

**CITY OF OAKLAND
AGENDA REPORT**

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OAKLAND
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TO: Office of the City/Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: November 8, 2005

RE: **REPORT AND RECOMMENDATION ON A PROPOSED LONG-TERM
STRATEGY TO RETAIN AND EXPAND AUTO RETAIL IN OAKLAND**

SUMMARY

Oakland is facing the loss of most of its existing auto dealers within 4-6 years, due to rising land values, the encroachment of housing development, pressure from the auto manufacturers to modernize facilities, and substandard physical conditions on Broadway Auto Row.

As a result, it is necessary to provide a sustainable, long-term location for auto retail on a freeway site near the Oakland Army Base and/or Coliseum area. Staff recommends that the Agency pursue a phased approach, in which: (1) a 40-acre freeway auto mall would be developed over the next 3-5 years at the Army Base; and (2) any dealerships that cannot be accommodated at the Army Base would, over time, be located on in-fill sites in the Coliseum Area.

Staff is seeking feedback and direction from the Redevelopment Agency as to whether to move forward with plans to develop an auto mall at the former Oakland Army Base. To implement this strategy, staff would proceed with the planning, design, and analysis needed to prepare for the development of an auto mall at the Army Base – including the analysis of environmental, traffic, and infrastructure issues. At the same time, staff would negotiate with several key dealerships, prepare environmental documents, and would return to the Agency Board to ask for the approval of development agreements to relocate the dealerships to the Army Base.

FISCAL IMPACT

The proposed policy has long-term fiscal impacts involving consultants, contracts, land acquisition, development agreements, and infrastructure improvements. With Council/Agency direction to proceed, these impacts can be analyzed and brought back to the Council/Agency with specific actions for approval.

BACKGROUND

Since the 1990s, Oakland has faced increasing pressures to retain its auto dealers, particularly on Broadway Auto Row. The 22 dealerships on Auto Row employ 650 workers and generate \$3.9 million per year in sales tax. In 1997, the Agency funded a major redevelopment of Auto Row,

which retained the dealers and allowed a temporary surge (of 50%) in sales. Since then, sales have faltered.

There is now an urgent risk of losing auto retail, due to three factors:

- 1) **Rising Property Values.** As land values in Auto Row have increased to \$100 per square foot or more, many property owners are now requiring much higher rents – or declining to renew existing leases so they can sell their properties and take advantage of the current housing boom. This trend leaves the dealers in an untenable situation. Of the 22 dealers on Auto Row, 13 operate on leases that will expire by 2009.
- 2) **Physical Constraints.** The Broadway dealers operate on small, irregular lots that do not meet factory standards and cannot hold adequate inventory. Many have survived using satellite parking lots that are now being redeveloped. By contrast, the national trend has been to consolidate dealerships into freeway auto malls where they can enjoy large, open acreage, and freeway visibility and access.
- 3) **Pressure from Manufacturers.** Auto manufacturers have strict standards for their dealer franchises (e.g., location, lot size, building layout/appearance, etc.). The Broadway dealerships are facing intense pressures from their factories to move to more modern facilities in a freeway auto mall.

POLICY DISCUSSION

To respond to these conditions, the Agency faces three general options: (a) do not intervene; (b) assist auto dealers to remain viable in their current locations; or (c) assist the auto dealers in locating to one or more freeway sites.

The first two options would be problematic from an economic standpoint. If the Agency chooses not to intervene, most dealers will be forced out of Auto Row within the next 4-6 years. The displaced dealers would most likely move to another city, or be shut down by their manufacturers.

To secure Auto Row as a long term location for auto retail, the Agency would need to help dealers purchase their properties, as well as adjacent properties for expansion. In general, dealerships have been able to pay up to \$20 per square foot for land. But with the market rate of land being \$100 per square foot or more, the dealers would encounter a funding gap of at least \$50-\$80 per square foot. The Agency would be asked to help fund this gap, which could exceed \$40 million for the amount of land required. The Agency would most likely need to use its powers of eminent domain to complete land acquisition.

For these reasons, staff has been exploring the feasibility of developing a freeway auto mall at one or more locations in Oakland, in order to reduce the costs of preserving the local auto dealerships and to avoid eminent domain as much as possible.

1. Auto Mall Scope & Design

Auto malls exist nationwide in a variety of sizes and configurations. Some exceed 100 acres (e.g., Roseville, Spectrum Auto Plaza), but in more urban areas the size is usually limited to 20 to 50 acres. In most cases, each dealership has at least four acres, in order to meet factory standards. One common design is to have a single point of entry, leading to a one-way loop road that passes all dealers in the mall, so that each dealer has equal exposure to customers.

In January 2005, the Agency initiated a site planning study using the design firm Ware Malcomb, to look at a potential freeway auto mall at the Oakland Army Base (see Attachment 1). Ware Malcomb researched the area and met with local dealerships and other stakeholders, to determine the space needs of existing dealers (see Attachment 2). In its April 2005 report, Ware Malcomb proposed a freeway auto mall that would include 14 dealerships on about 42 acres of space. Based on this analysis, it appears that the City/Agency would need to identify 40-50 acres of land to accommodate the existing auto dealerships in a freeway location. Attachment 3 shows one potential concept for configuring auto retail within the Army Base (see Attachment 3).

2. Site Options

Only two locations in Oakland could realistically accommodate a 40- to 50-acre freeway auto mall: the Oakland Army Base and the Coliseum Area. Both sites would offer a central location with outstanding visibility and access. In addition, in both locations an auto mall would be consistent with other uses planned or existing in the immediate area.

Oakland Army Base

The Army Base offers large, open lots with freeway visibility and access – and can be made available for development in the very near future. Thus, the Army Base is the most viable option for dealerships that must relocate within the next 2-3 years. In addition the Army Base is located more than 10 miles away from most existing dealerships. This is significant, because dealerships may not locate (or relocate) within 10 miles of another dealership of the same product.

On the other hand, the Army Base is being considered for other projects that would take up most of the available space. The Agency has Exclusive Negotiating Agreements (ENAs) for two large projects: a 70-acre film production center to be developed by the Wayans Brothers (Fulton Project Development Group), and a 50-acre project undergoing conceptual development by Oakland West Wind, LLC (a venture led by Opus West). The Oakland West Wind project is currently undefined and could possibly accommodate an auto mall. In addition, the Army Base would require all new infrastructure (e.g., electric, water) to be built for the auto mall.

Coliseum Area

The Coliseum Area is a proven destination for auto retail, with Lexus, Infiniti, and GMC Truck located in the area. In addition, the Coliseum area would need fewer infrastructure

improvements than the Army Base, and it would have a greater potential to catalyze other retail on adjacent parcels.

On the other hand, the City/Agency does not currently have control over any land in the Coliseum area that is suitable for auto retail. Currently, the Agency is approaching several local property owners – including EBMUD, Syufy, and others – to identify in-fill opportunities for new auto retail. This makes the Coliseum area a more viable site option for those dealerships that can wait longer to relocate. Attachment 4 shows potential areas for in-fill development of auto retail in the Coliseum area.

Another disadvantage of the Coliseum area is that it would be more greatly affected by the State’s “10-mile Rule,” due to its proximity to other existing dealerships in San Leandro and Alameda. At least eight car makes would face a legal challenge that could prevent them from moving to a Coliseum location.

Combination of Sites

Due to the shortage of space available on the Army Base, and the length of time needed to make land available in the Coliseum area, it is most practical to pursue a phased approach that places auto retail in both the Army Base and the Coliseum area. Under this strategy, dealerships with the greatest time urgency to move would be placed on the Army Base, which could hold up to 15 dealerships on approximately 40 acres of land. As discussed below, this approach would require using all of the North Gateway and approximately 20 acres of land subject to the Oakland West Wind ENA. The remaining dealers would be located in the Coliseum area.

3. Current Discussions with Dealerships

Several auto dealerships have approached staff to discuss the possibility of relocating to a freeway auto mall on the Oakland Army Base. These dealers need to relocate quickly, due to their expiring leases. Staff has focused on the North Gateway – specifically, the Subaru Lot and Baldwin Yard – as the most feasible location, because it can be made ready for construction much sooner than other areas of the Army Base. The dealerships that have expressed the greatest interest are:

- Q & S Automotive (Porsche/Audi/Mazda)
- Connell Nissan
- General Motors (Chevrolet, Cadillac, GMC, Buick, Pontiac)
- European Motors (Mercedes)
- Weatherford BMW (of Berkeley)

Each of these five dealerships wishes to negotiate directly with the Agency to purchase and develop individual lots (of four to ten acres each) for auto retail. Several other dealerships (e.g., Ford, Volkswagen, Dodge, Chrysler, Jeep) have also expressed an interest in relocating to a freeway auto mall at the Army Base.

A total of approximately 22 acres could be made available for auto retail within the North Gateway portion of the Army Base. Thus, assuming a total program of 40-45 acres for the auto mall – as was envisioned in the Ware Malcomb Study – the Agency would need to locate approximately 20 additional acres for dealerships on another site within the Army Base.

If auto retail is developed in the North Gateway, it would be important to locate the remaining dealers on adjacent parcels in the East Gateway. This would allow the dealers to be co-located and to create a consistent, convenient environment for customers. For this reason, staff has been working with Oakland West Wind, LLC, to see if auto retail can be included within the 50-acre proposal that they are planning. Attachment 3 shows one possible way to lay out an auto mall, using a combination of the North Gateway and a portion of the East Gateway (which is currently allocated for the Oakland West Wind ENA).

4. Financing

Development of an auto mall would involve costs for: (a) land acquisition; (b) site preparation and soil remediation (depending on the sites chosen); (c) infrastructure (e.g., gas, electric, water, etc.); (d) new streets, directional signage, streetlights, etc.; (e) construction of the auto dealership buildings, parking, landscaping, and other features; and (f) relocation.

Some dealerships may be in a poor cash position and therefore may need Agency assistance to help them remain in an Oakland location. In the past, the Agency has extended assistance to dealers through the use of development agreements that base financial assistance on increased sale tax performance.

The development of an auto mall would produce three sources of income to the City and Agency: proceeds from the sale of land, increased property tax increment, and increased sales tax revenues. These revenues would be used to finance the required costs for infrastructure and site preparation for the auto mall and for adjacent areas. Cost estimates for infrastructure will be developed as part of the planning and analysis of the Army Base.

5. Marketing Issues

Freeway auto malls require a unified advertising strategy, to establish the mall as a well-known destination. Therefore, as a condition of any land sale to relocate dealerships to the Army Base, each dealership should be required to participate annually in a joint-marketing program for the auto mall. This program would include an advertising association, website, advertising campaign, and other elements. In addition, the Agency may need to consider options for freeway signage and directional signage, to direct customers to the new location.

6. Backfilling of Space on Broadway

If the Agency decides to develop a freeway auto mall, it would take at least two years to work out design, entitlement, and other issues. The Agency could use this 2-3 years of lead time to plan for the transition of Upper Broadway from an auto-dominated commercial strip to a mixed-use

neighborhood with housing and street retail. A report on Upper Broadway land use will be prepared for an upcoming meeting of the Community and Economic Development Committee.

The planned redevelopment of Broadway Auto Row could activate 10-12 acres of land for development into mixed-use housing. These projects could yield as much as \$50 to \$100 million in new construction, which would generate significant new tax increment for the Central District and Broadway-MacArthur Project Areas.

By working in with local property owners, brokers, and residents, the Agency could attempt to avoid or reduce any negative impacts during the transitional period (e.g., vacancies, construction, etc.) and to identify opportunities to improve the neighborhood, such as the attraction of neighborhood-serving retail.

SUSTAINABLE OPPORTUNITIES

Economic: The proposed auto mall strategy would retain 650 high-quality jobs; retain \$3.9 million in City sales tax revenues; and create urban in-fill housing opportunities along Upper Broadway.

Environmental: The proposed strategy would co-locate auto dealerships on an urban in-fill site with approximately 40 acres. By contrast, a standard suburban auto mall would require as much as 100 acres on previously undeveloped land.

Social Equity: The new in-fill housing in Upper Broadway would provide mixed-use housing and neighborhood-serving retail to the surrounding neighborhood.

DISABILITY AND SENIOR CITIZEN ACCESS

This informational report does not involve the approval of any specific projects or programs. Disability and senior access issues would be addressed when specific development plans are submitted to the City by the Developer for review and approval.

ACTION REQUESTED OF THE CITY COUNCIL/REDEVELOPMENT AGENCY

Staff is seeking feedback and direction from the Redevelopment Agency as to whether to move forward with plans to develop an auto mall at the former Oakland Army Base. Staff is recommending that the Agency pursue a phased approach, in which auto retail would be developed in both the Oakland Army Base and the Coliseum Area.

In the short term – i.e., within the next 3-5 years – the Agency would develop a freeway auto mall with approximately 40 acres of land in the North and East Gateway portions of the Oakland Army Base. This auto mall would accommodate dealers with the most urgent need to relocate.

In the long term, the Agency would work with local property owners to create in-fill opportunities in the Coliseum area, which could accommodate other auto dealerships. Using this

phased approach, the Agency would be able to retain its auto dealerships, allow them to expand and increase annual sales, and achieve increased sales tax revenues.

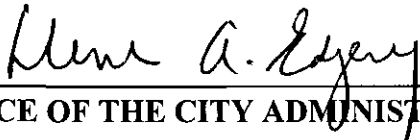
Respectfully submitted,



Daniel Vanderprien
Director of CEDA Redevelopment, Economic
Development, Housing & Community Development

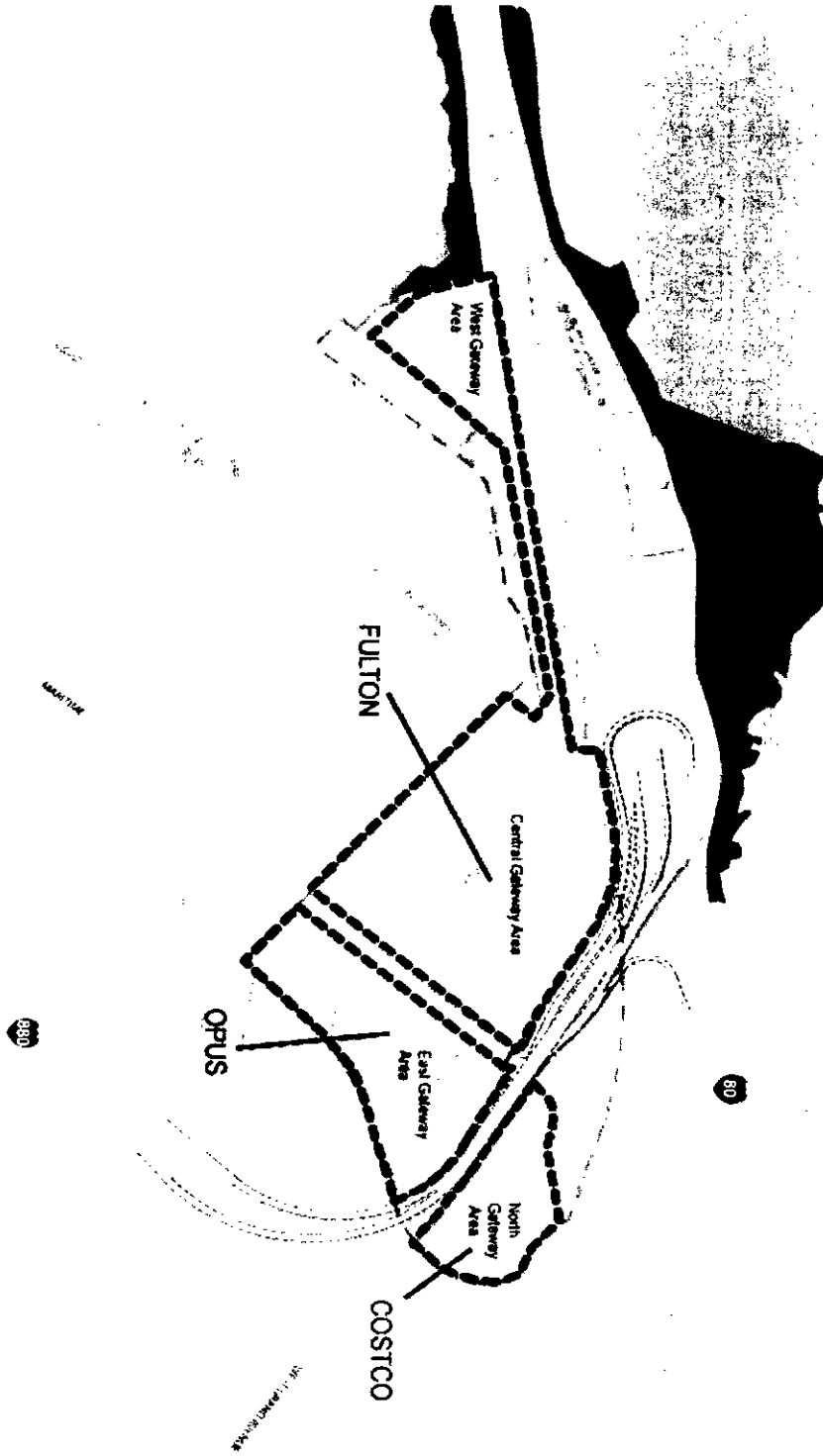
Prepared by:
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Redevelopment Division

APPROVED AND FORWARDED TO
THE COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:



OFFICE OF THE CITY ADMINISTRATOR

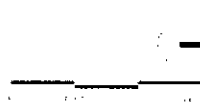
ATTACHMENT 1



DRAFT

OBRA
Program Alternative

Figure 1



North Arrow

Scale



ATTACHMENT 2: SPACE NEEDS OF EXISTING AUTO DEALERSHIPS

Dearlership	Makes Represented	Space Requested	Current Address	Own/ Lease
Weatherford BMW	BMW	6 acres		
Q & S Automotive	Audi Porsche Mazda	4-5 acres	2345 Broadway	Lease
Connell Auto Center	Nissan	4-5 acres	2735 Broadway	Lease
Connell Auto Center	Chrysler Jeep Dodge Kia Isuzu	7 acres	2735 Broadway	Own
Mercedes-Benz of Oakland	Mercedes	5 acres	2915 Broadway and 2964 Broadway	Own
Chevrolet	Chevrolet	--	3000 Broadway	Lease
Oakland Automotive Center	Buick Cadillac GMC Truck Pontiac	10 acres	3093 Broadway	Lease
Honda of Oakland	Honda	--	3741 Broadway (moving to 3330 Broadway)	Lease
Oakland Acura	Acura	3-4 acres	277 27th Street	Own Bldg. Lease Whse
Broadway Motors Ford	Ford	3-4 acres	2560 Webster Street	Lease
Broadway Volkswagen	Volkswagon	4 acres	2740 Broadway	Lease
Saturn of Oakland	Saturn	4 acres	2355 Broadway	Own
Downtown Auto Center	Toyota Saab Subaru	6-7 acres	4133 Broadway	Own / Lease



Broadway Auto Row Dealer Identification

Maritime Auto Center
at Oakland Gateway

WARE MALCOMB

architecture
planning
interiors

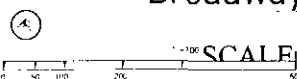
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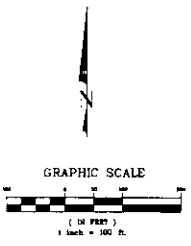
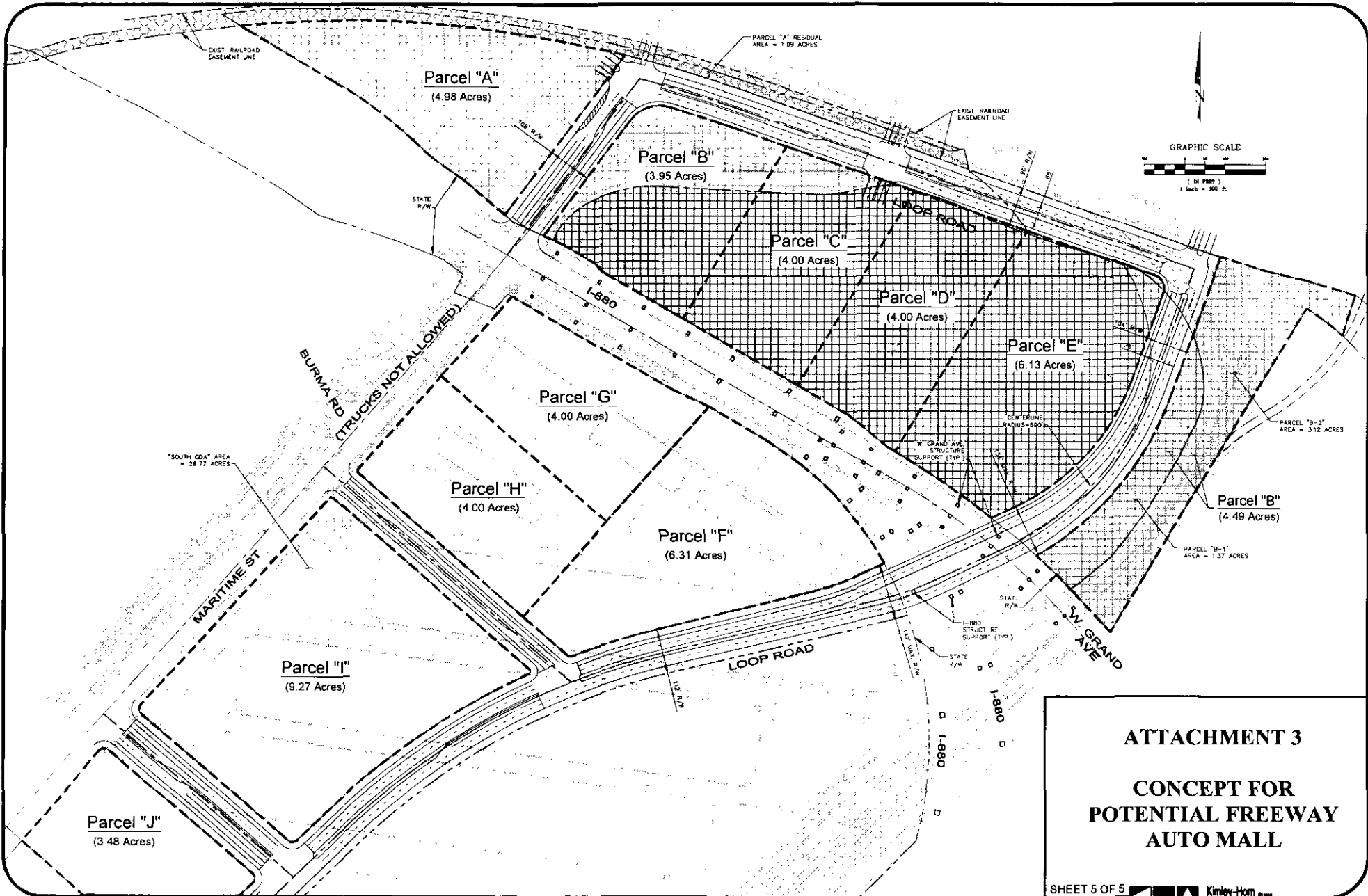
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CITY OF OAKLAND







ATTACHMENT 3

**CONCEPT FOR
 POTENTIAL FREEWAY
 AUTO MALL**

SHEET 5 OF 5

Kimley-Horn and Associates, Inc.

Attachment 4: Potential In-Fill Opportunities For Auto Retail In The Coliseum Area

