ECONOMIC ANALYSIS FOR DOSP ZONING INCENTIVE PROGRAM

Prepared for:
Oakland Planning Department

Prepared by:
Hausrath Economics Group

August 2022

981 HILLCROFT CIRCLE, OAKLAND, CA 94610-2402
T: 510.839.8383

TABLE OF CONTENTS

ECONOMIC ANALYSIS FOR
DOSP ZONING INCENTIVE PROGRAM

INTRODUCTION AND PURPOSE

This report summarizes the economic analysis prepared by Hausrath Economics Group (HEG) as input to the city and its zoning consultant for use in developing the Zoning Incentive Program or "ZIP" as part of the Downtown Oakland Specific Plan. The intent of the ZIP is to allow higher-intensity development in parts of the DOSP area in exchange for community benefits. Under the proposed ZIP, development projects may exceed base height and intensity standards provided they contribute desired community benefits.

To provide input for developing the ZIP, the purpose of the economic analysis was two-fold.

I. To estimate the range of additional real estate value that could be created by higher intensity development and the share of additional value that could be contributed for community benefits while retaining incentives for developers and landowners to build higher density projects.

II. To estimate the costs of community benefits desired in exchange for allowing higher-intensity development, and to consider the magnitude of benefits that could be supported by the ZIP.

This report summarizes the methodology and results for each of the two components of economic analysis. The text is presented in two parts, consistent with the analysis.

Note to Reader: The economic analysis was refined after the DOSP Draft Zoning Amendments were released. Two changes that incorporate the refined analysis will be included in the revised Draft Zoning Amendments. The changes are identified in the text.

I. ESTIMATES OF ADDITIONAL REAL ESTATE VALUE CREATED BY HIGHER-INTENSITY DEVELOPMENT AND A FRAMEWORK FOR VALUE CAPTURE FOR COMMUNITY BENEFITS

Purpose

Section I of this report explains and summarizes the economic analysis done to estimate the additional real estate value created by allowing additional intensity of development as proposed for Intensity Areas of the DOSP. Estimates of additional value from greater intensity development provide input for developing a zoning incentive program where developers will have the option to provide community benefits on-site or to pay a fee for community benefits in exchange for the ability to build higher-intensity development. The economics of development and the resultant real estate value created by greater density provide the basis for identifying the magnitude of community benefits that could be supported.

Approach for Identifying the Range of Real Estate Value Created by Proposed Higher Intensity Development

The economic analysis undertaken involved significant effort given the wide range of densities and the large number of combinations of base zoning and higher-intensity zoning that determine the amounts of *additional* development allowed. There also are a large number of other variables considered that affect the real estate value of new downtown development of different types and scale:

- Residential development or office development;
- High-rise construction or mid-rise construction;
- Different locations and market areas; and
- Different types and sizes of development sites.

Given all of these factors, an effort was made to balance the need to address a range of options and variables in the economic analysis with the need to generalize the results as much as possible so as to identify and support development regulations that can be understood and implemented without undue complexity.

The economic analysis was initially done in 2021 and then expanded and modified as proposed base zoning and intensity area zoning were changed and refined over time during 2022.

Maps of Proposed Maximum Intensities and Base Zoning

Map 1 on the next page identifies the Zoning Intensity Areas and the maximum intensities proposed by area under the ZIP. **Map 2** shows the development intensities allowed under "base zoning" for projects not participating in the ZIP. The maps also identify subareas of the Intensity Areas that were identified for the economic analysis.

Intensity Area	Maximum Height	Maximum Non-Residential FAR	Maximum Density (SF per Unit)
A	65	5.0	250 SF
B	90	7.5	110 SF
C	90	7.5	200 SF
D	175	12.0	110 SF
E	275	14.0	100 SF
F	275	17.0	90 SF
G	450	20.0	90 SF
H	No Limit	22.0	80 SF
I	No Limit	30.0	65 SF

Subareas subject to Zoning Incentive. See Zoning Incentive Program (ZIP) map for maximum intensities allowable for projects participating in the ZIP.

Plan Boundary

Parks and Open Spaces

KONO/Art + Garage District

Lake Merritt Office District

Broadway

14th St West

14th St East

City Center

Jack London West

Jack London East

Victory Court

Map 1: Proposed Maximum Intensities in Zoning Incentive Program Areas

Intensity Area	Maximum Height	Maximum Non-Residential FAR	Maximum Density (SF per Unit)
1	45	1.0	1000 SF
2	45	2.0	900 SF
3	45	2.5	450 SF
4	45	2.0	300 SF
5	55	3.5	1000 SF
6	65	5.0	450 SF
7	65	7.0	260 SF
8	65	5.0	250 SF
9	90	5.0	225 SF
10	90	7.5	110 SF
11	90	7.5	N/A SF
12	135	5.0	250 SF
13	175	8.0	110 SF
14	175	12.0	110 SF
15	275	14.0	100 SF
16	275	17.0	90 SF
17	450	20.0	90 SF
18	No Limit	20.0	90 SF

Subareas subject to Zoning Incentive. See Zoning Incentive Program (ZIP) map for maximum intensities allowable for projects participating in the ZIP.

Plan Boundary

Parks and Open Spaces

KONO/Art + Garage District

Lake Merritt Office District

Broadway

14th St West

14th St East

City Center

Jack London West

Jack London East

Victory Court

0 525 1,050 Feet

Map 2: Proposed Base Intensities in Zoning Incentive Program Areas

Methodology and Key Components of Analysis to Estimate Increased Value from Higher-Intensity Development

The following highlight the steps involved in structuring and undertaking the economic analysis.

- **Assessment of parcel-level data to structure the analysis**

  Parcel-level data and maps for the Zoning Incentive Areas were provided by the City and its zoning consultant to identify both the base zoning and proposed higher-intensity zoning by parcel, along with data identifying parcel size, ownership, existing use and development, and property assessments from the Alameda County Assessor. Review and assessment of these data, along with HEG's knowledge and familiarity with downtown Oakland and recent development activity there, enabled the following.

  - Identification of subareas of Zoning Incentive Areas that reflect similar market contexts, development patterns and potentials, parcels sizes, and existing land uses. The Intensity Area subareas are identified on the maps.
  - Comparisons of base zoning to maximum intensity zoning by parcel to identify the combinations and the most prevalent combinations within each incentive subarea.
  - Identification of likely development sites within subareas and their combinations of base and maximum intensity zoning.
  - Comparisons across subareas to assure analysis of a mix of residential and office development types and intensities throughout.

- **Development of pro forma financial feasibility models and identification of representative development prototypes for estimating real estate value created by increased intensities of development.**

  - Prototype developments were defined spatially considering physical site characteristics and market factors appropriate in the subareas, along with the proposed intensities of development.
  - Cost and economic variables were quantified specific to development types, maximum development intensities, and locations, including costs, rents, and financial parameters. Sources included data from major Oakland development projects, analysis from the earlier EPS study[1], consultation with cost estimator for large construction contractor focused on the costs of higher-intensity development, and rent data for downtown Oakland development projects.
  - Pro forma financial feasibility models and development prototypes were created for residential developments and for office developments in the DOSP.

[1] Economic Planning & Systems Inc., *Downtown Oakland Specific Plan: Incentive Program Feasibility Study*, July 10, 2020.

- **Analysis to Estimate Increased Real Estate Value from Higher-Intensity Development, Including Several Steps for Each Development Site and Prototype.**
  - First, the value created by development at the base zoning is calculated.
  - Second, the value created by development at the maximum intensity zoning is calculated.
  - Each of the above results is evaluated to assess feasibility based on development costs and revenues at the time of analysis (2021/2022). If the development is not feasible with current revenues and costs, the analysis iterates to identify a feasible project and identifies the percentage change in revenues over costs needed for feasibility.
  - Then, the *increase in value* from the additional, higher-intensity development is calculated as the difference in the value of development under maximum intensity zoning compared to base zoning, assuming feasibility in both cases.
  - The value creation from higher-intensity development is expressed as "dollars per building square foot of added development". For residential, the results are also reported as "dollars per dwelling unit added". In that way, the results expressed per unit of additional development can be applied over a range of actual projects with similar development characteristics but different amounts of additional development.
  - Initially, analysis was done for 25 development prototypes, 15 for residential developments and 10 for office developments downtown. The prototypes were representative of proposed zoning intensities and consistent with development potentials throughout the subareas. As proposed zoning intensities changed over time during the planning process, the analysis expanded substantially. Many different combinations of higher-intensity zoning and base zoning were studied, and additional development prototypes were identified.
  - Results of the analyses were then summarized for the large number of zoning combinations proposed. An effort was then made to generalize the results as much as possible to facilitate implementation.

Key Factors Affecting How Zoning Incentives Could Work to Support Higher Density Development and Generate Value for Community Benefits

The economic analysis of development prototypes under different combinations of base zoning and higher intensity ZIP zoning identifies factors that affect development outcomes and the increased value that can be generated. The findings that follow describe a number of important factors that affect outcomes and that help explain the data and findings summarized in tables presented in the next section.

- **Three Ways to Increase Intensity of Development and Generate Value**

  The analysis of development prototypes shows that *increases* in development density under the proposed higher-intensity zoning compared to the base zoning will be of three types.

  1. Larger/Taller High-Rises. Developments where base zoning already allows Type I high-rise construction and the higher-intensity zoning will allow taller/larger high-rise buildings.

2. Mid-Rise/Low-Rise to High-Rise Developments. There are a large number of cases where base zoning supports mid-rise and low-rise development and the higher-intensity zoning provides ability to build high-rise development. In these cases, the higher-intensity zoning changes the type of construction built as well as the size and height of the buildings.
3. Larger/Taller Mid-Rise Developments. Cases where base zoning supports lower mid-rise or low-rise development and the higher-intensity zoning allows larger/taller mid-rise development. These cases generally involve smaller changes in density than those above, with less effect on development economics.

Among the above outcomes, the change from mid-rise or low-rise to high-rise development can have the most effect on development economics. Increased density for these developments would require a change from Type III or Type V to the more costly Type I construction. Higher construction costs and financing/holding costs for large buildings require higher rents.

- **Need to Focus on Increased Value from Higher-Intensity Development per Additional Unit of Development to Provide Results Applicable to Developments with Similar Characteristics**

  Increases in value from higher-intensity developments with similar allowable densities will vary depending on the size of the development site and building. Thus, to be applicable for different projects with similar density characteristics, the value creation identified by the prototype economic analyses should be expressed as:

  "dollars per building square foot of added space."

  For residential development, the value created can also be expressed as:

  "dollars per dwelling unit added."

  As an example, increasing the allowable density for office development from 20 to 30 FAR would add more space and more total value from a project on a 60,000 square foot site than from development with a similar change in density on a 30,000 square foot site. However the value added per additional square foot of building space would be similar for both projects. The total additional value from an increase in density is relative to the size of the project built.

  While the economic analysis focuses on development at the maximum ZIP density compared to development at the base density, projects may be built at densities above the base zoning but below the maximum allowable ZIP intensity. The increases in value per additional unit of development can also be used to calculate additional total value for those projects.

- **The results of development pro forma analyses under current economic conditions suggest that funding for community benefits from higher-intensity development will be limited in the short term. However, it is reasonable to expect that a zoning intensity program would become feasible and support community benefits in the future.**

  The economic analysis found that many higher-intensity prototypes are not feasible under current real estate market and development cost conditions. These findings are consistent with a slowing of real estate development activity. Construction costs increased substantially while rents

declined and vacancies increased due to the Pandemic. The recent study by EPS had similar findings (*Incentive Program Feasibility Study*, July 2020).

This analysis proceeded to evaluate scenarios to identify conditions when prototypes could become feasible in the future to support higher-density development and produce community benefits under the ZIP. The results of this analysis identify the potential capture of value for community benefits based on future scenarios when real estate economics improve and the developments become feasible.

The pro forma models test feasibility by simply testing percentage increases in rents/revenues until feasibility is reached. This is a proxy for a more complex set of changes in various development revenue and cost factors that would support feasibility over time.

The potential capture of value from higher-intensity development identifies both the potential increases in value from higher-intensity development and the likely feasibility thresholds for those values.

- For the residential development prototypes, increases in value and estimated value captures for community benefits are identified for a feasibility threshold of approximately +20 percent.
- For the office development prototypes, increases in value and estimated value captures for community benefits were identified for a feasibility threshold of around +10 percent. However, office rents are now lower than when this analysis was begun suggesting a feasibility threshold similar to residential development, of + 20 percent.

Among the prototype developments, the larger the threshold for reaching feasible development, the longer time it could take for feasibility to be reached.

- **For a successful zoning incentive program to provide community benefits, the additional value from higher-intensity development needs to be shared among the developer, the landowner, and the community.**

  The successful capture of value for community benefits is only possible with:

  - Incentives for developers to gain value from building larger buildings (that can be more costly and more risky); and
  - Incentives for landowners to gain value from selling their properties for larger developments (without holding on to them to capture perceived higher/speculative values).

  Based largely on professional judgement, this analysis identifies *one-third of the additional value* from higher density to be the "value capture" for community benefits. That share could be conservative when and where real estate market conditions are strong. However, that share could be aggressive when and where market conditions are weaker. The fact that some of the desired community benefits need to be paid for upfront as a cost of development also is a factor, as additional value to the developer and possibly the landowner, may only be earned over time.

The ”value capture” estimates for community benefits under the ZIP that are presented in the next section identify the estimated values generated for community benefits based on the one-third share of total additional value created from the higher-intensity development.

Summary of Results: Estimated Value Capture for Community Benefits Under the ZIP

As described above and earlier in this report, value capture for community benefits is estimated as the share of additional real estate value from higher-intensity development that can be contributed for community benefits while retaining incentives for developers and landowners to build higher-intensity projects. Results from the pro forma real estate analysis of the combinations of base density and higher-intensity zoning that are being proposed are summarized for residential development in **Table 1** and for office development in **Table 2**.[2]

Those summaries identify the types of higher-intensity development encouraged under proposed combinations of base and ZIP zoning, the increases in density that could result, and the subareas where different zoning combinations occur. The tables are organized into three geographic groups:

I. Downtown CBD Intensity Areas in the central subareas of downtown;

II. Jack London and Victory Court Intensity Areas south of the 880 freeway, and

III. KONO/Art & Garage District Intensity Areas to the north of Grand Avenue.

Market factors and potentials, land uses and development patterns, as well as the combinations of base and higher-intensity zoning differ among these parts of downtown.

Overall, the estimates of potential additional value capture from higher-intensity development are similar for major residential and major office development in the DOSP area. That reflects the market strengths of both types of development in downtown. There also are some differences, generally reflecting the marketability of residential development throughout the downtown, while the marketability of office development is more focused on the central CBD areas that support business activity and provide good transportation access.

Review of the results by area is presented following the tables.

[2] For residential development, the equivalency between value capture per dwelling unit and per gross building square foot (excluding parking) reflects average unit size of 780 net square feet and 78% efficiency ratio of net-to-gross building area.

Table 1: DOSP Zoning Intensity Program

Summary of Estimated Value Capture for Community Benefits from Higher Intensity RESIDENTIAL DEVELOPMENT
By Development Type, Intensity Increase, and Subarea

I. Downtown CBD Intensity Areas

Intensity Type for Residential Development	VALUE CAPTURE for Community Benefits		Base Density		ZIP Maximum Density		Increase in Density	Intensity Subarea(s)
	per add'l bldg. SF	per add'l DU	SF per DU	DU per acre	SF per DU	DU per acre		
Greater Intensity High-Rise *Type I construction*	$23	$23,000	90	484	65	670	+38%	Lake Merritt Office Broadway City Center
	$23	$23,000	90	484	80	545	+13%	Broadway City Center 14th Street West
	$23	$23,000	100	436	90	484	+11%	City Center 14th Street West
	$23	$23,000	110	396	90	484	+22%	14th Street East
Low-/Mid-Rise to High-Rise Development *Type V/III to Type I construction*	$18	$18,000	450	97	110	396	+308%	14th Street East
	$17	$17,000	225	194	110	396	+104%	City Center/11th St. West 14th Street East 14th Street West
No Change in Density	–	–	110	396	110	396	0	14th Street East

Table 1: DOSP Zoning Intensity Program (continued)

Summary of Estimated Value Capture for Community Benefits from Higher Intensity RESIDENTIAL DEVELOPMENT
By Development Type, Intensity Increase, and Subarea

II. Jack London/Victory Court Intensity Areas

Intensity Type for Residential Development	VALUE CAPTURE for Community Benefits		Base Density		ZIP Maximum Density		Increase in Density	Intensity Subarea(s)
	per add'l bldg. SF	per add'l DU	SF per DU	DU per acre	SF per DU	DU per acre		
Low-Rise to High-Rise Development *Type V to Type I construction*	$15	$15,000	1000	44	110	396	+800%	Jack London West
	$10-12	$10K-12K	900	48	100	436	+808%	Jack London West
	$10	$10,000	900	48	110	396	+725%	Jack London West
	$15	$15,000	900	48	110	396	+725%	JL East - Waterfront
Mid-Rise to High-Rise Development *Type III to Type I*	$12	$12,000	250	174	90	484	+178%	Victory Court
	$15	$15,000	260	168	100	436	+160%	Jack London West
	$12	$12,000	250	174	100	436	+150%	Jack London East
	$11	$11,000	250	174	100	436	+150%	Victory Court
	$13	$13,000	250	174	110	396	+128%	Jack London East Victory Court
Greater Intensity High-Rise	$24	$24,000	100	436	90	484	+11%	Jack London West Victory Court
Greater Intensity Mid-Rise	$12	$12,000	250	174	200	218	+25%	Jack London East
Low-Rise to Mid-Rise Development – Waterfront	$15	$15,000	1000	44	200	218	+395%	JL East & West – Waterfront
	$15	$15,000	900	48	200	218	+355%	JL East – Waterfront
Greater Intensity Mid-Rise -- Waterfront	$21	$21,000	250	174	200	218	+25%	JL East - Waterfront

Table 1: DOSP Zoning Intensity Program (continued)

Summary of Estimated Value Capture for Community Benefits from Higher Intensity RESIDENTIAL DEVELOPMENT
By Development Type, Intensity Increase, and Subarea

III. KONO/Art & Garage District Intensity Areas

Intensity Type for Residential Development	VALUE CAPTURE for Community Benefits		Base Density		ZIP Maximum Density		Increase in Density	Intensity Subarea(s)
	per add'l bldg. SF	per add'l DU	SF per DU	DU per acre	SF per DU	DU per acre		
Low-/Mid-Rise to High-Rise Development	$9.40	$9,400	450	97	110	396	+308%	KONO – West of Telegraph
Type V/III to Type I construction	$13.50	$13,500	450	97	110	396	+308%	KONO – Telegraph & East
Mid-Rise to High-Rise Development	$14.30	$14,300	225	194	110	396	+104%	KONO – larger sites / higher heights
Type III to Type I construction	$17.20	$17,200	225	194	110	396	+104%	KONO – Rest
Greater Intensity Mid-Rise	$15.00	$15,000	450	97	250	174	+79%	Garage District and KONO

Table 2: DOSP Zoning Intensity Program

Summary of Estimated Value Capture for Community Benefits from Higher Intensity OFFICE DEVELOPMENT By Development Type, Intensity Increase, and Subarea

I. Downtown CBD Intensity Areas

Intensity Type for Office Development	Value Capture per Add'l Bldg. Sq. Ft.	Intensity Combinations			
		Base FAR	Maximum FAR	Increase in Density	Intensity Subarea(s)
Greater Intensity High-Rise Development	$22	20	30	+50%	Lake Merritt Office Broadway City Center
		20	22	+10%	Broadway City Center 14th Street West
		14	17	+21%	City Center 14th Street West
Mid-Rise to High-Rise Development	$22	8	20	+150%	14th Street East
		8	12	+67%	14th Street East
	$18 – 22	5	12	+140%	14th Street West 11th St. West – City Center
Greater Intensity Mid-Rise Development	$18-19	5	7.5	+50%	14th Street East
		2.5	7.5	+200%	14th Street East

Table 2: DOSP Zoning Intensity Program (continued)

Summary of Estimated Value Capture for Community Benefits from Higher Intensity OFFICE DEVELOPMENT
By Development Type, Intensity Increase, and Subarea

II. Jack London/Victory Court Intensity Areas

Intensity Type for Office Development	Value Capture per Add'l Bldg. Sq. Ft.	Intensity Combinations Base FAR	Maximum FAR	Increase in Density	Intensity Subarea(s)
Mid-Rise/Low-Rise to High-Rise Development	$12	5	20	+300%	Victory Court
	$12	5	17	+240%	Victory Court
	$15	2	14	+600%	Jack London West
	$19	5	14	+180%	Jack London East
	$12	5	14	+180%	Victory Court
	$13	7	14	+100%	Jack London West
Mid-Rise/Low-Rise to Lower High-Rise Development	$16 - 18	2	12	+500%	Jack London West
	$14	2	12	+500%	Jack London East
	$17	3.5	12	+243%	Jack London West Jack London East
	$16	5	12	+140%	Jack London East Victory Court
Greater Intensity High-Rise	$12	14	17	+21%	Jack London West
		12	14	+17%	Victory Court
Greater Intensity Mid-Rise	$12	5	7.5	+50%	Jack London East
Greater Intensity Mid-Rise – Waterfront	$12	2	7.5	+275%	J L East –Embar. Estuary
		3.0	7.5	+150%	J L East – Waterfront
		3.5	7.5	+114%	J L West/East – Waterfront
	$16	5.0	7.5	+50%	J L East – Waterfront

Table 2: DOSP Zoning Intensity Program (continued)

Summary of Estimated Value Capture for Community Benefits from Higher Intensity OFFICE DEVELOPMENT By Development Type, Intensity Increase, and Subarea

III. KONO/Art & Garage District Intensity Areas

Intensity Type for Office Development	Value Capture per Add'l Bldg. Sq. Ft.	Intensity Combinations			
		Base FAR	Maximum FAR	Increase in Density	Intensity Subarea(s)
Mid-Rise/Low-Rise to Lower High-Rise Development	$9 – 10	5.0	12	+140%	KONO / 27th – 28th
Greater Intensity Mid-Rise Development	$12 – 14*	2.5	7.5	+200%	KONO / Telegraph and east side
		5.0	7.5	+50%	KONO / West of Telegraph
Greater Intensity Mid-Rise – Garage District	$18	2.5	5.0	+100%	Garage District and KONO

*Higher end of range east of Telegraph Ave.; lower end of range west of Telegraph Ave.

Review of the Results by Area

I. Downtown CBD Intensity Areas

Greater intensity development in the **Lake Merritt Office, Broadway, and City Center Intensity Subareas** will occur through larger/taller high-rises under the ZIP. The base zoning in these subareas allows high-density, high-rise construction (Type I), and recent development in these areas has been largely high-rise. The higher-intensity zoning under the ZIP will encourage taller/larger high-rise buildings than the base zoning. Real estate values and rents in these subareas are the highest in downtown, and higher-intensity development here under the ZIP will generate the highest values per additional dwelling unit and per square foot of additional office space. Office development, in particular, will continue to seek and benefit from higher density central locations in these three subareas.

Higher-intensity ZIP zoning in the more peripheral CBD areas along 14th Street more than doubles allowable densities compared to the base zoning in those areas, encouraging high-rise development over low/mid-rise development under the base zoning. Value capture estimates from higher density along 14th Street remain relatively high compared to values for more intensive development in other parts of downtown. They are below those for the larger high-rise developments in the central CBD as described above due largely to of smaller parcels, lower high-rise densities, and somewhat lower rents in these more peripheral locations.

II. Jack London and Victory Court Intensity Areas

Throughout large parts of the Jack London West, Jack London East, and Victory Court intensity areas, the base zoning primarily supports mid-rise and some low-rise development while the higher-intensity zoning under the ZIP provides ability to build larger scale high-rise development. There are large percentage increases in density proposed under the ZIP in some of these areas. The higher-intensity zoning could change the type of construction built as well as the size and height of buildings.

Higher-intensity high-rise development under the ZIP will affect the economics of development compared to mid-rise/low-rise development. Large high-rise development has higher construction costs, financing and holding costs for larger building are higher, and projects require higher rents. The market has not yet supported large high-rise developments in most of the Jack London and Victory Court areas, and additional investments and improvements over time could be required to capture needed revenues for feasibility. However, there are potentials for high-rise development, particularly for residential development focusing on the amenities and views of the Estuary and Channel. Potentials for higher-density office are more focused on the Broadway spine and Jack London West areas with linkages to the downtown CBD, BART, and the ferry as well as waterfront amenities and commercial activities in Jack London Square.

The Jack London and Victory Court intensity areas also include changes from base to higher-intensity zoning that support larger/taller mid-rise development of both housing and office projects. In addition, it is possible that development under the ZIP will occur at densities above the base zoning but below the maximum ZIP intensity, particularly mid-rise development in the nearer-term future in locations where high-rise ZIP densities are allowed.

There are a range of value capture estimates for higher intensive development under the ZIP in the Jack London and Victory Court intensity areas depending on the particular combinations of base and higher-intensity zoning as well as location. Cases with large increases in density supporting high-rise development over mid-rise/low-rise projects can have lower value capture per additional dwelling unit or per additional building square foot due to the higher costs involved. However, these projects generate larger total value capture when the increase in intensity allows larger buildings with substantially more dwelling units and building space than could be built under the base zoning. Value capture estimates in these subareas also are affected by whether properties are located along the waterfront or inland as waterfront locations can generate higher revenues.

III. KONO and Art & Garage District Intensity Areas

Higher-intensity zoning in the KONO area outside the Art & Garage District allows high-rise residential development over base zoning for mid-rise or low-rise development. Higher-intensity zoning allows both mid-rise and lower high-rise office development, depending on location. There is some variation in the estimates of value capture in the KONO area, depending on location and site size, with higher estimates for locations on Telegraph Avenue and to the east, and lower estimates in locations west of Telegraph.

Higher-intensity zoning in the Art & Garage District allows greater intensity mid-rise development over lower-density base zoning. Market interest in the Garage District's character and location support value capture estimates for office and residential development above those for most of the nearby KONO area and similar to estimates for peripheral locations in the CBD.

Development Zones for Implementing Zoning Incentive Program/ZIP

Having assessed the additional real estate values that could be created by higher-intensity development as proposed under the ZIP, an effort was made to combine and generalize the results to facilitate program implementation.

Generalized Results for Implementation

The economic analysis provides a basis for generalizations as to the amounts of increased real estate value from greater intensity development that could be feasibly allocated for community benefits in exchange for approval to build the higher intensity. However, the large number and range of value capture outcomes needed to be grouped and generalized. A location-based approach was taken to identify locations where value capture outcomes are relatively similar based on proposed zoning, market factors, and land use/site characteristics. Summary results identified groups of locations that could be combined for implementation. The generalized results reflect the fact that the estimates of value capture for community benefits are approximate and future development outcomes will vary around the values identified for the proposed ZIP intensities in different parts of the downtown.

Identification of Value Capture Zones

Based on the considerations and results described above, value capture zones were identified for use in implementing the ZIP. Three zones are identified for residential development and three zones for office

development. Maps showing the boundaries of the value capture zones for each type of development are presented on the following pages. See **Map 3** and **Map 4**.

The value capture amounts for zones identify the value of community benefits to be provided on-site, or the in-lieu fee to be paid, in exchange for the right to build higher intensity development under the ZIP. The value capture contributions are identified per additional dwelling unit for higher intensity residential development under the ZIP and per additional square foot of gross building space for higher intensity office/commercial development under the ZIP. Depending on the zone, the required amounts include $22,000, $15,000, and $12,000 per additional dwelling unit for residential development and $22, $15, and $12 per additional gross building square foot of office/commercial development, as shown in **Table 3** below.

Table 3

Value Capture Contributions for Community Benefits

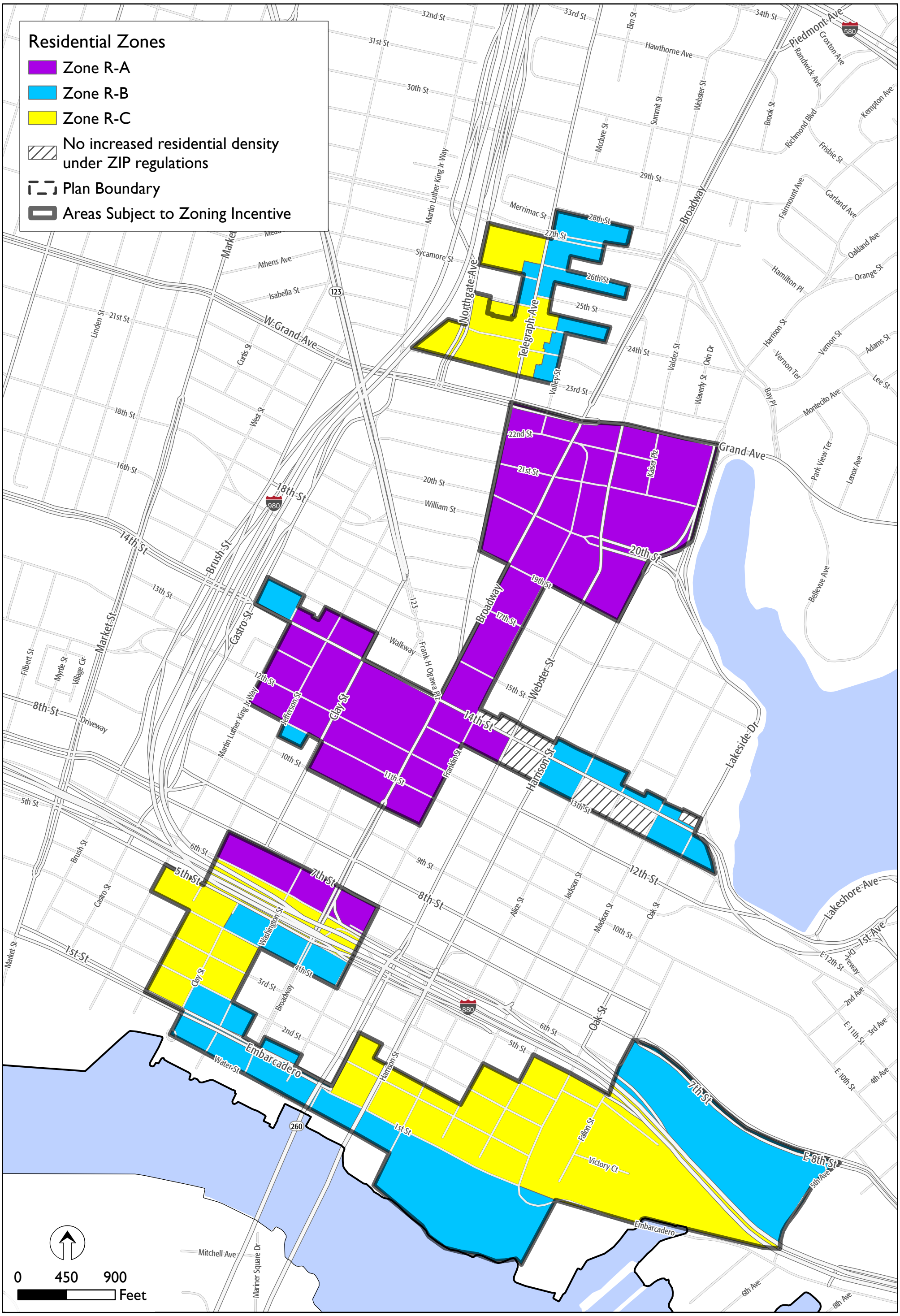
Zoning Incentive Program

Residential Development Zones			Office/Commercial Development Zones	
	Value Capture /a/			
Zone	per additional dwelling unit	per additional building sq.ft.	Zone	Value Capture per additional building sq.ft.
R-A	$22,000	$22	C-A	$22
R-B	$15,000	$15	C-B	$15
R-C	$12,000	$12	C-C	$12

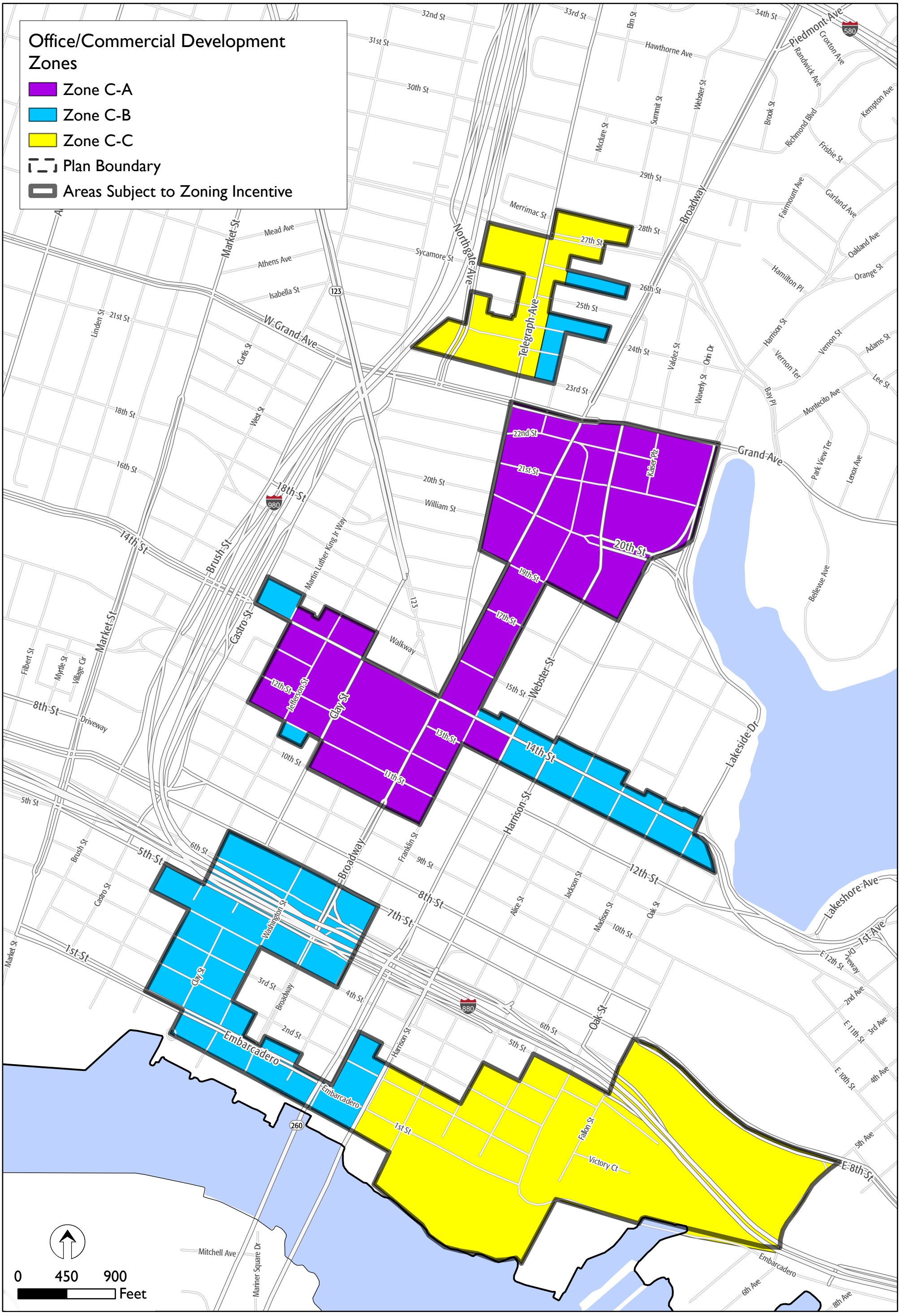
See maps for boundaries of development zones.

/a/ Equivalency between value capture per dwelling unit and per gross residential building square foot (excluding parking) reflects average unit size of 780 net square feet and 78% efficiency ratio of net-to-gross building area.

Note to Reader: The economic analysis was refined after the DOSP Draft Zoning Amendments were released. There are two changes in the results presented in this report that will be included in the revised Draft Zoning Amendments. First, boundaries of the value capture zones in the Jack London area have been modified on both Map 3 and Map 4. Second, the value capture contributions for office/commercial development in Table 3 are slightly higher for two of the zones, as a result of late changes in proposed ZIP intensity area zoning that affected the value capture estimates.



Map 3: Zoning Incentive Program Residential Development Zones



Map 4: Zoning Incentive Program Office/Commercial Development Zones

II. ESTIMATES OF THE COSTS OF COMMUNITY BENEFITS DESIRED IN EXCHANGE FOR HIGHER-INTENSITY DEVELOPMENT AND THE MAGNITUDE OF BENEFITS THAT COULD BE PROVIDED

Purpose

Section II of this report presents estimates of the costs of community benefits desired in exchange for ability to build higher-intensity development under the Zoning Intensity Program (ZIP). It also identifies the potential magnitudes of benefits that could be provided by ZIP project contributions for community benefits.

Cost Estimates for Desired On-site Community Benefits

Costs are estimated for the following community benefits that have been identified by the city and community:

- Below market-rate, ground floor commercial space in the project
- On-site affordable housing units
- Public restrooms in the building lobby
- Streetscape, open space, and flood control improvements exceeding basic city requirements.

These four benefits are described and their costs are identified in the sections that follow.

Community Benefit: Below Market-Rate, Ground Floor Commercial Space

This community benefit would provide ground floor, rental rate discounts for qualified retail, commercial, arts, and non-profit tenants that meet the City's tenanting priorities. The cost to the development is the foregone rental revenue negatively impacting project operating income on an ongoing basis. The cost estimates are presented in Figure 1 on the next page.

Figure 1

Cost of On-Site, Below Market-Rate, Ground Floor Commercial Space

Characteristics: Rental rate discounts for qualified retail, commercial, arts, and non-profit tenants.

Cost Factors: Foregone rental revenue negatively affecting project operating income on an ongoing basis.

Cost Assumptions/Estimates:

- Rent at 50% of market rate for ground floor use:

  $32 psf NNN per market rate rent (2021 dollars)

  $16 psf NNN per year rent when discounted 50%

  $16 psf NNN per year rent foregone

- Tenant pays operating expenses (maintenance, utilities, insurance, taxes).
- Ongoing opportunity cost capitalized at 5.5%.

Cost: $290 per rentable square foot capitalized cost

Examples:	Discounted space	10,000 sf	5,000 sf
	Foregone annual operating income	$160,000	$80,000
	Capitalized cost	$2.9 mil.	$1.45 mil.

Note: The analysis assumes a realistic ground floor commercial rent in the DOSP area. There can be some variation among specific locations within the area.

Community Benefit: <u>On-Site Affordable Housing</u>

Desired community benefits also include housing units in downtown development projects that are rented at below-market rates affordable to households with moderate or lower incomes. The cost of including affordable units on-site is the foregone rental revenue over time from renting units at affordable levels below their market rents.

The cost estimates for on-site affordable housing are shown in Figure 2 and Table 4 on the following pages. The costs vary depending on three factors:

- Income level assumed for the affordable units. Four levels are analyzed.

- Size and type of units designated for affordable housing. New mid-rise and high-rise housing developments in the DOSP area include studios, one-bedroom, and two-bedroom units. All three types/sizes of units are analyzed.

- Market-rate rents for the new housing which show some variation by location/subarea and by building type/unit location (high-rise with views, units on lower floors, more or less square feet within a size category, etc.) The analysis uses the mid-point of rents for new downtown housing by size/type of units.

The analysis shows that the costs of on-site affordable housing are high. High-intensity developments in the DOSP area include the highest-cost housing projects in Oakland, and those projects require high rents for project feasibility. Reduced revenue to provide affordable housing units is costly as a result.

In addition to the costs estimated here, on-site affordable housing requires monitoring, annual reporting, and procedures to identify and qualify new tenants when units turn over, resulting in some additional operating cost. Larger projects with on-site affordable housing may contract out for their management. These additional operating costs have not been estimated and included for the cost estimates in Figure 2 and Table 4.

Figure 2

Costs of On-Site Affordable Housing

Characteristics: Rental rate discounts for on-site affordable housing.

Cost Factors: Foregone rental revenue negatively affecting project operating income on an ongoing basis.

Cost Assumptions/Estimates:

- Costs of on-site affordable housing units are developed in Table 4 on the next page.
- For implementation of the ZIP, it is reasonable to assume costs per affordable unit at the mid-point of the cost ranges identified in Table 4. These costs are shown below.
- Ongoing cost of foregone rental revenue capitalized at 4.5%.

Cost per Affordable Unit by affordability category and unit size:

	Studio	1 BR	2 BR
Extremely low income (30% AMI)	$637, 330	$774,400	$1,030,870
Very low income (50% AMI)	$520,000	$640,530	$833,200
Low income (60% AMI)	$461,330	$573,330	$807,730
Moderate income (110% AMI)	$168,530	$238,400	$430,930

- On-site affordable housing requires monitoring, annual reporting, and procedures to identify and qualify new tenants when units turn over, resulting in some additional operating costs not included in these estimates.

Table 4
Costs of On-Site Affordable Housing Units, by Size of Unit

	New Housing Built in DOSP by Unit Size		
	Studios	**1 Bedroom Units**	**2 Bedroom Units**
Monthly Rent for Affordable Housing Units by Income Level and Unit Size: /a/			
– Extremely low income (30% AMI)	$565	$641	$693
– Very low income (50% AMI)	$1,005	$1,143	$1,258
– Low income (60% AMI)	$1,225	$1,395	$1,541
– Moderate income (110% AMI)	$2,323	$2,651	$2,954
Monthly Market Rents for New Housing in DOSP by Unit Size /b/	$2,810 – 3,100	$3,370 – 3,720	$4,340 – 4,800
Cost per Affordable Unit: capitalized annual foregone rental revenue by affordability category and unit size:			
– Extremely low income (30% AMI)	$599,000 – 676,000	$728,000 – 821,000	$973,000 – 1,095,000
– Very low income (50% AMI)	$481,000 – 559,000	$594,000 – 687,000	$822,000 – 945,000
– Low income (60% AMI)	$423,000 – 500,000	$527,000 – 620,000	$746,000 – 869,000
– Moderate income (110% AMI)	$130,000 – 207,000	$192,000 – 285,000	$370,000 – 492,000

NOTE: On-site affordable housing also requires monitoring, annual reporting, and procedures to qualify new tenants when units turn over. These add additional operating cost not quantified in the costs shown in this table. Data are for 2021.

/a/ City of Oakland, Memorandum, "Income and Rent Limit Methodology", May 22, 2022; State of California Department of Housing and Community Development, 2021; Oakland Housing Authority, 2022; Hausrath Economics Group.

/b/ Market rents for new housing units in projects recently developed in greater downtown Oakland, including rent data by type and size of unit from apartments.com and other sources.

Community Benefit: Public Restrooms On-Site

A third community benefit would provide on-site restroom facilities that are accessible to the public on the ground floor of the new building. Cost estimates in Figure 3 assume two publicly-accessible restrooms in the building lobby, open during normal business hours.

This community benefit is defined as two public restrooms in the building lobby. As such, the size and cost of this benefit is "fixed" and does not vary with the amount of additional development in an individual project. As a result, a larger development choosing to provide this benefit may have additional value capture remaining for funding another community benefit in addition to providing public restrooms on-site.

Figure 3

Cost of Public Restrooms

Characteristics: Publicly-accessible restrooms on the ground floor of a new building

Cost Factors: One-time cost to construct and ongoing annual operating and maintenance costs

Cost Assumptions:

- Two publicly-accessible restrooms built on the ground floor: $100,000 assuming $1,000 per sq. ft. for two 50 sq. ft. restrooms.
- Assumes restrooms are accessible to the public during normal business hours.
- Building pays for ongoing cleaning and upkeep. Assumes $40 per hour for staff (fully loaded cost) or janitorial service, up to 4 hours a day, 5 days a week. $800 per week and $41,600 per year plus $2,400 for supplies. Total annual operating cost: $44,000.
- Ongoing operating cost capitalized at 5.5%.
- No additional security cost, assuming ground-floor security person when building is open.

Cost Estimate:

$10,000 to construct

$800,000 capitalized operating cost

$900,000 total

Community Benefit: Streetscape, Open Space, and Flood Control Improvements Exceeding Basic City Requirements

This benefit includes the implementation of public streetscape and/or open space improvements that are consistent with the Downtown Oakland Specific Plan and exceed City requirements. It also includes the implementation of flood control improvements that serve areas beyond the project site, including in areas adjacent to or surrounding the site. Public streetscape and open space improvements include streetscape improvements such as pedestrian right-of-way and open space improvements such as landscaping, tree planting and public art installation. Flood control improvements include raising public lands, construction of drainage facilities and retaining walls, and other similar improvements.

It is anticipated that these types of benefits and their costs will be identified for specific projects at time of development and evaluated in comparison to the value capture requirement for that particular project.

Potential Community Benefits from Higher-Intensity Development under the ZIP

Section I of this report addresses the additional real estate value that could be created by higher-intensity development under the ZIP, and it identifies the required contribution of that value for community benefits. The value capture to fund community benefits can now be compared with the cost estimates for desired community benefits in this section to identify the magnitudes of benefits that could be supported.

Estimates shown in **Table 5** and **Table 6** identify the magnitudes of on-site community benefits that could be supported:

- per 100 additional market rate housing units, and
- per 100,000 additional square feet of office space.

The community benefits for specific, individual projects will depend on the amount of additional higher-intensity development built and the ZIP Development Zone in which the project is located.

The amount of additional development from higher-intensity zoning under the ZIP can vary widely among projects given the large number and wide range of combinations of base zoning and higher-intensity zoning proposed. For example, development project prototypes analyzed for estimating real estate value created included projects that range from 33 to 475 additional dwelling units built and from 110,000 to over 600,000 additional square feet of office space built due to the higher-intensity development allowed under the ZIP.

The ZIP also includes the option to provide community benefits through payment of an In-Lieu Fee instead of providing benefits on-site. The in-lieu fees by development zone are shown in **Table 7**. An applicant also may provide a combination of on-site benefits and an in-lieu fee.

Table 5
Estimated On-site Community Benefits Per 100 Additional Market Rate Housing Units Built
DOSP Zoning Incentive Program

				ZIP Residential Development Zone		
				Zone R-A	**Zone R-B**	**Zone R-C**
Value capture per additional unit under ZIP (dollars per unit)				$22,000	$15,000	$12,000
90% (discounted amount) for benefits on-site				$19,800	$13,500	$10,800
Cost of Community Benefits				**Benefits Provided On-Site**		
On-Site, BMR Ground Floor Commercial Space				**Sq. Ft. of Subsidized Space for Each 100 Add'l Market Rate Units**		
	$290 per sq. ft. subsidized			6,828	4,655	3,724
On-Site Affordable Housing	Cost per Affordable Unit			**Affordable Units Supported for Each 100 Add'l Market Rate Units**		
	Extremely Low Income	Studio	$637,330	3	2	2
		1 Bedroom	$774,400	3	2	1
		2 Bedroom	$1,033,870	2	1	1
	Very Low Income	Studio	$520,000	4	3	2
		1 Bedroom	$640,530	3	2	2
		2 Bedroom	$883,200	2	2	1
	Low Income	Studio	$461,330	4	3	2
		1 Bedroom	$573,330	3	2	2
		2 Bedroom	$807,730	2	2	1
	Moderate Income	Studio	$168,530	12	8	6
		1 Bedroom	$238,400	8	6	5
		2 Bedroom	$430,930	5	3	3
Public Restrooms and Other Benefits				**Restrooms Provided for Each 100 Add'l Market Rate Units**		
	$900,000 - 2 ground floor restrooms			2	2	2
				Other Benefits Funding for Each 100 Add'l Market Rate Units		
	Other community benefits			$1,080,000	$450,000	$180,000
Streetscape, Open Space and Flood Control Improvements				**Streetscape, Open Space & Flood Control Improvements for Each 100 Add'l Market Rate Units**		
	Investments per ZIP Zone requirements			$1,980,000	$1,350,000	$1,080,000

Table 6
Estimated On-Site Community Benefits Per 100,000 Additional Square Feet of Office Space
DOSP Zoning Incentive Program

		ZIP Office/Commercial Development Zone		
		Zone C-A	**Zone C-B**	**Zone C-C**
Value capture per additional square foot (dollars per square foot)		$22	$15	$12
90% (discounted amount) for benefits on-site		$20	$14	$11
Cost of Community Benefits		**Benefits Provided On-Site**		
On-Site, BMR Ground Floor Commercial Space		**Sq. Ft. of Subsidized Space for Each 100,000 Sq. Ft. Additional Office Space**		
	$290 per sq. ft. subsidized	6,828	4,655	3,724
Public Restrooms and Other Benefits		**Restrooms Provided for Each 100,000 Sq. Ft. Additional Office Space**		
	$900,000 - 2 ground floor restrooms	2	2	2
		Other Benefits Funding for Each 100,000 Sq. Ft. Additional Office Space		
	Other community benefits	$1,080,000	$450,000	$180,000
Streetscape, Open Space and Flood Control Improvements		**Streetscape, Open Space & Flood Control Improvements for Each 100,000 Sq. Ft. Additional Office Space**		
	Investments per ZIP Zone requirements	$1,980,000	$1,350,000	$1,080,000

Table 7
In-Lieu Fees for Community Benefits
Zoning Incentive Program

Residential Development		Office/Commercial Development	
In-lieu Fee per 100 additional market-rate housing units		In-lieu Fee per 100,000 additional market-rate housing units	
Zone	In-Lieu Fee	Zone	In-Lieu Fee
R-A	$2,220,000	C-A	$2,200,000
R-B	$1,500,000	C-B	$1,500,000
R-C	$1,200,000	C-C	$1,200,000