

**CITY OF OAKLAND AND REDEVELOPMENT AGENCY
OF THE CITY OF OAKLAND
AGENDA REPORT**

2006 OCT 12 11:08:56

TO: Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: October 24, 2006

RE: **A Informational Report regarding Staff's Determination of the Number of Residential Units to be included in a Project to be developed by Forest City Residential West, Inc., on a Block bounded by Telegraph Avenue, William Street, a new Public Park and 19th Street**

SUMMARY

This report is intended to provide the Agency's governing board with an overview of Community and Economic Development Agency (CEDA) staff's determination regarding the type of building and the number of residential units that will be developed by Forest City Residential West, Inc. (Forest City) on an Agency-owned property bounded by William Street in the north, Telegraph Avenue in the east, 19th Street in the south and a new public park in the west ("Property", as shown on Attachment A). Forest City is currently refining a concept proposal to develop an 8-story building with approximately 178 units (the "Project") on the Property.

FISCAL IMPACT

There is no fiscal impact related to this informational report.

BACKGROUND

In June of 2004, pursuant to Resolution No. 2004-38 C.M.S., the Agency authorized the Agency Administrator to enter into a Lease Disposition and Development Agreement (LDDA) with Forest City for the development of the Uptown Project. The LDDA was subsequently amended to change several business terms and revise the site plan.

According to the original LDDA, Forest City was going to develop the Uptown Project in 2 phases, with 590 units and a new public park in the first phase and 110 units in the second phase. Phase 2 of the Uptown Project was going to be built on the Property. During the design phase, Forest City decided to relocate the new public park from a block bounded by Thomas L. Berkley Way (formerly 20th Street) on the north, a new parcel (known as Parcel 3) on the east, William Street on the south and a New Street on the west to a new parcel bounded by William Street on the north, Parcel 4 on the east, William

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Street on the north and 19th Street on the south. This site reconfiguration enabled Forest City to place 665 units into the area comprising the first phase of the development, rather than the original 590 units that were contemplated when the LDDA was authorized in 2004. As a result, only 35 units still had to be built to meet the 700-unit minimum LDDA requirement approved by the Council. Instead of constructing 35 residential rental units on the Property, Forest City proposed to acquire the land at its fair market value of \$6,900,000.

On May 16, 2006, the Agency's governing body, pursuant to Resolution No. 2006-41 C.M.S. and Oakland City Council Resolution No. 79910 C.M.S., authorized the Agency Administrator to enter into Disposition and Development Agreement (DDA) with Forest City for the development of the Project on the Property. The terms of the DDA require Forest City to develop at least 120 units of market-rate housing on the Property, but also stipulate that Agency staff and Forest City, in their reasonable good faith business judgment based on market conditions, shall increase the number of residential units in the Project as much as possible.

PROJECT DESCRIPTION

The DDA between the Agency and Forest City requires Forest City to develop at least 120 units on the Property. At this time, Forest City has submitted a conceptual proposal to develop an 8-story, mid-rise building with approximately 178 residential units, 20,000 square feet of retail space and 178 parking stalls. The Project would have a density of approximately 171 units per acre. The project would provide eighty-five (85) studio apartments (or 47 percent of the total number of units), twenty-nine (29) 1-bedroom units (or 16 percent of the total number of units) and sixty-four (64) 2-bedroom units (or 37 percent of the total number of units). Forest City's project design will not be completed until January of next year, and the developer must still secure all land use entitlements. As a result, the current residential unit count may be subject to change.

KEY ISSUES AND IMPACTS

At the time of approval of the DDA, Agency board members requested that staff return to the board and report on the economic assumptions guiding staff's and Forest City's decision about the type of building and the number of residential units that will be developed on the Property. Specifically, board members wanted to know whether it would be feasible to develop Forest City's earlier project concept consisting of a 255-unit, 22-story high-rise condominium tower on the site, instead of the mid-rise structure that is currently being evaluated by the development team. Agency staff hired Keyser Marston Associates (KMA), a real estate consulting firm, to analyze and compare the financial feasibility of the mid-rise and high-rise project alternatives. Specifically, staff and KMA looked at the following questions:

- Are the development costs estimated by Forest City reasonable for each building type when compared to prototypical mid-rise and high-rise projects?

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- Given certain market-based developer profit expectations, what are the required per-square-foot residential sales targets that would support the estimated development costs?
- Does the market support these per-square-foot residential sales targets for the development of the Property?
- What are the requisite conditions for success of developing a high-rise residential development in Oakland?

It should be noted in this context that mid-rise buildings are commonly identified as structures with occupied floors not higher than 75 feet. This building type generally has a height of 85 to 90 feet with up to 8 floors. The building code puts certain requirements and restrictions on buildings that exceed this height to ensure proper egress, access for firefighters, and other life-safety issues, all of which result in higher construction costs. Moreover, taller buildings require additional structural strengthening, which also increases construction costs because of the use of more concrete and steel.

KMA’s analysis indicates that Forest City’s estimated development costs for both building types at \$511 per square foot and \$647 per square foot are within industry ranges for similar building prototypes. Next, KMA determined the gross residential sales prices on a per-square-foot basis for a mid-rise and high-rise building that would have to be achieved in order to satisfy developers’ profit requirements currently prevalent in the market for ‘for-sale’ residential products. KMA indicates that gross residential sales would need to be in the range of \$640 per square foot for the mid-rise and \$790 per square foot (in 2009 dollars) for the high-rise development to meet developer’s profit margin requirements and ensure project feasibility. Table 1 summarizes these findings.

estimated

Table 1

	Mid-Rise Building		High-Rise Building	
	Parcel 4 per Forest City	Mid-Rise Prototype	Parcel 4 per Forest City	High-Rise Prototype
Total Development Cost per square foot	\$511	\$519	\$647	\$617
Gross Residential Sales Prices per square foot		\$640		\$790

KMA concludes that pricing in the \$640 to \$650 per-square-foot range as targeted by Forest City for the development of the mid-rise building on the Property appears feasible once the Project is completed in 2009. According to KMA, recent residential sales surveys for downtown Oakland show that home prices are being achieved at \$600 per

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square foot (or approximately \$640 per square foot if adjusted at about 3% per year to 2009). Moreover, Forest City's marketing consultant recommended a sales price target of \$595 per square foot for the proposed project. However, KMA sees no evidence that the \$790 per-square-foot sales pricing for a high-rise building could be achieved if such a project was to be developed on the Property – even taking into account the on-going revitalization of the area surrounding the Property and potential view premiums that could be charged to buyers of a unit in a high-rise development. This conclusion is reinforced by the current slowdown in the for-sale housing market and its potentially negative impact on sales prices.

Lastly, KMA evaluated the requisite conditions for successfully developing a residential high-rise building in downtown Oakland. Generally, the consultant concludes that high-rise projects most likely to generate residential sales of \$790 per square foot in the future have to be located in certain downtown neighborhoods, such as in the vicinity of Lake Merritt, in Jack London Square or in Chinatown that are characterized by an established residential market and many attractive recreational amenities. This finding is confirmed by current activities in Oakland's downtown market. The only recent high-rise building in Oakland's Central Business District that was developed and later converted to for-sale condominiums is the Essex at Lake Merritt, which was completed in 2001. There are currently 12 high-rise condominium towers planned for downtown Oakland, of which 5 are in the entitlement process, 5 have received planning approvals and 2 have started construction.

BayRock Residential of Emeryville is developing the 157-unit, 12-story "8 Orchid" luxury condominium building in the heart of Chinatown at Broadway and 7th Street. Molasky Pacific Properties is building a 134-unit, 16-story condominium project at 210-228 Broadway. Lastly, the Essex II, a proposed 22-story, 240-unit luxury apartment tower located at 100 Grand Avenue near Lake Merritt appears likely to start construction in the near future. This project is sponsored by Essex Property Trust, a major Real Estate Investment Trust, and will probably be internally funded with corporate capital carrying below market-rate financing costs and return requirements. These 3 projects validate KMA's locational "feasibility" criteria for the development of a high-rise project since they are being built in established neighborhoods near Lake Merritt, in Chinatown and in Jack London Square.

In conclusion, while there are a couple of high-rise developments currently underway in downtown Oakland, all of these projects are located in areas that are not undergoing significant redevelopment such as is taking place in the Uptown area. These projects are located in established neighborhoods that can offer recreational amenities to potential buyers. It can be expected that the area surrounding the Property will likely meet these locational requirements once Forest City's Uptown Project, the Fox Theater, the Fox Courts Project and the Telegraph Avenue/Latham Square Streetscape improvements have been completed, and the current moderation in the regional for-sale housing market has eased and sales price growth has begun to accelerate again.

SUSTAINABLE OPPORTUNITIES

Economic

The Project will take an underutilized site and transform it into an economically productive use by constructing a residential building that will include a significant retail component. The proposed development of the Property will contribute to the revitalization of adjacent vacant retail spaces on Telegraph Avenue and Broadway and stimulate job creation during construction, as well as through increased demand for local services and shopping opportunities.

Environmental

By developing in already built-up areas of the Central Business District, the Project will reduce the pressure to construct on agricultural and other undeveloped land at the periphery of the Bay Area, and thereby contribute to the prevention of urban sprawl. The location of the Parcel in proximity to major public transportation nodes will likely encourage project residents and retail customers to use BART and AC Transit, thereby reducing reliance on automobiles and decreasing pollution from car exhaust. The DDA requires the developer to work with the Mayor's Office of Environmental Sustainable Development to formulate appropriate sustainable building goals and strategies for the Project. To the extent that such goals and strategies are commercially feasible, the developer will be encouraged to incorporate green building techniques, such as energy-conserving design and appliances, water-conserving fixtures and landscape, recycled content building materials and low waste construction techniques into the final construction plans for the Project.

Social Equity

The Project will generate tax increment revenues for the Agency's Low and Moderate Income Housing Fund.

DISABILITY AND SENIOR CITIZEN ACCESS

All residential developments are required to construct and set aside at least 5 percent of the units for persons with disabilities as required by the U.S. Government's Americans with Disability Act (ADA) Standards for Accessible Design, the Fair Housing Act and the State of California's Title 24 accessibility regulations.

RECOMMENDATION AND RATIONALE

Staff recommends that the Agency accepts this report and its findings. Based on an independent analysis by KMA, as well as a review of current high-rise developments in downtown Oakland, staff has determined that a high-rise development on the Property is

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not currently feasible until redevelopment activities in the area surrounding the site have been completed and the current slowdown in the for-sale housing market has diminished.

ACTION REQUESTED OF THE AGENCY

Staff recommends that the Agency accepts this report upon review of the economic assumptions guiding staff's and Forest City's decision about the type of building and the number of residential units that will be developed on the Property.

Respectfully submitted,



for

Dan Vanderprien
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APPROVED AND FORWARDED TO
THE COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE



Office of the City Administrator

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