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Devan Reiff, AICP
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Dear Devan Reiff and Ed Manasse:

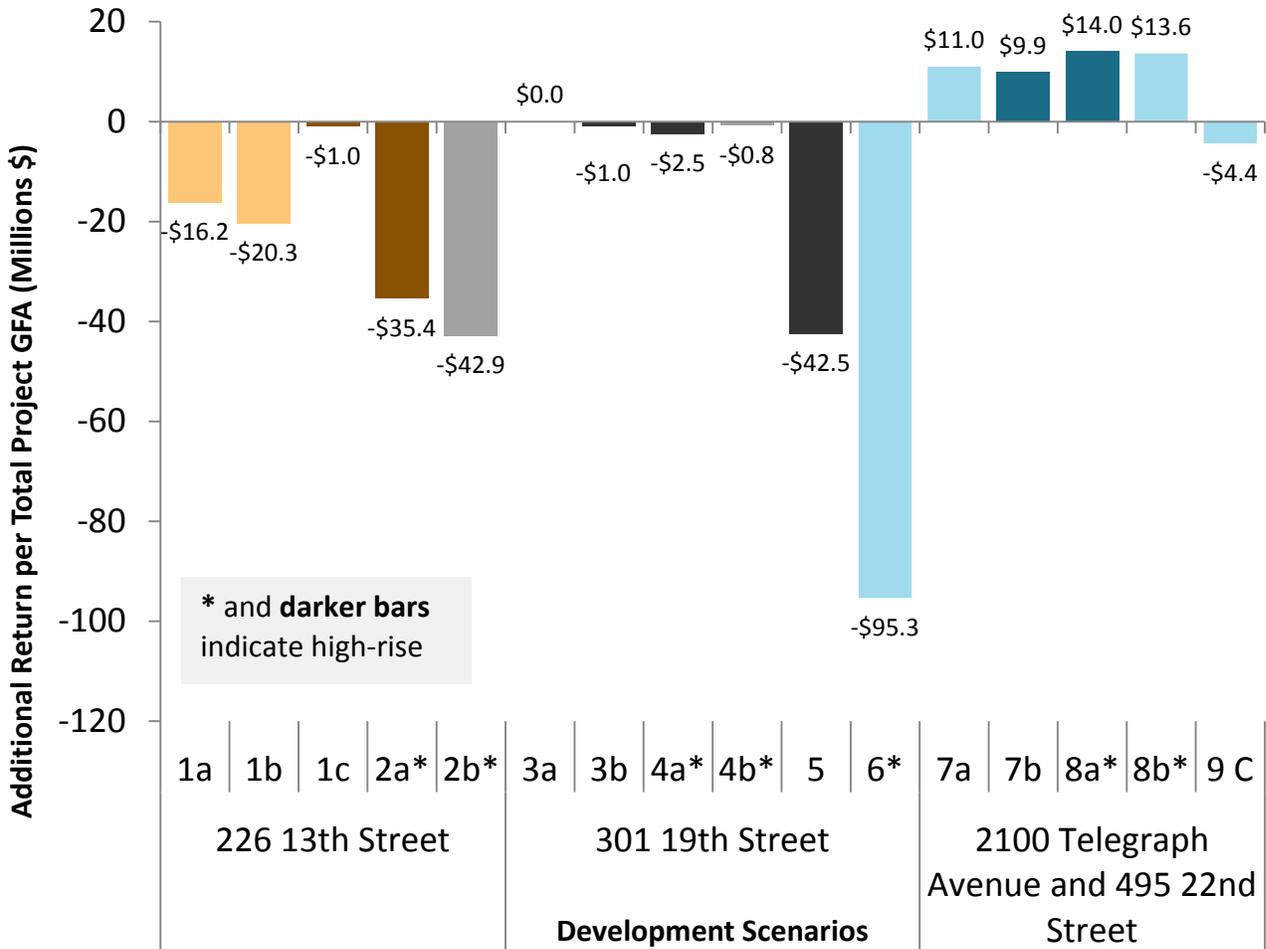
Regarding: Downtown Oakland Feasibility Analysis

In 2013, AECOM performed a development feasibility analysis of three opportunity sites in Downtown Oakland. The purpose of the study was to understand the extent to which the City could create a density bonus program where developers would provide public benefits for additional height allowances (e.g. a developer would pay for transit enhancements for the opportunity to build 18 stories instead of 6).

To complete the analysis, AECOM performed a market assessment of prevailing rents and determined development costs through consultation with our internal costing group as well as local developers active in the area. The findings of the study were based on rents from new rental projects in Downtown Oakland. AECOM researched rents in October of 2013. The average rents for Downtown Oakland were approximately \$2.90 per rentable square foot with higher rents in Uptown Oakland and lower rents in the Chinatown area.

After running the feasibility analysis through a static pro forma model, AECOM concluded that mixed-use residential housing at the Uptown site (2100 Telegraph) was feasible, while the Lake Merritt (301 19th Street) and the Chinatown (226 13th Street) sites were not feasible. Furthermore, the lower density alternatives were closest to being economically feasible because the base development cost for low rise was lower per square foot than the high rise development (See Figure 1 for a summary). At the time of our analysis, AECOM also performed a sensitivity analysis where we adjusted rents upward by 15% and 30% to understand when development feasibility may be realized at the Lake Merritt and Chinatown sites. The analysis showed Lake Merritt as being closest to development feasibility, especially for low-rise mixed use development (Type V construction).

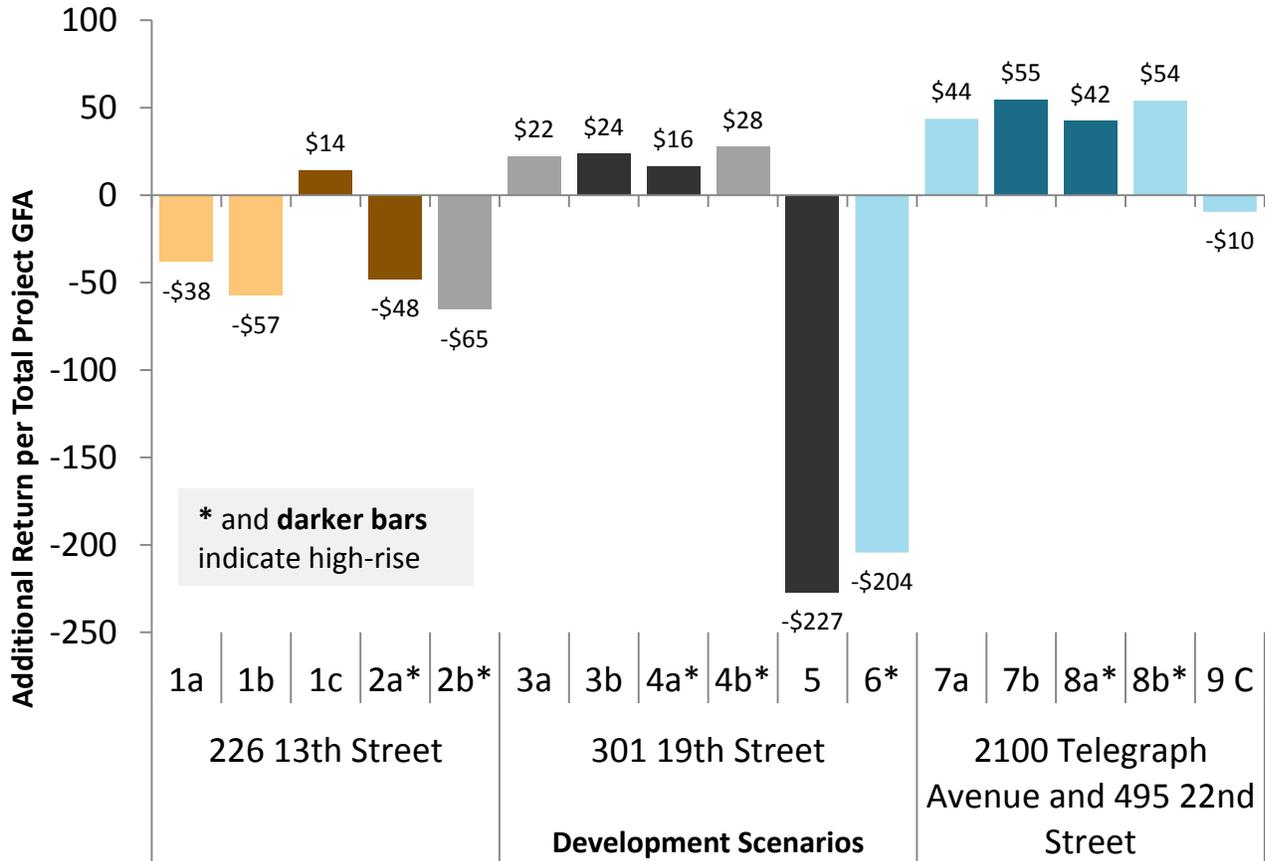
Figure 1: Development Feasibility Summary, October 2013



Following our development feasibility analysis and at the request of City staff, AECOM met with City staff and Cushman Wakefield to discuss our findings. Representatives from Cushman Wakefield stated that Oakland’s investment conditions have recently changed due to significant housing pressures in San Francisco and the major price difference in rents between the two cities. In addition, Cushman Wakefield stated that investment interest has grown in Oakland, in part because of the potential for market rent gains and secondly due to the limited opportunity for additional rent gains in San Francisco. As such, institutional investment is considering development opportunities in nearby communities, including Oakland.

After the meeting, AECOM performed a second survey of asking rents for new residential housing in Downtown Oakland on March 5th, 2014. These were the same properties AECOM evaluated to establish prevailing asking rents in October 2013. On average, asking rents in Downtown Oakland had increased to \$3.13 per square foot of living area, or approximately 8 percent since October. The rapid increase in rents in less than six months demonstrates the growth in opportunity.

Figure 2: Revised Development Feasibility Summary (March 2014)



AECOM re-ran its pro forma model to understand how development feasibility changed from October 2013 to March 2014. The results are summarized in Figure 2. The revised calculations show rental residential development for both low rise and high rise are feasible at the Lake Merritt location, assuming no change in other development costs. Also, Scenario 1c, a zero land cost scenario with modular construction near Chinatown, also suggests economic feasibility. Overall, the continued growth in the rental housing markets in the greater Bay Area and especially in Downtown Oakland indicate renewed development opportunity. Should capitalization rates decrease and/or rents increase, the City is likely to experience an increase in mixed use development applications in and around the Downtown.

Despite these changes in local real estate conditions, the primary recommendations of the development feasibility analysis remain applicable to the current condition. Specifically, public benefit charges would be best applied regardless of density in the form of an overall development fee as there's limited development incentive to build a high-rise tower over a less expensive and less risky six-story mixed use development. Fees set specifically for high rise development would further incentivize developers to build low-rise Type V construction, which would result in limited public benefit contributions. Also, providing additional transparency in the overall building fee program and development pipeline would provide additional investment confidence.

I am happy to discuss further how recent changes in the market have shifted development dynamics in Downtown Oakland. Should you have any questions, feel free to reach me by phone or email.

Sincerely,



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