

Lake Merritt TOD Technical Advisory Committee Meeting

The Economics of Land Use



presented to

Lake Merritt TOD Technical
Advisory Committee

presented by

Economic & Planning Systems, Inc.

December 2017

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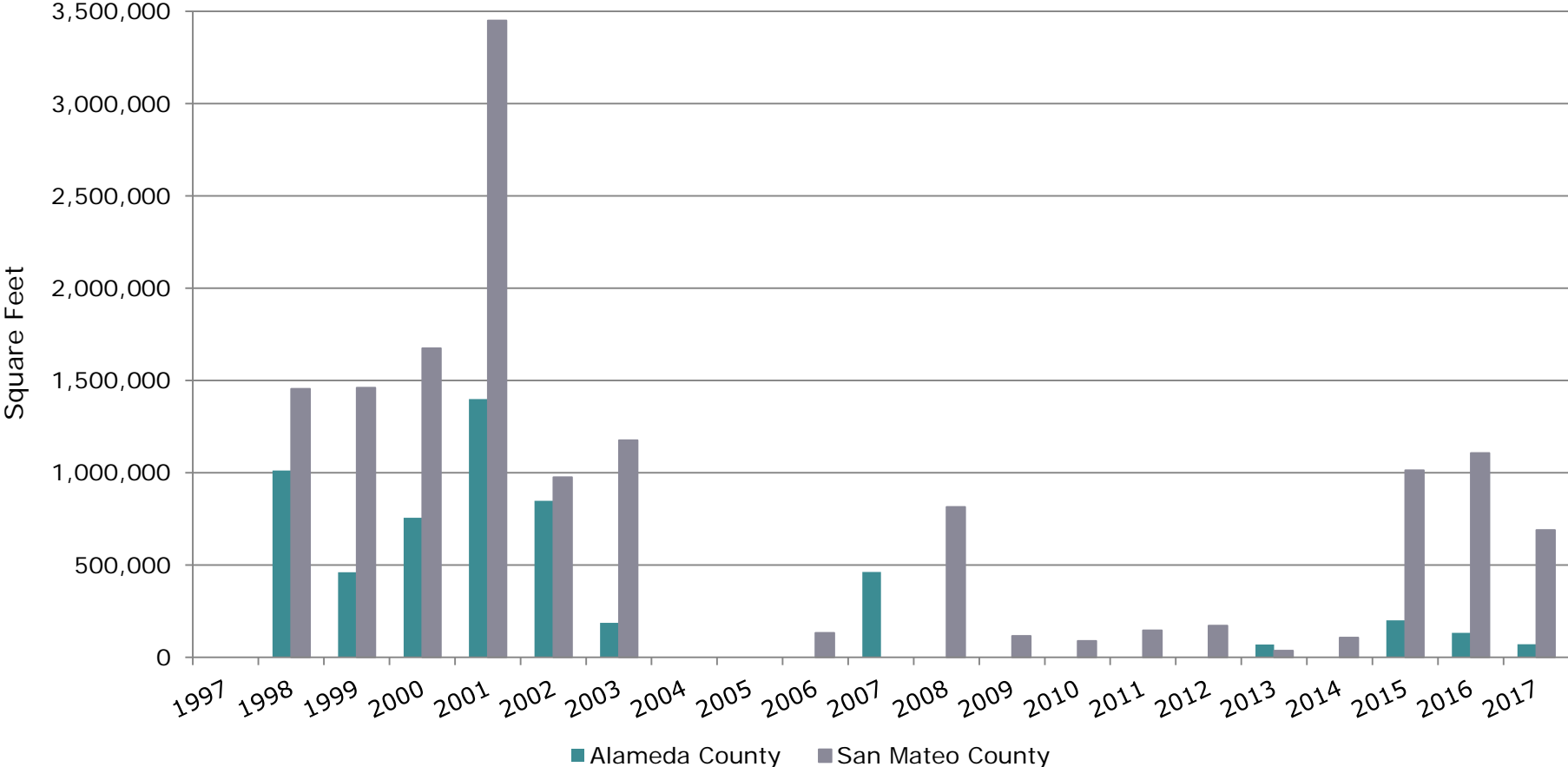
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Contents of the Presentation

- Real Estate Market Trends
 - Class A Office
 - Multifamily Residential Rentals
- Development Cost Trends
- New Office Projects
- New Multifamily Projects
- Development Feasibility at Lake Merritt BART

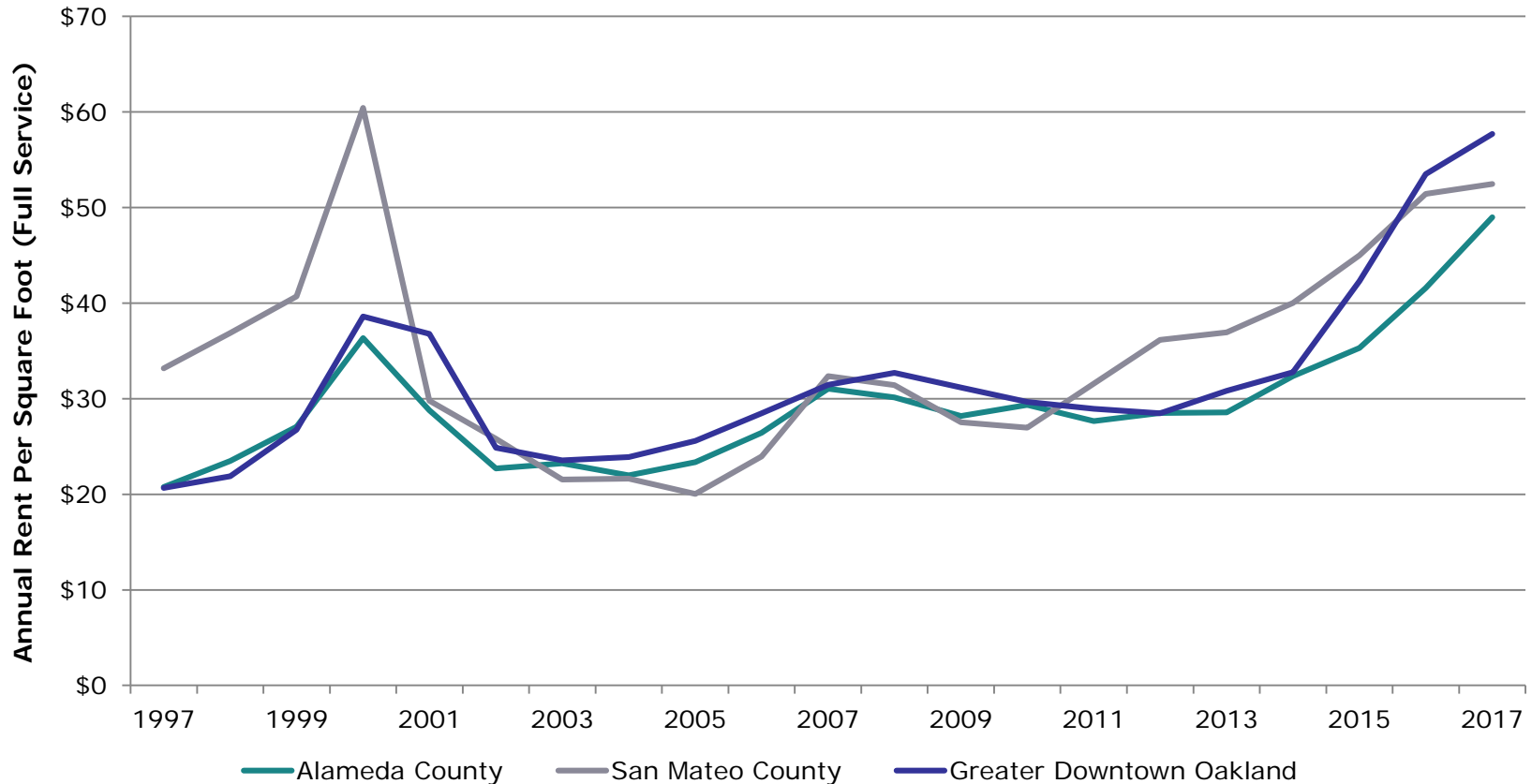
New "Class A" office development activity has been relatively limited in Alameda County

New Class A Office Space Alameda County vs. San Mateo County



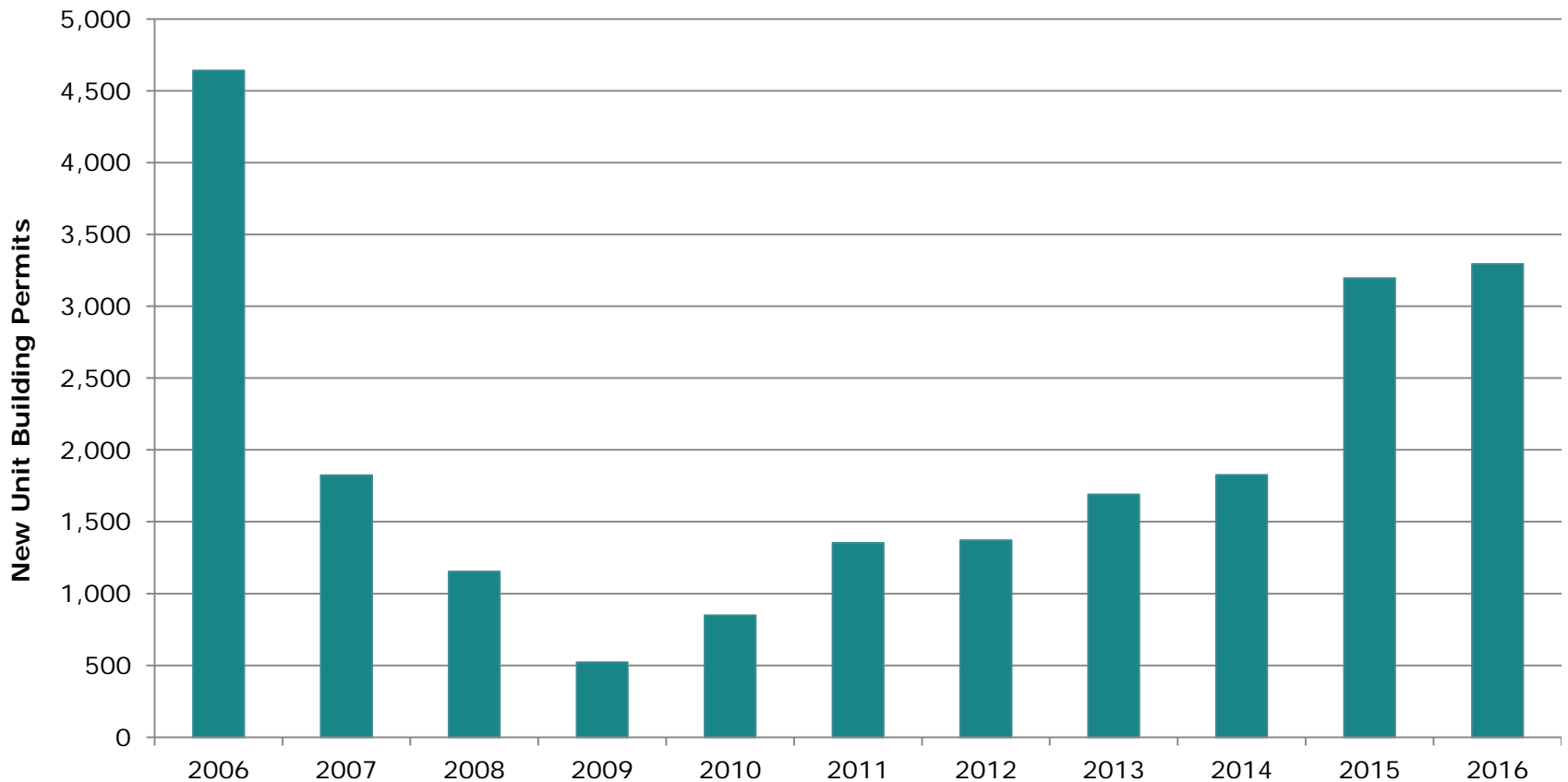
Class A office rents have increased about 30 percent in two years, and now approach those in San Mateo County

Class A Office Rent (Annual, PSF)
Alameda County and Oakland vs. San Mateo County



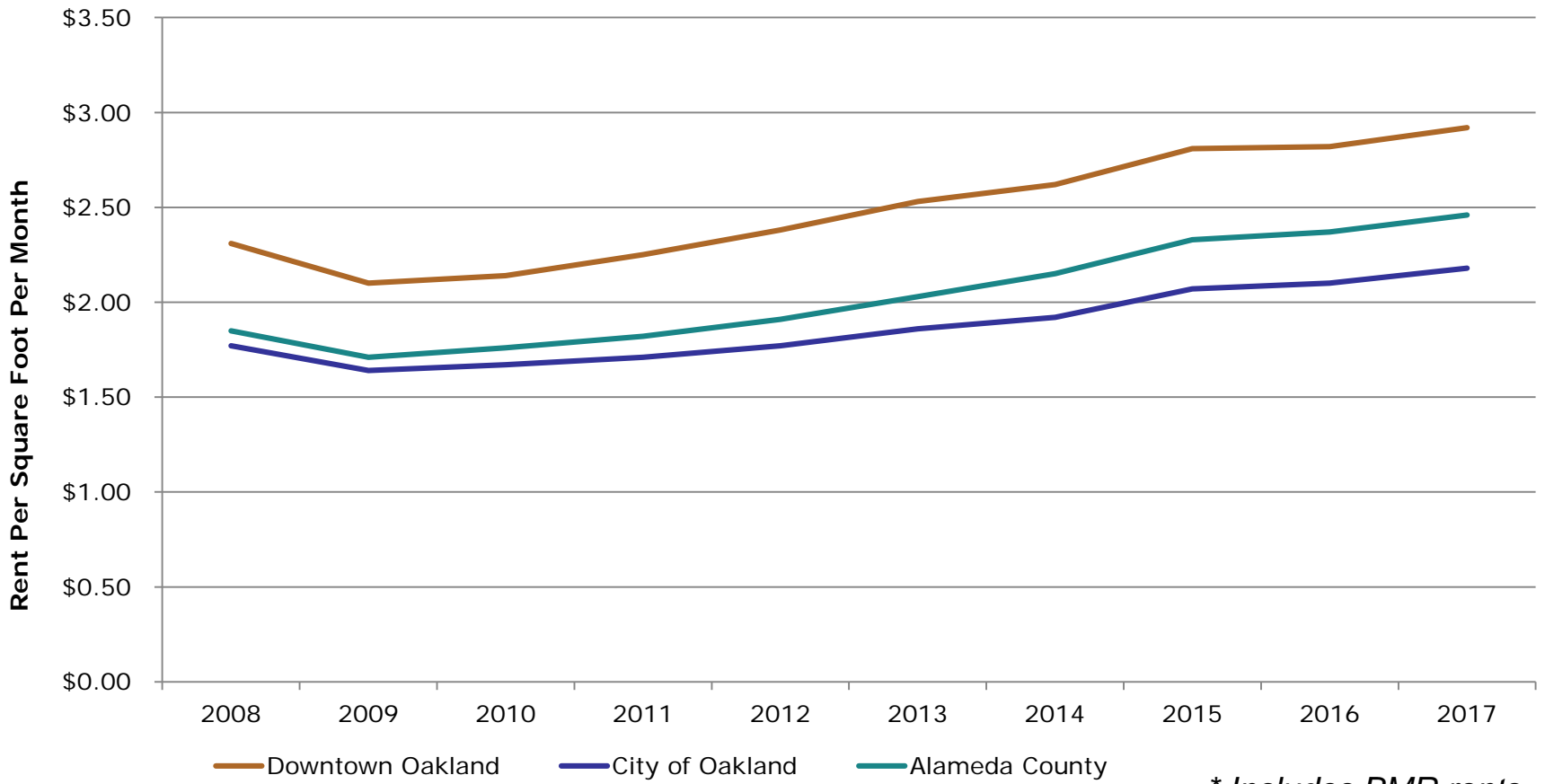
Multifamily residential permitting in Alameda County has rebounded, but remains below pre-recession levels

Multifamily Residential Permits issued in Alameda County



Residential rents at new projects in Downtown Oakland are about 30% higher than countywide

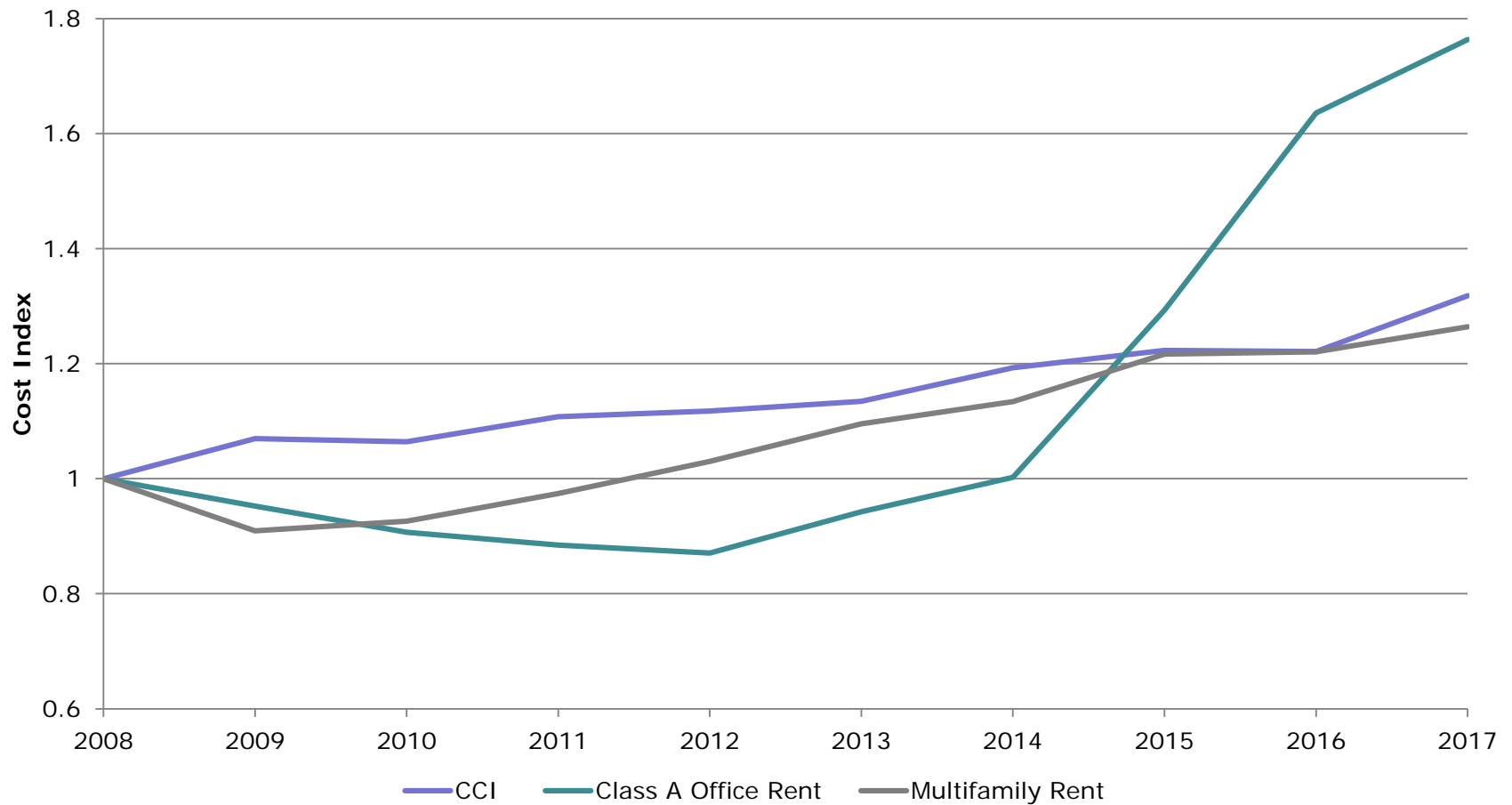
Multifamily Residential Rental Rates at New Projects (since 2008)*



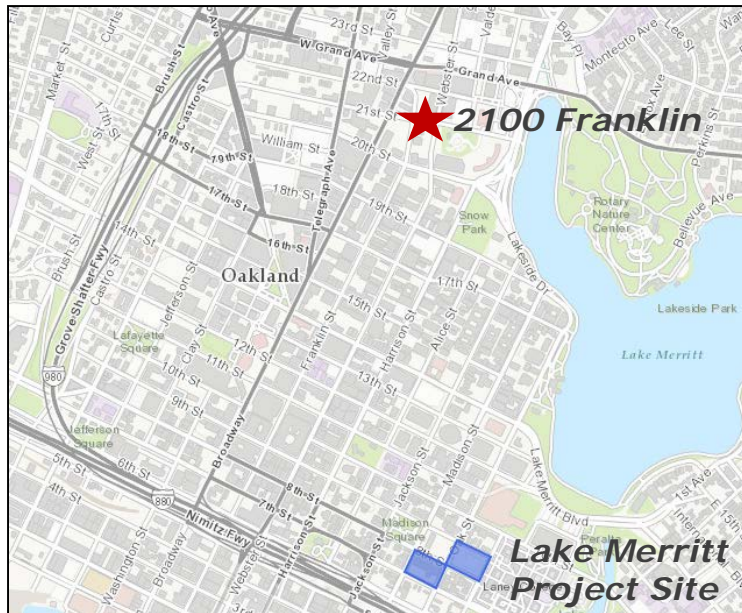
* Includes BMR rents

Construction costs have increased similarly to residential rents, while office rents have grown more quickly

Index Comparison of Construction Costs (SF Bay)
Vs. Rents (Downtown Oakland)



The newest office space in Downtown Oakland is a decade old

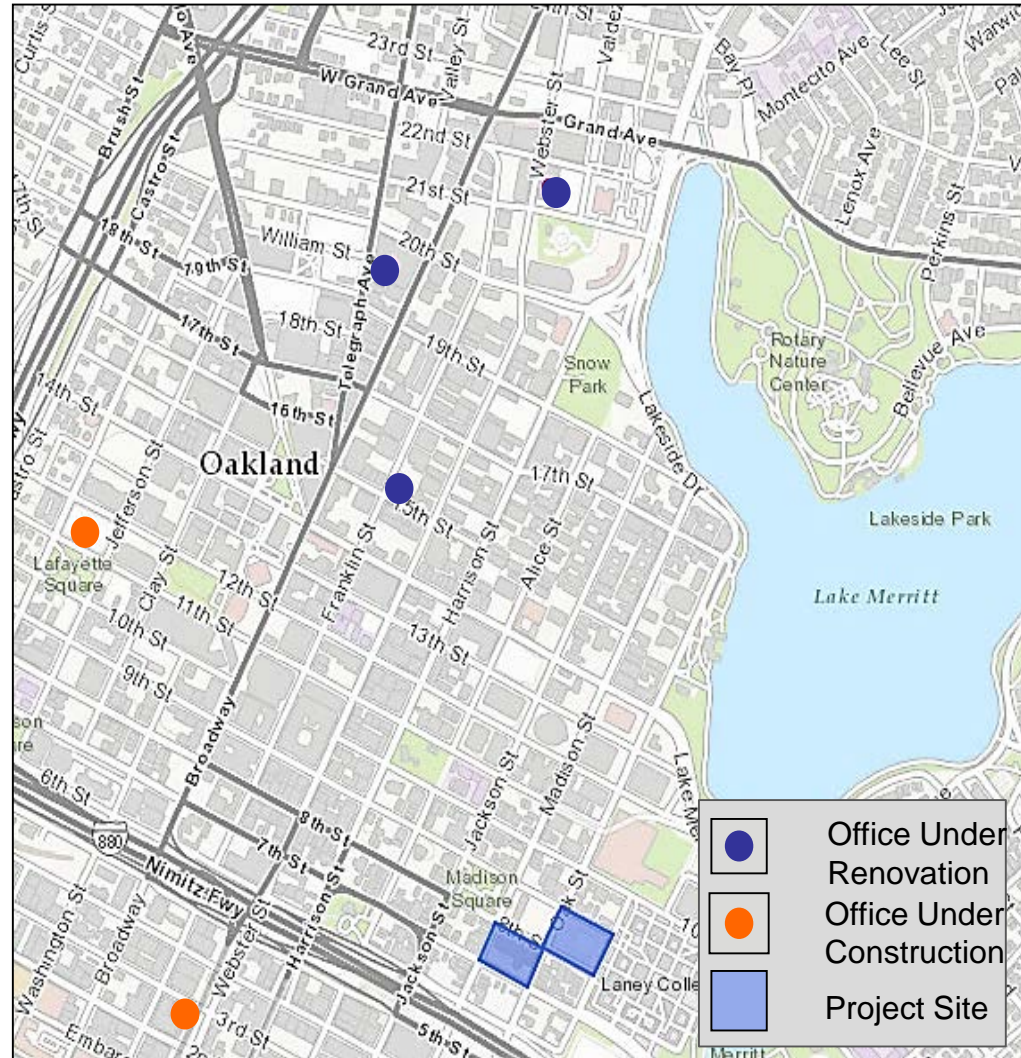


Building Name: Center 21
Address: 2100 Franklin Street
Year Built: 2007
Rentable Building Area: 216,668
Stories: 9
Vacancy: 0%

Rising rents, limited vacancy, and new anchor tenants in the market have spurred new office space investments

Recent Development in Greater Downtown

- Three buildings under renovation:
 - Uptown Station (formerly Sears at 1955 Broadway)
 - 380,000 SF
 - 2150 Webster
 - 230,000 SF
 - 1504 Franklin
 - 25,000 SF
- Under Construction:
 - 601 City Center
 - 600,000 SF
 - *Expected completion: 2019*
 - 369 3rd Street
 - 8,000 SF
 - *Expected completion: 2017*
- Another 4 Projects approved, totaling over 2 million SF

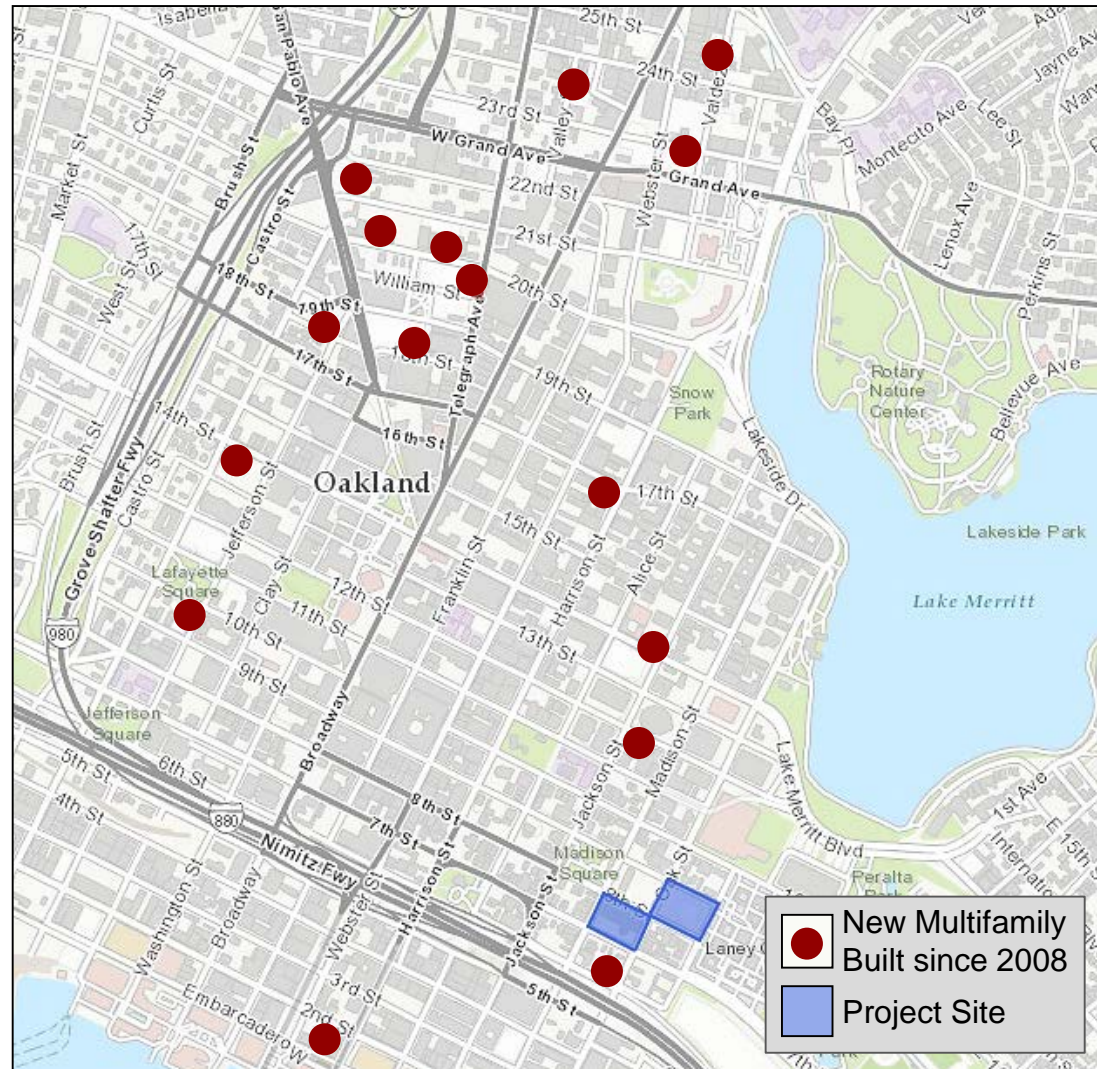


Multifamily residential development activity has been strong around Downtown

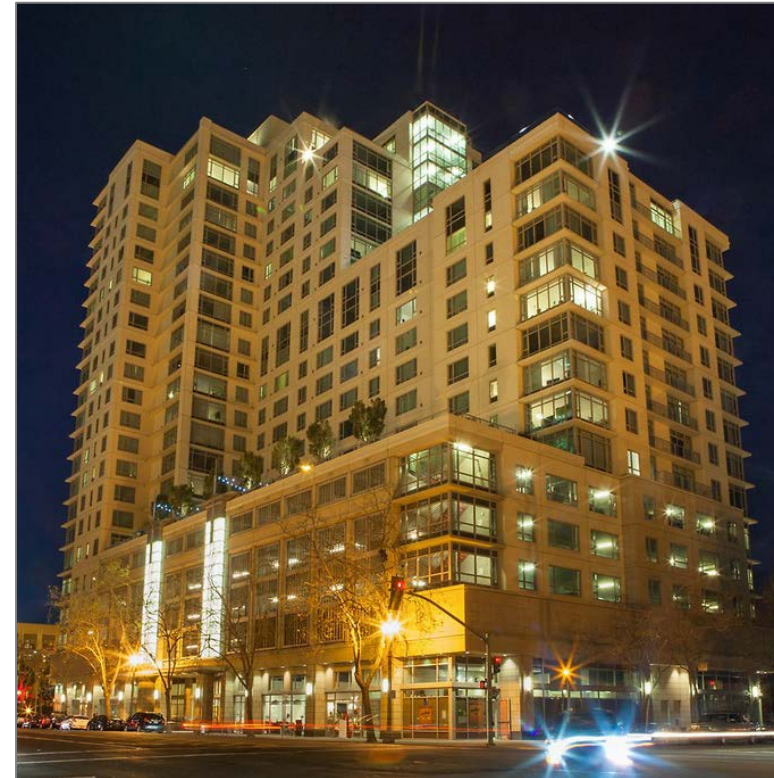
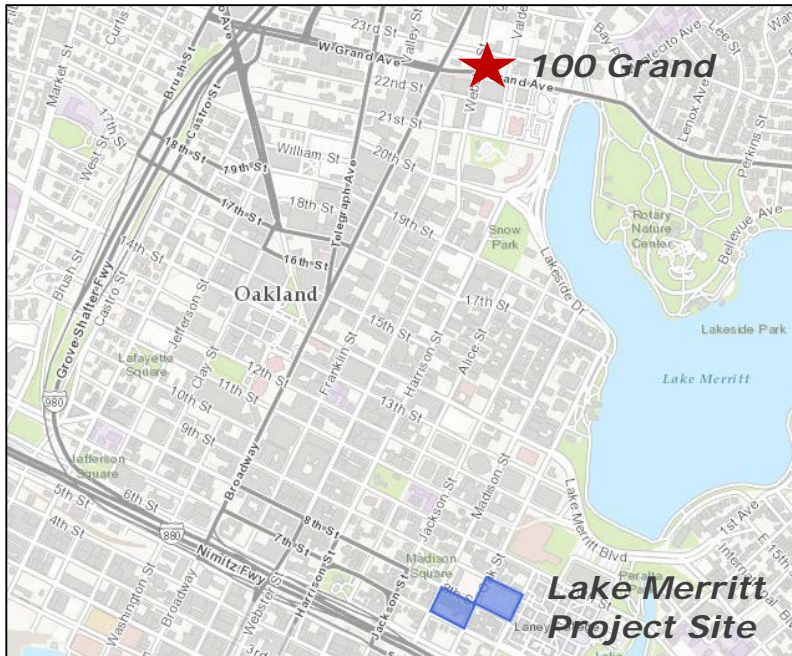
Recent Development in Greater Downtown

- 2,300 units (16 buildings) delivered since 2008
- Average market-rate rent for new buildings is ~\$3.80 PSF
- 5 of 16 new projects 100% affordable, including 3 senior projects
- One High-Rise
 - 100 Grand Ave
 - 22 stories
 - 243 units

Note: Ave Vista (not shown) is a new affordable development located at 460 Grand Ave. The project is located outside of the Downtown market area.



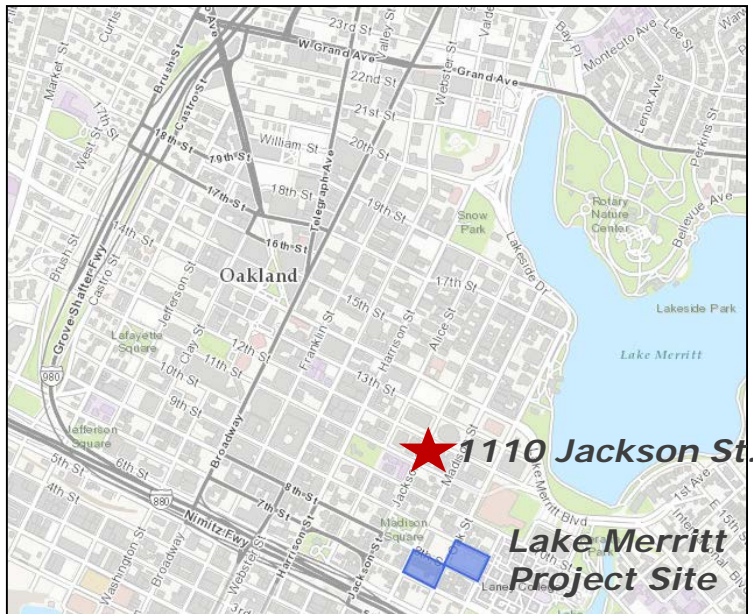
The only recently constructed high-rise building is The Grand, delivered in 2009



Building Name: The Grand
Address: 100 Grand Ave
Year Built: 2009
Sq Ft: 312,000
Units: 243
Stories: 22
Rent: ~\$4.00 Per Square Foot



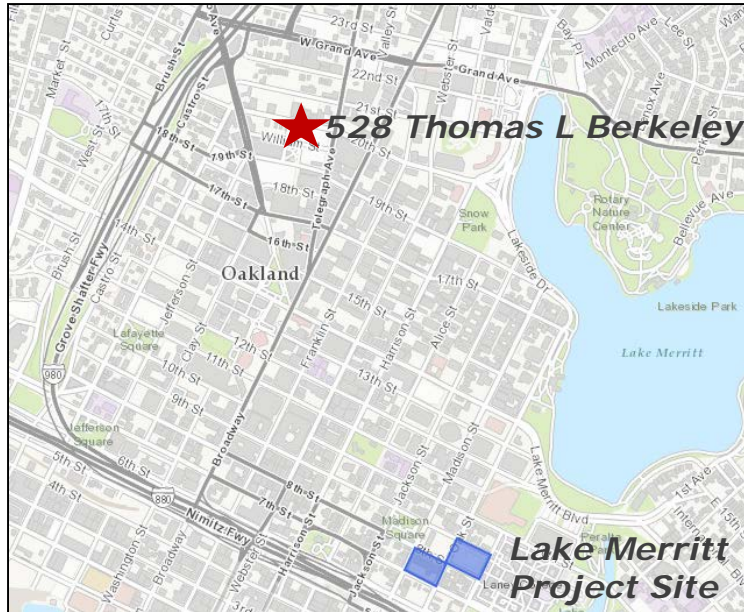
Examples of new affordable housing are found proximate to Lake Merritt BART



Building Name: Prosperity Place
Address: 1110 Jackson Street
Year Built: 2017
Units: 71
Stories: 5
Affordability: 100% affordable units available to households with maximum incomes of up to 60% of AMI



Typical new multifamily residential is low-rise, wood construction built over a podium



Address: 528 Thomas L Berkeley Way

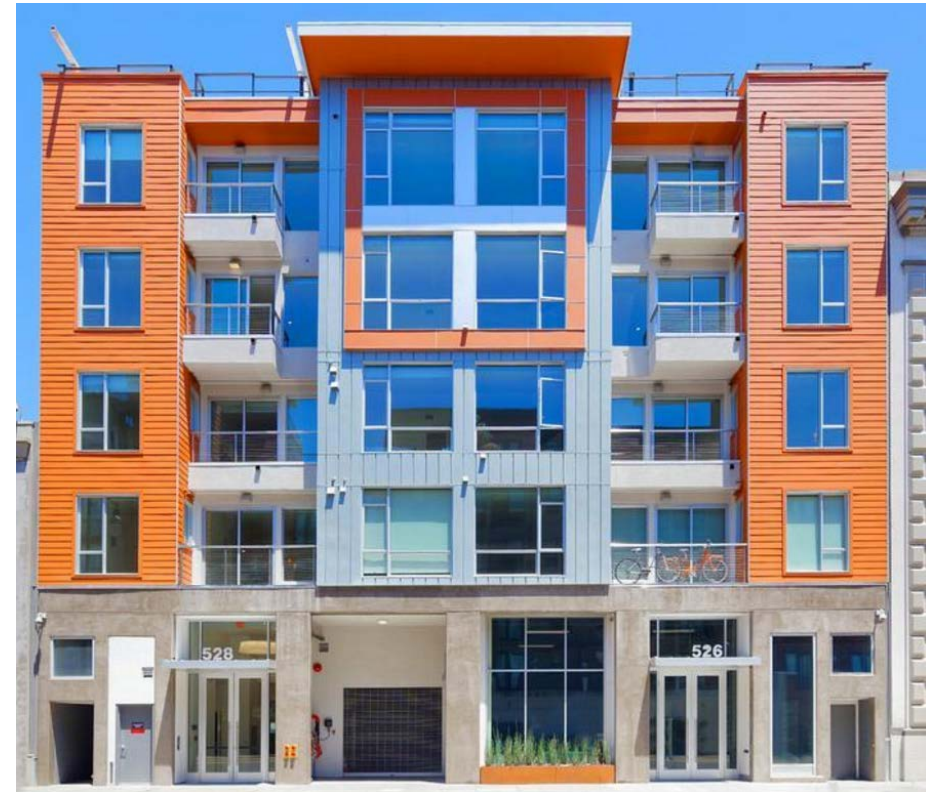
Year Built: 2017

Number of Units: 25

Average Unit Size: 860 Sq Ft

Stories: 5

Rent: ~\$4.40 Per Square Foot



New projects use modern formats and amenities (gyms and courtyards) to compete for tenants



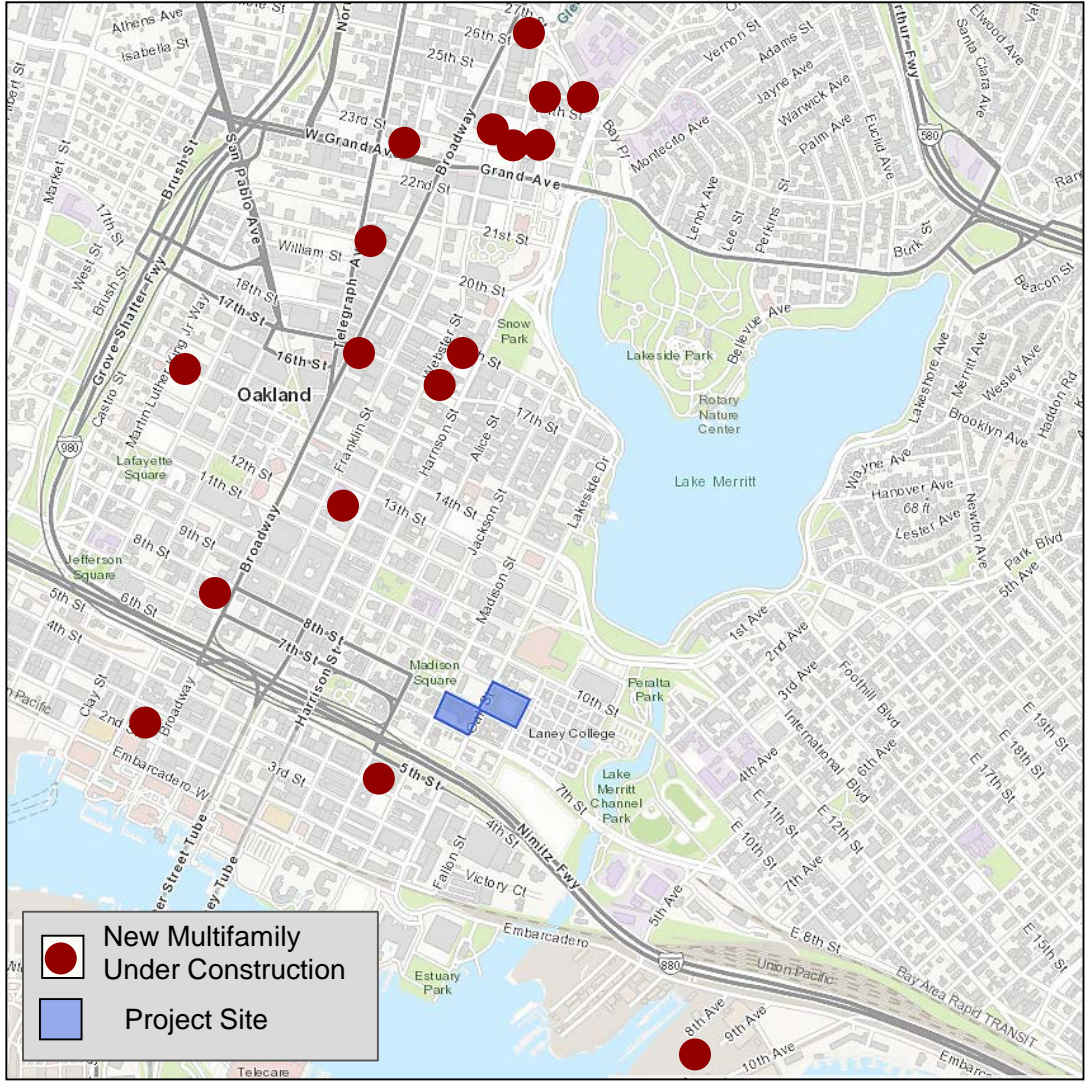
Building Name: Domain
Address: 1389 Jefferson Street
Year Built: 2011
Number of Units: 264
Average Unit Size: 973 Sq Ft
Stories: 6
Rent: ~\$3.24

The pipeline for new multifamily units around Downtown is significant

Multifamily Construction Pipeline in Greater Downtown

- Another 17 multifamily developments currently under construction
- Up to nearly 6,000 additional new units*
- Another 19 projects approved (roughly 4,600 units)

* Includes Brooklyn Basin which comprises 3,000 units that likely will take many years to develop and be absorbed by the market.



The development pipeline includes at least four high-rise projects currently under construction

Map of Pipeline Towers



Office



Address: 601 City Center
Sq Ft: 600,000
Delivery Date: 2019
Parking: 400 (underground)
Stories: 24

Residential



Address: 1640 Broadway
Units: 254
Delivery Date: 2018
Parking: 232
Stories: 33

Residential



Address: 1700 Webster
Units: 206
Delivery Date: 2019
Parking: 148 (podium)
Stories: 23

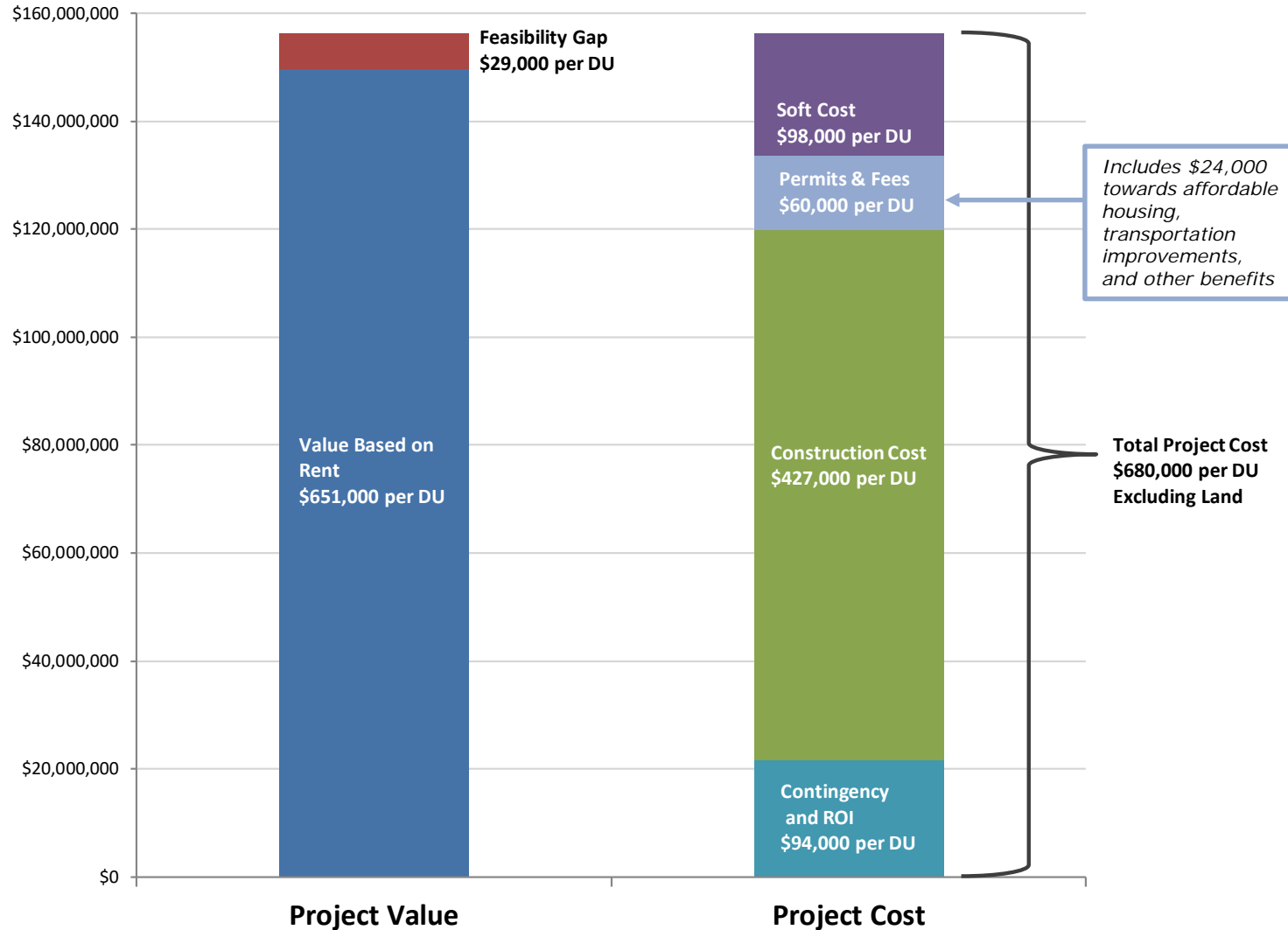
Financial feasibility analysis assesses the potential for near-term development to generate revenues to BART

Pro Forma Financial Model Assumptions:

- Current market conditions and construction costs
- Project stabilization agreement w/local hire and prevailing wage
- Parking Ratios -- 0.5 stalls/DU residential and 1 stall/2,000 SF commercial
- Project subject to all City requirements, including:
 - affordable housing fees
 - capital improvements fees
 - transportation infrastructure fees
- Extraordinary costs associated with BART sites are excluded:
 - construction over BART tunnel
 - demolition of Metro Center building
- Project values less project costs is “residual land value” that represents BART’s revenues to fund transit service

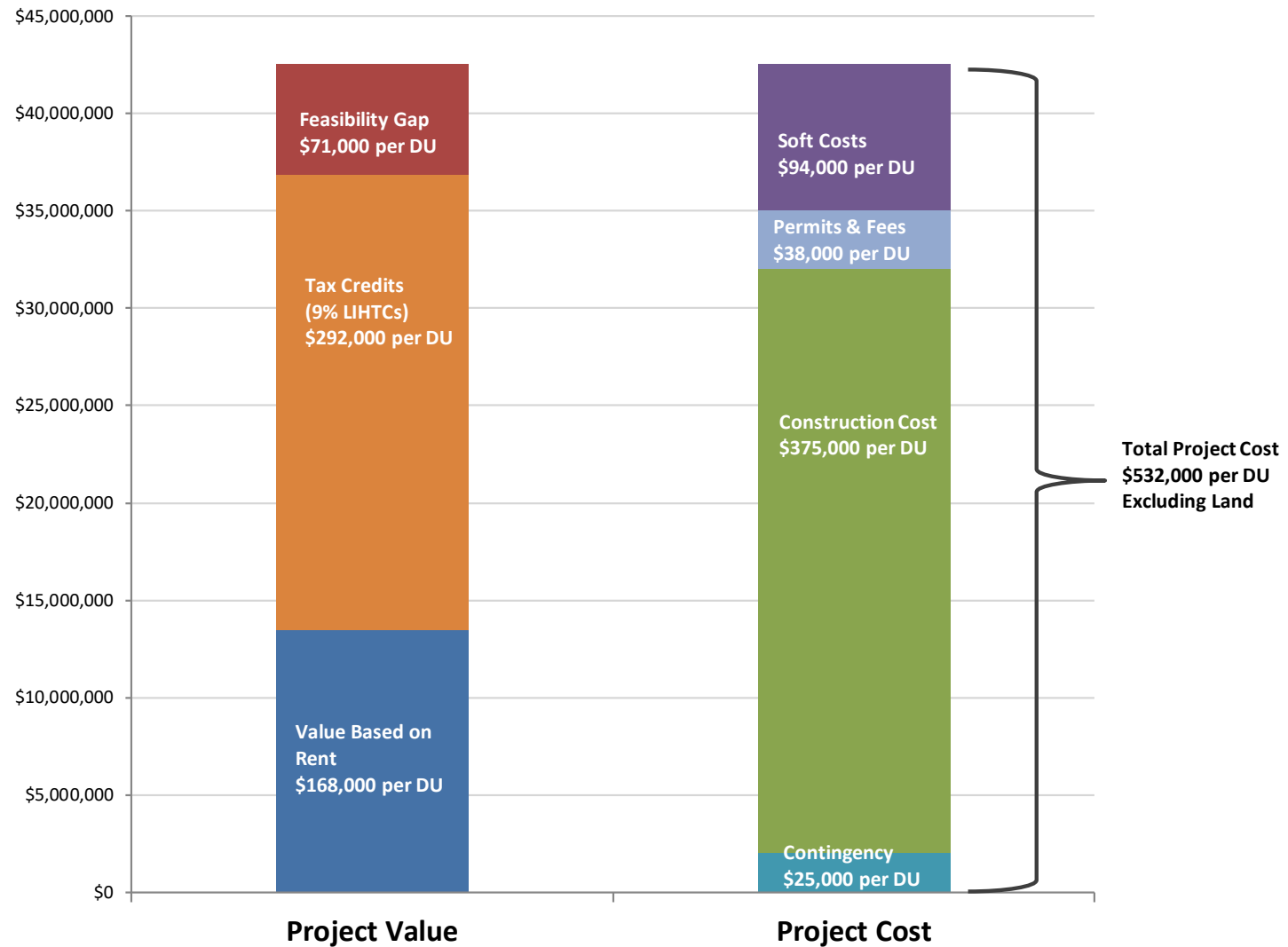
Market rate residential high rise tower at BART still faces feasibility challenges

- ½ city block
- High-rise format
- 230 Units
- Assumes mix of unit sizes with 1,000 SF average
- 115 Parking Spaces
- \$4.00 PSF Rent
- Impact fees:
 - \$5M for affordable housing
 - \$288,000 for capital improvements
 - \$173,000 for transportation



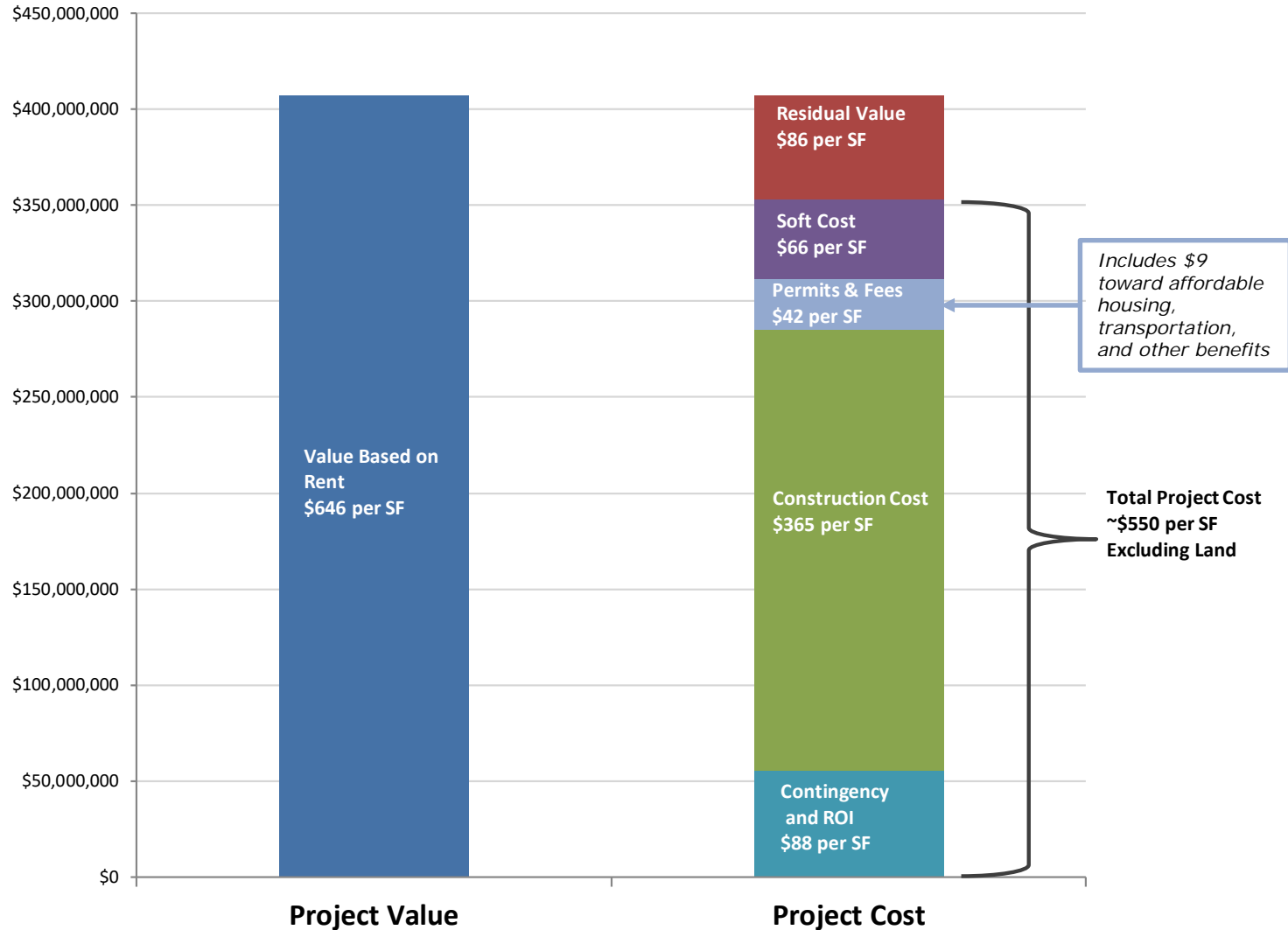
An affordable low rise residential project will require local subsidies, in addition to tax credits

- ½ city block
- Low-rise format
- 80 Units (100% affordable)
- 30 Parking Spaces
- \$1.42 PSF Rents
- Impact fees:
 - \$100,000 for capital improvements
 - \$60,000 for transportation
- Local subsidy required:
 - **~\$6 Million**



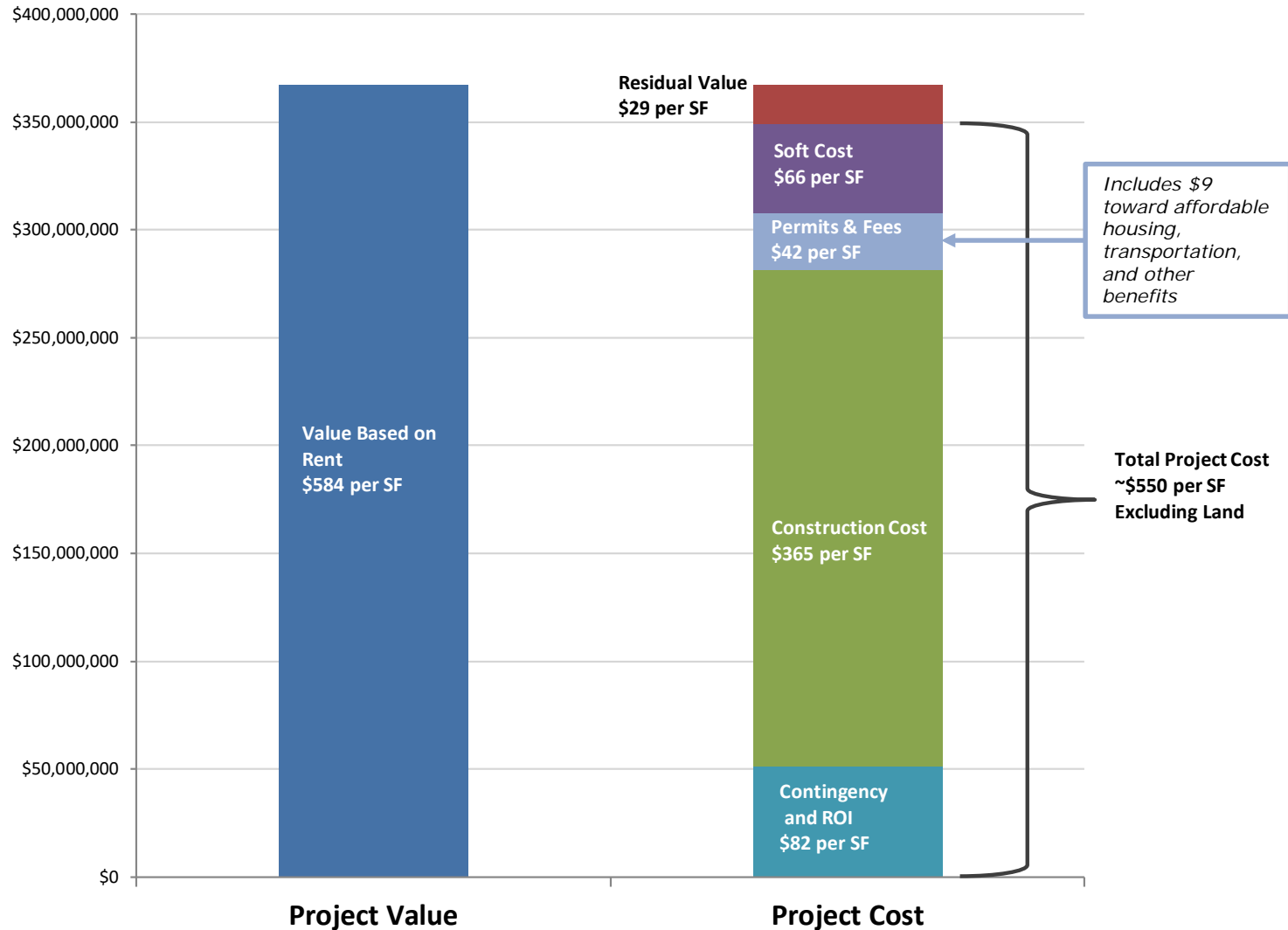
Assuming an anchor tenant commits at current market rates, office development should be feasible

- One city block
- High-rise format
- 630,000 Square Feet
- 315 Parking Spaces
- \$5.00 PSF Rents
- Impact fees:
 - \$3.4 million for affordable housing
 - \$1.3 million for capital improvements
 - \$1.3 million for transportation



Even if office tenants are offered below-market rent, office development remains attractive

- One city block
- High-rise format
- 630,000 Square Feet
- 315 Parking Spaces
- Average \$4.50 PSF Rents
 - 80% at \$5.00
 - 20% at \$2.50
- Impact fees:
 - \$3.4 million for affordable housing
 - \$1.3 million for capital improvements
 - \$1.3 million for transportation



Summary of Market and Feasibility Findings

Downtown Oakland market indicators are very strong right now

- High rents, low vacancies
- Good time to attract developer interest

Lake Merritt development is marginally feasible right now, and will be affected by:

- Significant housing pipeline (10,000+ units)
- Ability to attract anchor office tenant (~200,000+ SF)
- Historically high development costs
- Unique site conditions of BART tunnel, Metro Center building
- BART policy-based requirements for PSA, affordable housing
- Any other community benefits requested

Thank you.

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