

OFFICE OF THE CITY CLERK  
COMMUNICATIONS SECTION

**CITY OF OAKLAND  
AGENDA REPORT**

**To:** Office of the City Administrator  
**Attn:** Deborah Edgerly  
**From:** Community and Economic Development Agency  
**Date:** June 12, 2007

**RE: Status Report on the City of Oakland Inclusionary Housing Blue Ribbon Commission**

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**SUMMARY**

On October 17, 2006, the City Council established a Blue Ribbon Commission charged with developing recommendations for a comprehensive Inclusionary Zoning Ordinance for the City of Oakland. In addition, on December 5, 2006, the City Council referred potential revisions to the City's Condominium Conversion Ordinance to the Blue Ribbon Commission. The scope of the Commission's task was broadened to include development of a comprehensive housing strategy to ensure that housing (rental or ownership) is affordable to all income levels within the city. This report will provide an update on the process and a summary of the issues considered by the Blue Ribbon Commission to date. Additionally, staff is requesting additional time in order for the Commission to complete deliberations and to submit a set of recommendations to the City Council. This report is informational only.

**FISCAL IMPACT**

Since this report is informational only, no fiscal impacts are included.

**BACKGROUND**

In the fall of 2006, the City Council conducted a number of hearings on the issues of Inclusionary Housing Policy and Condominium Conversions. In October and December 2006, after both proposed ordinances failed to carry motions to adopt, the City Council referred both issues to the Blue Ribbon Commission for further study. The specific direction from the City Council to the Blue Ribbon Commission is contained within the letters dated October 17, 2006 and December 5, 2006 and included as Attachments A and B of this report. Upon formation of the Blue Ribbon Commission, staff set up a link on the City's website which contains all agendas and background materials distributed for each meeting. The website can be accessed directly by going to: <http://www.oaklandnet.com/BlueRibbonCommission/default.htm>

**KEY ISSUES AND IMPACTS**

**Process**

Upon the City Council's initial direction in October, 2006 to form the Blue Ribbon Commission, it was envisioned that the Commission would be able to present a recommendation back to the City Council by January 31, 2007. However, due to the holidays, the time taken to complete the appointments and time needed to make sure that all members were sworn in by the City Clerk,

Item: \_\_\_\_\_  
CED Committee  
June 12, 2007

staff was not able to convene the first meeting of the Blue Ribbon Commission until February 15, 2007. Since that time, the Blue Ribbon Commission has met nearly once a week and has conducted at least one Saturday meeting to expedite the process. The Commission has held at least one public meeting in every City Council district. The initial Blue Ribbon Commission meeting schedule is included as Attachment C.

Because the City Council's direction required the Blue Ribbon Commission to hold at least one public meeting in each City Council district, the Commission decided early on not to make any decisions or vote on any recommendations until the public meeting process was completed. The Commission was very concerned about having the benefit of considering public comments received on the issues prior to making decisions. The district meeting process was concluded on May 3, 2007.

In order to fully understand the economics of affordable housing production, and more specifically, potential economic impacts of inclusionary requirements on housing development, staff commissioned an economic study. The preliminary results of the economic study are included with this report as Attachment D. The consultant presented the executive summary for discussion at the May 17, 2007 Blue Ribbon Commission meeting.

Now that the district meetings and the economic study have been completed, the commission is ready to move into the decision making phase of the process. Staff will be hiring a facilitator to lead at least two all-day work sessions to bring the discussion of these complex issues to conclusion and to facilitate recommendations. The Blue Ribbon Commissioners will hold the all-day retreats on June 7, 2007 and June 14, 2007. The Commission intends to utilize the June retreats to formulate recommendations on an Inclusionary Ordinance, Condominium Conversion Ordinance and to provide the City Council with policy recommendations on housing financing.

Much of the time during the district meetings has been devoted to taking public testimony and discussion of Inclusionary Housing issues and Condominium Conversions. The major issues of concern expressed by the public can be summarized as follows:

- any Inclusionary Ordinance requirements should consider the economics of development and not penalize the small and medium size developer by making neighborhood projects infeasible;
- the City Council should also consider policy recommendations that will help Oakland citizens increase their incomes and therefore increase their ability to qualify to purchase housing;
- the City Council should consider policies that do not displace or gentrify Oakland's diverse neighborhoods;
- the City Council should adopt policies that can leverage Oakland's housing dollars in order to actually construct affordable housing developments;

Item: \_\_\_\_\_  
CED Committee  
June 12, 2007

- Inclusionary Zoning should promote the development of housing at the low and very low income levels.

### **Other Affordable Housing Issues**

The Council's direction was to also consider other affordable housing issues. The following menu of additional issues will be considered by the Commission in order to formulate a set of comprehensive recommendations to submit to the City Council:

### **Developer Incentives**

- Faster zoning and building application processing (hire more staff, or allow 3rd party plan checkers)
- Faster CEQA process
- Update of the zoning code to match the General Plan
- Establishment of a citywide density bonus to accommodate affordable and market rate rental and for-sale housing units in residential, commercial and light (clean) industrial mixed use properties

### **Funds**

- Maximize funds available for development of new affordable housing all over the city, not concentrated in one or two major projects
- Maximize funds for emergency, transitional, and permanent supportive housing for the elderly, poor and disabled
- Review use of Redevelopment funds to target lower Adjusted Median Income (AMI) households
- Consider putting transfer taxes from additional developments into a dedicated funding source for affordable housing
- Explore adding taxes that are directed to housing, but look at adding those taxes in a way that does not discourage developers

### **Land Banking**

- The City of Oakland should dedicate a large program fund account to buy properties that would be appropriate sites for affordable housing, especially in higher income or gentrifying neighborhoods. The City should distribute these sites to affordable housing developers through an RFP process.

### **Household-based support**

- Increase assistance for first-time homebuyers who live and work in Oakland who want to buy, i.e. silent second mortgages, down payment assistance, etc.

### **Community Land Trust Model**

- Work with local experts to promote a land trust model

### **High-density and transit-oriented development**

- City staff and politicians should explicitly support higher-density housing near transit, including working to overcome neighborhood opposition.

### **Housing Preservation Programs/Initiatives**

- Restore (rehab) blighted properties
- Jobs/Housing Linkage Programs
- Home Ownership Preservation Initiative
- The National Community Reinvestment Coalition (NCRC) in 2001
- Homeowners Emergency Mortgage Assistance Program (HEMAP)
- Low-Income Housing Tax Credits (LIHTC)

### **Asset-Building**

- Individual Development Accounts (IDAs)
- Home ownership education and counseling, e.g. First time home buyer programs
- Limited Equity Housing Co-ops (LEHCs)
- Community Land Trusts (CLTs)
- Regional Trust Fund (Association of Bay Area Governments (ABAG))
- Location Efficient Mortgages (LEMs)
- Section 8 home ownership program
- Public Housing
- All of the issues discussed in the Dellums Housing, CEDA/Economic Development and Land Use Task Force Reports

The list of issues noted above are the result of presentations by staff, affordable housing experts, the many comments provided by the public, and from discussions among Commission members. There are some who have criticized the Blue Ribbon Commission for moving slowly. However, staff would suggest that absent the lengthy time taken in the start up phase, the Commission has been diligent about moving as quickly as possible. Now that the district meetings are complete and the economic analysis has been provided, the Commission will move to the all day work sessions in order to complete the process. Staff anticipates that it will take at least another 4-6 weeks to massage the complex issues noted above into a recommendation for an Inclusionary Ordinance, a Condominium Conversion ordinance modification, and the formulation of a list of other Affordable Housing Policy recommendations for City Council consideration.

### **SUSTAINABLE OPPORTUNITIES**

Economic: Adoption of new policies and ordinances concerning affordable housing, which will provide a broader range of housing opportunities for Oakland citizens. Environmental: Over time, adoption of new policies and ordinances concerning affordable housing will likely result in reduction of commute traffic for Oakland citizens and employees who need to travel outside of Oakland to find affordable housing. Social Equity: Increased affordable housing benefits citizens of all income levels.

### **DISABILITY AND SENIOR ACCESS**

All new development is required to comply with the Americans with Disabilities Act. In addition, the affordable housing issue is of critical concern for both seniors and disabled citizens because a higher proportion of these groups live on fixed and limited incomes, thereby making it more difficult to afford adequate housing.

### **RECOMMENDATION**

Staff recommends that the City Council consider the status report provided by staff and schedule the Blue Ribbon Commission recommendations on affordable housing to a future City Council meeting in September 2007.

### **ACTION REQUESTED OF THE CITY COUNCIL**

This is an information item only. No action is requested of the City Council.

Respectfully submitted,



\_\_\_\_\_  
CLAUDIA CAPPIO  
Development Director  
Community Economic Development Agency

Prepared by:  
Gary Patton  
Deputy Director of Planning and Zoning

APPROVED AND FORWARDED TO THE COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE:



OFFICE OF THE CITY ADMINISTRATOR

Item: \_\_\_\_\_  
CED Committee  
June 12, 2007

## ATTACHMENT A



# CITY OF OAKLAND

CITY HALL-1 FRANK H. OGAWA PLAZA,-OAKLAND, CALIFORNIA 94612

Desley A. Brooks  
Councilmember, District 6  
Email:dbrooks@oaklandnet.com

(510) 238-7006 Direct  
(510) 238-6910 Fax

October 17, 2006

TO: President De la Fuente and Members of the Council

From: Councilmember Desley Brooks

The Oakland City Council is committed to making Oakland affordable for all of its residents by expanding rental and homeownership opportunities for people of all incomes. A balanced housing strategy for Oakland includes protecting existing affordable housing, making additional permanently affordable housing available, and increasing the overall housing supply. The housing market by itself will not deliver affordability, and badly planned market-rate housing development can actually decrease the supply of affordable housing. *The City must adopt smart policies that allow the private market, the nonprofit sector, residents, and government to work together to keep the city affordable.*

To that end, the Council takes the following action:

1. A Blue Ribbon Commission shall be established which shall be charged with developing recommendations for a comprehensive Inclusionary Zoning Ordinance for the entire City of Oakland
2. The Commission's membership shall include:
  - 3 appointees from the Mayor's office
  - 4 appointees from the Mayor-Elect's office
  - 1 appointee from each Council Office
  - City Administrator
  - City Attorney
  - Appointees' names shall be submitted to the City Clerk's office no later than Friday, October 20, 2006.
3. The Commission shall complete its report and make recommendations to the Council for review no later than January 31, 2007.
4. The City Administrator shall enter into an agreement with PolicyLink to provide technical Assistance and Coordination to the Commission.
5. The Commission shall host a meeting in each Councilmatic District that is widely publicized to solicit community input on the proposed inclusionary zoning policy from the public, including Neighborhood Councils, the development community, housing advocates and other city stakeholders.

6. The Commission's review should include, but not be limited to the following issues:

- Number of Inclusionary Units.
- Targeted Households – i.e. low and very low income.
- Application of the Ordinance to all new residential development.
- Number of Threshold Units.
- Density-based Thresholds.
- Rental vs. Ownership Thresholds.
- Requirement for prior or concurrent production of Inclusionary Unit with market rate units.
- Term of Affordability of inclusionary units.
- On-Site Units – Location/Size/Amenities
- Inclusionary Units should harmonize with Market Rate Units.
- Inclusionary Units should retain the same basic amenities as market-rate units.
- Limiting the use of Accessory Units to meet the Inclusionary housing obligations.
- Waiver or reduction of the Inclusionary Requirement.
- Developer Alternatives.
- In-lieu fee options.
- Developer Land Dedication for public use options.
- Off-site Development of inclusionary units.
- Transfer of inclusionary Credits to other projects.
- Incentives and Concessions

- Provide for waiver, reduction, or deferrals of fees for the affordable units to the fullest extent possible.
- Significantly increase density bonus options to reduce development costs or financing gap.
- Expedited application and permit processing.
- Offer of financial incentives.
- Modification or reduction of zoning and building standards.
- Monitoring & Enforcement.
- Tracking Results.



## ATTACHMENT B

# CITY OF OAKLAND



CITY HALL-1 FRANK H. OGAWA PLAZA, -OAKLAND, CALIFORNIA 94612

Desley A. Brooks  
Councilmember, District 6  
Email: dbrooks@oaklandnet.com

(510) 238-7006 Direct  
(510) 238-6910 Fax

December 5, 2006

TO: President De la Fuente and Members of the Council

From: Council members Desley Brooks, Henry Chang, and Ignacio de la Fuente.

The Oakland City Council is committed to making Oakland affordable for all of its residents by expanding rental and homeownership opportunities for people of all incomes. A balanced housing strategy for Oakland includes protecting existing affordable housing, making additional permanently affordable housing available, and increasing the overall housing supply. We believe that proper use of the Condo Conversion Ordinance can help to increase the home ownership opportunities for many of Oakland's residents. We also believe that such an ordinance can be used to promote neighborhood revitalization.

To that end, the Council takes the following action:

1. The Condo Conversion issue shall be referred to the Blue Ribbon Commission established on October 17, 2006, to develop recommendations for a comprehensive Inclusionary Zoning Ordinance. As such, the scope of the Commission's task is broadened to include the development of a comprehensive housing strategy to ensure that housing, be it rental or ownership is affordable to all income levels within the city. Principles of Inclusionary Zoning and Condo Conversion will be considered.

In addition, the Council directs the City Administrator to take the following action:

1. Develop recommendations for a City-wide Individual Development Account (IDA) for low and moderate income residents of the city of Oakland.
2. Develop recommendations for the development and implementation of a City-wide Community Land Trust to promote permanently affordable residential and commercial properties.
3. Provide an analysis of Housing Rehabilitation Loan program funds and Notice of Funding Availability (NOFA) program funds for use in conjunction with a Condo Conversion program to promote neighborhood revitalization.
4. Items 1 through 3 shall be scheduled for Council review no later than March 6, 2007.

# OAKLAND

## INCLUSIONARY HOUSING BLUE RIBBON COMMISSION MEETING SCHEDULE

DATE	TIME	LOCATION	MEETING TYPE	Jan 2007	Feb 2007	Mar 2007
FEB 15, 2007	7:30P – 9:30P	CITY HALL, HEARING ROOM 4	FIRST MEETING - COUNCIL DISTRICT AT LARGE COUNCILMEMBER HENRY CHANG			
MAR 1, 2007	7:30P – 9:30P	CITY HALL, HEARING ROOM 4	REGULAR MEETING			
MAR 17, 2007	10:00 AM – NOON	FRANKLIN RECREATION CENTER	DISTRICT 2 MEETING COUNCILMEMBER KERNIGHAN			
MAR 22, 2007	6:30P – 8:30P	VETERAN'S MEMORIAL BUILDING	DISTRICT 3 MEETING COUNCILMEMBER NADEL			
MAR 29, 2007	6:30P – 8:30P	DIMOND LIBRARY	DISTRICT 4 MEETING COUNCILMEMBER QUAN			
APR 5, 2007	6:30P – 8:30P	NORTH OAKLAND SENIOR CENTER,	DISTRICT 1 MEETING COUNCILMEMBER BRUNNER			
APR 12, 2007	6:30P – 8:30P	EAST OAKLAND SENIOR CENTER	DISTRICT 7 MEETING COUNCILMEMBER REID			
APRIL 26, 2007	6:30P – 8:30P	FRUITVALE/ SAN ANTONIO SENIOR CENTER	DISTRICT 5 MEETING COUNCIL PRESIDENT DE LA FUENTE			
MAY 3, 2007	6:30P – 8:30P	ARROYO VIEJO RECREATION CENTER 7701 KRAUSE AVENUE	DISTRICT 6 MEETING COUNCILMEMBER BROOKS			
MAY 10, 2007	7:00P – 9:00P	CITY HALL, HEARING ROOM 4	REGULAR MEETING			
MAY 17, 2007	6:30P – 8:30P	POLICE ADMINISTRATION BUILDING AUDITORIUM	REGULAR MEETING			
MAY 24, 2007	6:30P – 8:30P	CITY HALL, HEARING ROOM 4	REGULAR MEETING			
MAY 31, 2007	6:30P – 8:30P	CITY HALL HEARING ROOM 3	REGULAR MEETING			
JUNE 7, 2007	9:00AM – 3:00PM	JOAQUIN MILLER COMMUNITY ROOM	RETREAT			
JUNE 14, 2007	9:00AM – 3:00PM	SEQUOIA LODGE	RETREAT			

# Inclusionary Housing Program City of Oakland

## Economic Impact Analysis Preliminary Results May 17, 2007

ATTACHMENT D

# Purpose

To analyze the impacts of potential inclusionary housing requirements on the feasibility of developing housing in Oakland.

# Inclusionary Requirements Tested

- Draft Ordinance, Oct. 2006
- Three Inclusionary Options:
  - On-site: 15% of units affordable
  - Off-site: 20% of units affordable
  - In-lieu Fee: based on 20% affordable units

# Other Inclusionary Parameters

- Affordability:
  - For-sale units affordable at 100% AMI
  - Rental units affordable at 60% AMI
- Inclusionary units at least proportional by number of bedrooms

# Approach and Methodology

1. Representative Development Prototypes  
Citywide
2. Summary Pro formas of Costs and  
Revenues for Prototypes
3. Costs of Inclusionary Requirements

# Approach and Methodology (continued)

4. Sensitivity Analysis of Impacts
  - on development feasibility
  - on land values
5. Findings and Implications for Housing Development
6. Ordinance Parameters That Could Influence Impacts



# 1) Housing Development Prototypes

- 7 Prototypes Representative of Development Projects in Oakland
  - building types
  - densities
  - locations serving different markets
- Focus on For-Sale Housing
  - Analysis shows rental housing development not feasible

[Table 1]

**PRELIMINARY TABLE 1  
OAKLAND HOUSING DEVELOPMENT PROTOTYPES**

	<b>Prototype A Low-rise Townhomes/ Row Houses</b>	<b>Prototype B Low-rise Lofts/Townhomes</b>	<b>Prototype C Low-rise Condos</b>	<b>Prototype D Lower/Mid-rise Condos</b>
Construction Type	wood	wood	wood frame on concrete podium	wood frame on concrete podium
Height	3 floors including garage	3 floors including garage	3 flrs over 1 pkg on some/all site	4-5 floors over 1 level parking
Parking Location	garages in units	indiv. garages/surface pkg.	podium/surface; above grade	podium; above grade
Average Unit Size	1,300 sf	1,450 sf	1,080 sf	1,125 sf
Bedroom Mix	65% 2BR; 35% 3BR	50% 2BR; 50% 2+/3BR	32% 1BR; 32% 2BR; 36% 3BR	5% ST; 35% 1BR; 50% 2BR; 10% 3BR
Density	30-35 units/acre	30-35 units/acre	50-60 units/acre	80-100 units/acre
Locations in City	East Oakland / West Oakland	North Oakland / West Oakland (near Oakland/Emeryville border)	East Oakland / West Oakland	North Oakland / East Estuary
	<b>Prototype E Mid-rise Condos</b>	<b>Prototype F Mid-rise Condos</b>	<b>Prototype G High-rise Condos</b>	
Construction Type	wood frame on concrete podium	steel/concrete	steel/concrete	
Height	4-6 floors over parking	6-8 floors over parking	9-16 floors over parking	
Parking Location	podium; above grade	largely above grade	above/below grade	
Average Unit Size	900 sf	1,000 sf	975 sf	
Bedroom Mix	30% 1BR; 60% 2BR; 10% 3BR	40% 1BR; 55% 2BR; 5% 3BR	10%ST/45%1BR/35%2BR/10%3BR	
Density	100-140 units/acre	140-167 units/acre	200-300 units/acre	
Locations in City	Downtown / Jack London	Downtown / Jack London	Downtown / Jack London	

Source: Hausrath Economics Group  
May 17, 2007

## 2) Summary Pro Formas for Development Prototypes

- Base case pro formas to assess feasibility of development without inclusionary program
- Market context:
  - Current land and development costs, 2006/2007
  - Project sales prices when units completed
  - Market cycle evened out, somewhat
- Feasibility thresholds to evaluate return

[Table 2]

**PRELIMINARY TABLE 2**  
**RESIDENTIAL DEVELOPMENT PROTOTYPES - BASE CASE**  
**CITY OF OAKLAND INCLUSIONARY HOUSING ANALYSIS**

	<u>Prototype A</u> <u>Low-rise Townhomes /</u> <u>Row Houses</u>		<u>Prototype B</u> <u>Low-rise Lofts / Townhomes</u>		<u>Prototype C</u> <u>Low-rise Condos</u>		<u>Prototype D</u> <u>Lower/Mid-rise Condos</u>	
<b>Development Characteristics</b>								
Construction Type	wood		wood		wood frame on concrete podium		wood frame over concrete podium	
Height	3 floors including garage		3 floors including garage		3 flrs over 1 pkg on some/all site		4-5 floors over 1 level parking	
Parking Location	garages in units		indiv. garages / surface parking		podium/surface; above grade		podium; above grade	
Parking Ratio	2 spaces/du		2 spaces/du		1 space/du; some buyer-opted lifts		1 space/du; some buyer-opted lifts	
Average Unit Size	1,300 sf		1,450 sf		1,080 sf		1,125 sf	
Bedroom Mix	65% 2 BR; 35% 3 BR		50% 2 BR; 50% 2+/3 BR		32% 1 BR; 32% 2 BR; 36% 3 BR		5%ST/35%1BR/50%2BR/10%3BR	
Density	30-35 units/acre		30-35 units/acre		50-60 units/acre		80-100 units/acre	
Location in City	East Oakland / West Oakland		North Oakland / West Oakland (near Oakland/Emeryville border)		East Oakland / West Oakland		North Oakland / East Estuary	
<b>Development Costs</b>								
	<u>Per SF</u>	<u>Per Unit</u>	<u>Per SF</u>	<u>Per Unit</u>	<u>Per SF</u>	<u>Per Unit</u>	<u>Per SF</u>	<u>Per Unit</u>
Land /a/	\$34.62	\$45,000	\$40.00	\$58,000	\$25.00	\$27,000	\$44.44	\$50,000
Hard Construction	\$200.00	\$260,000	\$210.00	\$304,500	\$200.00	\$216,000	\$250.00	\$281,250
Government Permits and Fees	\$10.77	\$14,000	\$10.34	\$15,000	\$12.50	\$13,500	\$12.89	\$14,500
Other Soft Costs	\$43.23	\$56,200	\$49.66	\$72,000	\$50.65	\$54,700	\$62.22	\$70,000
Construction Financing	\$10.77	\$14,000	\$13.03	\$18,900	\$13.52	\$14,600	\$20.89	\$23,500
<b>Total Development Costs</b> (excl. devel. fee & return on capital)	<b>\$299.39</b>	<b>\$389,200</b>	<b>\$323.03</b>	<b>\$468,400</b>	<b>\$301.67</b>	<b>\$325,800</b>	<b>\$390.44</b>	<b>\$439,250</b>
<b>Revenue</b>								
Sales Price (avg.)	\$367.69	\$478,000	\$413.79	\$600,000	\$365.74	\$395,000	\$502.22	\$565,000
(Less) Sales Expenses	(\$12.85)	(\$16,700)	(\$14.48)	(\$21,000)	(\$12.78)	(\$13,800)	(\$17.56)	(\$19,750)
<b>Sales Net of Sales Expenses</b>	<b>\$354.84</b>	<b>\$461,300</b>	<b>\$399.31</b>	<b>\$579,000</b>	<b>\$352.96</b>	<b>\$381,200</b>	<b>\$484.66</b>	<b>\$545,250</b>
(Less) Development Costs	(\$299.39)	(\$389,200)	(\$323.03)	(\$468,400)	(\$301.67)	(\$325,800)	(\$390.44)	(\$439,250)
<b>Net Revenue</b> (for devel. fee & return on capital)	<b>\$55.45</b>	<b>\$72,100</b>	<b>\$76.28</b>	<b>\$110,600</b>	<b>\$51.29</b>	<b>\$55,400</b>	<b>\$94.22</b>	<b>\$106,000</b>
<b>Measures of Return</b>								
Net Revenue:								
As % of Devel. Costs (ROC)	18.5%		23.6%		17.0%		24.1%	
Required % of Costs (ROC)	16-18%		16-18%		16-18%		18-20%	
As % of Net Sales (ROS)	15.6%		19.1%		14.5%		19.4%	
Required % of Net Sales (ROS)	13-15%		13-15%		13-15%		14-16%	
Construction Period (months)	10		12		14		18	

/a/ Land cost per building square foot.

Source: Hausrath Economics Group  
May 17, 2007

**PRELIMINARY TABLE 2 (continued)**  
**RESIDENTIAL DEVELOPMENT PROTOTYPES - BASE CASE**  
**CITY OF OAKLAND INCLUSIONARY HOUSING ANALYSIS**

	<u>Prototype E</u> <u>Mid-rise Condos</u>		<u>Prototype F</u> <u>Mid-rise Condos</u>		<u>Prototype G</u> <u>High-rise Condos</u>	
<b>Development Characteristics</b>						
Construction Type	wood frame on concrete podium		steel/concrete		steel/concrete	
Height	4-6 floors over parking		6-8 floors over parking		9-16 floors over parking	
Parking Location	podium; above grade		largely above grade		above/below grade	
Parking Ratio	1 space/du; some buyer-opted lifts		1 space/du		1 space/du	
Average Unit Size	900 sf		1,000 sf		975 sf	
Bedroom Mix	30% 1 BR; 60% 2 BR; 10% 3 BR		40% 1 BR; 55% 2 BR; 5% 3 BR		10% ST/45% 1BR/35% 2BR/10% 3BR	
Density	100-140 units/acre		140-167 units/acre		200-300 units/acre	
Location in City	Downtown / Jack London		Downtown / Jack London		Downtown / Jack London	
<b>Development Costs</b>						
	<u>Per SF</u>	<u>Per Unit</u>	<u>Per SF</u>	<u>Per Unit</u>	<u>Per SF</u>	<u>Per Unit</u>
Land /a/	\$62.22	\$56,000	\$50.00	\$50,000	\$45.13	\$44,000
Hard Construction	\$296.00	\$266,400	\$330.00	\$330,000	\$370.00	\$360,750
Government Permits and Fees	\$15.56	\$14,000	\$15.00	\$15,000	\$16.41	\$16,000
Other Soft Costs	\$75.56	\$68,000	\$70.00	\$70,000	\$76.00	\$74,100
Construction Financing	\$25.44	\$22,900	\$30.80	\$30,800	\$36.21	\$35,300
<b>Total Development Costs</b> (excl. devel. fee & return on capital)	<b>\$474.78</b>	<b>\$427,300</b>	<b>\$495.80</b>	<b>\$495,800</b>	<b>\$543.75</b>	<b>\$530,150</b>
<b>Revenue</b>						
Sales Price (avg.)	\$600.00	\$540,000	\$588.00	\$588,000	\$625.64	\$610,000
(Less) Sales Expenses	(\$21.00)	(\$18,900)	(\$20.60)	(\$20,600)	(\$21.90)	(\$21,350)
<b>Sales Net of Sales Expenses</b>	<b>\$579.00</b>	<b>\$521,100</b>	<b>\$567.40</b>	<b>\$567,400</b>	<b>\$603.74</b>	<b>\$588,650</b>
(Less) Development Costs	(\$474.78)	(\$427,300)	(\$495.80)	(\$495,800)	(\$543.75)	(\$530,150)
<b>Net Revenue</b> (for devel. fee & return on capital)	<b>\$104.22</b>	<b>\$93,800</b>	<b>\$71.60</b>	<b>\$71,600</b>	<b>\$59.99</b>	<b>\$58,500</b>
<b>Measures of Return</b>						
Net Revenue:						
As % of Devel. Costs (ROC)	22.0%		14.4%		11.0%	
Required % of Costs (ROC)	18-20%		20-22%		22-25%	
As % of Net Sales (ROS)	18.0%		12.6%		9.9%	
Required % of Net Sales (ROS)	14-16%		17-19%		19-23%	
Construction Period (months)	18		22		24	

/a/ Land cost per building square foot.

Source: Hausrath Economics Group  
 May 17, 2007

# Base Case

## Development Feasibility

- Feasibility Varies Among Development Prototypes
- Feasible Projects (returns above thresholds)
  - Prototype B: low-rise lofts/THs, NO/WO
  - Prototype D: mid-rise condos (4-5 fls), NO/EST
  - Prototype E: mid-rise condos (4-6 fls), DT

# Base Case

## Development Feasibility (cont'd)

- **Marginally Feasible Projects (returns at thresholds)**  
Entry-level projects with lowest prices and costs
  - Prototype A: Low-rise THs, EO/WO
  - Prototype C: Lower-rise condos, EO/WO
- **Infeasible or Marginally Feasible Projects**  
(returns below thresholds)  
More costly steel/concrete construction
  - Prototype F: Mid-rise condos (6-8 fls), DT
  - Prototype G: High-rise condos (9-16 fls), DT

### 3) Costs of Potential Inclusionary Requirements

#### Affordable Sales Prices:

- Critical for Impact Assessment
- Based on State Redevelopment Law Definitions
- Calculated for Households with Incomes at 100% AMI

[Table 3]



**PRELIMINARY TABLE 3  
ESTIMATING MAXIMUM SALES PRICES FOR  
HOUSEHOLDS WITH INCOMES AT 100% AMI**

**Maximum Sales Price Calculation - Two-Bedroom Example**

	<u>Two-Bedrooms</u>
Maximum Household Income @100% AMI	\$75,400
Household Income Amount for Calculation (90% AMI)	\$67,860
Maximum Monthly Housing Cost (35% of Monthly Income) /a/	\$1,979
Utility Allowance Per Month	(\$126)
Other Costs Per Month (See Below) /b/	(\$544)
Maximum Available for Mortgage Payment	\$1,309
Maximum Mortgage Amount @ 6.875%	\$198,804
Down Payment (5%)	\$10,463
<b>Maximum Affordable Sales Price</b>	<b>\$209,267</b>

**Summary of Maximum Affordable Sales Prices by Unit Sizes**

Studio Unit	\$158,473
One-Bedroom Unit	\$183,149
Two-Bedroom Unit	\$209,267
Three-Bedroom Unit	\$232,662
Four-Bedroom Unit	\$249,326

/a/ Calculations may not sum exactly due to rounding.

/b/ Other monthly costs include:

Maintenance Reserve Per Month	\$25
Homeowner Association Dues Per Month	\$100
Property Taxes Per Month (1.32% of Sales Price)	\$230
Private Mortgage Insurance (.77% of Mortgage Amount)	\$128
Hazard and Casualty Insurance Per Month	\$61
Total	\$544

Source: Vernazza Wolfe Associates, Inc.; City of Oakland.  
May 17, 2007

# Cost of On-Site Compliance

- Cost defined by difference between affordable prices and market-rate prices in primary project
- On-site cost highest for projects in Downtown Oakland, North Oakland, and along Estuary

# Cost of Off-Site Compliance

- Cost defined by difference between affordable prices and development costs
- Might be different product type and less costly construction
- Analysis treats subsidy of off-site development as a cost to the primary project

[Table 4]

**PRELIMINARY TABLE 4**  
**ESTIMATING COSTS OF OFF-SITE INCLUSIONARY HOUSING REQUIREMENTS**

**Off-Site Funding Requirements - Two-Bedroom Example**

Unit Size For-Sale (Square Feet)	900
Development Cost For-Sale Unit @ \$330/SF	\$297,000
Affordable Sales Price for Two-Bedroom Unit	<u>\$209,267</u>
<b>Gap - Difference Between Affordable Sales Price and Development Costs - Two Bedroom Unit</b>	<b>\$87,733</b>

**Summary of Off-Site Funding Requirements by Bedroom Size**

Gap for Studio Unit	\$6,527
Gap for One-Bedroom Unit	\$47,851
Gap for Two-Bedroom Unit	\$87,733
Gap for Three-Bedroom Unit	\$163,338
Gap for Four-Bedroom Unit	\$196,174

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Source: Vernazza Wolfe Associates, Inc.; City of Oakland.  
May 17, 2007

# In-Lieu Fee Calculation

- In-lieu fee revenues to cover costs of developing affordable housing
- Fee calculated as difference between affordable prices and development cost of City-assisted affordable projects

[Table 5]



**PRELIMINARY TABLE 5  
ESTIMATING IN-LIEU FEE FOR  
INCLUSIONARY HOUSING REQUIREMENTS TESTED**

**In-Lieu Fee - Two-Bedroom Example**

Unit Size in Square Feet	900
Development Cost For-Sale (\$395/SF)	\$355,500
Affordable Sales Price	<u>\$209,267</u>
<b><i>In Lieu Fee (Affordability Gap)</i></b>	<b>\$146,233</b>

**Summary of In-Lieu Fees by Bedroom Size**

In-Lieu Fee for Studio Unit	\$39,027
In-Lieu Fee for One-Bedroom Unit	\$93,351
In-Lieu Fee for Two-Bedroom Unit	\$146,233
In-Lieu Fee for Three-Bedroom Unit	\$241,338
In-Lieu Fee for Four-Bedroom Unit	\$283,924

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Source: Vernazza Wolfe Associates, Inc.; City of Oakland.  
May 17, 2007

# Why In-Lieu Fee Is Higher Than Off-Site Cost

- Off-site development costs are based on private market development
- In-lieu fee includes costs of City requirements:
  - Prevailing wages
  - City contracting requirements
  - Allowable developer fee (for off-site option, fee included in primary project pro forma)



# Comparative Costs of Compliance

- Costs vary among prototypes
- Costs for in-lieu fee and off-site options are lower than for on-site option in 5 of 7 prototypes
- Costs are similar among options for 1 prototype
- On-site option could be the least costly for 1 prototype

[Table 6]



**PRELIMINARY TABLE 6  
SUMMARY COMPARISON OF COSTS OF  
INCLUSIONARY HOUSING OPTIONS, BY DEVELOPMENT PROTOTYPE**

**Costs of Affordable Housing per Unit in Primary Project  
as Factored into Primary Project Pro Forma**

<b>Prototype</b>	<b>On-Site Option</b>	<b>Off-Site Option</b>	<b>In-Lieu Fee Option</b>
A	\$37,540	\$23,690	\$37,240
B	\$54,750	\$26,160	\$40,390
C	\$26,540	\$22,610	\$35,820
D	\$51,820	\$19,210	\$31,570
E	\$48,430	\$17,610	\$29,560
F	\$55,860	\$16,110	\$27,690
G	\$59,320	\$14,830	\$25,970

Source: Hausrath Economics Group; Vernazza Wolfe Associates, Inc.;  
City of Oakland. May 17, 2007

## 4) Analysis of Impacts of Inclusionary Housing Requirements

### Impact Analysis Addresses:

- Effects on Project Feasibility
- Possible Longer-term Effects on Land Values
- Possible Implications for Development

# Effects on Project Feasibility

- With inclusionary requirements, returns from development may drop below feasibility thresholds in most cases
- Requirements may have most effect on feasibility of:
  - Development of lower-priced housing in neighborhoods
  - Development of more costly building types downtown

[Table 7]

**TABLE 7  
PRELIMINARY RESULTS**

**SUMMARY OF FEASIBILITY TESTING OF  
POTENTIAL INCLUSIONARY HOUSING REQUIREMENTS IN OAKLAND  
(All else remaining constant)**

	Development Prototypes						
	A Low-rise THs/ Row Houses EO/WO	B Low-rise Lofts/THs NO/WO	C Low-rise Condos EO/WO	D Lower/Mid-rise Condos (4-5 flrs) NO/EST	E Mid-rise Condos (4-6 flrs) DT	F Mid-rise Condos (6-8 flrs) DT	G High-rise Condos (9-16 flrs) DT
ROC Feasibility Threshold (net revenue as % of devel. cost)	16-18%	16-18%	16-18%	18-20%	18-20%	20-22%	22-25%
Base Case ROC	<b>19%</b>	<b>24%</b>	<b>17%</b>	<b>24%</b>	<b>22%</b>	14%	11%
ROC with Inclusionary Housing Requirements Met:							
-- On-Site	9%	12%	9%	12%	11%	3%	Negative
-- Off-Site	12%	<b>17%</b>	9%	<b>19%</b>	17%	11%	8%
-- In-Lieu Fee	8%	14%	5%	16%	14%	8%	6%

NOTE: Bold indicates return (ROC) at or above threshold for feasibility.

Source: Hausrath Economics Group, Preliminary Results; with inputs from Vernazza Wolfe Associates, Inc. and City of Oakland. May 17, 2007

# Possible Longer-term Effects on Land Values/Prices

- Initially, with inclusionary requirements, residual land *values* would decline

Issue: Could land *prices* adjust to accommodate costs of inclusionary requirements?

# Possible Longer-term Effects on Land Values/Prices (cont'd)

- Land price adjustments could make a difference for prototypes with stronger feasibility in base case
  - Adjustments may take time
- Lower land prices unlikely to compensate where development is marginally feasible or infeasible in base case
  - Land residuals may become negative or drop to low levels for 4 of 7 prototypes
  - Applies for lower-priced housing in neighborhoods and higher-cost housing downtown

[Table 8]

**TABLE 8  
PRELIMINARY RESULTS**

**SUMMARY OF EFFECTS ON LAND VALUES OF  
POTENTIAL INCLUSIONARY HOUSING REQUIREMENTS IN OAKLAND  
(All else remaining constant)**

	Development Prototypes						
	A Low-rise THs/ Row Houses EO/WO	B Low-rise Lofts/THs NO/WO	C Low-rise Condos EO/WO	D Lower/Mid-rise Condos (4-5 flrs) NO/EST	E Mid-rise Condos (4-6 flrs) DT	F Mid-rise Condos (6-8 flrs) DT	G High-rise Condos (9-16 flrs) DT
Land Cost Assumed in Base Case, per SF Site	\$31-36	\$40-47	\$31-37	\$91-115	\$129-180	\$160-192	\$202-303
Land Residual with Inclusionary Housing Requirements Met and With Project Return at Feasibility Threshold:							
– On-Site	\$15-18	\$31-36	\$7-9	\$58-73	\$75-105	Negative	Negative
– Off-Site	\$22-25	<b>\$47-55</b>	\$7-9	<b>\$109-136</b>	<b>\$135-189</b>	\$38-45	Negative
– In-Lieu Fee	\$11-13	\$36-42	Negative	\$83-104	\$104-146	Negative	Negative

NOTE: Land residual estimates assume return from development (ROC) at the mid-point of the feasibility thresholds identified for each prototype.  
Bold indicates land residual at or above land costs in base case.

Source: Hausrath Economics Group, Preliminary Results; with inputs from Vernazza Wolfe Associates, Inc. and City of Oakland. May 17, 2007

## 5) Possible Implications for Housing Development

- Some Development may slow/stop
  - Until market adjusts to incorporate IZ
- Land prices would stabilize and may decline
  - Would take time for land prices to adjust
  - Changes in land prices unlikely to fully offset inclusionary costs in many cases



# Possible Implications of Inclusionary Requirements (cont'd)

- Over time, market increases in sales prices may help restore feasibility
  - Prices need to go up faster than development costs
  - Price increases would then cover inclusionary costs before passing to land

# Possible Implications for Housing Development (cont'd)

- Could encourage wood-frame construction over steel/concrete construction (already happening to some extent)
- Smaller, marginal projects unlikely to be built without significant adjustments

## 6) Possible Alternative Ordinance Parameters

- Reduce percentage of inclusionary units
- Increase income levels targeted
- Make off-site and in-lieu fee options same percentage of units as on-site option
- Adopt in-lieu fee below level of full gap
- Phase in program over time