



Impact Fee Nexus & Economic Feasibility Study



Stakeholder Working Group
November 5, 2015

**Urban
Economics**



Agenda

- Introductions
- Study Background
- Introduction to Development Impact Fees
- Oakland Impact Fee Nexus Study
- Market Context & Development Feasibility in Oakland
- Wrap Up

Oakland Impact Fee Stakeholder Working Group

November 5, 2015

INTRODUCTIONS

Ground Rules

- Come prepared
- Participate fully (one at a time)
- Keep discussion on track
- Be open to alternate views

Oakland Impact Fee Stakeholder Working Group

November 5, 2015

STUDY BACKGROUND

Project Objectives

TECHNICALLY DEFENSIBLE

ECONOMICALLY FEASIBLE

STAKEHOLDER SUPPORT

Consultant Team

- Hausrath Economics Group (prime)
- Urban Economics
- Vernazza Wolfe Associates
- Fehr & Peers
- BKF Engineers
- Lamphier-Gregory

Stakeholder Working Group

Oakland Impact Fee Stakeholder Working Group

November 5, 2015

DEVELOPMENT IMPACT FEES

Development Impact Fees

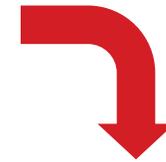
- One-time payment
- Capital projects only
- Not for existing deficiencies or O&M
- Pay-as-you-go

Impact Fee Nexus Analysis

**Development Needs
Affordable Housing and
Public Facilities**



**Set Fee
Roughly
Proportional
to Cost of
Needs ¹**

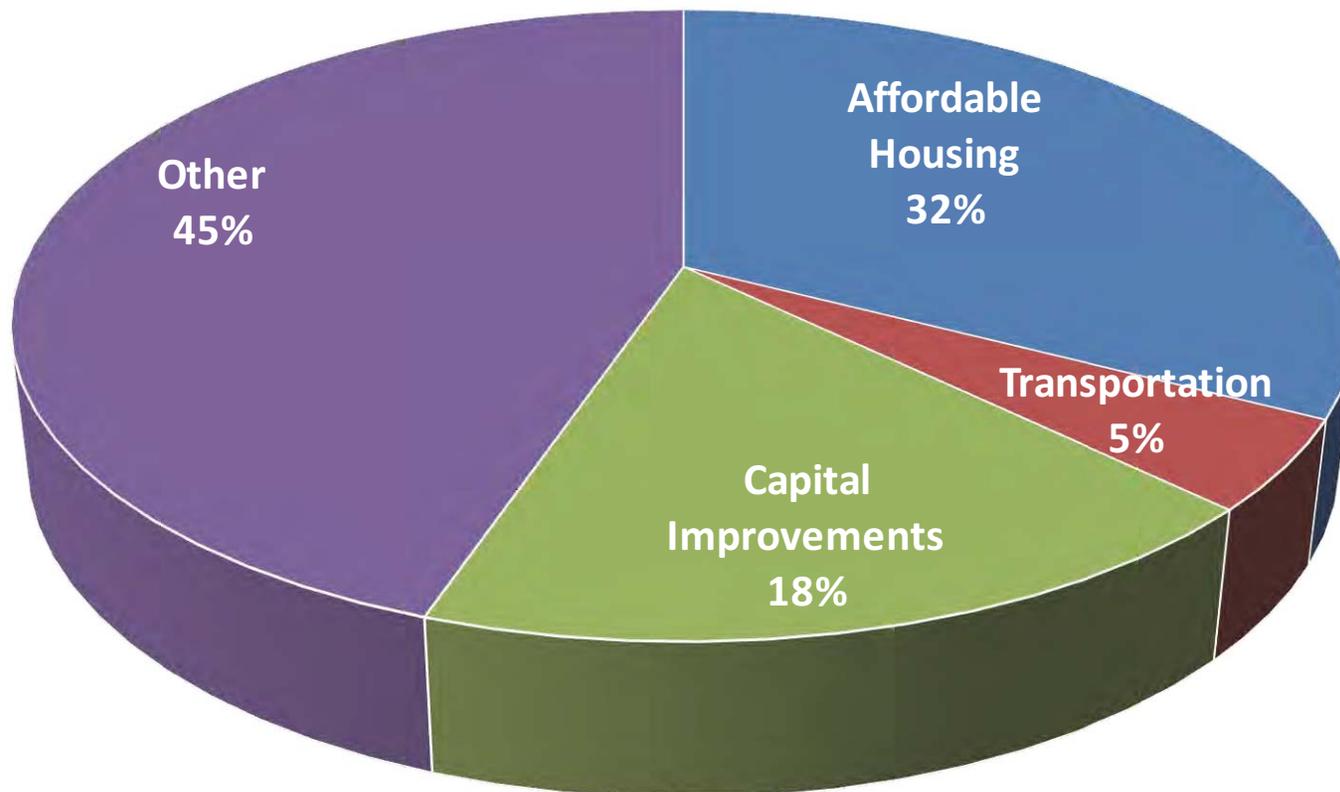


**Revenue Pays For New
Housing & Improved
Facilities To Meet Need**



¹ The nexus analysis calculates the maximum legal amount that may be charged as an impact fee. In urban areas like Oakland the maximum legal fee amount is typically higher than the amount that can feasibly be supported by new development.

Use of Impact Fees Example: Multi-Family Rental Housing



Note: Based on current impact fees in Alameda, Berkeley, Emeryville, Hayward, and Richmond. Shares may vary based on specific fee schedule and project characteristics. In addition:

- “Affordable Housing” share may vary depending on in-lieu fee options and density bonuses.
- “Capital improvements” category includes fire, police, parks, library, and storm drain.
- “Other” category primarily includes water and sewer fees, as well as public art and school fees.

Oakland Impact Fee Stakeholder Working Group

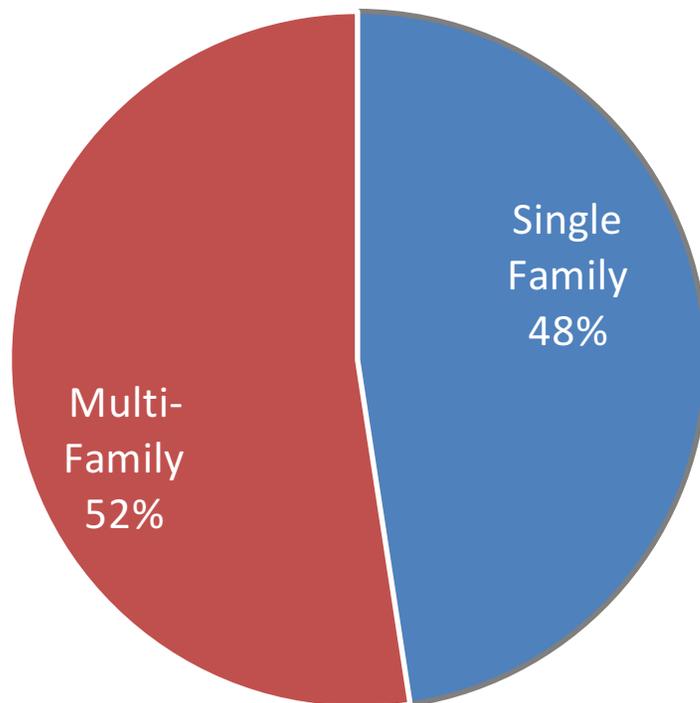
November 5, 2015

OAKLAND NEXUS STUDY

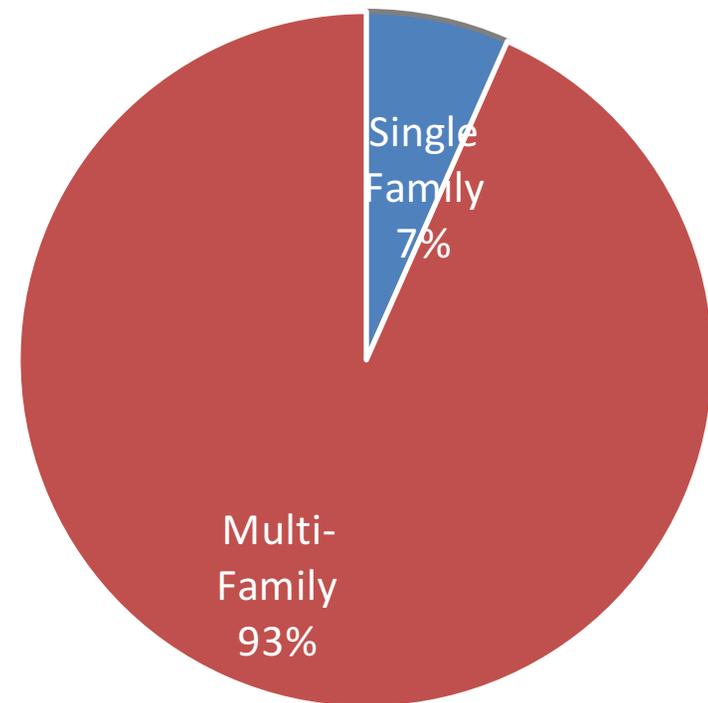
Residential Land Use in Oakland

Allocation of Dwelling Units (Existing vs. Growth)

Existing Land Use



Projected Growth

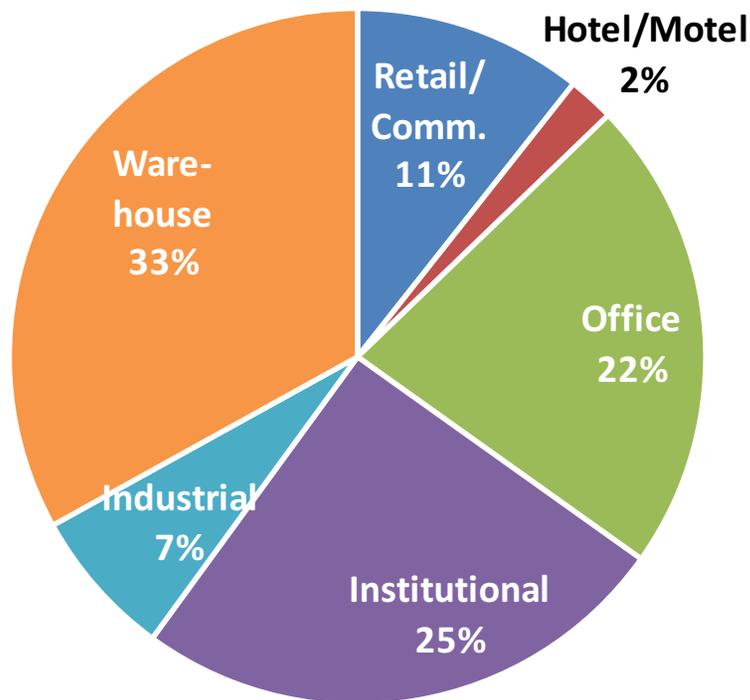


Source: Hausrath Economics Group;
Association of Bay Area Governments.

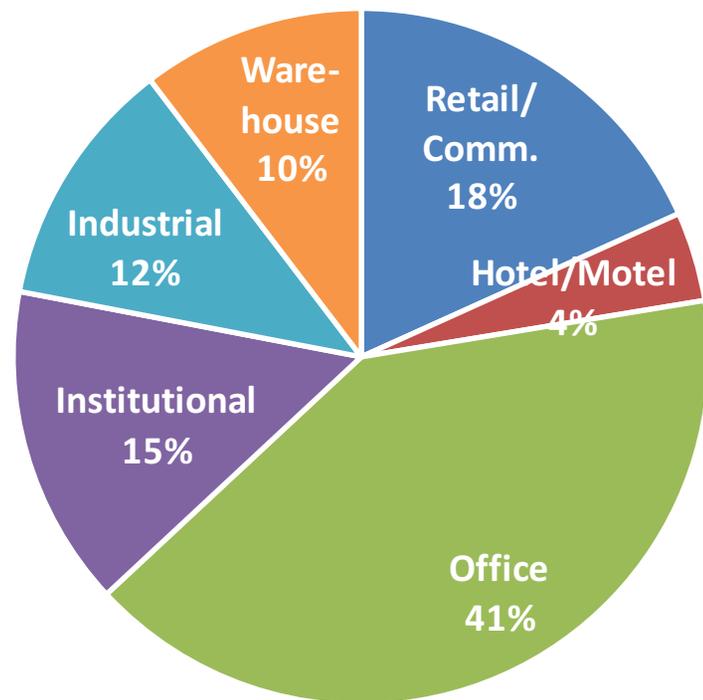
Nonresidential Land Use in Oakland

Allocation of Building Space (Existing vs. Growth)

Existing Land Use



Projected Growth



Note: Excludes local government facilities.
Source: Hausrath Economics Group;
Association of Bay Area Governments.

Table 1: 2015 Development

Land Use	Population¹ or Employment	Density²	Housing Units or 1,000 Bldg. Sq. Ft.
Residential			
Single Family	226,300	2.77	81,700
Multi-Family	179,300	1.99	90,000
Total Residential	405,600	2.36	171,700
Nonresidential			
Retail/Commercial	33,400	386	12,900
Hotel/Motel	2,900	900	2,600
Office	82,100	325	26,700
Institutional	48,800	625	30,500
Light Industrial	16,700	500	8,400
Warehouse	22,200	1,800	40,000
Subtotal	206,100		121,100
On-Site Construction	1,200	-	-
Local Government ³	11,500	670	7,700
Total Nonresidential	218,800		128,800

¹ Household population only. Excludes population living in group quarters.

² Population per housing unit or square feet per worker.

Source: Hausrath Economics Group.

Types of Fees Under Study



Affordable Housing

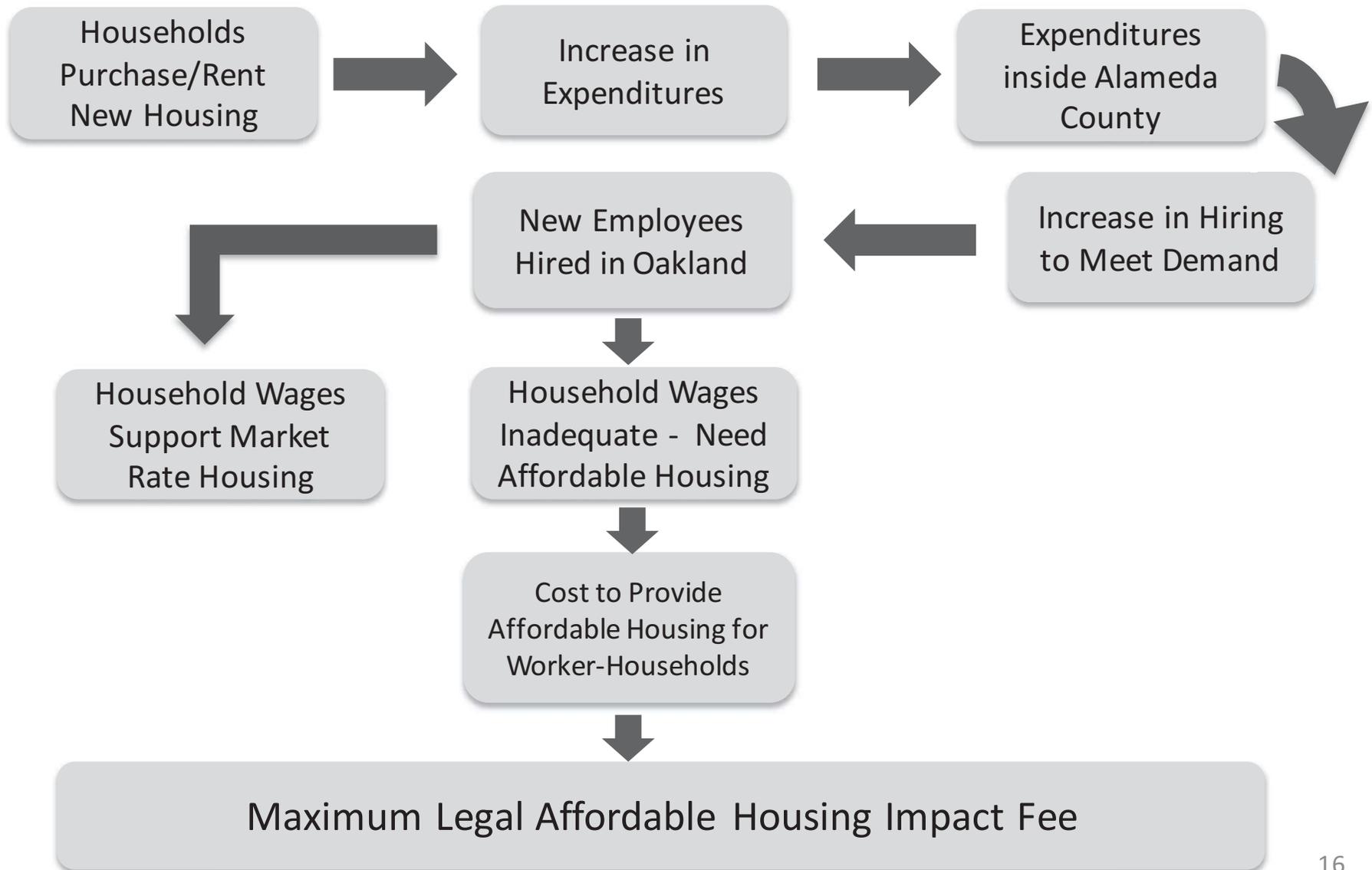


Transportation

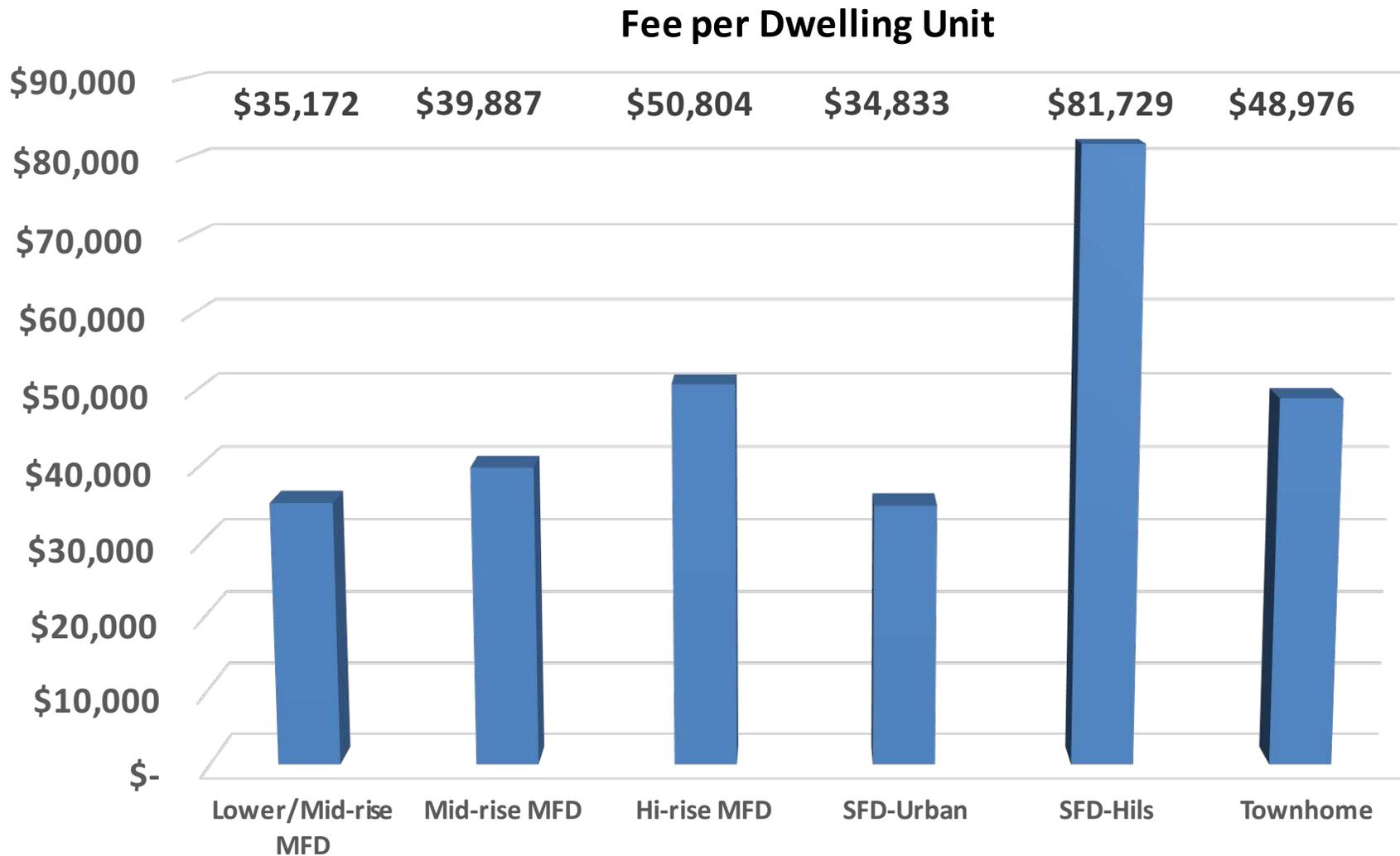


Capital Improvements

Maximum Legal Affordable Housing Impact Fee Nexus Analysis



Maximum Legal Affordable Housing Impact Fee



Note: In urban areas like Oakland the maximum legal fee amount is typically higher than the amount that can feasibly be supported by new development.

Maximum Legal Transportation Impact Fee Nexus Analysis

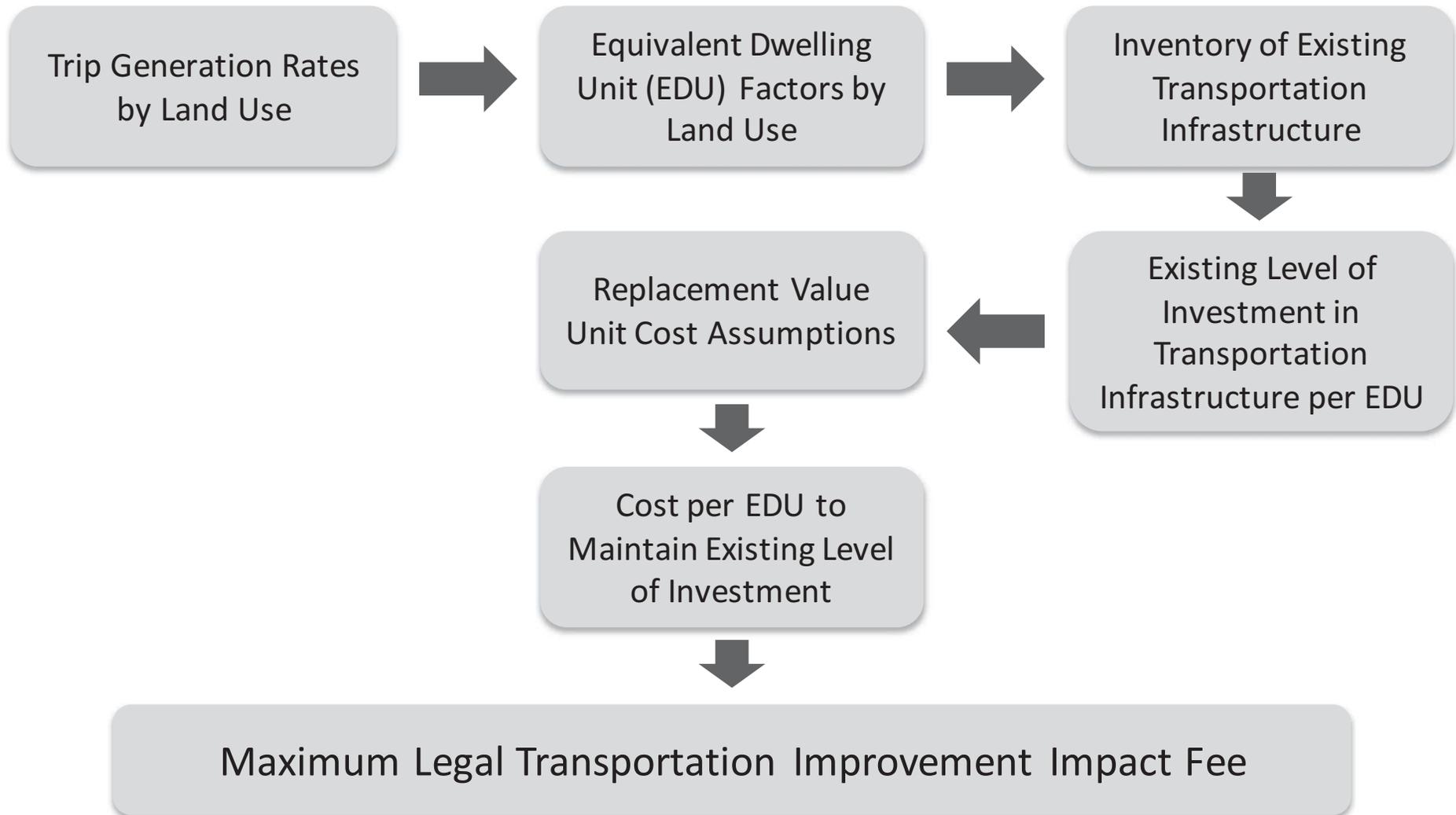


Table 2: Average Daily Trip (ADT) Rates

Land Use	Average Daily Trip (ADT) Rate				Land Use Category	
	Sub-Category Weight	ADT Rate per du/ksf ¹	New Trip Share	Preliminary EDU Factor ²	ADT Rate (Source: ITE)	New Trip Share (Source: SANDAG)
Residential						
Single Family		9.52	100%	1.00	Single Family Detached	Residential
Multi-Family		6.65	100%	0.70	Apartment	
Nonresidential						
Retail/Commercial	100%	84.06	NA	4.15	Weighted average of sub-categories	
<i>Eating & Drinking</i>	21%	240.32	47%	11.86	<i>Average of sub-categories³</i>	<i>Community</i>
<i>All Other</i>	79%	42.70	47%	2.11	<i>Shopping Center</i>	<i>Shopping Center</i>
Hotel/Motel ⁴		11.13	58%	0.68	Average of Hotel and Motel ⁴	Lodging
Office		11.03	77%	0.89	General Office	Commercial Office
Institutional	100%	17.64	NA	1.20	Weighted average of sub-categories	
<i>Education</i>	38%	16.03	68%	1.15	<i>Average of sub-categories⁵</i>	
<i>Non-local Gov't</i>	17%	27.92	50%	1.47	<i>Government Office Complex</i>	<i>Government</i>
<i>Hospital</i>	21%	24.68	73%	1.89	<i>Average of Hospital and Medical-Dental Office Building</i>	<i>Hospital</i>
<i>Social Assistance</i>	6%	1.33	100%	0.14	<i>Assisted living</i>	<i>Residential</i>
<i>Cultural</i>	19%	9.11	64%	0.61	<i>Church</i>	<i>Church</i>
Light Industrial		6.97	79%	0.58	General Light Industrial	Industrial Park
Warehouse		3.56	92%	0.34	Warehousing	Industrial Plant
Local Government		27.92	50%	1.47	Warehousing	Industrial Plant

¹ Represents average daily person trip ends across all modes per dwelling unit (du) or per 1,000 building square feet (ksf).

² Equivalent dwelling units (EDU) are the adjusted trip rates (ADT x new trip share) normalized so one single family unit is one EDU.

Residential EDUs are expressed per dwelling unit and nonresidential EDUs are expressed per 1,000 building square feet.

³ Quality Restaurant, High-Turnover Restaurant, and Fast-Food Restaurant with Drive-Through Window weighted equally.

⁴ ITE rates per room converted to rates per ksf based on 620 square feet per room.

⁵ Elementary School, Middle/Junior High School, High School, Junior/Community College weighted by number of grade levels.

Source: Institute for Transportation Engineers (ITE), *Trip Generation (9th Edition)*, 2012; San Diego Association of Governments (SANDAG), *Brief Guide of Vehicular Trip Generation Rates*, April 2002.

Table 3: 2015 Transportation Equivalent Dwelling Units (EDU)

Land Use	Existing Development (du or ksf)	Preliminary EDU Factor ¹	Preliminary Transportation EDU	Retail Burden Shift ²		Revised Transportation EDU	Revised Transportation EDU Factor ¹	Final Transportation EDU Factor ¹	Final Transportation EDU
				Share	EDU				
Retail/Commercial	12,900	4.15	53,544	(79%)	(42,299)	11,245	0.87	0.71	9,199
Residential									
Single Family	81,700	1.00	81,700	60%	18,139	99,839	1.22	1.00	81,700
Multi-Family	90,000	0.70	63,000		13,987	76,987	0.86	0.70	63,443
Total Residential	171,700	0.84	144,700		32,126	176,826			145,143
Nonresidential (excluding Retail/Commercial)									
Hotel/Motel ³	2,600	0.68	1,768	19%	196	1,964	0.76	0.62	1,620
Office	26,700	0.89	23,763		2,634	26,397	0.99	0.81	21,666
Institutional	30,500	1.20	36,473		4,042	40,515	1.33	1.09	33,250
Industrial	8,400	0.58	4,872		540	5,412	0.64	0.52	4,407
Warehouse	40,000	0.34	13,600		1,507	15,107	0.38	0.31	12,459
Local Government	7,700	1.47	11,319		1,254	12,573	1.63	1.34	10,288
Subtotal	115,900		91,795		10,173	101,968			83,690
Total Nonresidential	128,800		145,339	(32,126)	113,213			92,889	
Total Equivalent Dwelling Units (EDU)									
			290,039			290,039			238,032
Local Government EDU			(11,319)						(10,288)
Total EDU Excluding Local Government			278,720						227,744

¹ Residential EDUs are expressed per dwelling unit and nonresidential EDUs are expressed per 1,000 building square feet.

² Shift of EDUs from retail to non-retail land uses based on the source of retail spending (60 percent from Oakland residential and 19 percent from Oakland non-retail businesses). The remaining retail EDUs (21 percent) are associated with spending from non-Oakland sources.

Source: Hausrath Economics Group; Tables 1 and 2.

Table 4: Transportation Improvement Impact Fee – Existing (2015) Facilities Standard

Facility Name	Inventory	Equivalent Dwelling Units	Level of Investment (per EDU)¹	Average Unit Replacement Cost	Cost (per EDU)
Roadway	70,354,000 sq. ft.	227,744	309	\$ 41	\$ 12,669
Sidewalk	20,420,000 sq. ft.	227,744	90	24	2,160
Curb and Gutter	2,439,000 linear ft.	227,744	11	81	891
Median	3,316,000 sq. ft.	227,744	15	24	360
Path	1,357,000 sq. ft.	227,744	6	24	144
Signals	650 intersections	227,744	3	567,000	1,701
Total					\$ 17,925

¹ Level of investment expressed per EDU for all categories except signals are expressed per 1,000 EDU.

Source: City of Oakland: Tables 3.

Table 5: Transportation Impact Fee -- Maximum Legal Amount¹

Land Use	Cost per		Fee
	EDU	EDU Factor	
Residential			
Single Family	\$ 17,925	1.00	\$ 17,925 per dwelling unit
Multi-Family	17,925	0.70	12,636 per dwelling unit
Nonresidential			
Retail/Commercial	\$ 17,925	0.71	\$ 12.78 per sq. ft.
Hotel/Motel	17,925	0.62	11.17 per sq. ft.
Office	17,925	0.81	14.55 per sq. ft.
Institutional	17,925	1.09	19.54 per sq. ft.
Light Industrial	17,925	0.52	9.40 per sq. ft.
Warehouse	17,925	0.31	5.58 per sq. ft.

¹ In urban areas like Oakland the maximum legal fee amount is typically higher than the amount that can feasibly be supported by new development.

Source: Tables 3 and 4.

Maximum Legal Capital Improvements Impact Fee Nexus Analysis

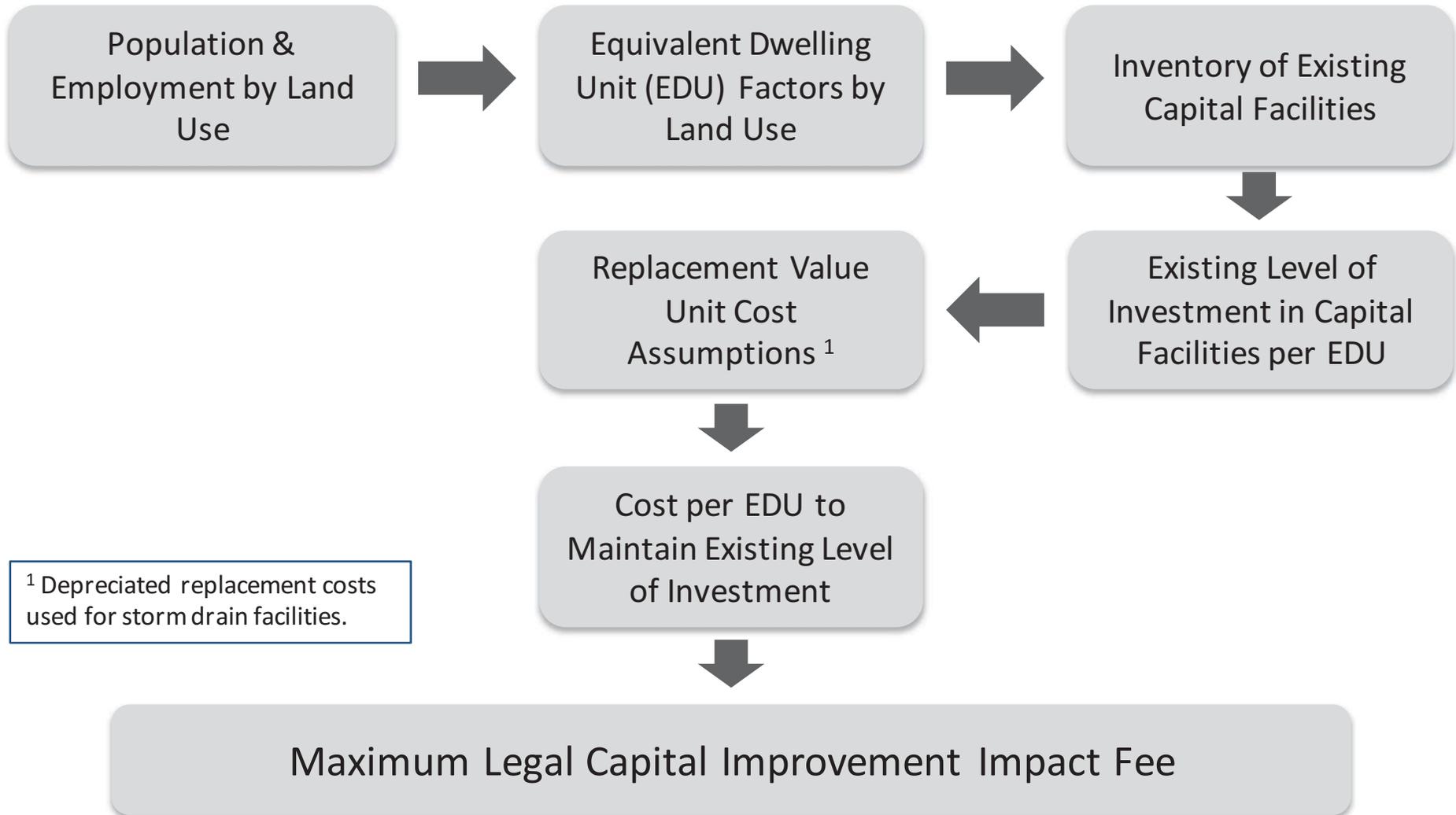


Table 6: 2015 Equivalent Dwelling Units (EDU)

Facility Type & Land Use	Demand Factor¹	Resident / Worker Weighting Factor	Equivalent Dwelling Unit Factor²	2015 Land Use (Housing Units or 1,000 Bldg. Sq. Ft.)	2015 Equivalent Dwelling Units (EDU)
Residential					
Single Family	2.77	1.00	1.00	81,700	81,700
Multi-Family	1.99	1.00	0.72	90,000	64,800
Total Residential				171,700	146,500
Nonresidential					
Retail/Commercial	2.59	0.40	0.37	12,900	4,770
Hotel/Motel	1.11	0.40	0.16	2,600	420
Office	3.08	0.40	0.44	26,700	11,750
Institutional	1.60	0.40	0.23	30,500	7,020
Light Industrial	2.00	0.40	0.29	8,400	2,440
Warehouse	0.56	0.40	0.08	40,000	3,200
Total Nonresidential				121,100	29,600
Total				292,800	176,100

¹ Population per housing unit or workers per 1,000 building square feet.

² Per housing unit or per 1,000 building square feet.

Source: Table 1.

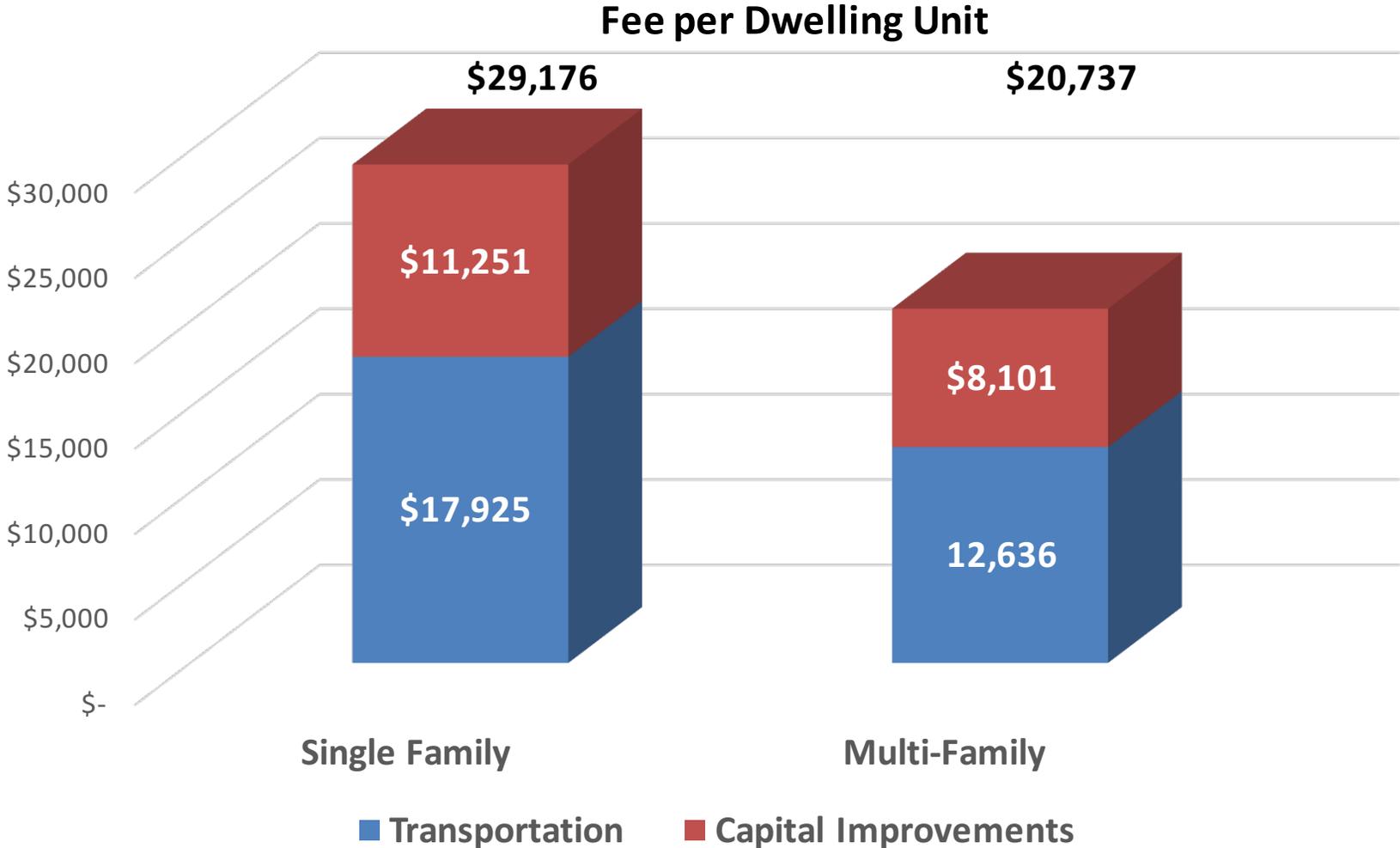
Facility	Facility Inventory		Equivalent Dwelling Units	Level of Investment (per 1,000 EDU)	Cost per Unit	Cost per EDU
	Amount	Units				
Buildings & Land	976,080	bldg. sq. ft.	176,100	5,543	\$ 903	\$ 5,005
Improved Parkland	9,890,348	land sq. ft.	176,100	56,163	64	3,594
Open Space	67,452,577	land sq. ft.	176,100	383,036	0.50	192
Vehicles	719	vehicles	176,100	4.08	103,046	420
Library Collection	1,588,900	land sq. ft.	176,100	9,023	38	343
Storm Drain Facilities	2,120,000	linear ft.	176,100	12,039	141	1,697
Total						\$ 11,251

Sources: City of Oakland; Tables 6.

Land Use	Cost per EDU	EDU Factor	Fee
Residential			
Single Family	\$ 11,251	1.00	\$ 11,251 per dwelling unit
Multi-Family	11,251	0.72	8,101 per dwelling unit
Nonresidential			
Retail/Commercial	\$ 11,251	0.37	\$ 4.16 per sq. ft.
Hotel/Motel	11,251	0.16	1.80 per sq. ft.
Office	11,251	0.44	4.95 per sq. ft.
Instirutional	11,251	0.23	2.59 per sq. ft.
Light Industrial	11,251	0.29	3.26 per sq. ft.
Warehouse	11,251	0.08	0.90 per sq. ft.

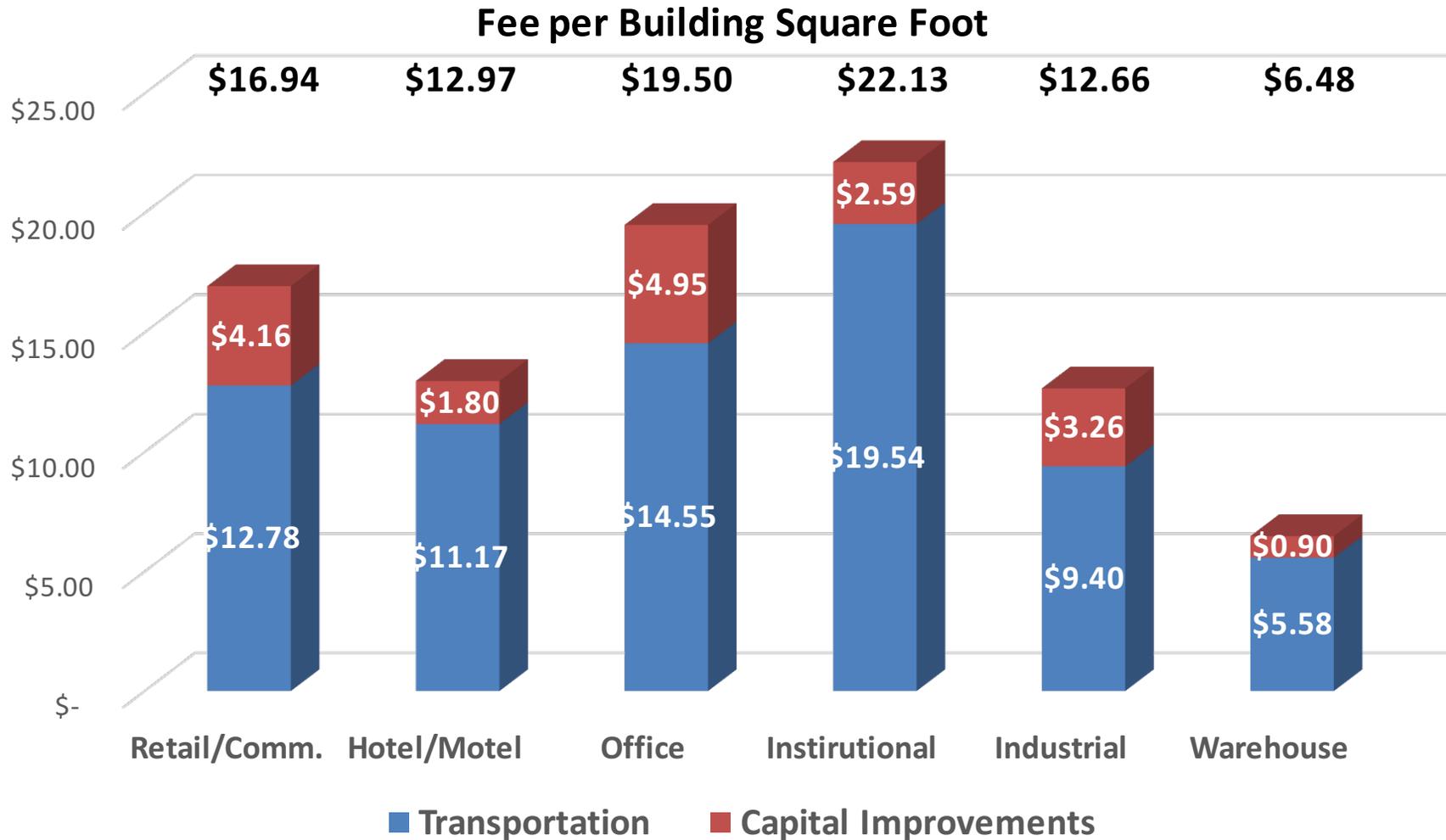
¹ In urban areas like Oakland the maximum legal fee amount is typically higher than the amount that can feasibly be supported by new development.
Source: Tables 6 and 7.

Maximum Legal Transportation and Capital Improvements Impact Fees



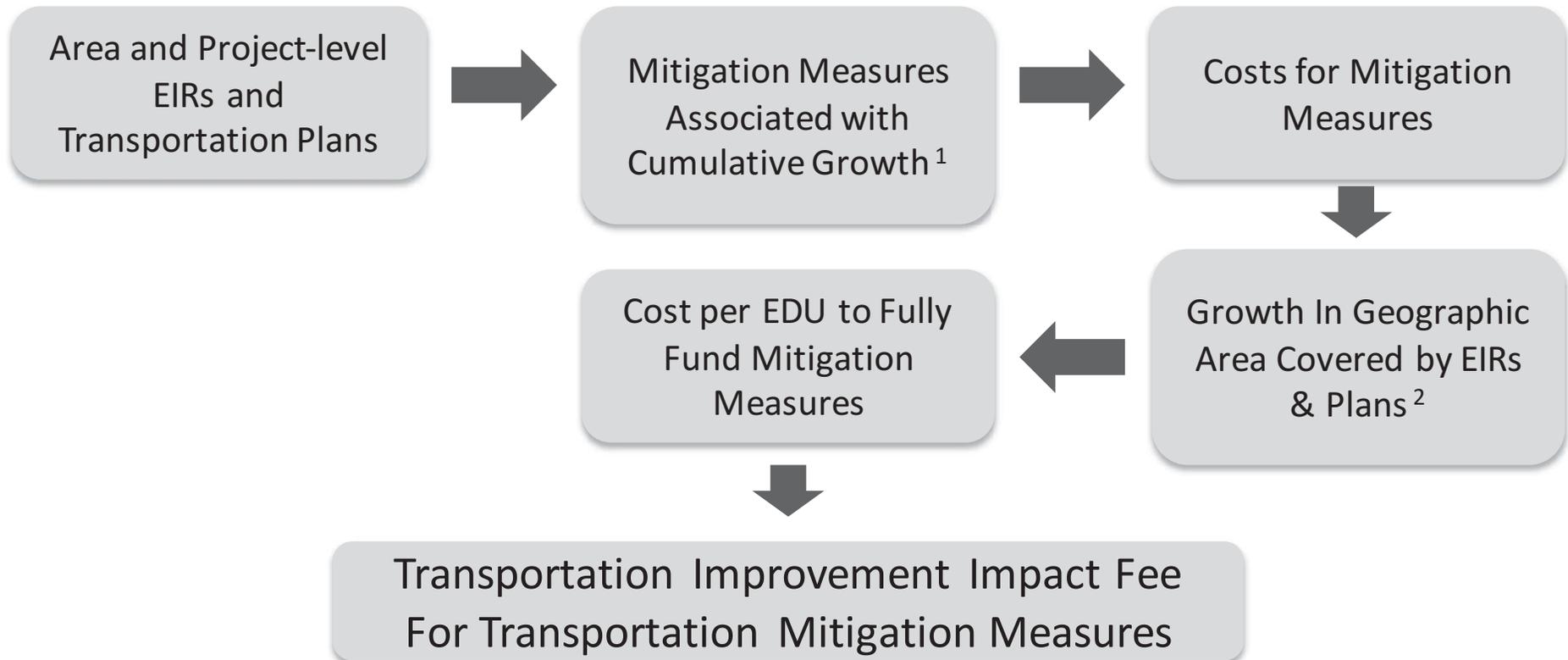
Note: In urban areas like Oakland the maximum legal fee amount is typically higher than the amount that can feasibly be supported by new development.

Maximum Legal Transportation and Capital Improvements Impact Fees



Note: In urban areas like Oakland the maximum legal fee amount is typically higher than the amount that can feasibly be supported by new development.

Transportation Impact Fee – Funding Identified Mitigation Measures



¹ Includes transportation mitigation measures associated with cumulative growth and identified in environmental impact reports. Does not include mitigation measures associated only with individual development project impacts.

² Growth calculated for those geographic areas covered by the EIRs using the same equivalent dwelling units (EDU) factors as those used in the transportation maximum legal impact fee analysis.

Oakland Impact Fee Stakeholder Working Group

November 5, 2015

MARKET CONTEXT AND DEVELOPMENT FEASIBILITY IN OAKLAND

Oakland Market Context

- Major downturn during Recession
- Followed by growing regional economy fueled by technology sectors
- Growth focused in SF, West Bay, South Bay
- Increased interest in Oakland and East Bay followed thereafter
- Now, increasing spillover from SF to Oakland
 - Central location
 - Urban character
 - Transit accessibility
 - Recognition of assets

Market Context (cont'd)

- Oakland real estate market context
 - Occupancies increase
 - Rents and prices go up
 - Increased investment in existing buildings
 - Increasing potential for new development
 - Only limited development thus far
- Development feasibility:
 - Oakland rents below and approaching those needed for costly building types:
 - Multi-family residential
 - Office building development
 - Strong potentials for future development if economy stays strong

Economic Feasibility Analysis

- To establish development feasibility context for adopting new impact fees
- Approach:

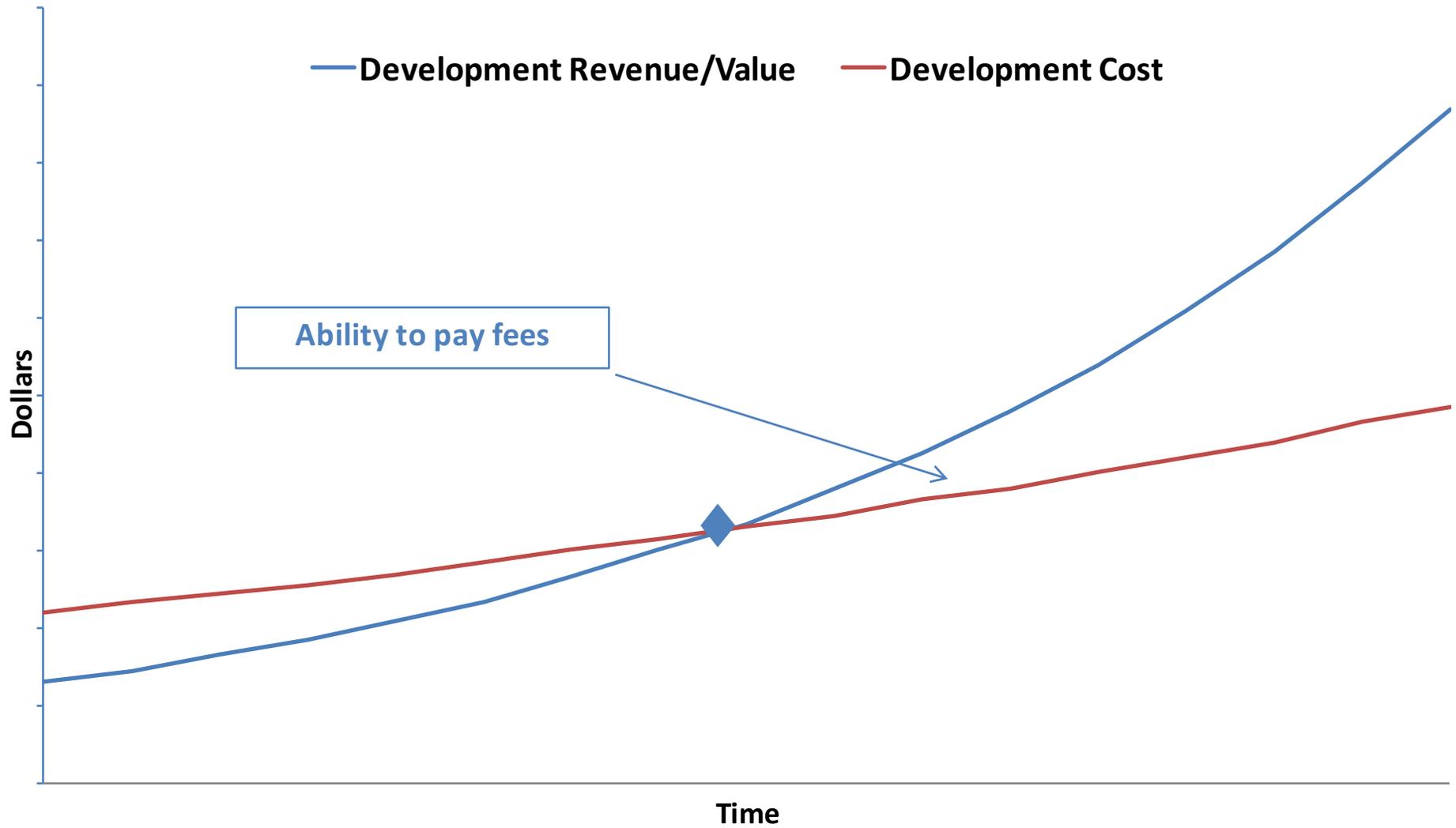
Development Prototypes and Proformas

- Land Uses
- Building Types
- Areas of Oakland

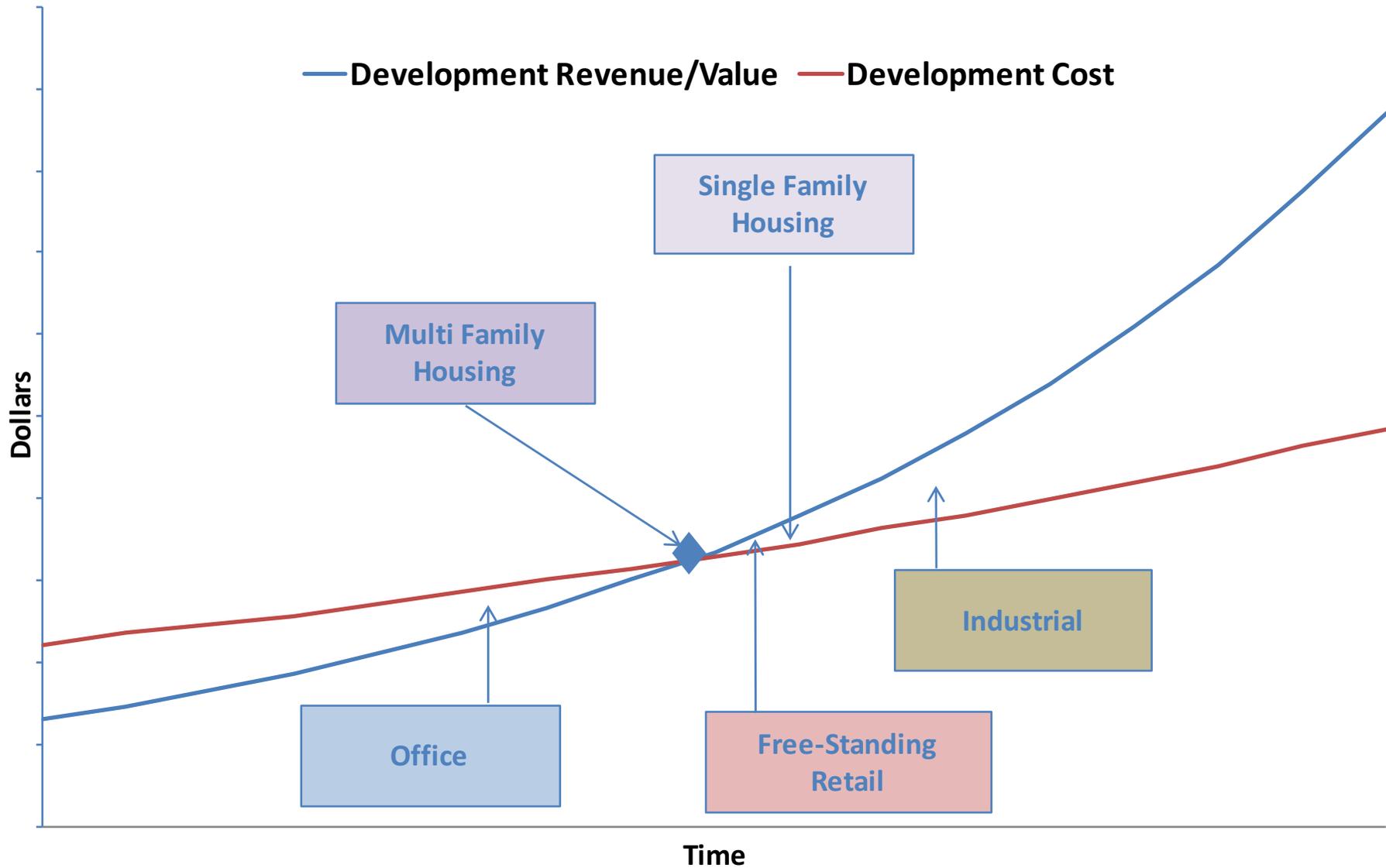
2015 Base Case Feasibility

Relevant Trends

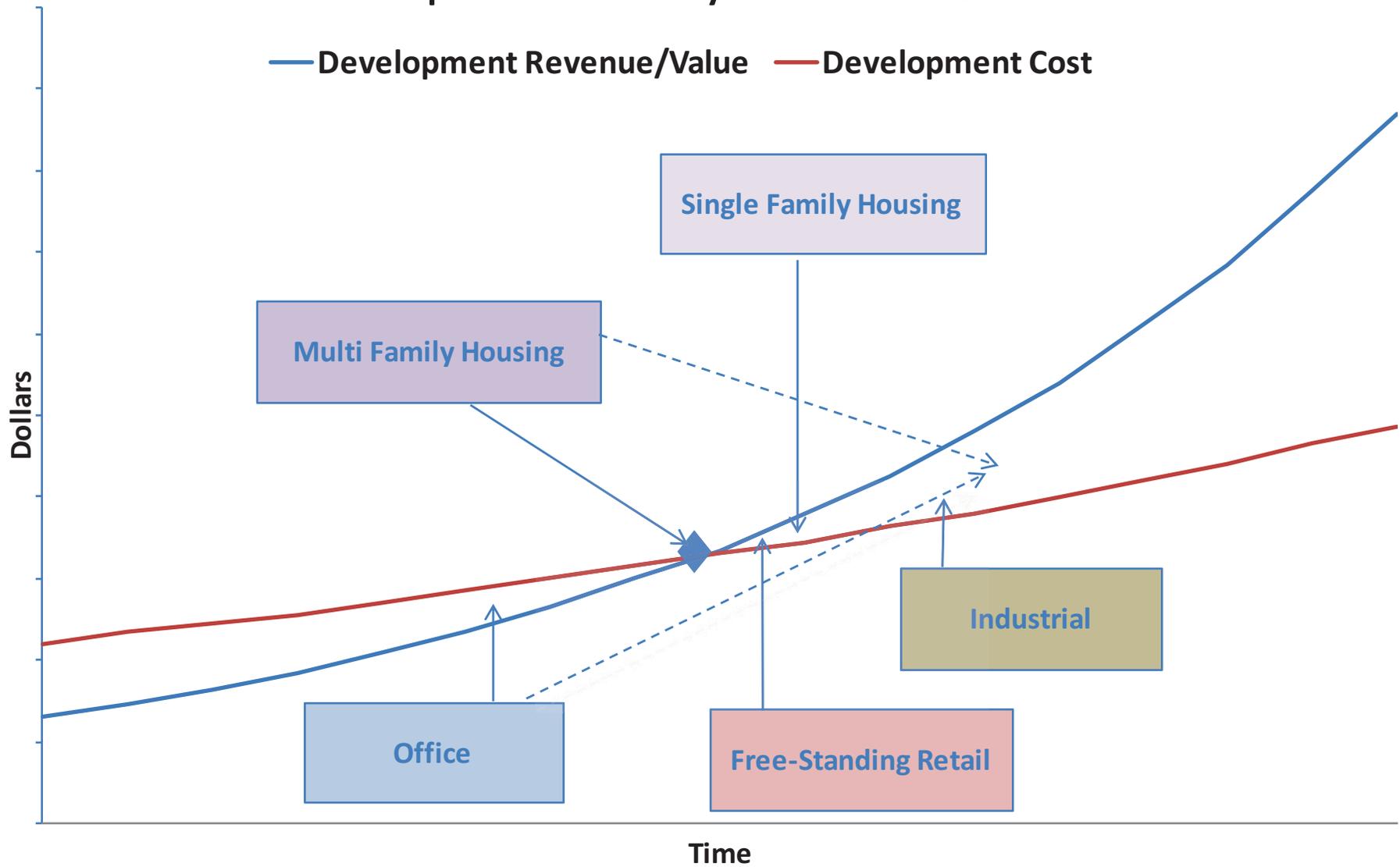
Ability to Pay Impact Fees Based On Relationship between Development Cost and Revenue



Relationship between Development Cost and Revenue: Feasibility of Development in 2015



Relationship between Development Cost and Revenue: Feasibility of Development in 2015 and Improved Feasibility as Trends Continue



Multi-Family Housing Development

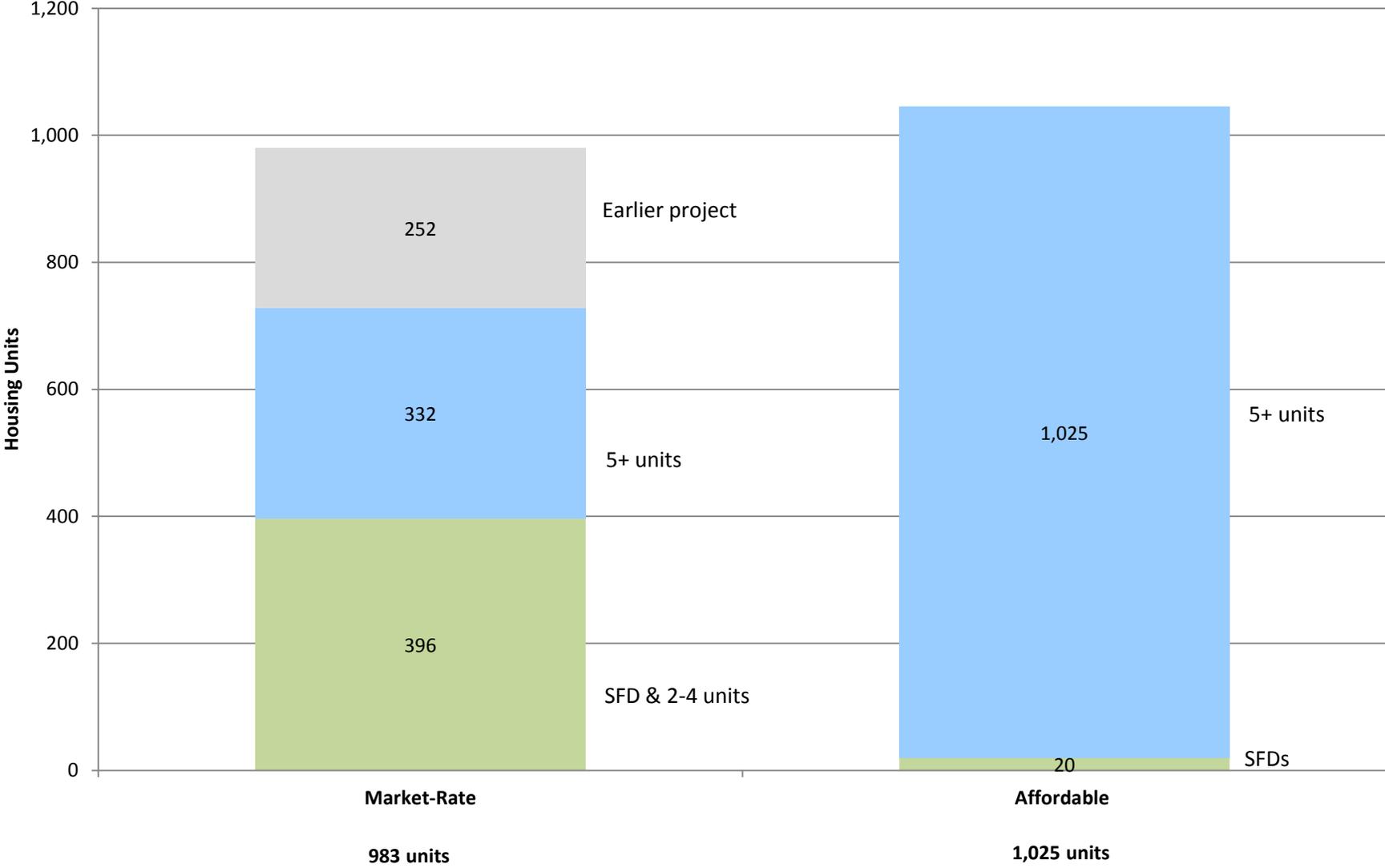
Prototypes	Feasibility 2015	New Construction?
<p>H-3 Lower/Mid-Rise Apts. West Oak/East Oak/ parts of North Oak</p>	<p>Marginal to small positives with today's rents; building types are costly</p>	<p>Limited; no large market rate projects completed since recession</p>
<p>H-4 Mid-Rise Apts. Downtown/JL/BV/ parts of North Oak</p>	<p>Very sensitive to assumptions</p> <p>Recent high rates of increase in rents</p>	<p>Projects to be proceeding based on higher, future rents</p>
<p>H-5 High-Rise Apts. Prime Sites: DT/JL/ BV</p>	<p>Feasibility much improved with higher rents as trends continue; could take 2-3 years</p> <p>For-sale condos are not feasible today</p>	<p>New projects to begin construction in 2016</p> <p>Large pipeline</p>

TABLE 1
RENTAL HOUSING DEVELOPMENT PROTOTYPES - BASE CASE MID-2015
CITY OF OAKLAND DEVELOPMENT IMPACT FEE STUDY

	Rental Apartments Prototype H-3		Rental Apartments Prototype H-4		Rental Apartments Prototype H-5	
Development Characteristics						
Construction Type	Type V on Type I podium		Type III on Type I podium		Type I	
Height	3-4 floors over podium		5-6 floors over podium		20 - 28 floors	
Parking Location	podium; above grade		podium; above grade		largely above grade	
Parking Ratio	1 space/du		1 space/du		1 space/du	
Average Unit Size	760 sf		825 sf		845 sf	
Density	60-130 units/acre		90-200 units/acre		350 - 485 units/acre	
Location in City	West Oak, North Oak, East Oak		Downtown / JL / BV / No.Oak		Downtown / JL / BV: prime sites	
Prototype	120 units, 4 over 1, 100 DU/acre		180 units, 5-6 over 1+, 200 DU/acre		220 units, 22 flrs, 400 DU/acre	
Development Costs						
	Per SF Unit	Per Unit	Per SF Unit	Per Unit	Per SF Unit	Per Unit
Land	\$42.99	75/sf \$32,670	\$39.64	150/sf \$32,700	\$32.25	250/sf \$27,250
Hard Construction	\$328.13	\$249,380	\$359.36	\$296,470	\$417.16	\$352,500
Government Permits and Fees	\$34.76	\$26,420	\$33.67	\$27,780	\$36.37	\$30,730
Other Soft Costs	\$42.67	\$32,432	\$57.50	\$47,435	\$75.09	\$63,450
Construction Financing	\$13.95	\$10,600	\$18.67	\$15,400	\$29.70	\$25,100
Total Development Costs (excl. devel. fee & return on capital)	\$462.50	\$351,502	\$508.84	\$419,785	\$590.57	\$499,030
Revenue						
Monthly Rent	\$3.33	\$2,530	\$3.73	\$3,080	\$4.58	\$3,870
Gross Potential Rev. (100% Occ.)	\$39.95	\$30,360	\$44.80	\$36,960	\$54.96	\$46,440
Annual Rental Revenue (5% Vac.)	\$37.95	\$28,840	\$42.56	\$35,110	\$52.21	\$44,120
(Less) Operating Expenses (30%)	(\$11.38)	(\$8,650)	(\$12.76)	(\$10,530)	(\$15.67)	(\$13,240)
Net Operating Income (NOI)	\$26.57	\$20,190	\$29.79	\$24,580	\$36.54	\$30,880
Measures of Return						
Yield on Cost (NOI % of costs)	5.7%		5.9%		6.2%	
Target Yield	≈ 6%		6 - 6.5%		≈ 6.5%	
Capitalization Rate	5.5%		5.5%		5.5%	
Estimated Market Value	\$483.03	\$367,100	\$541.70	\$446,900	\$664.50	\$561,500
(Less) Dev. Costs & Sales Exp.	(\$486.65)	(\$369,857)	(\$535.92)	(\$442,130)	(\$623.79)	(\$527,105)
Net Value Over Costs	(\$3.62)	(\$2,757)	\$5.78	\$4,770	\$40.71	\$34,395
As % of Development Costs	-1%		1%		7%	
Required % of Cost	13-15%		15-19%		19-25%	
Capitalization Rate	5%		5%		5%	
Estimated Market Value	\$531.32	\$403,800	\$595.88	\$491,600	\$730.89	\$617,600
(Less) Dev. Costs & Sales Exp.	(\$489.07)	(\$371,692)	(\$538.62)	(\$444,365)	(\$627.11)	(\$529,910)
Net Value After Costs	\$42.25	\$32,108	\$57.26	\$47,235	\$103.78	\$87,690
As % of Development Costs	9%		11%		18%	
Required % of Cost	13-16%		15-19%		19-25%	
Equilvant IRR for ROC	12-15%		12-15%		12-15%	

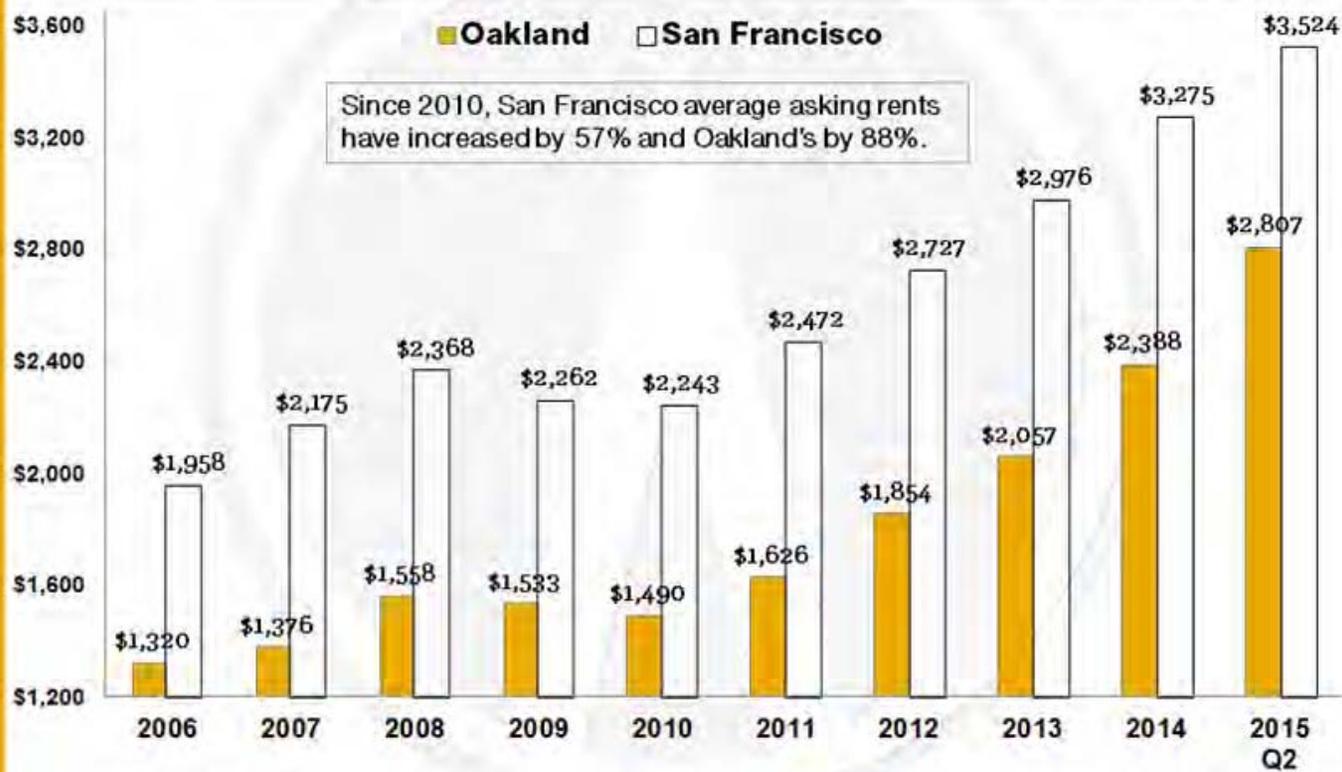
Source: Hausrath Economics Group

Housing Development 2010-2014 (5 years)



SAN FRANCISCO & OAKLAND RENTAL TRENDS Average Asking Rents, 2006 – 2015 Q2

Data per RealFacts, LLC,
as of the end of Q2 2015



2015 through Q2. Data per RealFacts LLC for buildings of 50+ units.
Data from sources deemed reliable but may contain errors and subject to revision.

TABLE 1B
 RENTAL HOUSING DEVELOPMENT PROTOTYPES - BASE CASE WITH RENTS FOR FEASIBLE PROJECTS (2015 \$)
 CITY OF OAKLAND DEVELOPMENT IMPACT FEE STUDY

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Parking Location	podium; above grade		podium; above grade		largely above grade	
Parking Ratio	1 space/du		1 space/du		1 space/du	
Average Unit Size	760 sf		825 sf		845 sf	
Density	60-130 units/acre		90-200 units/acre		350 - 485 units/acre	
Location in City	West Oak, North Oak, East Oak		Downtown / JL / BV / No.Oak		Downtown / JL / BV: prime sites	
Prototype	120 units, 4 over 1, 100 DU/acre		180 units, 5-6 over 1+, 200 DU/acre		220 units, 22 flrs, 400 DU/acre	
Development Costs						
	Per SF Unit	Per Unit	Per SF Unit	Per Unit	Per SF Unit	Per Unit
Land	\$42.99	75/sf \$32,670	\$39.64	150/sf \$32,700	\$32.25	250/sf \$27,250
Hard Construction	\$328.13	\$249,380	\$359.36	\$296,470	\$417.16	\$352,500
Government Permits and Fees	\$34.76	\$26,420	\$33.67	\$27,780	\$36.37	\$30,730
Other Soft Costs	\$42.67	\$32,432	\$57.50	\$47,435	\$75.09	\$63,450
Construction Financing	\$13.95	\$10,600	\$18.67	\$15,400	\$29.70	\$25,100
Total Development Costs	\$462.50	\$351,502	\$508.84	\$419,785	\$590.57	\$499,030
(excl. devel. fee & return on capital)						
Revenue						
Monthly Rent	\$3.55	\$2,700	\$4.00	\$3,300	\$4.85	\$4,100
Gross Potential Rev. (100% Occ.)	\$42.63	\$32,400	\$48.00	\$39,600	\$58.22	\$49,200
Annual Rental Revenue (5% Vac.)	\$40.50	\$30,780	\$45.60	\$37,620	\$55.31	\$46,740
(Less) Operating Expenses (30%)	(\$12.14)	(\$9,230)	(\$13.68)	(\$11,290)	(\$16.59)	(\$14,020)
Net Operating Income (NOI)	\$28.36	\$21,550	\$31.92	\$26,330	\$38.72	\$32,720
Measures of Return						
Yield on Cost (NOI % of costs)	6.1%		6.3%		6.6%	
Target Yield	≈ 6%		6 - 6.5%		≈ 6.5%	
Capitalization Rate	5.5%		5.5%		5.5%	
Estimated Market Value	\$515.53	\$391,800	\$580.24	\$478,700	\$704.02	\$594,900
(Less) Dev. Costs & Sales Exp.	(\$488.28)	(\$371,092)	(\$537.84)	(\$443,720)	(\$625.77)	(\$528,775)
Net Value Over Costs	\$27.25	\$20,708	\$42.40	\$34,980	\$78.25	\$66,125
As % of Development Costs	6%		8%		13%	
Required % of Cost	13-15%		15-19%		19-25%	
Capitalization Rate	5%		5%		5%	
Estimated Market Value	\$567.11	\$431,000	\$638.30	\$526,600	\$774.44	\$654,400
(Less) Dev. Costs & Sales Exp.	(\$490.86)	(\$373,052)	(\$540.75)	(\$446,115)	(\$629.29)	(\$531,750)
Net Value After Costs	\$76.25	\$57,948	\$97.55	\$80,485	\$145.15	\$122,650
As % of Development Costs	16%		19%		25%	
Required % of Cost	13-16%		15-19%		19-25%	
Equilivant IRR for ROC	12-15%		12-15%		12-15%	

Source: Hausrath Economics Group

Effect of Rent Increases on Ability to Pay New Impact Fees

Oakland Prototype H-4 Development: Mid-Rise, Rental Apartments

Type III construction on Type I podium
 5-6 floors over podium; 1 pkg space/du
 Average Unit Size: 825 sf
 Density: 200 units/acre

Location: Downtown/Jack London/Broadway Valdez/parts of North Oakland

Total Development Costs without Land (2015): \$467,000 per unit /a/
 Land Costs (2015): \$32,700 per unit

Assumption	Monthly Rent (2015 \$)		Residual for land and New Fees /b/	Monthly Rent (future \$) /c/	
	per unit	per sf	per unit	per unit	per sf
Rents: mid-2015	\$3,080	\$3.73	\$6,075	\$3,080	\$3.73
+3% real growth - 2016	3,168	3.84	21,060	3,323	4.03
+3% real growth - 2017	3,267	3.96	37,990	3,589	4.35
+3% real growth - 2018	3,366	4.08	54,430	3,878	4.70
+3% real growth - 2019	3,465	4.20	71,520	4,183	5.07
3 years out	+9.4 % real growth			+ 26% nominal \$ growth	
4 years out	+12.6% real growth			+36% nominal \$ growth	

/a/ Total development cost in 2015 dollars, excluding land. Includes hard construction cost, existing government permits and fees, construction period financing, other soft costs, and a competitive return (19% return on cost assuming a 5% cap rate, to provide a development fee, return for risk and development expertise, and return on capital).

/b/ Base Case proforma analysis identifies a small residual of market value over all costs except land and including return, based on mid-2015 rents of \$3.73 per square foot per month. The residual (\$6,075) is below Base Case land cost of \$32,700 per unit (\$150 per sq. ft. land), indicating land value based on anticipated higher rents in the near future. Recent activity in Oakland's land market indicates that all or most of the residual would go to land in the near future until higher rents can be achieved.

/c/ Assumes 5% per year increase in costs plus 3% per year real growth in rents over and above cost increases.

Source: Hausrath Economics Group

TABLE 1C
FOR SALE HOUSING DEVELOPMENT PROTOTYPES - BASE CASE MID-2015
CITY OF OAKLAND DEVELOPMENT IMPACT FEE STUDY

	Prototype H-4 Mid-rise Condos - Type III		Prototype H-5 High-rise Condos - Type I	
Development Characteristics				
Construction Type	Type III on Type I podium		Type I	
Height	5-6 floors over parking		20-28 floors	
Parking Location	podium; above grade		largely above grade	
Parking Ratio	1 space/du		1 space/du	
Average Unit Size	930 sf		940 sf	
Density	90-200 units/acre		350-485 units/acre	
Location in City	Downtown / JL / BV / NO		Downtown / JL / BV	
Prototype	180 units, 5-6 over 1+, 200 DU/acre		220 units, 22 flrs., 400 DU/acre	
Development Costs				
	<u>Per SF</u>	<u>Per Unit</u>	<u>Per SF</u>	<u>Per Unit</u>
Land	\$35.16 150/sf	\$32,700	\$28.99 250/sf	\$27,250
Hard Construction	\$375.00	\$348,750	\$433.40	\$407,400
Government Permits and Fees	\$32.05	\$29,810	\$34.95	\$32,850
Other Soft Costs	\$67.50	\$62,775	\$86.68	\$81,480
Construction Financing	\$21.51	\$20,000	\$29.89	\$28,100
Total Development Costs (excl. devel. fee & return on capital)	\$531.22	\$494,035	\$613.91	\$577,080
Revenue				
Residential Sales Price	\$617.20	\$574,000	\$672.34	\$632,000
(Less) Sales Expenses	(\$21.60)	(\$20,090)	(\$23.53)	(\$22,120)
Sales Net of Sales Expenses	\$595.60	\$553,910	\$648.81	\$609,880
(Less) Development Costs	(\$531.22)	(\$494,035)	(\$613.91)	(\$577,080)
Net Revenue (for devel. fee & return on capital)	\$64.38	\$59,875	\$34.90	\$32,800
Measures of Return				
Net Revenue:				
As % of Devel. Costs (ROC)	12.1%		5.7%	
Required % of Costs (ROC)	17-22%		21-28%	
Equilivant IRR	12-15%		12-15%	
Prices for Feasible Projects	\$672.04	\$625,000	\$813.83	\$765,000

Single-Family Housing Development

Prototypes	Feasibility 2015	New Construction?
<p>H-1A Single Family Home East Oak / Infill</p>	<p>Feasible today</p>	<p>Has been proceeding incrementally and in phases</p>
<p>H-1B Single Family Home No. / So. / Lower Hills & Rockridge Infill / Larger Dev.</p>	<p>SFD homes in East Oak very sensitive to costs</p> <p>Can be developed incrementally and in phases</p>	<p>SFD and TH development occurring in Hill areas</p>
<p>H-2A Townhomes West Oakland</p>	<p>Less risky than multi-family development</p>	<p>Townhome development getting underway in West Oakland with more planned</p>
<p>H-2B Townhomes North Hills / South Hills</p>		

TABLE 2
FOR SALE HOUSING DEVELOPMENT PROTOTYPES - BASE CASE MID-2015
CITY OF OAKLAND DEVELOPMENT IMPACT FEE STUDY

	Prototype H-1A Single Family Detached Home		Prototype H-1B Single Family Detached Home		Prototype H-2A Townhomes/Row Houses		Prototype H-2B Townhomes/Row Houses		
Development Characteristics									
Construction Type	Type V		Type V		Type V - THs		Type V - THs		
Height	2 story typically		2 story typically		3 floors including garage		3 floors including garage		
Parking Location	attached garage		attached garage		garage in unit		garage in unit		
Parking Ratio	2 cars		2-3 cars		most 2 spaces/du - 1.7 sp. ave.		2 spaces/du		
Average Unit Size	1,600 sf		3,000 sf		1,340 sf		2,085 sf		
Density	avg. 15 units/acre		avg. 6 units/acre		20-40 units/acre		15-40 units/acre		
Location in City	East Oakland		No./So./Lower Hills & Rockridge		West Oakland		North Hills/ South Hills		
Prototype	Infill Locations		Infill / 300-unit dev. over time		150 units/30 per phase; 30 DU/acre		150 units/30 per phase; 30 DU/acre		
Development Costs									
	Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit	
Land	\$45.63	25/sf	\$73,000	\$73.33	30/sf	\$220,000	\$48.76	45/sf	\$65,340
Hard Construction	\$130.00		\$208,000	\$220.00		\$660,000	\$220.00		\$294,800
Government Permits and Fees	\$30.33		\$48,530	\$33.40		\$100,190	\$24.51		\$32,840
Other Soft Costs	\$15.63		\$25,000	\$26.40		\$79,200	\$30.80		\$41,270
Construction Financing	\$5.00		\$8,000	\$9.97		\$29,900	\$8.51		\$11,400
Total Development Costs (excl. devel. fee & return on capital)	\$226.59		\$362,530	\$363.10		\$1,089,290	\$332.58		\$445,650
Revenue									
Residential Sales Price	\$253.13		\$405,000	\$413.33		\$1,240,000	\$386.57		\$518,000
(Less) Sales Expenses	(\$8.86)		(\$14,175)	(\$14.47)		(\$43,400)	(\$13.53)		(\$18,130)
Sales Net of Sales Expenses	\$244.27		\$390,825	\$398.86		\$1,196,600	\$373.04		\$499,870
(Less) Development Costs	(\$226.59)		(\$362,530)	(\$363.10)		(\$1,089,290)	(\$332.58)		(\$445,650)
Net Revenue (for devel. fee & return on capital)	\$17.68		\$28,295	\$35.76		\$107,310	\$40.46		\$54,220
Measures of Return									
Net Revenue:									
As % of Devel. Costs (ROC)		7.8%		9.9%		12.2%		9.5%	
Required % of Costs (ROC)		6-8%		8-10%		7-9%		7.5-9.5%	
Equilivant IRR		12-15%		12-15%		12-15%		12-15%	

Source: Hausrath Economics Group

Office Development

Prototypes	Feasibility 2015	New Construction?
<p>O-1 High-rise Office Downtown</p>	<p>Rents increasing</p>	<p>No new office buildings since around 2000</p>
<p>O-2 Mid-rise Office Downtown</p>	<p>Vacancies low</p> <p>Investment in Existing buildings</p>	<p>Developers need tenant commitments at much higher rents for Oakland</p>
<p>O-3 Lower/mid-rise Office Coliseum / West Oakland</p>	<p>New construction not yet feasible</p> <p>UBER commitment increases potentials</p> <p>SF spillover increasing</p>	

TABLE 3
OFFICE PROTOTYPES - BASE CASE MID-2015
CITY OF OAKLAND IMPACT FEE STUDY

	Highrise Office Prototype O-1		Mid Rise Office Prototype O-2		Lower/Mid Rise Office Prototype O-3		Mid Rise Office/No Parking Prototype O-2 Option	
Development Characteristics								
Construction Type	Type I - steel/concrete		Type I - II		Type I or II		Type I-II	
Height	20+ floors		4 - 8 floors		3 - 5 floors		4-8 floors	
Description	Class A space		Flexible, larger floor plates		Flexible, larger floor plates		Flexible/Larger floor plates	
Parking	2 levels below grade		1 level below grade		On-site in garage or podium		No on-site parking	
Project Size	300,000 - 600,000 sf		150,000 - 350,000 sf		80,000 - 200,000 sf		150,000 - 350,000 sf	
FAR	8.0 - 10.0+		3.5 - 7.0		1.0 - 2.0		3.5 - 7.0	
Location in City	Downtown		Downtown / Urban Model		Coliseum Area, West Oakland		Downtown / Urban Model	
Prototype	450,000 sf; 24 flrs;10 FAR;+2 flrs pkg.		210,000 sf; 6 flrs.;5.25 FAR; +1 flr pkg		140,000 sf; 4 flrs; 1.8 FAR		210,000 sf: 6 flrs; 5.25 FAR	
Development Costs	Per GSF	Per LSF	Per GSF	Per LSF	Per GSF	Per LSF	Per GSF	Per LSF
Land	\$15	180/sf	\$23	120/sf	\$28	50/sf	\$23	120/sf
Hard Construction	\$220	\$18	\$190	\$28	\$170	\$31	\$189	\$24
Tenant Improvements	\$55	\$65	\$45	\$55	\$45	\$50	\$52	\$55
Parking	\$39	\$46	\$32	\$39	\$50	\$56	\$0	\$0
Government Permits and Fees	\$20	\$24	\$20	\$24	\$15	\$17	\$20	\$21
Other Soft Costs	\$54	\$64	\$47	\$57	\$45	\$50	\$42	\$44
Construction Financing	\$23	\$28	\$15	\$18	\$13	\$15	\$12	\$13
Total Development Costs (excl. devel. fee & return on capital)	\$426	\$502	\$372	\$453	\$366	\$407	\$339	\$357
Revenue								
Office Monthly Rent	\$3.19	\$3.75	\$2.79	\$3.40	\$2.25	\$2.50	\$3.23	\$3.40
Gross Potential Rev. (100% Occ.)	\$38.25	\$45.00	\$33.46	\$40.80	\$27.00	\$30.00	\$38.76	\$40.80
Annual Rental Revenue (10% Vac.)	\$34.43	\$40.50	\$30.11	\$36.72	\$24.30	\$27.00	\$34.88	\$36.72
(Less) Operating Expenses	(\$15.00)	(\$17.65)	(\$14.40)	(\$17.56)	(\$13.80)	(\$15.33)	(\$14.40)	(\$15.16)
Parking Net Revenue	\$0.72	\$0.84	\$0.64	\$0.78	\$1.40	\$1.56	\$0.00	\$0.00
Net Operating Income (NOI)	\$20.14	\$23.70	\$16.35	\$19.94	\$11.90	\$13.23	\$20.48	\$21.56
Measures of Return								
Yield on Cost (NOI % of costs)	4.7%		4.4%		3.2%		6.0%	
Target Yield	≈ 7.5%		6.8 - 7 %		6.5 - 6.7 %		6.5 - 6.6 %	
Capitalization Rate	6.0%		6.0%		6.0%		6.0%	
Estimated Market Value	\$336	\$395	\$273	\$332	\$198	\$220	\$341	\$359
(Less) Dev. Costs & Sales Exp.	(\$443)	(\$521)	(\$385)	(\$470)	(\$376)	(\$418)	(\$356)	(\$375)
Net Value Over Costs	(\$108)	(\$127)	(\$112.86)	(\$138)	(\$178)	(\$198)	(\$15)	(\$16)
As % of Development Costs	-25%		-30%		-49%		-4%	
Required % of Cost	18 -25%		14-18%		12-16%		7-11%	
Capitalization Rate	5.5%		5.5%		5.5%		5.5%	
Estimated Market Value	\$366	\$431	\$297	\$363	\$216	\$240	\$372	\$392
(Less) Dev. Costs & Sales Exp.	(\$445)	(\$523)	(\$387)	(\$471)	(\$377)	(\$419)	(\$358)	(\$377)
Net Value After Costs	(\$79)	(\$92)	(\$89)	(\$109)	(\$161)	(\$179)	\$15	\$16
As % of Development Costs	-18%		-24%		-44%		4%	
Required % of Cost	18-25%		14-18%		12-16%		7-11%	

Source: Hausrath Economics Group

TABLE 3B
OFFICE PROTOTYPES - BASE CASE WITH RENTS FOR FEASIBLE PROJECTS (2015 \$)
CITY OF OAKLAND IMPACT FEE STUDY

	Highrise Office Prototype O-1		Mid Rise Office Prototype O-2		Lower/Mid Rise Office Prototype O-3		Mid Rise Office/No Parking Prototype O-2 Option	
Development Characteristics								
Construction Type	Type I - steel/concrete		Type I - II		Type I or II		Type I-II	
Height	20+ floors		4 - 8 floors		3 - 5 floors		4-8 floors	
Description	Class A space		Flexible, larger floor plates		Flexible, larger floor plates		Flexible/Larger floor plates	
Parking	2 levels below grade		1 level below grade		On-site in garage or podium		No on-site parking	
Project Size	300,000 - 600,000 sf		150,000 - 350,000 sf		80,000 - 200,000 sf		150,000 - 350,000 sf	
FAR	8.0 - 10.0+		3.5 - 7.0		1.0 - 2.0		3.5 - 7.0	
Location in City	Downtown		Downtown / Urban Model		Coliseum Area, West Oakland		Downtown / Urban Model	
Prototype	450,000 sf; 24 flrs;10 FAR;+2 flrs pkg.		210,000 sf; 6 flrs.;5.25 FAR; +1 flr pkg		140,000 sf; 4 flrs; 1.8 FAR		210,000 sf: 6 flrs; 5.25 FAR	
Development Costs	Per GSF	Per LSF	Per GSF	Per LSF	Per GSF	Per LSF	Per GSF	Per LSF
Land	\$15	180/sf	\$23	120/sf	\$28	50/sf	\$23	120/sf
Hard Construction	\$220		\$190		\$170		\$190	
Tenant Improvements	\$55	\$65	\$45	\$55	\$45	\$50	\$52	\$55
Parking	\$39	\$46	\$32	\$39	\$50	\$56	\$0	\$0
Government Permits and Fees	\$20	\$24	\$20	\$24	\$15	\$17	\$20	\$21
Other Soft Costs	\$54	\$64	\$47	\$57	\$45	\$50	\$42	\$44
Construction Financing	\$23	\$28	\$15	\$18	\$13	\$15	\$12	\$13
Total Development Costs (excl. devel. fee & return on capital)	\$426	\$502	\$372	\$453	\$366	\$407	\$339	\$357
Revenue								
Office Monthly Rent	\$4.25	\$5.00	\$3.65	\$4.45	\$3.42	\$3.80	\$3.42	\$3.60
Gross Potential Rev. (100% Occ.)	\$51.00	\$60.00	\$43.79	\$53.40	\$41.04	\$45.60	\$41.04	\$43.20
Annual Rental Revenue (10% Vac.)	\$45.90	\$54.00	\$39.41	\$48.06	\$36.94	\$41.04	\$36.94	\$38.88
(Less) Operating Expenses	(\$15.00)	(\$17.65)	(\$14.40)	(\$17.56)	(\$13.80)	(\$15.33)	(\$14.40)	(\$15.16)
Parking Net Revenue	\$0.72	\$0.84	\$0.64	\$0.78	\$1.40	\$1.56	\$0.00	\$0.00
Net Operating Income (NOI)	\$31.62	\$37.20	\$25.65	\$31.28	\$24.54	\$27.27	\$22.54	\$23.72
Measures of Return								
Yield on Cost (NOI % of costs)	7.4%		6.9%		6.7%		6.6%	
Target Yield	≈ 7.5%		6.8 - 7 %		6.5 - 6.7 %		6.5 - 6.6 %	
Capitalization Rate	6.0%		6.0%		6.0%		6.0%	
Estimated Market Value	\$527	\$620	\$427	\$521	\$409	\$454	\$376	\$395
(Less) Dev. Costs & Sales Exp.	(\$453)	(\$533)	(\$393)	(\$479)	(\$387)	(\$430)	(\$358)	(\$377)
Net Value Over Costs	\$74	\$87	\$34.37	\$42	\$22	\$25	\$18	\$19
As % of Development Costs	17%		9%		6%		5%	
Required % of Cost	18 -25%		14-18%		12-16%		7-11%	
Capitalization Rate	5.5%		5.5%		5.5%		5.5%	
Estimated Market Value	\$575	\$676	\$466	\$569	\$446	\$496	\$410	\$431
(Less) Dev. Costs & Sales Exp.	(\$455)	(\$536)	(\$395)	(\$482)	(\$389)	(\$432)	(\$360)	(\$378)
Net Value After Costs	\$120	\$141	\$71	\$87	\$58	\$64	\$50	\$53
As % of Development Costs	28%		19%		16%		15%	
Required % of Cost	18-25%		14-18%		12-16%		7-11%	

Source: Hausrath Economics Group

Retail Development

Prototypes	Feasibility	New Construction
Ground floor Retail in New Residential and Office Buildings	Typically supported by major use; At best will break even	
R-1 Freestanding Larger Store Com'l Corridors / Districts	Feasible potentially	R-1: No recent construction
R-2/R-3 Grocery store, possibly with small shops	Feasible in many locations Freestanding retail development is sensitive to costs	R-2/R-3: New Developments: Safeways, Sprouts, Whole Foods, Lucky on East 18 th , FoodsCo at Foothill Square

Industrial Development

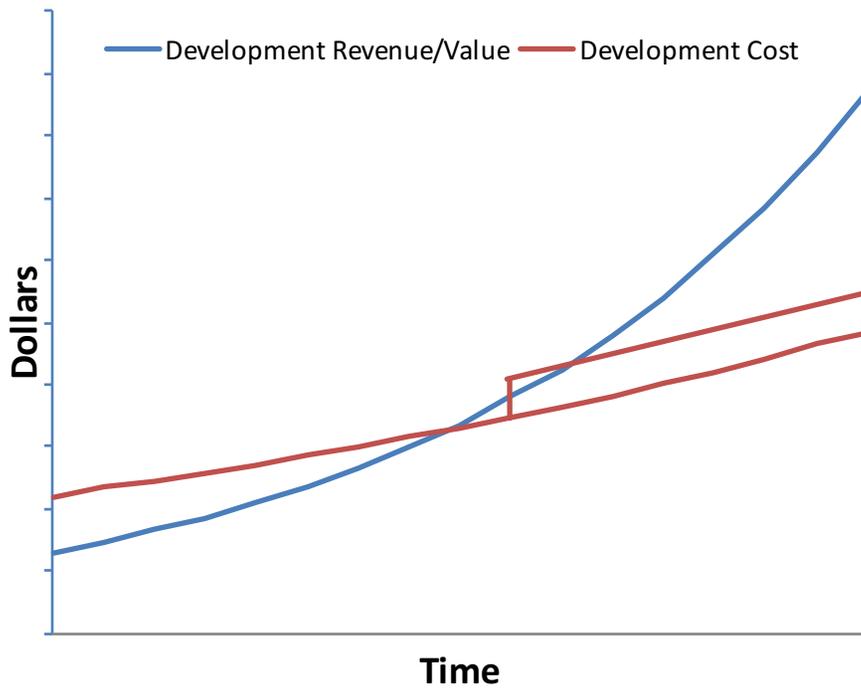
Prototypes	Feasibility 2015	New Construction
<p>I-1 Warehouse East Oak Industrial/ Coliseum Plan Area</p>	<p>Feasible</p>	<p>I-1: Recent development: Airport/Hegenberger Area, Army Base; some on infill sites</p>
<p>I-2 Custom Mfg./ Light Industrial</p>	<p>Feasible; could be build- to-suit</p>	<p>I-2 and I-3: desired in Specific Plan areas: West Oakland, Central Estuary, Coliseum Areas; not built recently</p>
<p>I-3 Low-rise Light Ind'l/R&D/ Office Flex</p>	<p>Probably feasible</p>	

Impact Fee Timing and Phase-In Considerations

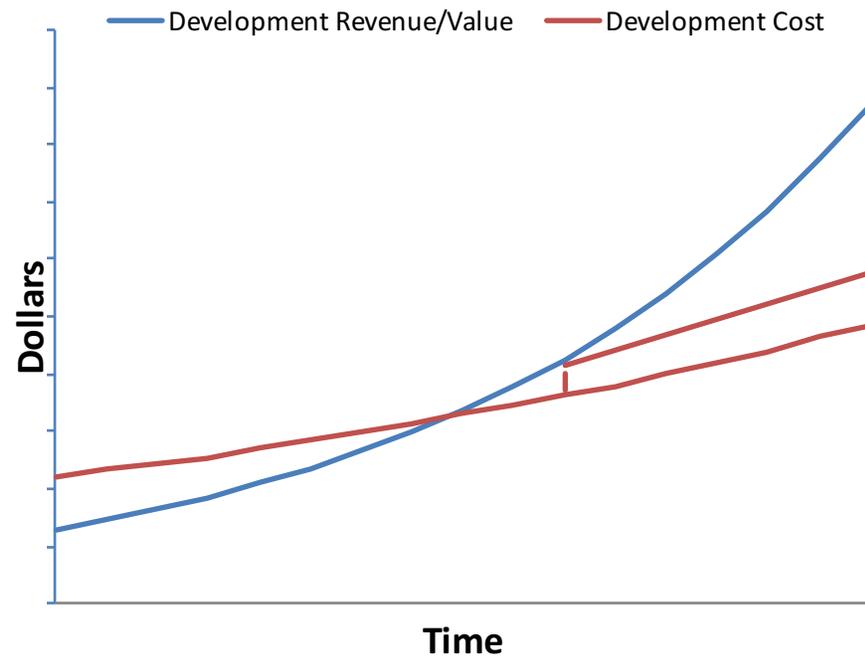
- Timing vis-à-vis increasing development feasibility
- Fee phase-in to allow land market adjustments
- Risks associated with getting ahead of the market
- Strategy most important for fees on housing development

Impact Fee Timing and Phase-In Related to Feasibility of Development

Full Fee Impact



Fee Phase-in Scenario



Oakland Impact Fee Stakeholder Working Group

November 5, 2015

WRAP UP / QUESTIONS