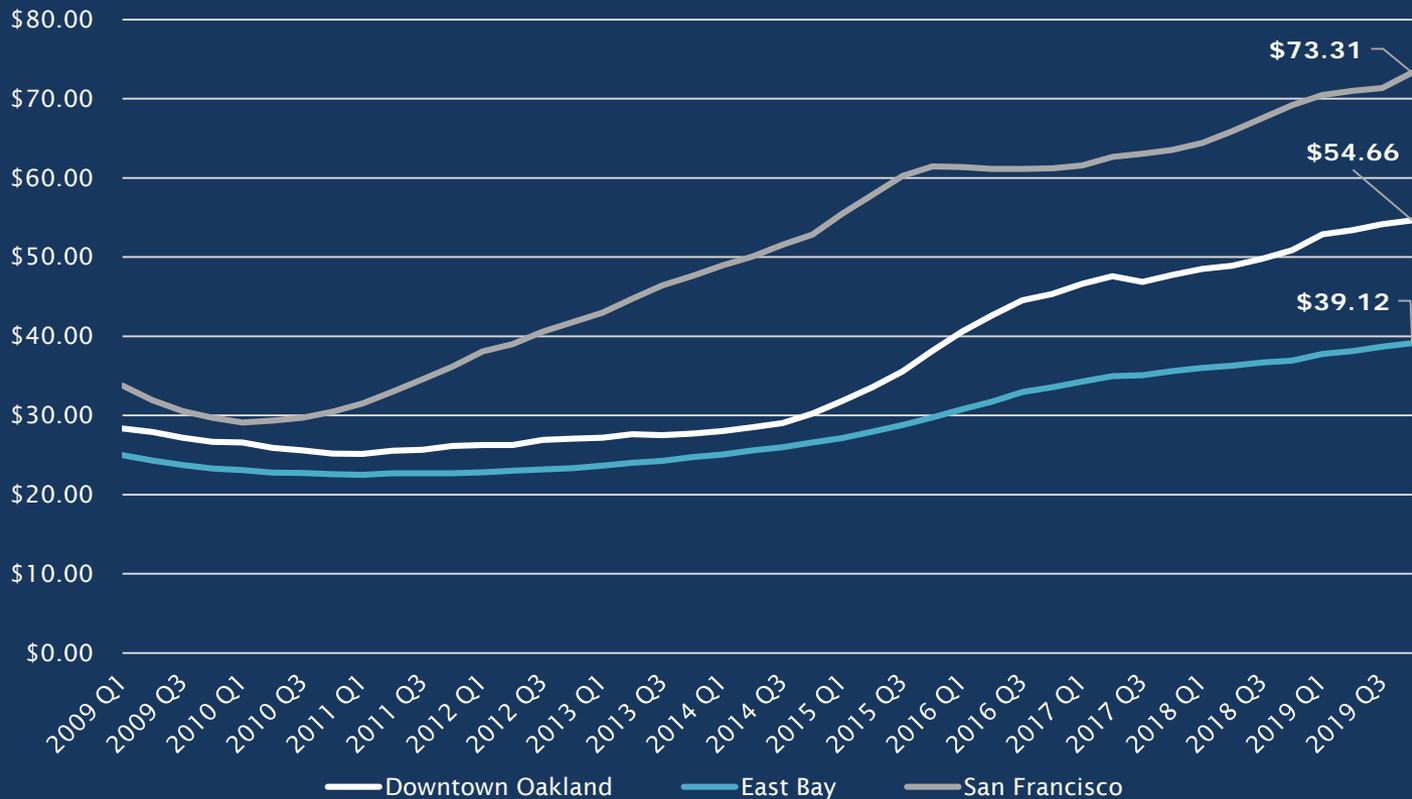


- Office rents have grown to nearly \$54 PSF
- The office lease rate has more than doubled since 2010
- Increasing vacancy and other factors have slowed growth

Source: CoStar

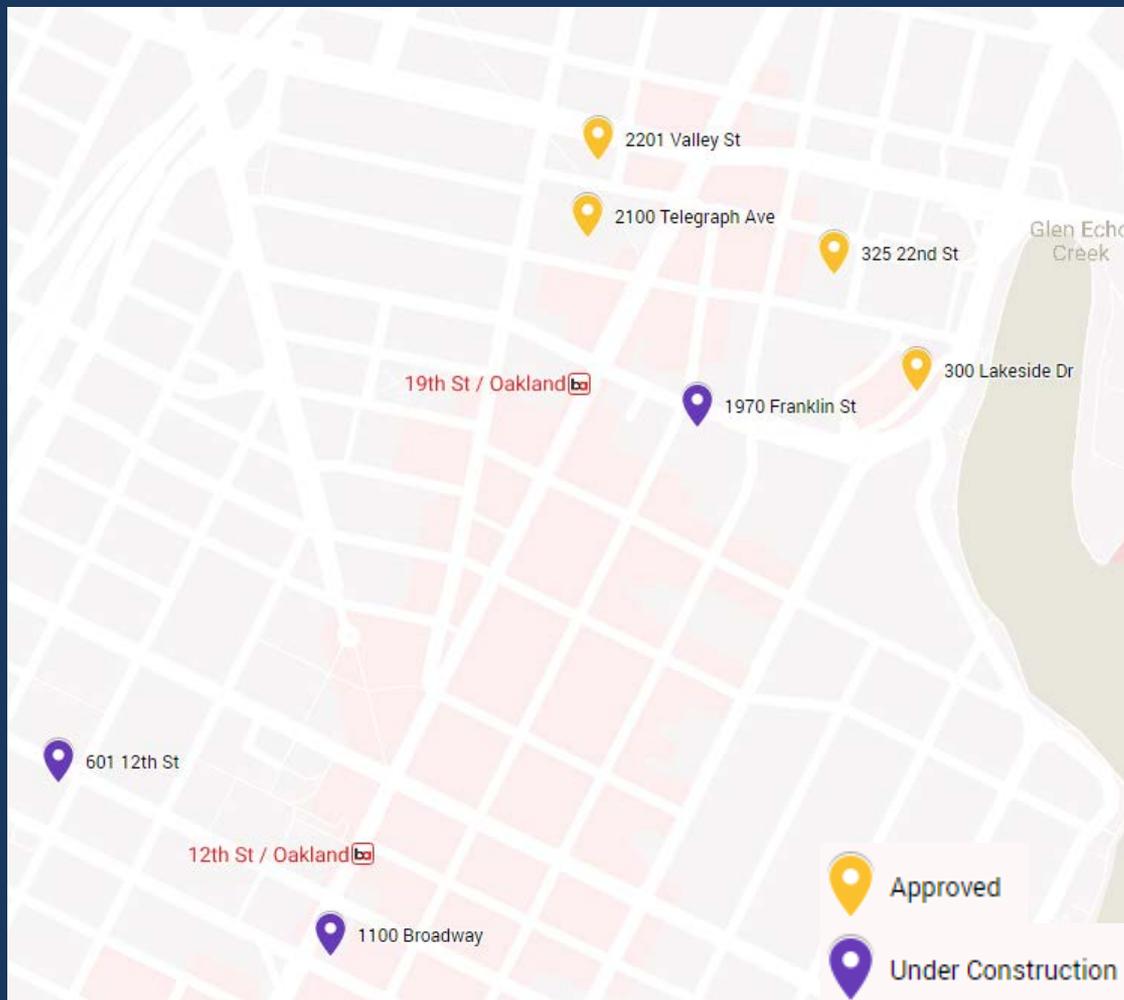
DOWNTOWN OAKLAND OFFICE MARKET TRENDS

RENT COMPARISON BY GEOGRAPHY



- Despite increasing rents, Downtown Oakland is about 25% less expensive than SF
- Downtown is more expensive than the East Bay average

DOWNTOWN OFFICE MARKET PIPELINE



- Large office development has taken place in Type 1 construction (Towers) and in rehab projects
- 601 City Center delivered in 2019
- 1100 Broadway currently under construction, nearly complete (Q1 2020)
- 300 Lakeside, recently put up for sale by Swig Co., holds approvals for two new office towers, or one office and one residential tower
- A number of other projects proposed and approved are in the development pipeline

OFFICE CASE STUDIES

RECENTLY DELIVERED/ UNDER CONSTRUCTION

CITY CENTER



Developer: Shorenstein

Address: 601 12th Street

Sq. Ft.: 600,000

Stories: 24

Details: Broke ground in 2008, delivered in 2019; Blue Shield is the anchor tenant, taking 255,000 SF; approximately 300,000 SF of Class A space available for tenant improvements.

THE KEY



Developer: Ellis Partners

Address: 1100 Broadway

Sq. Ft.: 334,000

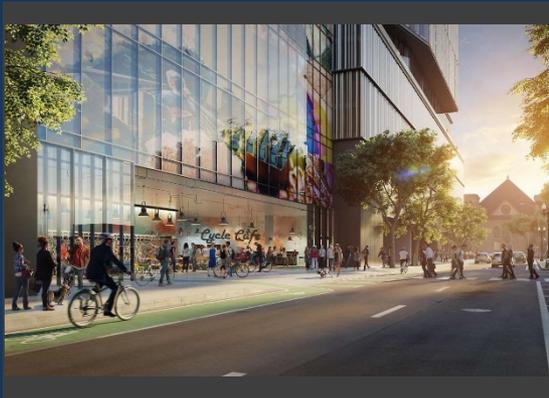
Stories: 18

Details: UC office of the President is the anchor tenant, will occupy 10 floors; anticipated opening Q1 2020

OFFICE CASE STUDIES

APPROVED

EASTLINE



Developer: Lane Partners and Suda

Address: 2100 Telegraph

Sq. Ft.: 1,570,000

Stories: 27

Details: Will set aside 18,000 sq. ft. for arts; Kaiser will be anchor tenant

2201 VALLEY



Developer: TMG Partners

Address: 2201 Valley

Sq. Ft.: 760,000

Stories: 27

Details: Will set aside space for the arts

TWO KAISER CENTER



Developer: CIM Group

Address: 325 22nd Street

Sq. Ft.: 1,100,000

Stories: TBD

Details: CIM has approvals for either a 250- or 450-foot tower on a parking lot adjacent to existing Kaiser Center holdings

The three projects total 3.4 million square feet.

CLASS A OFFICE FINDINGS

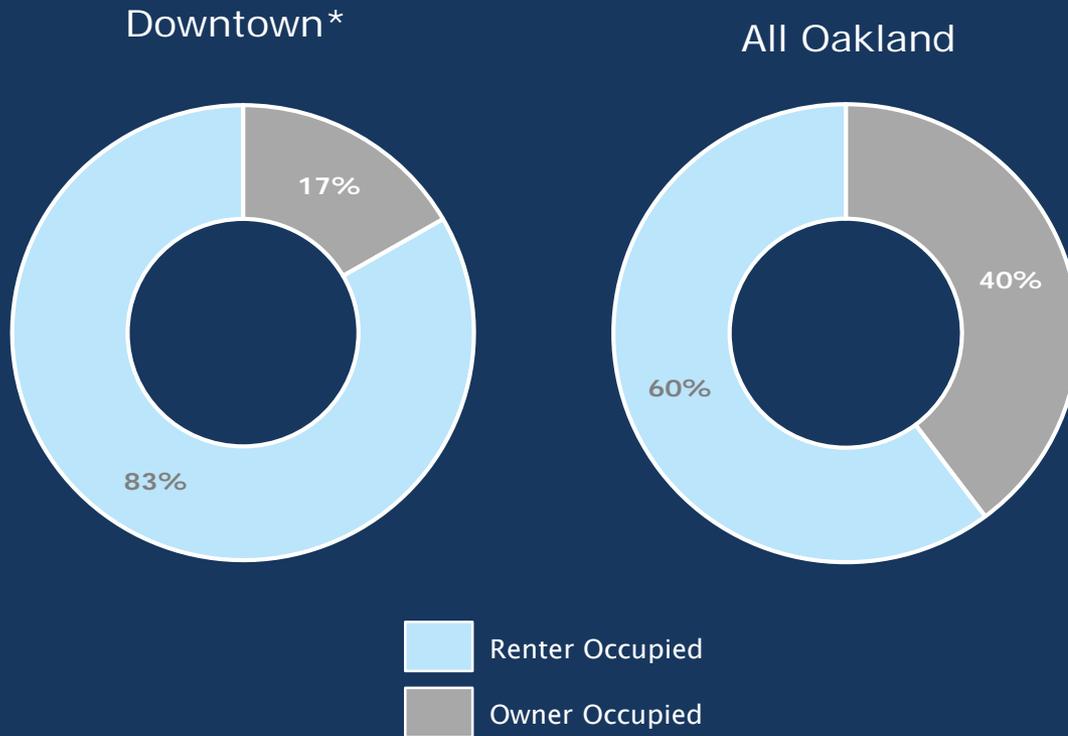
- Rents increased rapidly but are flattening
- Vacancies have decreased since the recession but total about 12 percent after delivery of 601 City Center
- No new office project has broken ground in the past 12 months
- New office towers have required an anchor tenant (Blue Shield; UCOP)
- Rehabilitation activity (2150 Webster Street; Uptown Station) also is adding competitive office space
- Should market conditions improve or new anchors arrive, a number of new potential office towers are in the pipeline

DOWNTOWN OAKLAND MARKET

RENTAL RESIDENTIAL

RENTAL RESIDENTIAL MARKET TRENDS

HOUSING TENURE 2017



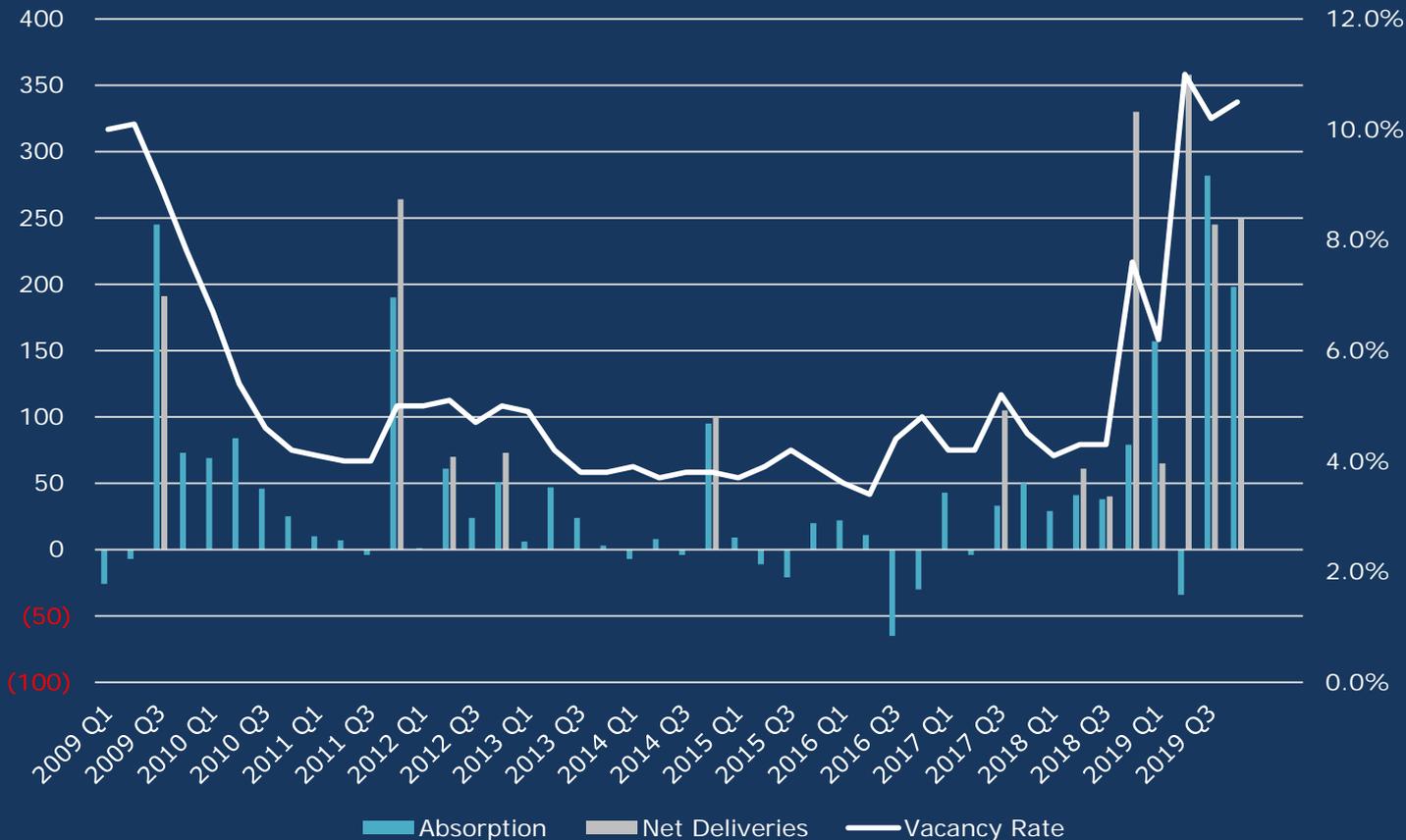
- Downtown has a high ratio of renters
- Rental projects have continued to be the dominant multifamily project type

Source: U.S. Census Bureau, American Community Survey

*Encompasses Census Tracts 4013, 4035.01, 4028, 4029, 4030, 4031, 4034, 9832, 4033

DOWNTOWN RESIDENTIAL MARKET TRENDS

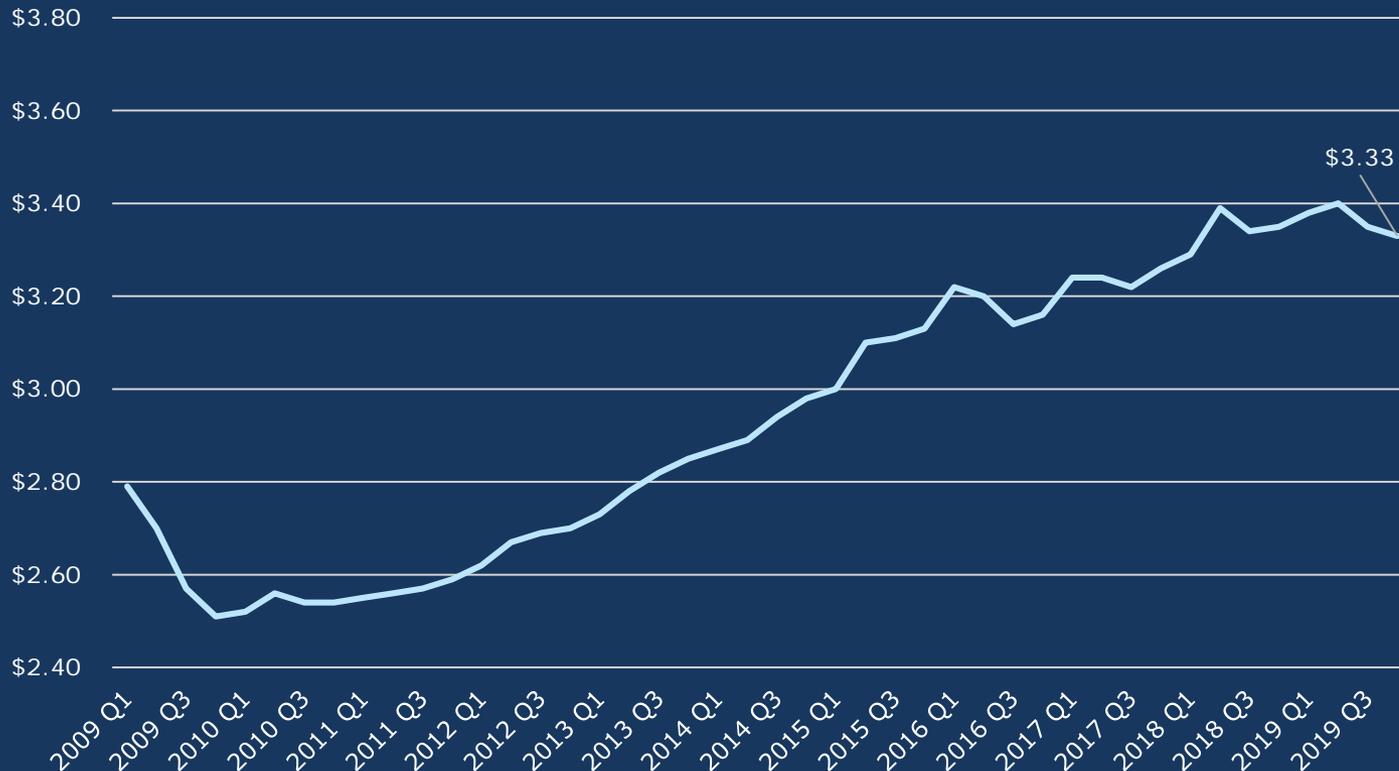
ABSORPTION, NET DELIVERIES, AND VACANCY



- The market has delivered 1,845 units downtown since 2010
- Over 2,600 units are under construction
- Another 10,097 units are in the pipeline citywide

DOWNTOWN RESIDENTIAL MARKET TRENDS

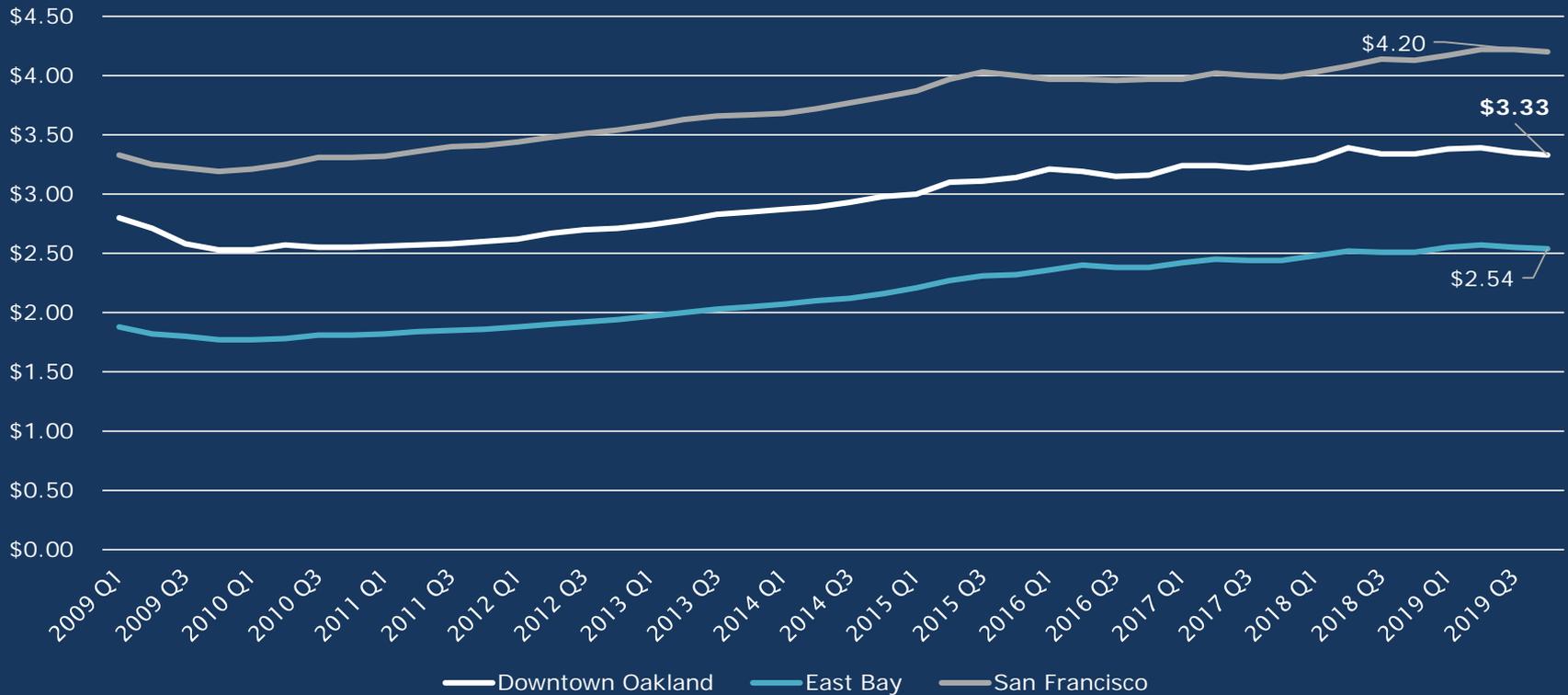
MARKET RENT PER SF



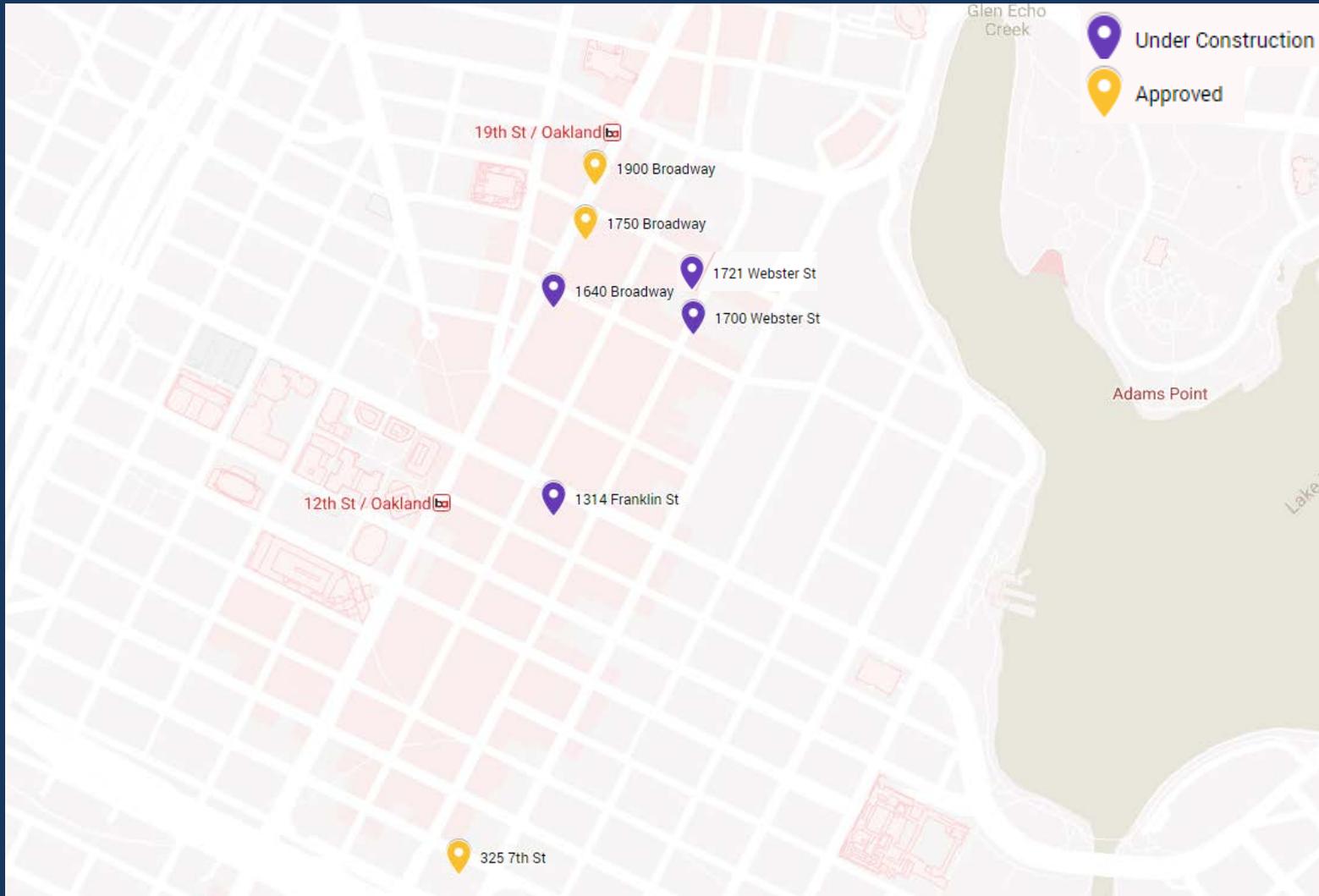
- Residential rents have grown 33% since 2010
- Rent growth has decreased with the introduction of new units

DOWNTOWN RESIDENTIAL MARKET TRENDS

MARKET RENT PER SF, BY GEOGRAPHY



RESIDENTIAL HIGH-RISE MARKET PIPELINE



RESIDENTIAL CASE STUDIES

RECENTLY DELIVERED/ UNDER CONSTRUCTION

1640 BROADWAY



Developer: Lennar
Multifamily Communities
Units: 254
Stories: 33
Delivered:
Q3 2019

1314 FRANKLIN



Developer: Carmel Partners
Units: 633
Stories: 40
Anticipated Delivery:
Q3 2020

1700 WEBSTER



Developer: Gerding Edlen
Units: 206
Stories: 20
Anticipated Delivery:
Q4 2019

1721 WEBSTER



Developer: NASH
Communities, Holland
Partners
Units: 250
Stories: 25
Anticipated Delivery:
Q1 2020

RESIDENTIAL CASE STUDIES

APPROVED

1900 BROADWAY



Developer: Lincoln Property Co.

Units: 452

Stories: 36

325 7TH STREET



Developer: Balco Properties

Units: 380

Stories: 24

1750 BROADWAY



Developer: Rubicon Point Partners

Units: 307

Stories: 37

The three projects total 1,139 units.

RESIDENTIAL FINDINGS

- Residential rents and values have increased significantly in recent years but are flattening
- Development of rental residential projects has spiked in recent years but new starts are waning
- Residential vacancy is increasing as new buildings are delivered
- Mounting competition among new residential projects may dissuade new development
- Many new residential projects are already approved or proposed in the pipeline

DEVELOPMENT PROTOTYPES

DOWNTOWN OAKLAND SUBAREAS

KONO

Uptown

West of San Pablo

Old Oakland

**Jack London/
Victory Court**



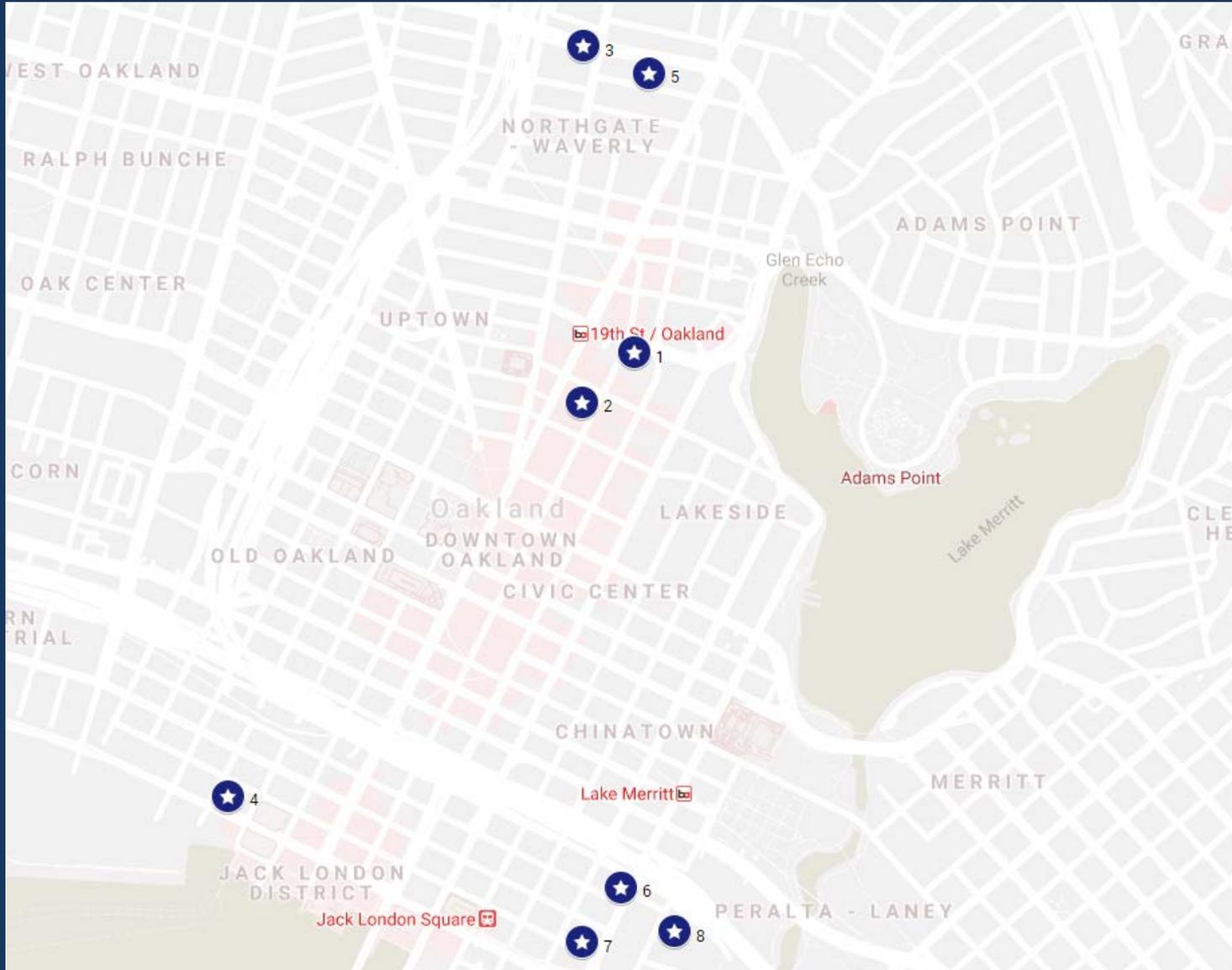
Lake Merritt

Central Core

Lakeside

Chinatown

PROTOTYPES MAP



REAL ESTATE DEVELOPMENT TYPES AND DENSITIES

Type III or V



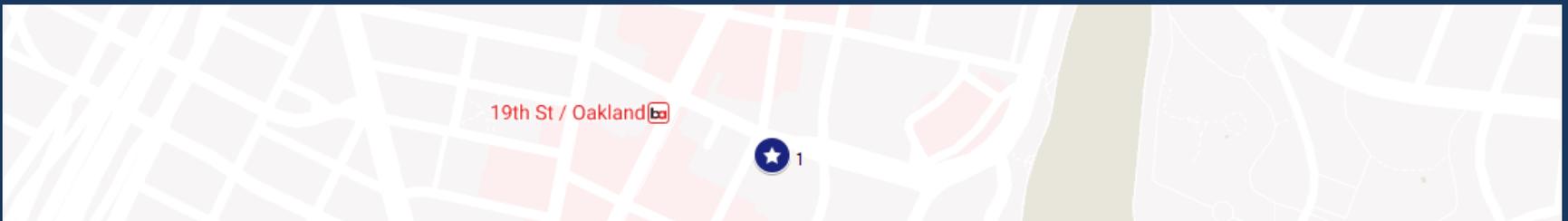
Type I



- Type III or V: Wood frame construction over concrete podium, up to 5–7 stories
- Type I: Steel frame construction common for high rise development, up to 40 stories
- Both projects are currently under construction in the City's Broadway Valdez area.

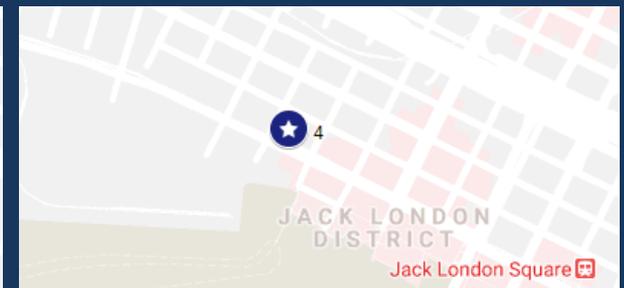
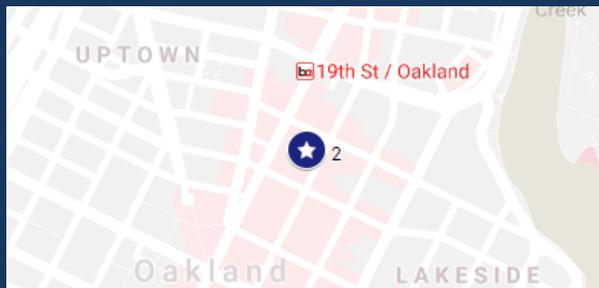
OFFICE DEVELOPMENT PROTOTYPES

<u>Characteristic</u>	<u>Prototype 1</u>
Neighborhood / Zone	Uptown / CBD
Lot Size	1.26 Acres
Base Zoning Allowance	1.09 MSF
Up-zoning	1.64 MSF
Bonus Square Footage	0.55 MSF
Bonus Percentage	50%
Base Construction Type	Type I
Up-zoning Construction Type	Type I



RESIDENTIAL DEVELOPMENT PROTOTYPES

<u>Characteristic</u>	<u>Prototype 2</u>	<u>Prototype 3</u>	<u>Prototype 4</u>	<u>Prototype 5</u>
Neighborhood / Zone	Uptown / CBD	KONO / RU-4	Jack London / C45/S-4	KONO / CC-2
Lot Size	1.03 Acres	1.79 Acres	1.38 Acres	0.40 Acres
Base Zoning Allowance	0.89 MSF	268 KSF	78 KSF	42 KSF
Up-zoning	1.34 MSF	733 KSF	563 KSF	90 KSF
Bonus Square Footage	0.45 MSF	465 KSF	485 KSF	48 KSF
Bonus Percentage	50%	174%	622%	116%
Base Type	Type I	Type III	Type V	Type III
Up-zoning Type	Type I	Type I	Type I	Type III



OFFICE TO RESIDENTIAL DEVELOPMENT PROTOTYPES (WITH EXISTING INDUSTRIAL USES)

<u>Characteristic</u>	<u>Prototype 6</u>	<u>Prototype 7</u>	<u>Prototype 8</u>
Neighborhood / Zone	Jack London / M-20/S-4	Jack London / M-20/S-4	Victory Ct./ M-20/S-4
Lot Size	1.26 Acres	0.77 Acres	1.61 Acres
Base Zoning Allowance	275 KSF	169 KSF	351 KSF
Up-zoning	628 KSF	317 KSF	827 KSF
Bonus Square Footage	353 KSF	148 KSF	476 KSF
Bonus Percentage	128%	88%	136%
Base Type	Type III	Type III	Type III
Up-zoning Type	Type I	Type I	Type I



KEY REVENUE ASSUMPTIONS

Residential Gross Rental Revenue	\$4.15 - \$4.45/ net sq. ft./month*
Office (Full-Service)	\$76.00 - \$80.00/ net sq. ft./ yr.*
Retail (NNN)	\$32.00/ net sq. ft./ yr.
(less) Operating Expenses	27.5% - 30.0% (of gross annual revenue)
(less) Vacancy Rate	4.0% - 5.0% (of gross annual revenue)
(less) Capital Reserves	\$0.50 (per net sq.ft.)
(less) Commissions	2.5% (of gross annual revenue)
Net Parking Revenue	\$125-200/ space/ month
Capitalized Rate	5.75% (Office), 4.5% (Residential)
(less) Cost of Sale/Marketing	3.0% (of capitalized value)

**Base market scenario*

KEY COST ASSUMPTIONS

Direct Costs

Building Construction Cost	\$290 - \$405/ gross sq. ft.
Parking Construction Cost	\$60,000/ space
Demo/Site Improvement Cost	\$10/ land sq. ft.

Indirect Costs

Tenant Improvements (office)	\$75/ sq. ft.
Tenant Improvements (retail)	\$100/ sq. ft.
Architecture and Engineering	6.0% of direct costs
Other Expenses	3.0% of direct costs
General and Administrative	3.0% of direct costs
Property Tax During Construction	2.0% of direct costs
Financing	4.0% - 7.0% of direct costs

Contingency 7.0% of total cost

Required Return on Investment 14.0% of total cost

FINANCIAL FEASIBILITY OF DEVELOPMENT PROTOTYPES (1-4) UNDER BASE ZONING

<u>Item</u>	<u>Prototype 1</u> Office	<u>Prototype 2</u> Residential	<u>Prototype 3</u> Residential	<u>Prototype 4</u> Residential
CURRENT MARKET				
Total Value	\$845M	\$311M	\$154M	\$45.8M
Total Cost	\$919M	\$362M	\$170M	\$47.9M
Residual Land Value	-\$74.6M	-\$50.9M	-\$15.2M	-\$2.1M
RLV per Acre	-\$51.1M	-\$42.6M	-\$7.3M	-\$1.3M
MARKET UPSIDE				
Total Value	\$1,045M	\$383M	\$188M	\$54.3M
Total Cost	\$919M	\$362M	\$170M	\$47.9M
Residual Land Value	\$125.9M	\$21.0M	\$18.6M	\$6.4M
RLV per Acre	\$86.3M	\$17.6M	\$8.9M	\$4.0M

FINANCIAL FEASIBILITY OF DEVELOPMENT PROTOTYPES (5–8) UNDER BASE ZONING

<u>Item</u>	<u>Prototype 5</u> Residential	<u>Prototype 6</u> Office to Res.	<u>Prototype 7</u> Office to Res.	<u>Prototype 8</u> Office to Res.
CURRENT MARKET				
Total Value	\$23.9M	\$194M	\$119M	\$247M
Total Cost	\$27.7M	\$210M	\$129M	\$267M
Residual Land Value	-\$3.7M	-\$16.0M	-\$9.8M	-\$20.0M
RLV per Acre	-\$8.0M	-\$10.9M	-\$10.9M	-\$16.8M
MARKET UPSIDE				
Total Value	\$29.3M	\$238M	\$146M	\$304M
Total Cost	\$27.7M	\$210M	\$129M	\$267M
Residual Land Value	\$1.6M	\$28.6M	\$17.6M	\$36.9M
RLV per Acre	\$3.5M	\$19.5M	\$19.5M	\$30.9M

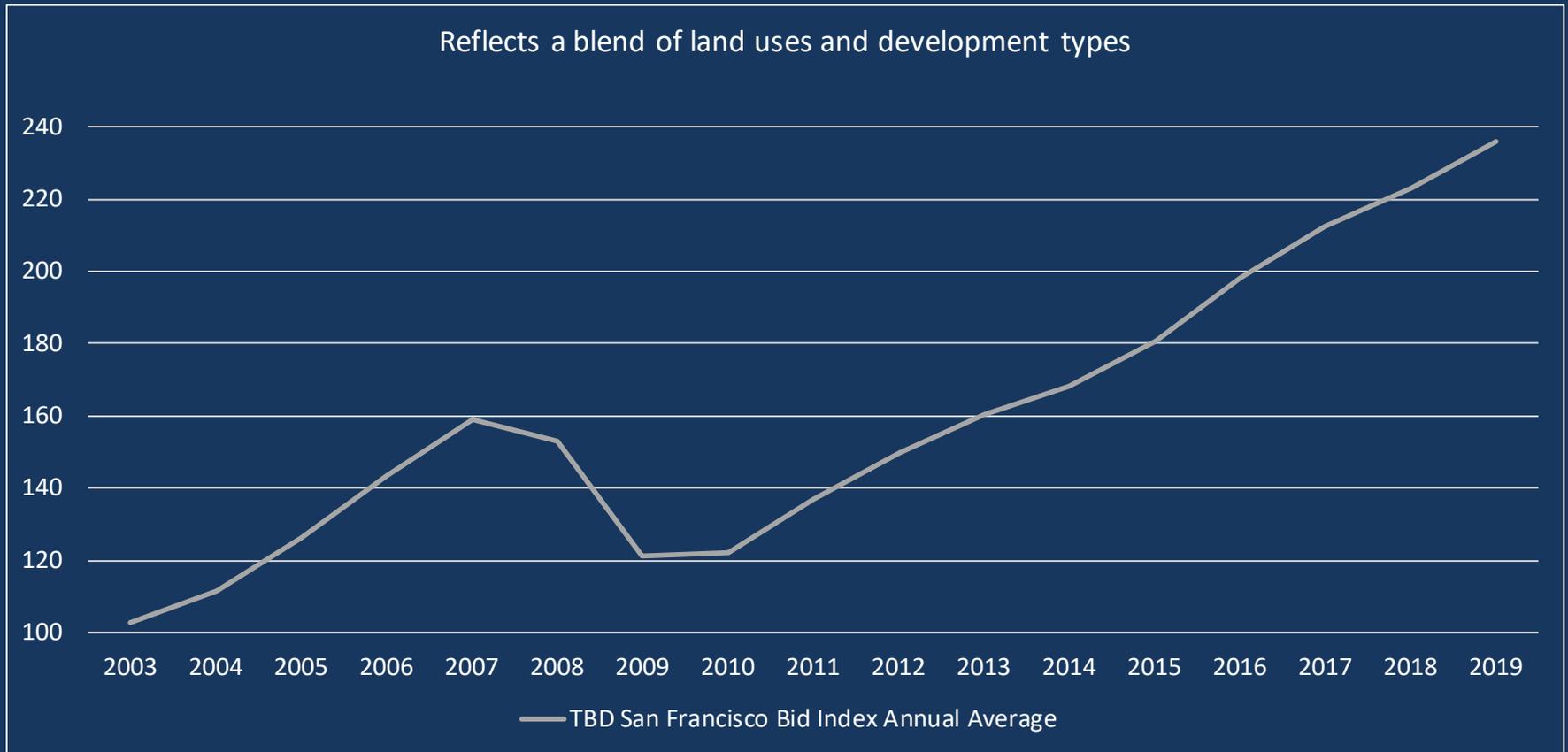
FINANCIAL FEASIBILITY OF DEVELOPMENT PROTOTYPES (1-4) – UPZONING SCENARIO

<u>Item</u>	<u>Prototype 1</u> Office	<u>Prototype 2</u> Residential	<u>Prototype 3</u> Residential	<u>Prototype 4</u> Residential
CURRENT MARKET				
Total Value	\$1,340M	\$425M	\$431M	\$339M
Total Cost	\$1,423M	\$502M	\$520M	\$400M
Residual Land Value	-\$83.0M	-\$76.1M	-\$88.9M	-\$61.1M
RLV per Acre	-\$56.9M	-\$63.8M	-\$42.7M	-\$38.2M
MARKET UPSIDE				
Total Value	\$1,659M	\$528M	\$534M	\$420M
Total Cost	\$1,423M	\$502M	\$520M	\$400M
Residual Land Value	\$236M	\$25.8M	\$13.8M	\$19.6M
RLV per Acre	\$161.7M	\$21.6M	\$6.6M	\$12.3M

FINANCIAL FEASIBILITY OF DEVELOPMENT PROTOTYPES (5–8) – UPZONING SCENARIO

<u>Item</u>	<u>Prototype 5</u> Residential	<u>Prototype 6</u> Office to Res.	<u>Prototype 7</u> Office to Res.	<u>Prototype 8</u> Office to Res.
CURRENT MARKET				
Total Value	\$51.7M	\$378M	\$191M	\$497M
Total Cost	\$57.2M	\$445M	\$227M	\$586M
Residual Land Value	-\$5.6M	-\$67.4M	-\$36.7M	-\$88.7M
RLV per Acre	-\$12.0M	-\$45.9M	-\$40.8M	-\$47.4M
MARKET UPSIDE				
Total Value	\$63.9M	\$468M	\$236M	\$617M
Total Cost	\$57.2M	\$445M	\$227M	\$586M
Residual Land Value	\$6.7M	\$23.1M	\$8.7M	\$30.7M
RLV per Acre	\$14.5M	\$15.8M	\$9.7M	\$16.4M

BAY AREA DEVELOPMENT COST ESCALATION



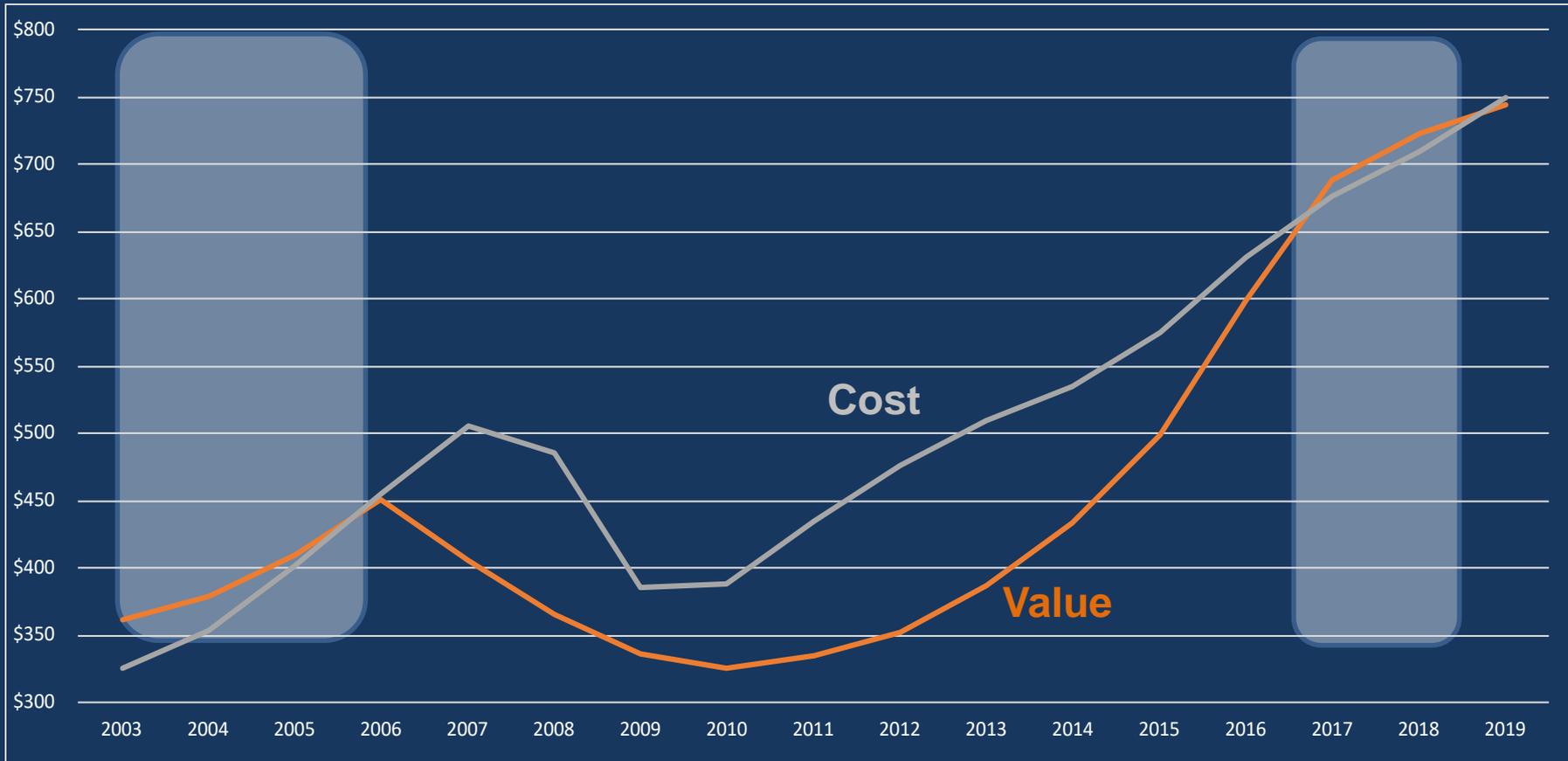
Source: Normalized TBD Bid Index and EPS.

- Development cost in the Bay Area has been rapidly risen by 93% since 2010
- Newly adopted affordable housing fees and jobs housing linkage fees in Oakland are adding to the cost increase as they are being phased in

ILLUSTRATIVE REAL ESTATE DEVELOPMENT CYCLES

**Development
Feasibility Cycle**

**Development
Feasibility Cycle**



Sources: Normalized TBD Bid Index and EPS.

VALUE CREATION – MARKET UPSIDE SCENARIO

<u>Item</u>	<u>Prototype 1</u>	<u>Prototype 2</u>	<u>Prototype 4</u>	<u>Prototype 5</u>
BASE ZONING				
Residual Land Value Per Acre	\$86.3M	\$17.6M	\$4.0M	\$3.5M
Residual Land Value Per Sq.Ft.	\$99	\$35	\$71	\$33
UPZONING				
Residual Land Value per Acre	\$162.7M	\$21.6M	\$12.3M	\$14.5M
Residual Land Value Per Sq.Ft.	\$124	\$31	\$30	\$64
Value Creation				
Per Acre	\$75.4M	\$4.0M	\$8.2M	\$11.0M
Per Added Sq.Ft. of Added Space	\$173	\$9	\$23	\$91

DEVELOPMENT FEASIBILITY FINDINGS

- None of the tested development prototypes are feasible under the current market conditions
- Development will become feasible with improved market conditions
- Potential density bonuses considered for 4 out of 8 tested development prototypes are likely to result in value creation
- Conversion from commercial to residential uses is not likely support substantial community benefits
- Upzoning of residential uses could generate community benefits in some cases
- Office development is highly cyclical and could potentially support the highest level of community benefits from upzoning

DISCUSSION
