



Lake Merritt Station Area Plan

Market Opportunity Analysis

February 2010,
Revised June 2010

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Prepared for

DYETT & BHATIA

Urban and Regional Planners



Conley Consulting Group

311 Oak Street, Suite 110
Oakland, California 94607

www.conley-group.com

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I. INTRODUCTION

A. Report Purpose and Context

This report was prepared by Conley Consulting Group (CCG), under subcontract to Dyett & Bhatia, to review the market opportunities for real estate development in the Lake Merritt Station Planning Area. This report was prepared to support development of a Station Area Plan generally including the area within a half mile radius of the Lake Merritt BART station, which is located on Oak Street between 9th and 8th Streets, in downtown Oakland (see Figure 1.1).

The Planning Area (which is the same as the Station Area) includes several distinct activity centers as described below:

- Chinatown, Oakland's historic and thriving Asian commerce, cultural and residential center which attracts shoppers from all over the East Bay.
- The government complex centered around 12th and Oak Streets, which includes:
 - Alameda County administrative headquarters, an obsolete parking structure, the courthouse, and office/meeting space;
 - A federal office building and the historic Oakland Post Office;
 - The Oakland Public Library and the Oakland Museum;
 - A joint use building housing the Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC);
 - The original BART headquarters building at 8th and Jackson Streets, which was demolished as this report was being prepared;
 - The historic Henry J. Kaiser convention and performance center at 10th Street, which is currently closed.
- Laney College, the main college campus of the Peralta Community college system. In addition to the campus there are two relatively underutilized sites: the large 600 space parking lot reserved for campus use on weekdays, and the Peralta System's facilities headquarters site. Together these two sites represent approximately 12 acres.
- The administrative headquarters of the Oakland Unified School District, located at the eastern edge of the Planning Area.
- The lakeside residential area between 14th and 18th Streets, which is largely developed as older rental housing.
- The Estuary improvements funded by measure DD, which are scheduled to be completed within the next three to five years, and will provide a recreational and pedestrian link between Lake Merritt and eventually the Oakland Estuary.

In addition, the Planning Area is adjacent to the Uptown area (where 1,850 new housing units were constructed since the late 1990s and where the rehabbed Fox Theater and several successful new restaurants have created a growing entertainment center), and the Warehouse District in Jack London Square where 1,350 new housing units and service retail have been developed.

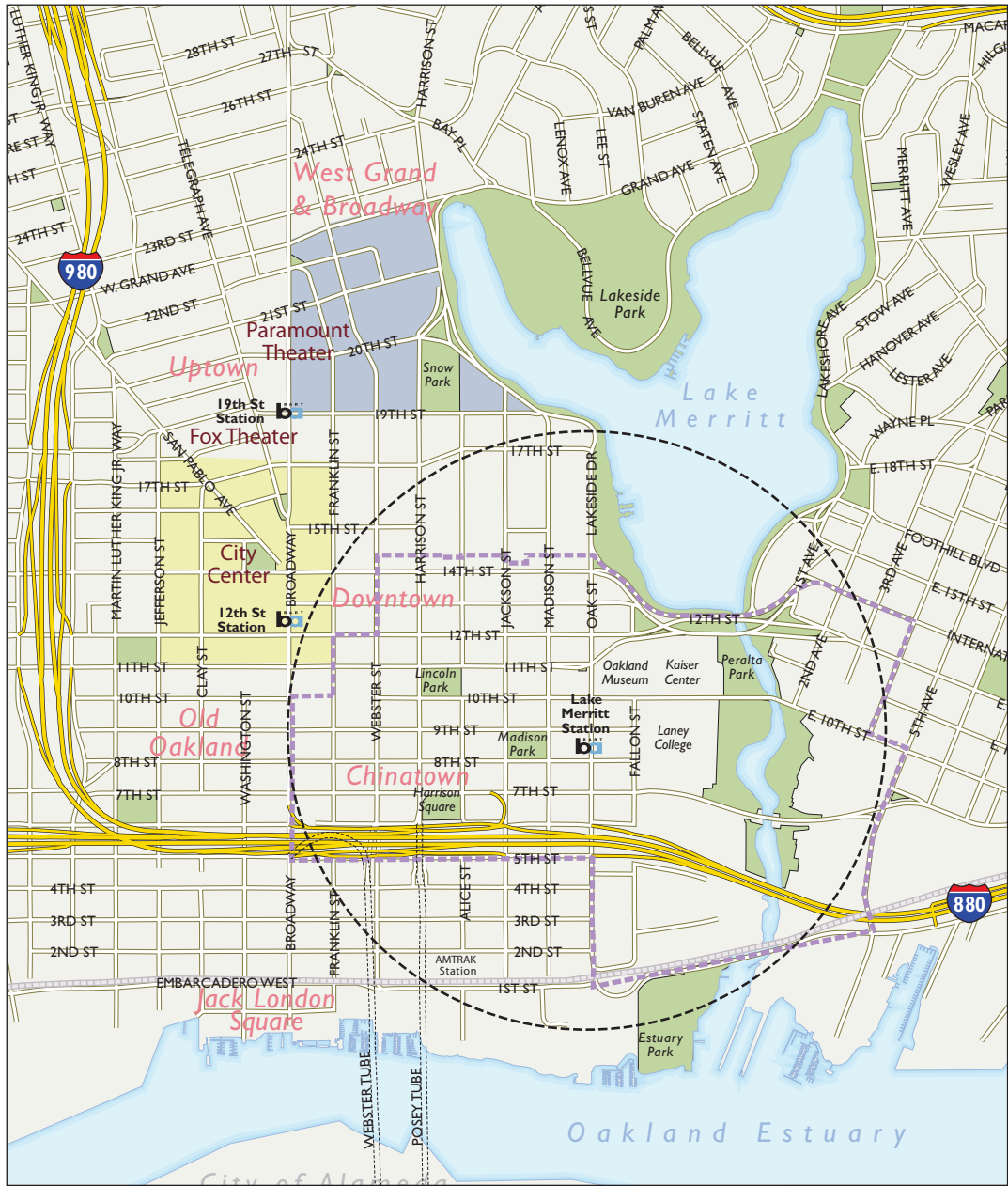
Despite the vibrant pedestrian activity generated by the strength of Chinatown's commercial district, the rest of the Planning Area is fairly lifeless, with limited pedestrian traffic and activity in the evenings and on weekends.








The Station Area Plan is intended to encourage transit oriented development that will boost the use of the relatively underutilized Lake Merritt BART station and to guide and accommodate the planned changes in the area.

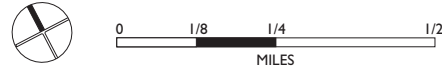
This study is intended to examine the market forces influencing future development of the Planning Area during the 25 year planning period between 2010 and 2035.

In this analysis we acknowledge that cultural and other non market forces impact the future of the Planning Area, in addition to the market forces which are the focus of this report. Further, we note that this report examines individual land uses separately, but acknowledge that mixed use development is a predominate mode in the Planning Area, and especially in Chinatown's commercial core.

Figure 1.1:
Retail and Office Context



-  BART Station
-  City Park
-  Focus Area
-  Planning Area - 1/2 Mile Radius
-  Railroad (Amtrak & Freight)
-  Lake Merritt Office Submarket
-  City Center Office Submarket



B. Steps Undertaken

In preparing this market assessment, CCG undertook the following steps and analyses:

- Assessed the impact of current and projected future national and regional economic conditions on Planning Area market opportunities.
- Evaluated the current demographic characteristics of Oakland and the Planning Area, with a focused examination of demographic trends of the Asian population.
- Analyzed the Oakland housing market, focusing on recent development activity in the downtown. Long term household growth projections were examined in the context of historical trends in housing production in the downtown and in the Planning Area.
- Examined retail performance trends in Oakland, Chinatown, and the Planning Area. Analyzed current and future demand for retail by market segment.
- Conferred with Chinatown community organizations.
- Reviewed Oakland office market conditions and projected employment growth to evaluate the long term opportunities for office expansion in the Planning Area.
- Evaluated opportunities for hotel development in the Planning Area.

C. Report Organization

After this first section, which is the **Introduction**, this report is organized as follows:

- Section II.** Is a Summary of the **Findings and Conclusions** of this effort.
- Section III.** Describes the **Economic Context** at the time this report was written, and the **Demographic Conditions** and projections that underlay this analysis.
- Section IV.** Describes current **Housing** market conditions and the likely longer term future opportunities for the Planning Area.
- Section V.** Presents the **Retail** conditions in the Planning Area, the sources of market support for retail, and considers the future retail opportunity.
- Section VI.** Considers citywide and Planning Area **Office** development opportunities.
- Section VII.** Reviews current and projected future **Hotel** market conditions.
- Section VIII.** Provides the **Caveats and Limitations** of this analysis.

II. FINDINGS AND CONCLUSIONS

This report addresses the market forces that impact future development in the Planning or Station Area. The Station Area Plan is intended to govern changes in the Planning Area between 2010 and 2035, many of which will be incremental and gradual. This market study references the Bay Area growth projections prepared by the Alameda County Congestion Management Agency (CMA), in the context of the specific market forces affecting this portion of Oakland. Future portions of the Station Area Plan will consider the environmental, including socio economic, impacts of changes in the Planning Area.

Economic Context

As this report was written in the winter of 2009-2010 the US and local economies remained in the grip of a deep and protracted global recession. While there are some indicators that the recession, which started in late 2007, may be abating, the collapse of demand across many economic sectors persists into 2010. The recession has impacted the availability of capital (both equity and debt) to fund development, and depressed property values have rendered new development of most land uses infeasible in the near term. In the absence of some currently unforeseen factor that emerges and accelerates the projected slow recovery, it is CCG's judgment that the after effects of the recession will linger, depressing development activity for several years. For many economic sectors the recession has brought activity back down to levels that were originally achieved and passed in the beginning of the 21st Century.

Regional policy favoring growth in the urban core areas, rather than continued suburban and exurban outward expansion, suggests that Oakland should receive a larger share of the East Bay's future growth than has historically been the case. ABAG's projected population growth through 2035 would require more new development than was captured during the recent housing boom for both the city as well as the Planning Area. By the end of the period, projected employment growth for the city would require a future total inventory of 31.5 million square feet (SF) of office space, compared to a current Oakland inventory of less than 14 Million SF.

It will be a challenge to achieve these projected growth levels, as delayed development activity in the near term may impact the ability to achieve the robust development projections over the longer term.

Chinatown

The Planning Area includes Chinatown, which is a unique and rich environment, with a wealth of cultural, social, medical, residential, retail and social resources. Chinatown's commercial uses are concentrated in the four city blocks bounded by 7th, 9th Streets, Franklin and Harrison. In a less concentrated manner Chinatown's commercial distinct influences a wider area from I - 880 to 11th Street, and from Broadway to Harrison. While over the last three decades Asian oriented retail has spread eastward in Oakland along 12th Street and International Boulevard, Chinatown remains one of the city's most vibrant neighborhood retail districts. In addition to the commercial concentration, Chinatown is a strong residential neighborhood which spans from Harrison to Fallon Streets and from I - 880 to 11th Street.

As described in the Existing Conditions Report (2010), Chinatown's rich historical and consistent cultural context attracts residents and visitors, including the many churchgoers and regular patrons of the district's social and health resources. In addition, Chinatown attracts Asian residents from throughout the East Bay for cultural, health and educational services, as well as banking institutions catering to Asian customers.

Demographics and Population Projections

The Planning Area has a current estimated population of 12,500 persons in 6,159 households, compared to the estimated 412,000 population and 157,000 households in the City of Oakland. The Planning Area population is nearly 70% Asian, of which 84% are Chinese.

Compared to the city as a whole, the Planning Area has relatively smaller households, more seniors, a larger proportion of renters, lower household incomes, and heavier reliance on public transportation.

The Alameda County Congestion Management Agency (CMA) projects that by 2035 the Planning Area will grow by roughly 10,500 households and 7,300 jobs. For the City of Oakland, ABAG projects an additional 54,000 households and 93,000 jobs in that period.

Housing

By the early part of this century, the Oakland housing market switched from one dominated by sales of existing single family homes to one where new multifamily units were 80% of new housing unit development. Given excellent access afforded by many Oakland locations, including the Planning Area, there is a strong opportunity to develop housing in a Transit Oriented Development (TOD) format.

TOD housing appeals to members of the baby boom generation (born between 1945-1964, now predominantly empty nesters) who are attracted to amenity rich urban locations as well as to generations X (born between 1965 and 1978) and Y (born 1979 to 1999) who show a preference for more environmentally sound residential choices and urban amenities, as well as a marked aversion to long commutes. Thus demographic trends favor housing in a TOD format.

When development of new housing in Oakland's Central District resumes, we conclude:

- The Planning Area will face competition from more established neighborhoods, where enough units have already been planned or granted approvals to accommodate likely levels of new housing demand for the next 10 years or more.
- Initial developments in the Planning Area are likely to be low to mid rise buildings (below eight stories). High rise housing development is unlikely for the next three to five years, due to financial feasibility and investment risk issues.

Potential sources of demand for housing in the Planning Area include:

- Asian seniors;
- Immigrant families;
- Singles and young households attracted to recreational amenities along Lake Merritt and the Estuary;
- Laney College students from outside of the Bay Area or outside of the Country;
- Aging Baby Boomers, once the neighborhood character has been established.
- The large and growing group of households who desire housing within an easy commute to jobs in other Bay Area locations in the East Bay, San Francisco, and the Silicon Valley.

Accommodating projected household growth in the Planning Area will require intense development of sites beyond Chinatown, including sites above 11th Street and along the improved Estuary. These areas currently lack the neighborhood amenities, active streets and the character required to attract significant levels of development.

Creating a lively neighborhood character with active, pedestrian friendly streets is a requirement for achieving significant growth in the housing stock outside of Chinatown in the next decade or so.

Retail

The Planning Area includes Chinatown, one of Oakland's strongest neighborhood retail districts. The most recent taxable sales reports Focus Area, which is a subset of the Planning Area, sales at \$57 million (2008), representing the city's fifth largest neighborhood retail district in terms of sales. Since 1994, retail sales in Chinatown have grown at a much faster pace (84%) than for the city as a whole (1.74%)¹. Chinatown is unique among Oakland's retail districts in that it regularly draws shoppers to Oakland from outside of the city. However, Chinatown faces increased competition from suburban stores targeting this customer base and from the growing suburbanization of the East Bay Asian population, thus maintaining the district's vitality should be an important City goal.

Historically, food sellers and other convenience goods merchants have been the most successful retailers in Chinatown, including restaurants, shops selling prepared food and grocers. More recently Chinatown's merchandise mix has broadened to include comparison stores (those selling apparel, home furnishings, home improvement, and specialty goods) as well.

Currently the primary source of retail demand in the Planning Area is the Asian population of the East Bay. Downtown office workers and non-Asian Oakland residents

¹ The City of Oakland experienced a significant decrease in sales during 2003 to 2008. Oakland's retail sales grew 44.0% from 1994 to 2003, which was similar to growth patterns of the selected retail nodes during that period.

also patronize Chinatown's thriving shops. Maintaining and supporting Chinatown's successful commercial district should be a major goal of the Station Area Plan, and for the city.

Outside of Chinatown, the current lack of pedestrian activity and active street retail in the Planning Area is a constraint to attracting potential development to accommodate population or employment growth in the Planning Area.

Untapped sources of support for retail in the Planning Area include:

- Projected growth of up to 38,400 residents by 2035, who could support an additional 414,000 SF of new retail.
- Projected growth of up to 7,300 new employees by 2035, who could support additional eating and drinking, service and specialty retail.
- The 15,000 commuting students and 400 faculty and staff members of Laney college, which may be augmented by the addition of residential facilities for the growing enrollment of foreign and out-of-Bay Area students. The college related demand is for casual dining, cafes, bars, and food to go.

With the possible addition of an entertainment anchor related to the college, there would be an enhanced nighttime draw of city residents to the area, further enhancing the Planning Area opportunities for restaurants and night clubs.

Office

Projected employment growth suggests substantial office development potential for downtown Oakland. However, the Planning Area is outside of the established locations for private sector office activity at Lake Merritt, City Center (See Figure 1.1) and the emerging center at Jack London Square. Although office workers currently patronize Chinatown food establishments, the Planning Area lacks the employee oriented shopping, dining, lodging, and infrastructure amenities necessary to attract Class A office development.

The primary opportunity for the Planning Area is for expansion of its current role as a cluster of government and educational uses, and for retail and professional services that support those uses. Alameda County has indicated that it plans to consolidate some of its functions from elsewhere in Oakland to other sites in the Planning Area. Ideally new civic uses should be designed to contribute to a lively pedestrian environment in the Planning Area.

In addition to general office space, Chinatown supports cultural, health and civic organizations which occupy upper floor space in mixed use buildings in the Planning Area, typically over ground floor retail space.

Hotel

Oakland has a small hotel sector with relatively stable occupancy levels and room rates, and has typically been less vulnerable to economic shifts than other cities' hotel markets. The city's hotels have certainly been impacted by the recent recession. Given the hotel

sector's small size, each new property represents a major change in the city's inventory, thus increasing the market risk. The Planning Area includes one first class hotel, the Marriott Courtyard located on Broadway at 8th Street.

The most probable opportunity to expand the city's hotel sector is from increased corporate demand from an expanded employment base. There are currently four proposed future hotel developments in Oakland which would add 760 rooms to the city's existing inventory of 3,800 first class rooms. Thus, this opportunity will follow recovery and expansion of the city's economy, and is likely after 2020.

Sites in the Planning Area with water views overlooking Lake Merritt or the Estuary would be excellent hotel development opportunities, and would be competitive with other Oakland locations for new first class hotel development. Given the proposed competition it is likely that only the strongest potential site(s) would be developed for hotel use.

In the mid to long term future, the Planning Area could support either a small boutique hotel (30-100 rooms) or a 200+ room full service facility.

Planning Area Market Opportunity

The amount of new development supported by market dynamics in the Planning Area over the planning period is summarized in Table 2.1 below.

TABLE 2.1 PLANNING AREA DEVELOPMENT OPPORTUNITY (2010-2035)				
Product Type	Next Decade 2010-2020	Remaining Period 2020-2035	Total New Demand	% 2035 CMA Projection¹
Residential	900-2,500 Units	3,450-8,000 Units	4,350-10,500 Units	41-100%
Retail	83,000-165,000 SF	124,000-249,000 SF	207,000-414,000 SF	NA
Office	N/A	850,000 SF	850,000 SF	100% ²
Local Serving Office	125,000-165,000 SF	186,000-249,000 SF	310,000-414,000 SF	N/A
Hotel	N/A	200 Rooms	200 Rooms	N/A
Source: Conley Consulting Group; February 2010				
1. 2035 Planning Area projection calculated by Dyett & Bhatia from Congestion Management Agency data.				
2. Assumes 44% of employment is office-related. Alameda County proposed expansion represents nearly 50% of the estimated market demand.				

III. ECONOMIC CONTEXT AND DEMOGRAPHICS

A. Economic Context

This report is based on research conducted in the winter of 2009-2010 as the US and global economy suffered the effects of the most severe economic contraction since the Great Depression in the 1930s. Since late 2007, the economic crisis has resulted in major economic shocks including the loss of over 8 million jobs nationally, a nation-wide collapse of housing values and mass home foreclosures, and an impending crisis in commercial mortgages financed by Commercial Mortgage Backed Securities (CMBS) lenders.

These factors have affected property markets in California, and particularly in areas with a high concentration of predatory lending practices and rising unemployment, such as Oakland. Housing values have fallen precipitously from the peak levels, by as much as 50% in some submarkets. Given the collapse of the housing market, there is currently an ample inventory of units for sale at prices below the cost of new construction. New construction is not financially feasible at current prices, and prices are continuing to fall in many areas.

Many experts expect that it will take three to five years for real estate markets to reach more normalized conditions after the existing troubled inventory is absorbed and prices stabilize. Over time, assuming that there is demand growth from an expanded economy and employment growth or from demographic trends, prices will again return to a point where new construction is financially feasible and demand for building sites will also increase. Thus it is likely that housing and other real estate markets are likely to remain impacted for a period after the economy begins to expand once more.

The recession's impact on commercial real estate markets has yet to reach the level of the crisis now gripping housing markets. To date retail has been the most directly affected sector, as shocked consumers have dropped spending levels far below previous norms. Statewide there was a 4% decrease in taxable consumer retail sales from 2007 to 2008 (the last year statewide data is available), with 2008 retail sales returning to levels previously recorded in 2005.

The sudden change in consumer behavior has occurred at the end of a national retail expansion spree, when chain stores opened new units with an eye to expanding market share at rates well beyond expansion of consumer demand. One expert predicted that nationally as much as one of every five square feet of retail in the country is surplus, and is at risk of future closure².

Given the loss of employment, businesses now need less office or industrial space to accommodate their operations, leading to falling occupancy levels, rents and thus declining property values in those sectors as well. Many commercial mortgages require refinancing before the middle of the amortization period. Loans written when property values were higher may now be "underwater" and thus a commercial mortgage crisis is now looming in many markets, including in the Bay Area, which could potentially prove

² Ironically, since Oakland is so under supplied with retail, there is still market opportunity for retail expansion in the City, subject of course to tenant availability.

as significant a shock to the economy in 2013 as the housing market collapse did in 2008.

Thus, the current recession has differed from other cyclical recessions because of the broad and deep collapse of demand across many sectors, accompanied by a freeze in credit markets that further depresses consumer and business demand. Prices and values have fallen rapidly for real estate products ranging from housing to office space to hotels to retail shops. Given the projected gradual economic recovery, the prospect that demand and pricing might rapidly return to pre recessionary levels in the near term dims, with a growing expectation that significant economic growth will be required before employment losses are recovered, and that recovery of other factors will lag job growth.

In 2010, most forms of real estate development are not currently financially feasible, despite a major decrease in construction costs³. Sustained economic growth is needed to restore financial feasibility for most land uses. For this reason, most experts, including developers interviewed by the Station Area Plan team, expect that there will be little new development in the next several years.

It must be noted that in past economic cycles innovation in a particular sector (such as technology, the internet, or housing) has lead the economy out of a deep recession into an expansion cycle. Since it is difficult to foresee these advances due to innovation, it is equally difficult to predict the nature of a recovery.

B. Current and Projected Demographic Conditions

1. Population

Since 1990, Oakland's population has grown by 11%, less rapidly than population growth of the Bay Area or the East Bay (ABAG, US Census). For environmental and livability reasons, regional public policy now favors growth in the urbanized core areas of the Bay Area Region, particularly to sites that are suitable for higher density transit oriented development. If these policies succeed, the City of Oakland will capture a higher portion of the region's future growth.

TABLE 3.1 OAKLAND POPULATION AND HOUSEHOLD PROJECTIONS							
	2000	2010	<i>% East Bay</i>	2015	2020	2035	<i>% East Bay(1)</i>
Population	399,484	420,000	15.9%	446,100	470,900	562,000	17.1%
Households	150,790	157,840	16.6%	167,940	178,730	212,000	17.8%
Employed Residents	178,716	179,850	14.8%	197,620	228,360	299,010	16.5%
Jobs	199,470	188,590	17.3%	209,340	229,720	281,900	17.7%
Source: Conley Consulting Group, ABAG Projections 2009; January 2010							
(1) The East Bay includes Alameda and Contra Costa counties.							

³ In late 2009, construction bids for Measure DD funded public improvements at the base of Lake Merritt came in at 30% below cost estimates.

Note that given limited opportunities for new development in the near term, it may be difficult to achieve ABAG's projected household and employment growth over the projection period.

2. Asian Population

The majority of Planning Area residents are Asian (64%), and most of the Asian population is Chinese (84%). Vietnamese (including ethnic Chinese residents of Vietnamese descent) and Filipino residents comprise 2.7% and 2.5% of Planning Area residents, respectively.

Oakland's Chinatown has historically functioned as a port of entry for new Chinese immigrants.⁴ Historically, as these families became more established they moved out of Chinatown and often out of the city. Table 3.3 describes Asian population growth trends for the 9-County Bay Area, East Bay and City of Oakland. From 1990 to 2010 the Asian population in the greater Bay Area and the East Bay⁵ grew faster than in the City of Oakland. Although Oakland's Asian population grew from 53,206 to 70,002 between 1990 and 2010, the Oakland Asian population is currently 4.7% of the Bay Area Asian population, down from 6.0% in 1990. Similarly, today Oakland's Asian population is 13% of the East Bay Asian population, down from 20.1% in 1990.

The suburbanization of the East Bay Asian population has lead to an increase in suburban retail designed to serve this market, including the shopping center anchored by the 99 Ranch Asian super market in Richmond/El Cerrito as well as clusters of individual Asian merchants in other locations. These trends have lessened the traditional dominance of Oakland's Chinatown as a source of ethnic goods and services for the East Bay Asian market.

3. Age

The Planning Area population is older than the City of Oakland's population. In the Planning Area 24% of the population is over age 65, and 14% are children under 18. In comparison, in Oakland 11% of the population are seniors and 24% are children. The median age of the Planning Area is 46.1, significantly older than the Oakland median age of 36.8.

4. Smaller Households

The average household size in the Planning Area is 1.94 persons, compared to Oakland's average household size of 2.65.

5. Income

Average household income in the Planning Area at \$39,908 is significantly lower than the citywide average income of \$71,851. Similarly the Planning Area median household income of \$27,786 is far lower than citywide (\$49,481).

⁴ Initially discriminatory laws and practices confined Asian residents to Chinatown. Although racial barriers were broken in the mid 20th Century, some elderly and non-English speaking Asians still prefer to remain in Chinatown.

⁵ The East Bay is defined as Alameda and Contra Costa Counties.

TABLE 3.2 OAKLAND AND PLANNING AREA DEMOGRAPHICS

	CITY OF OAKLAND		PLANNING AREA (1)	
	<u>2009</u>	<u>% Total</u>	<u>2009</u>	<u>% Total</u>
Population	411,736	100.0%	12,052	100.0%
Asian Population	70,022	17.0%	7,747	64.3%
Chinese	36,994	9.0%	6,481	53.8%
Filipino	7,199	1.7%	300	2.5%
Vietnamese	9,779	2.4%	330	2.7%
Other Asian	16,050	3.9%	636	5.3%
Age Composition				
Under 5	29,493	7.2%	488	4.0%
5 to 17	69,832	17.0%	1,209	10.0%
18 to 64	266,611	64.8%	7,444	61.8%
65 and older	45,800	11.1%	2,910	24.1%
Median Age	36.8		46.1	
Households (HH)	152,716		6,159	
Avg HH Size	2.65		1.94	
Avg HH Income	\$71,851		\$39,908	
Median HH Income	\$49,481		\$27,786	
Avg No. of Vehicles	1.35		0.66	
Employed Residents (2)	181,325	91.5%	5,239	94.0%
Housing Tenure	152,716	100.0%	6,159	100.0%
Owner Occupied	62,715	41.1%	970	15.7%
Renter Occupied	90,001	58.9%	5,189	84.3%

Source: Conley Consulting Group, Claritas, Inc.; December 2009

(1) The Planning Area is a half mile radius around the Lake Merritt BART Station.

(2) Includes only residents who are 16+ and in the Labor Force (198,204 Citywide; 5,573 Chinatown).

6. Transit Use

The Planning Area average of only 0.66 vehicles per household suggests a higher use of public transportation than for the city as a whole, where there is an average of 1.35 vehicles per household.

7. Housing Tenure

Most housing units in the Planning Area are renter-occupied (84%), with only 16% of units occupied by owners. In contrast, for the City of Oakland only 59% are renter-occupied and 41% are owner occupied. Sources interviewed for this report suggest that despite current over supply conditions in the citywide housing market, there may be pent up demand for for-sale housing in Chinatown.

TABLE 3.3 ASIAN POPULATION GROWTH TRENDS BY AREA

1990-2009

	9 County Bay Area						East Bay ¹						City of Oakland					
	1990-2000			2000-2009			1990-2000			2000-2009			1990-2000			2000-2009		
	1990	2000	%Change	2009 ²	%Change		1990	2000	%Change	2009 ²	%Change		1990	2000	%Change	2009 ²	%Change	
Total Population	6,023,559	6,783,760	12.6%	7,124,948	5.0%		2,082,914	2,392,557	14.9%	2,541,091	6.2%		372,199	399,484	7.3%	411,736	3.1%	
Asian Population	883,759	1,289,849	46.0%	1,584,618	22.9%		259,002	399,211	54.1%	509,482	27.6%		53,206	60,851	14.4%	70,022	15.1%	
Chinese	324,266	468,736	44.6%	546,848	16.7%		90,691	140,954	55.4%	173,581	23.1%		27,672	31,834	15.0%	36,994	16.2%	
Filipino	258,875	321,333	24.1%	391,494	21.8%		77,198	103,722	34.4%	132,356	27.6%		7,327	6,407	-12.6%	7,199	12.4%	
Vietnamese	85,123	146,253	71.8%	180,509	23.4%		16,732	28,985	73.2%	35,842	23.7%		6,481	8,657	33.6%	9,779	13.0%	
Other Asian	215,495	353,527	64.1%	465,767	31.7%		74,381	125,550	68.8%	167,703	33.6%		11,726	13,953	19.0%	16,050	15.0%	

¹ Includes Alameda and Contra Costa Counties.

² 2009 Demographics from Claritas data.

Source: Conley Consulting Group, Claritas, Inc.; 2009

IV. HOUSING

A. Inventory

In 2009, Oakland had an estimated 165,102 housing units according to estimates published by the California Department of Finance (DOF). The same source estimates a 4.27% vacancy (or unoccupied housing unit) rate, for an estimated 158,060 households in Oakland in 2009. However, DOF reports a flat 4.27% vacancy rate for all years since 2000, which seems unlikely.

B. Residential Building Trends

Table 4.1 shows historic building permit activity in Oakland between 1990 and 2009. We note that the number of permits issued in a given year does not necessarily translate directly into housing unit construction. However, it is a reflection of what housing developers intend to construct in the near term.

TABLE 4.1 SUMMARY OF OAKLAND BUILDING PERMIT ACTIVITY								
Year Issued	% SFU	% MFU	CITY OF OAKLAND					
			SFU		MFU		ALL UNITS	
			Tot.	Avg.	Tot.	Avg.	Tot.	Avg.
'90 - '99	54%	46%	2,897	290	2,422	242	5,319	532
'00 - '03	26%	74%	840	210	2,352	588	3,192	798
'04 - '06	16%	84%	767	256	4,103	1,368	4,870	1,623
'07 - '09	21%	79%	414	138	1,573	524	1,987	662
'00 - '09	20%	80%	2,021	202	8,028	803	10,049	1,005
Source: Conley Consulting Group, Construction Industry Research Board; December 2009								

Between 1990 and 1999

In the last decade of the twentieth century, building permits were issued for a total of 5,319 housing units, an average of 532 per year. Of these permits, 54% (2,897) were for single family and 46% (2,422) were for multifamily housing construction.

Between 2000 and 2009

Between January 2000 and October 2009, permits were issued for 10,049 housing units (roughly 1,005 per year) of which 80% were for multifamily units. Permit activity in this decade can be segmented into three phases:

- Early Decade (2000 to 2003) – After the sharp decline of the “dot com” economy, the 9/11 tragedy, and the recession of 2001, a declining housing market was revived by low interest rates and eager mortgage lending institutions. During this period, 74% of building permits were issued for multifamily units. In contrast, in the 1990s 46% of issued permits were for multifamily units. On average, permits for 798 units were issued per year.

- Mid Decade (2004 to 2006) – This period coincided with the expansion period of the national housing bubble. The majority of residential projects built during this period were successfully absorbed and there was ample financing available to fund both construction and mortgages. Oakland's pro-housing policy (e.g. former mayor Jerry Brown's 10K Initiative) encouraged developers and institutional investors to invest in Oakland, directing increased housing construction activity to the downtown and encouraging a ballooning pipeline of proposed new developments. During these years, permits were issued for 4,870 housing units (an average of 1,623 units per year), or almost half of all of the units permitted in the decade. Multifamily units represented 84% of the permits issued.
- Late Decade (2007 to 2009) – The housing market cooled significantly in early 2007 and collapsed in late summer 2007. After the worst decline since the Great Depression, by early 2010 there are some signs that the market may have bottomed out and that price stabilization and a slow recovery may be underway. Building permit activity dropped dramatically between 2007 and 2009. Only 1,987 residential permits were issued during this period, an average of 662 units per year, and likely represent projects that were initiated before the housing bubble burst. Multifamily units were 79% of the total permits. However in 2009, only 255 units were permitted (190 multifamily units and 65 single family units) as of October, demonstrating the rapid and protracted collapse of the housing market in Oakland.

C. Housing Tenure Trends

As further detailed in Table 4.2, between 2000 and 2006 most of the new residential developments were multifamily ownership projects. Sales prices rose rapidly, stimulated by liberal mortgage lending terms. Since the mid 1990s, Oakland's apartment rental rates did not support the price of new construction, which soared along with housing sales prices. Beginning in 2006, more rental units were constructed, including projects built as upper end rentals with approvals in place for future conversion to condominiums. The 665-unit Uptown project, the 100-unit Aqua Via project in Jack London Square, and the 238-unit The Grand were major new additions to Oakland's rental housing stock in this period.

Tenure trends changed yet again as a result of the collapse of the housing market in late 2007. Mortgage lending suddenly dried up, prices began to plummet and foreclosures became common place, impacting both new high end construction projects and lower income neighborhoods. New housing developments began to convert unsold for-sale units to rentals, a trend which persists in the beginning of 2010.

In Oakland's Central District Redevelopment Project Area (which includes Downtown, Jack London Square, Upper Broadway and Lake Merritt) 400 units built as for sale products in 2006 and 2007 were converted from ownership to rental, representing approximately 50% of all units completed in downtown Oakland during those years (see Table 4.2). Furthermore, of the 1,477 units completed in 2008 and 2009, a total of 1,250 units (85%) were offered as apartments. Anecdotally, before the collapse of the housing market, roughly half of these 1,250 units were originally planned as ownership housing.

Figure 4.1 illustrates major private development projects in the Planning Area.

TABLE 4.2 MAJOR RESIDENTIAL PROJECTS IN OAKLAND'S CENTRAL DISTRICT**2000 to present**

Project (1)	Year	Rent (R) Own (O)	No. Units	No. Stories
Projects Under Construction				
Clayton Court	TBD	O	24	4
City Walk	TBD	O	252	7
The Marquee Lofts	TBD	O	24	8
Subtotal			300	
Recently Completed Projects				
Cathedral Building	2009	O	7	13
Market Square Phase II	2008	O	86	6
The Ellington	2008	O	134	16
8 Orchids	2007	O	157	11
428 Alice	2006	O	93	8
2300 Broadway Phase 1	2006	O	48	4
Market Square Phase I	2006	O	116	6
Franklin 88	2004	O	88	6
The Sierra at Jack London Square	2003	O	229	9
The Essex	2002	O	270	20
New Market Lofts	2002	O	46	5
Remaining Ownership Projects	---	O	274	---
Subtotal			1,548	
Jackson Courtyard	2009	R	45	8
The Bond	2009	R	104	8
Thomas Berkley Square	2009	R	88	7
the Grand	2009	R	238	22
2355 Broadway	2008	R	24	4
901 Jefferson Street	2008	R	86	5
The Uptown	2008	R	665	5
Aqua Via	2006	R	100	9
Allegro at Jack London Square	2001	R	310	4
Remaining Rental Projects	---	R	282	---
Subtotal			1,942	
200 Second Street	2007	R/O	74	6
Broadway Grand Phase 1	2007	R/O	132	7
Jade	2007	R/O	68	6
288 Third Street	2006	R/O	91	6
1020 Jackson	2006	R/O	35	6
Subtotal			400	
Total			4,190	

Source: Conley Consulting Group, City of Oakland; January 2010

(1) All of the projects listed are market rate.

D. Foreclosures

As shown in the table below, Oakland has been significantly impacted by the national foreclosure trend following the 2007 collapse of the housing market. Properties sold after foreclosure have been a downward force on housing prices, in Oakland as well as nationally.

Table 4.3 below shows the number of properties that are in default (NOD), that have a trustee sale scheduled (NOT), and that are bank-owned (REO). The data shows that properties in the foreclosure process (this includes the NOD and NOT properties) increased by 52% in 2007 to 3,226, by 60% in 2008 to 5,164, and by nearly 12% in 2009 to 5,769. Although the rate of growth of foreclosures is decreasing, the number of properties in the process remains very high.

In addition, between January 2009 and December 2010, an estimated 3,711 adjustable rate mortgages (ARMs) are scheduled for adjustment⁶, which may trigger additional loan defaults. This indicates that there is still likely to be a relatively large supply of distressed properties that will continue to be a drag on housing prices through 2010. The data also indicates that 49% of properties with ARMs that will be resetting are located in East Oakland, and 10% of the properties with ARMs that will be resetting are located in West Oakland and Downtown Oakland. However, very few of these at risk properties are located in the Planning Area.

A detailed review of NOD units by location shows that of the 10,270 NODs reported between 2006 through the third quarter of 2009, nearly 64%, or 6,556 units, are located in East Oakland. Another 1,067 (10%) properties are located in the Oakland Hills and 1,261 (12%) are located in West Oakland.

The data shows a few clusters of NODs and REOs in Downtown and Jack London Square in several large new multifamily developments which are near the Planning Area.

TABLE 4.3 OAKLAND FORECLOSURE STATISTICS				
Distressed Housing Units	2006	2007	2008	2009 (1)
Notice of Default (NOD)	1,459	1,894	3,280	3,637
Notice of Trustee Sale (NOT)	663	1,332	1,884	2,132
Subtotal	2,122	3,226	5,164	5,769
% Growth	-----	52.0%	60.1%	11.7%
Real Estate Owned (REO)	-----	-----	1,989	1,903
Total	-----	-----	7,153	7,672
% Growth				7.3%

Source: Conley Consulting Group, Urban Strategies Council, FARES, City of Oakland, DataQuick; January 2010
(1) Data for 2009 only includes the first three quarters of the year and thus may understate the year's total.

⁶ From the Urban Strategies Council website, which lists First American Core Logic, the City of Oakland and DataQuick as sources.

However, these represent less than 3% of the properties in the various stages of foreclosure. The available data does not indicate a noticeable number of distressed properties within the Planning Area.

E. Recent Sales Prices and Rental Rates

1. Housing Prices

Table 4.4 below shows median homes sales prices in Oakland between 2002 and 2009 as reported by the California Association of Realtors. The data shows the extent to which the housing crisis has adversely impacted home values within the city. While the sales volume peaked between 2005 and 2006, the median sales price reached its peak in 2007 at \$517,875, a 69% increase from the 2002 level. Similarly the price declines that started in 2007 were more apparent in 2008. By the end of 2008, the median home sales price had fallen to \$310,000, just slightly above the median price of 2002. In 2009, the median sales price dropped another 19% annually to \$250,000. This represents a decrease of nearly 52% in median sales price from levels reached in 2007.

TABLE 4.4 OAKLAND MEDIAN HOME SALES PRICES								
	2002	2003	2004	2005	2006	2007	2008	2009
Median Price	306,360	334,583	385,792	461,458	511,146	517,875	310,143	250,000
% Change		9.2%	15.3%	19.6%	10.8%	1.3%	-40.1%	-19.4%
% Change '07 to '09								-51.7%
Source: Conley Consulting Group, California Association of Realtors, Oakland Housing Element 2007 – 2014; January 2010								

Table 4.5 below shows 2006/2007 pricing for selected new multifamily developments which represents peak pricing in Oakland's Central District, including the Planning Area and adjacent neighborhoods. During this time, one bedroom units between 650 and 750 SF were priced between \$324,000 and \$499,000, from \$499 to \$830/SF. Larger two bedroom units between 1,100 and 1,350 SF were priced between \$619,000 and \$899,000, from \$476 to \$692/SF. Condominium units in Central Oakland that resold in late 2009 typically sold for 50% to 60% below their peak levels in 2006.

Recently, the vast majority of condominium sales in Oakland's Central District have been short sales, auction sales, and foreclosures. In these cases, sales prices are determined by a bank or lending institution⁷, whose primary objective is to remove "toxic" assets from their balance sheets as opposed to achieve a target overall sales price goal. It is reported that a large number of buyers are purchasing distressed properties with cash as opposed to mortgage financing.

⁷ There are some cases of sales auctions initiated by a project's developer, but this is not the norm.

TABLE 4.5 PEAK PRICING IN OAKLAND'S CENTRAL DISTRICT (2006/2007)

	PRICING		PRICE / SF	
	Low	High ²	Low	High
Market Square	\$409,000	\$649,000	\$499 /SF	\$584 /SF
8 Orchids ¹	\$399,000	\$825,000	\$615 /SF	\$688 /SF
428 Alice	\$324,000	\$699,000	\$508 /SF	\$516 /SF
Broadway Grand Phase 2	\$399,000	\$850,000	\$567 /SF	\$614 /SF
288 Third Street	\$349,000	\$619,000	\$476 /SF	\$499 /SF
The Essex at Lake Merritt	\$499,000	\$899,000	\$692 /SF	\$830 /SF

Source: Conley Consulting Group; January 2010, See Table 4.2

(1) 8 Orchids is located within the Planning Area.

(2) Excludes penthouse units, which were priced at up to \$1.0 million a unit or \$1,000 per SF.

2. Rental Rates

Tables 4.6 and 4.7 detail rental trends in Oakland with data supplied by Real Facts, Inc., which tracks the apartment market data for buildings with 50 or more units. In Oakland, data from 21 buildings totaling 3,095 units are reported, 75% of which are located in Oakland's Central District and the nearby Lake Merritt residential area. After the recession at the change of the century, rents began to rise again in 2005, as shown in Table 4.7.

TABLE 4.6 OAKLAND APARTMENT INVENTORY ANALYSIS: 3Q 2009

Unit Type	Total Units	% of Mix	Average SF	Average Monthly Rent	
				per Unit	per SF
Studio	278	9.0%	487	\$958	\$1.97
1 BD / 1 BA	1,680	54.3%	734	\$1,332	\$1.81
2 BD / 1 BA	326	10.5%	919	\$1,441	\$1.57
2 BD / 2 BA	623	20.1%	1,046	\$1,974	\$1.89
2 BD / 2.5 BA	84	2.7%	1,500	\$2,495	\$1.66
2BD TH	20	0.6%	1,300	\$1,600	\$1.23
3 BD / 1 BA	16	0.5%	900	\$1,300	\$1.44
3 BD / 2 BA	68	2.2%	1,532	\$2,775	\$1.81
TOTAL	3,095	100.0%	837	\$1,504	\$1.80

Source: Conley Consulting Group, Real Facts - Market Overview, 3Q2009; January 2010

TABLE 4.7 OAKLAND AVERAGE MONTHLY RENT TRENDS

Unit Type	2001	2002	2003	2004	2005	2006	2007	2008	2009	4 Year Change
Studio	\$838	\$840	\$809	\$793	\$780	\$791	\$808	\$891	\$919	17.8%
JR 1 BD	\$944	\$906	\$875	\$862	\$845	----	----	----	----	----
1 BD / 1 BA	\$1,294	\$1,209	\$1,137	\$1,122	\$1,127	\$1,156	\$1,233	\$1,397	\$1,393	23.6%
2 BD / 1 BA	\$1,310	\$1,265	\$1,319	\$1,289	\$1,338	\$1,418	\$1,435	\$1,470	\$1,386	3.6%
2 BD / 2 BA	\$1,964	\$1,785	\$1,672	\$1,641	\$1,658	\$1,734	\$1,812	\$2,071	\$2,067	24.7%
2BD TH	\$1,967	\$1,670	\$1,617	\$1,629	\$1,620	\$1,627	\$1,624	\$1,624	\$1,609	-0.7%
3 BD / 2 BA	\$2,591	\$2,576	\$2,576	\$2,596	\$2,583	\$2,618	\$2,610	\$3,075	\$3,049	18.0%
AVERAGE	\$1,428	\$1,339	\$1,288	\$1,270	\$1,282	\$1,320	\$1,376	\$1,558	\$1,550	20.9%

Source: Conley Consulting Group, *Real Facts - Market Overview*, 3Q2009; January 2010

Table 4.7 reports rental trends between 2001 and 2009. In 2000 and 2001, the rental market was buoyed due to the thriving “dot com” economy. Apartment demand soared throughout the Bay Area, driven in large part by the rapid build up of tech employment. The 2001-2003 recession that began with the collapse of the tech economy and the 9/11 tragedy caused a protracted decline in the rental market. Rents declined by 11% between 2001 and 2004. Rents began to rise again in 2005, a trend which continued through 2008. Table 4.7 shows that apartment rental rates have fluctuated widely during the decade; although rents rose almost 21% during 2005 and 2009, rents in 2009 are only 8.5% above 2001 levels.

F. Recent Housing Development

Estimates of building permit activity and actual housing construction both suggest a similar number of units produced between 2000 and 2009, ranging between 9,500 and 10,050 units, or 950 to 1,050 units per year (see Table 4.8). Table 4.8 indicates that 4,190 units, approximately 41% of Oakland’s housing production, were built in Oakland’s Central District.

Table 4.2 shows unit count, building height, and tenure for selected residential projects recently completed or currently under construction in Oakland’s Central District. Most of the projects were built as mid-rise structures (between 4 and 8 stories). There were five high-rise projects in Oakland’s Central District, including four new construction projects and one historic rehab (the Cathedral building). The only successful high rise project was the Essex on Lake Merritt, which was completed in 2002 as a rental project after several failed prior attempts at development in the 1990s. That project was eventually converted to condominiums and sold out successfully in 2004.

TABLE 4.8 OAKLAND HOUSING UNIT CONSTRUCTION 2000-2009		
	<u>No. of Units</u>	<u>Units / Year</u>
Building Permits Issued 2000 to 2009 (1)	10,049	1,050
Housing Unit Construction Estimate (2)	9,494	950
Central District / 10 K Projects (3)	4,190	419
% of Oakland total	41%-44%	
Source: Conley Consulting Group, Hausrath Economics Group, City of Oakland; January 2010		
(1) Estimates of building permit activity are similar to estimates of actual housing construction.		
(2) Hausrath Economics Group, Oakland Cumulative Growth Scenario estimate of actual units produced.		
(3) Oaklandnet.com, the City of Oakland's website, 10k project description		

The other four high rise projects were completed between 2007 and 2009, and include three projects built as condos and one built for the rental market. None of the condo projects were able to achieve their sales projections and investors’ financial objectives. Despite the new inventory and the changes to the skyline, the feasibility of high rise residential development in downtown Oakland has yet to be demonstrated, particularly for ownership housing.

G. Housing Development Pipeline

Table 4.9 below indicates that there are planning approvals in place for an additional 9,595 market rate units, which is 1,000 units more than the total number of market rate units built during the housing boom of 2000 and 2007. In addition, there are 6,072 market rate units in the pre-approval planning stage. Thus, the number of market rate

residential units currently in the various planning stages is nearly double the number of units that were built between 2000 and 2009.

TABLE 4.9 OAKLAND RESIDENTIAL DEVELOPMENT PIPELINE (Nov. 2009)

	Planning Area	OAKLAND		
		Market Rate	Affordable	Total
Completed	1,800	-----	-----	9,500 – 10,050
<u>Pipeline</u>				
Approved	780	9,595	773	10,368
In Planning	<u>450</u>	<u>6,072</u>	<u>156</u>	<u>6,228</u>
Total in Pipeline	1,230	15,667	929	16,596

Source: Conley Consulting Group, City of Oakland; January 2010

Given the last decade's housing production rate of 950 housing units per year, it would take 10 years to develop the market rate projects that have been approved and another 6 years to develop the market rate projects now in the pre-approval process.

It is not likely that equity investors and developers remain committed to all of these projects, so it is unlikely that all of these projects will be built as currently envisioned. However, for the foreseeable future it is also not likely that housing production will reach the rate established during the past decade. In all, it could be argued that there are enough units already in the pipeline to satisfy likely demand for new housing until the middle of the next decade.

H. Future Supply & Demand

In the near term, demand for new housing is expected to be quite low. New household formation will be suppressed until employment improves.

1. Household Growth Projections

ABAG Projections 2009 estimates future household growth in Oakland. ABAG forecasts that in Oakland there will be 54,160 new households by 2035. This suggests an average housing demand of 2,166 units per year over the next 25 years. These projections were completed before the severity of the housing crisis was well understood, and are reportedly being revised to better reflect current economic conditions.

TABLE 4.10 ABAG HOUSEHOLD GROWTH PROJECTIONS	
HH Growth 2010-2015	10,100
HH Growth 2015-2020	10,790
Subtotal HH Growth 2010-2020	20,890
HH Growth 2020-2025	10,900
HH Growth 2025-2030	10,900
Subtotal HH Growth 2020-2030	21,800
HH Growth 2030-2035	11,470
Total HH Growth 2010-2035	54,160
Source: Conley Consulting Group, ABAG Projections 2009; February 2010	

The Next Decade (2010 to 2020) – Given current conditions it is possible that new household growth will be limited to 30-50 % of ABAG projections.

The Remaining Projection Period (2020 to 2035) – ABAG Projections are reportedly based on longer-term demographic trends which suggest the potential for very large household growth and housing demand in the future. In particular, the Baby Boomer generation (78 million people) and their children, Generation Y (86 million people), have the potential to fuel large demand for new housing for a sustained period of time. CCG estimates that growth will likely reach 70 to 100% of the ABAG projection for this period.

We project that between 2010 and 2020, the demand potential for housing in Oakland could be between 6,000 and 10,000 units, and for the remaining period of this study, an additional 23,000 to 33,000 units. In total, this represents 29,000 to 43,000 new units over the next 25 years, a range of 1,160 to 1,720 units per year (see Table 4.11).

TABLE 4.11 PROJECTED HOUSING DEMAND IN OAKLAND		
	Next Decade 2010-2020	Remaining Period 2020-2035
Housing Units	6,000 to 10,000 Units 600 to 1,000 Units/Yr	23,000 to 33,000 Units 1,533 to 2,200 Units/Yr
80% Multifamily	4,800 to 8,000 Units	18,400 to 26,400 Units
20% Single Family	1,200 to 2,000 Units	4,600 to 6,600 Units
Source: Conley Consulting Group; February 2010		

2. Absorption Scenarios in the Planning Area

Of the 9,595 units built in Oakland between 2000 and 2009, 4,190 units, or 44%, were built in Oakland's Central District, including the 1,800 units built in the Planning Area. The Planning Area represented 19% of citywide unit construction and 43% of units constructed in downtown Oakland. While there is a shrinking number of available development sites in some of Oakland's most popular urban neighborhoods (Jack London Square, Downtown, etc.), there are numerous high-density infill opportunity neighborhoods with planning approvals (e.g. the 3,000+ unit Oak to Ninth project and the 1,500+ unit Wood Street project) that will compete with housing built in the Planning Area. Therefore, it is reasonable to assume that the Planning Area could capture 15% to 25% of the new housing demand in Oakland over the next 25 years.

Therefore, between 2010 and 2020, the demand potential for housing in the Planning Area could be between 900 and 2,500 units (90 to 250 units per year) and for the remaining period of this study, and additional 3,450 to 8,000 units (230 to 533 units per year)⁸. In total, this represents 4,350 to 10,500 new units over the next 25 years, or between 174 to 420 units per year. All of these units will be multifamily.

TABLE 4.12 PROJECTED HOUSING DEMAND IN THE PLANNING AREA		
	Next Decade 2010-2020	Remaining Period 2020-2035
Housing Units	900 to 2,500 Units	3,450 to 8,000 Units
	90 to 250 Units/Yr	230 to 533 Units/Yr
Source: Conley Consulting Group; February 2010		

I. Lake Merritt Opportunities

- Over the projection period national and local demographic conditions favor transit oriented development. A portion of the large aging baby boomer generation (born from 1945 to 1964) will seek opportunities to move down to smaller homes, and will be attracted to housing near urban amenities and entertainment options. Gen Y, (born 1979 to 1999), who are the children of the baby boom, also known as the echo boom, will be forming new households and also will find urban living more ecologically sound and attractive than remote suburban living.
- In the near term, even modest growth in the Planning Area is unlikely as new household formation is restricted by unemployment, and given that significant amounts of new housing development are unlikely to occur over the next three to five years. Given these conditions, it may be difficult to achieve the ABAG projections for 2035 within the Planning Area.
- Asian households, particularly immigrants, the transit dependent and moderate to lower income families, will continue to be attracted to Chinatown housing given the areas cultural resources, strong public schools and excellent transit access. Higher density living solutions consistent with TOD standards have historically been readily accepted by this market segment.
- Older Asian residents from throughout the East Bay may become sources of demand for new housing development in the Planning Area. These seniors are likely to live in homes bought in part for investment by their children, most of whom will not be Chinatown residents. Therefore the suburban East Bay Asian population could be a source of demand for housing in Chinatown.
- Outside of Chinatown, there is a dearth of street activity and neighborhood amenities to attract residents to new housing in the Planning Area. The abundant amenities in Chinatown are not likely to create sufficient character for the adjacent areas (above 11th Street, or east of Oak Street). Creating livable

⁸ The source of Oakland household growth projections is ABAG *Projections 2009*. An upper limit of 8,000 units was established so as not to exceed TAZ level projections only available from CMA based on ABAG *Projections 2007*.

neighborhoods is a requirement for successful development of the Planning Area outside of Chinatown.

- Measure DD funded open space and recreational improvements linking Lake Merritt and the Estuary will improve the market draw for lifestyle housing oriented to younger households in the Planning Area.
- Once the market recovers, successful development of the nearby 3,000 unit Oak to Ninth project nearby will provide additional attraction and amenities to attract residents to the Planning Area.
- Housing prices in Oakland's Central District are currently depressed by the struggle to absorb units introduced to the market as the housing bubble burst. Absent a rapid resumption of boom period housing conditions, it will take several years to absorb the existing distressed inventory. CCG does not expect to see pricing returning to a level that supports new construction costs for three to five years.

V. RETAIL

According to the *Oakland Retail Enhancement Strategy (2008)*, retail sales in Oakland fall far short of the expenditure potential of the city's residents and employees. The underperformance of the city's retail sector has resulted in leakage or exported sales to nearby cities such as Emeryville, San Leandro and Walnut Creek. In 2005, city residents had an combined annual expenditure potential of over \$1.4 billion for Comparison Goods (sold in stores such as apparel stores, home furnishing stores, and department stores); an additional \$817 million for goods sold in supermarkets, drug stores, and other convenience retail outlets; and a total potential support for retail stores of over \$4 billion. The combined estimated sales export or leakage for these categories was \$1.4 billion. The consequences of this imbalance are as follows:

- **The Comparison Goods** sales expenditure potential of Oakland residents alone exceeds retail sales in the city by \$1 billion a year. Capturing this lost potential is a major retail strategy objective.
- **The citywide Grocery Store** leakage could support five new full sized supermarkets, or a greater number of specialty food stores. Residents in West and East Oakland are the most severely underserved for grocery stores.
- In addition to residents, people employed in Oakland could support additional sales for comparison goods and eating and drinking outlets.

Due to these factors, Oakland residents are forced to travel to other cities to meet their shopping needs, and Oakland is deprived of the tax revenue and energy that would support revitalized neighborhoods, foster improved social interaction between its citizens, activate local districts and thus improve safety. Further, \$1 billion in recaptured comparison goods leakage would generate \$10 million a year in additional sales tax to the city and support over 10,000 new jobs.

A. The Lake Merritt Focus Area Retail

Taxable retail sales data was provided for the Lake Merritt Focus Area, a subset of the Planning Area. The Focus Area extends from 5th Avenue to Broadway and 5th Street to International Blvd and 14th Street (See Figure 1.1)⁹. Historic Chinatown, the most concentrated retail area in the Focus Area, is located between 7th and 11th Streets between Franklin and Harrison streets. Chinatown provides convenience shops and restaurants, and draws Asian residents throughout the East Bay. The Planning Area also includes scattered retail outlets near the Oakland Estuary, Laney College, Jack London Square, and several restaurant supply outlets.

1. Sales Trends

In 2008, combined retail sales in the Focus Area totaled \$56.7 million. Chinatown is unique in Oakland's retail sector in that it attracts significant sales from outside of the city. Convenience and comparison goods represented 23.3% and 10.8%, respectively,

⁹Retail sales data was made available for the Lake Merritt Station Area.

of total sales in the Focus Area. Eating and drinking sales were approximately 65.8% of total sales, dominated by sales at Chinatown restaurants.

Figure 5.1 provides a breakdown of total retail sales by category in the Focus Area and other selected retail activity nodes. The large proportion of eating and drinking sales reflect a growing popularity of the city's food and entertainment sectors with the opening of several new high end restaurants and bars in the downtown such as Flora and Ozumo. The Greater Downtown node, which includes the Focus Area, also had the strongest comparison and convenience sales.

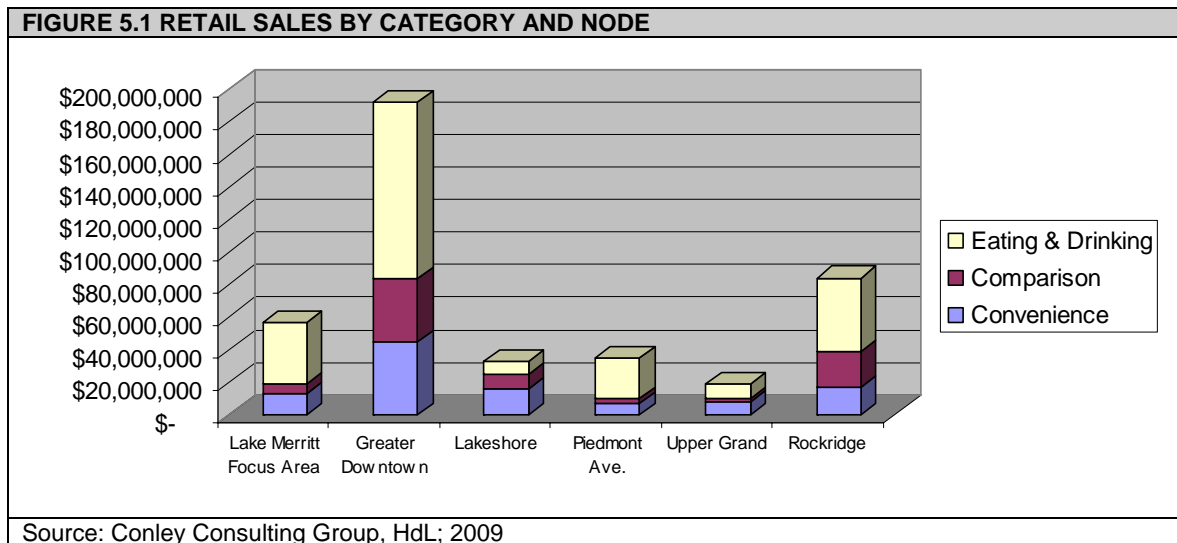
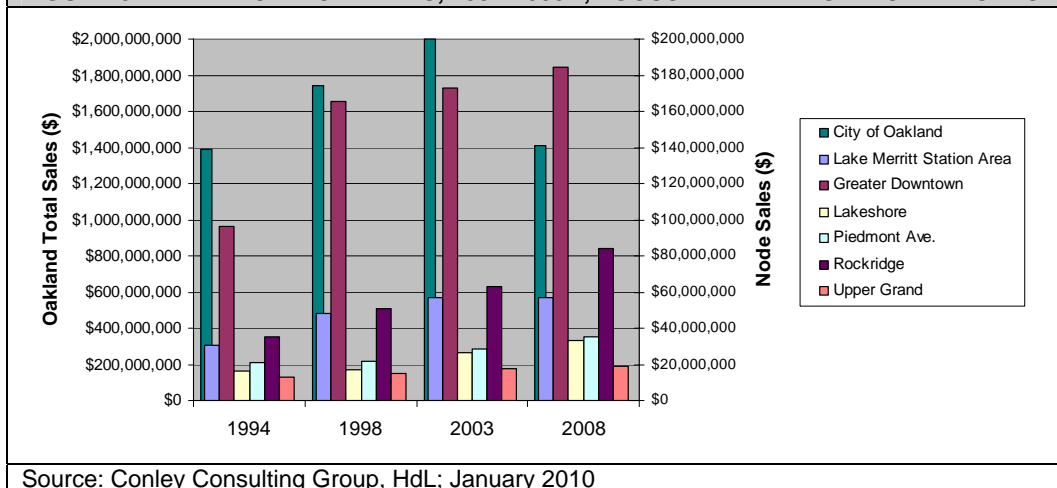


Figure 5.2 illustrates sales trends for the Focus Area and selected areas from 1994 to 2008. From 1994 to 2008, retail sales increased consistently in all of the selected retail nodes, as illustrated below (read the right axis for node sales). Between 1994 and 2008 retail sales in the selected nodes, including the Lake Merritt Focus Area (where sales increased by 84%), grew faster than for the City as a whole (1.74% sales increase from 1994-2008; 44.0% increase from 1994-2003). Given the nature of the retail uses in the Planning Area, reported sales may under represent the area's retail performance. In contrast, in 2008, retail sales declined for the city as a whole, parallel to national trends, as shown on the left axis of the graph in Figure 5.2.

2. Retail Rent Trends

According to area brokers, ground floor retail uses support the highest rents in the Planning Area. In the heart of Chinatown, rents can reach as high as \$6.00 per square foot, with rents more typically peaking at \$5.00 per square foot in the area bounded by 8th, 10th, Harrison and Franklin Streets. There is little to no long term vacancy in this core area. Brokers noted that there is a shortage of available retail space in Chinatown given the historic reluctance to lease space west of Broadway to Chinatown-oriented businesses (which to some extent persists to this day). Brokers suggested that new retail east of the core area would be readily absorbed by the Chinatown-oriented market.

FIGURE 5.2 RETAIL SALES TRENDS, 1994-2008¹⁰, FOCUS AREA AND SELECTED NODES



3. Future Trends

Recently there have been several restaurants and bars that have opened successfully in downtown Oakland, and the city has a growing reputation as a dining and entertainment venue.

In 2009, Ellis Partners developed a 62,000 SF market in Jack London Square. Merchandising plans for the Jack London Square Market include a produce and meat market with additional cafes and restaurants, 100,000 SF of Class A office space, 30,000 SF of retail space, and a 1,086 stall parking structure. Construction is complete and leasing is underway, although no tenants have been announced.

The addition of Jack London Square Market may reduce a portion of convenience sales exported from the Planning Area. Chinatown will also continue to serve as a source of fresh produce, meat and fish for Oakland residents, the Asian community and others.

B. Market Segments

1. The Asian Market

The primary source of retail demand in the Planning Area is the Asian population of the East Bay. The Planning Area had a total population of 12,052 in 2009, 64.3% of whom were Asians. The Asian population of the East Bay is 509,482. According to the 2008 American Community Survey (ACS), the per capita income for Asian residents in Oakland and the East Bay was \$25,169 and \$34,237, respectively.

Chinatown serves as an East Bay landmark for Asian culture, social services, cuisine and shopping. Historically it was the sole location to purchase Asian goods and services or to conduct business in Chinese in the East Bay. Like San Francisco's Chinatown, the shopping district was originally dominated by food stores and restaurants. Today Oakland's Chinatown has a broader supply of shops with a growing representation of

¹⁰ The Greater Downtown sales data for 2008 includes sales from the Focus Area reflected in Figures 5.1 and 5.2.

comparison goods stores. However, Chinatown also faces growing competition from Asian oriented retail elsewhere in the East Bay.

Recently several chains have begun to suburbanize Asian shopping throughout the greater Bay Area. Supermarkets such as 99 Ranch, Marina Food, and Lion Supermarket have begun to offer convenience shopping marketed towards the Asian community by opening several large stores throughout the Bay Area. The availability of these goods in suburban locations has decreased the need for suburban Asian families to travel into Chinatown. However, strong sales in the area imply that the Asian community still values this shopping district and may also suggest a growing appreciation for Chinatown's offerings (especially fresh produce, specialty prepared foods, and seafood) from the non-Asian community.

2. Office Workers

The Planning Area has a sizable employee support base, including downtown office workers, City Hall employees, and government employees who work in federal and county facilities clustered along 14th Street. Downtown office workers in the Planning Area are a major source of retail demand and could support additional comparison and eating and drinking sales, as identified in the *Retail Enhancement Strategy*. Within a half mile radius from the Lake Merritt BART station, there are 25,910 total employees including 14,389 private sector employees and 11,521 public sector employees (Claritas 2010).

3. Oakland Residents

Oakland residents comprise a large market for retail goods and services. In 2009, retail demand in the city was generated by almost 412,000 city residents, who occupy over 152,000 households. Oakland's households span a broad range of incomes: 32,680 households have annual incomes at or above \$100,000, 42,922 households have yearly incomes between \$50,000 and \$100,000, and 55,262 households have incomes below \$35,000. The average annual household income of city residents is roughly \$71,851. Per capita income is \$27,010 per year.

4. Laney College

Laney College is a secondary source of retail demand in the Planning Area. Laney College has a student population of approximately 15,000 per semester and 400 faculty and staff members. Students and faculty are a major source of daytime population in the Planning Area and are currently underserved by retail and restaurants. Although the campus includes a large cafeteria, there is little student oriented off campus retail and restaurants. In addition, the majority of students access the school by public transportation, providing foot traffic which could support more street retail.

Laney is primarily a commuter college. The Laney community will likely continue to primarily patronize retail near their homes or place of business. However, Peralta College District officials cite a future need for housing to accommodate its growing international and out-of-Bay-Area student population. These students will increase the demand for student oriented retail and entertainment.

C. Expenditure Potential

Table 5.1 provides the expenditure potential of the various demand segments including Oakland and East Bay Asian populations, City of Oakland residents and Planning Area office workers. Expenditure patterns for each segment were based on State of California expenditure patterns. However, expenditure patterns for East Bay Asians were based on the 6 County Bay Area patterns by matching per capita income. Expenditure patterns of office workers were based on estimates of annual expenditures for Oakland office workers.

Taxable retail sales in the Focus Area totaled \$56.7 million in 2008. For convenience goods, Focus Area retail sales totaled \$13.2 million. For comparison goods, Focus Area retail sales totaled \$6.1 million. Total eating and drinking sales totaled \$37.3 million. In the Focus Area, expenditure potential of Asian residents and Planning Area office workers in the convenience, comparison and eating and drinking categories is more than actual sales in the Focus Area suggesting sales are exported to other retail nodes throughout Oakland and the East Bay.

D. Planning Area Opportunity

Projected population growth will support additional demand for retail space in the Planning Area. As described in Section 3, since there is some likelihood that the full population growth will not occur within the projected time period, a range of future growth scenarios is illustrated in Table 5.2.

ABAG's projections for the Planning Area would support a total of 673,556 to 923,196 SF of additional retail in 2035. Projected population growth will support 82,608 to 165,217 of new retail between 2010-2020 and 123,663 to 249,390 SF of additional retail between 2020 and 2035. The area could potentially support 144,580 to 198,166 SF of convenience shops, 388,889 to 533,023 SF of comparison shops, and 140,087 to 192,007 SF of eating and drinking space.

Retail in the Planning Area is currently serving Planning Area residents, the East Bay Asian population, nearby office workers, Laney students and other Oakland residents. Chinatown has consistently had one of the strongest retail performances in the City of Oakland with an emphasis on convenience goods and cultural restaurants. However, comparison goods sales in Chinatown and the greater Planning Area have increased in recent years. Currently there is very little vacant retail space in Chinatown causing vendors to seek space outside of the area and city. New retail serving future population and employment growth should be located to enliven areas outside of Chinatown within the Planning Area.

TABLE 5.1 FOCUS AREA EXPENDITURE POTENTIAL

	2008 Planning Area Actual Sales	City of Oakland ¹	Oakland Asians ²	East Bay Asians ³	Planning Area Office Employees	Planning Area Asians ⁵
Population (2008)		405,882	68,307	494,424	25,910	12,052
Per Capita Income (2008)		26,093	25,169	34,237	N/A ⁴	20,576
Convenience Goods						
Grocery Stores Selling Liquor	N/A	563,320,038	91,444,462	670,938,202		13,190,097
All Other Food Stores	N/A	227,886,383	36,993,088	215,690,018		5,335,943
Drug Stores	N/A	90,283,080	14,655,768	118,506,212		2,113,972
Package Liquor Stores	N/A	30,188,007	4,900,458	48,545,822		706,850
Convenience Goods Subtotal	13,236,792	911,677,507	147,993,775	1,053,680,254	15,546,000	21,346,862
Comparison Goods						
Apparel	738,258	222,513,787	36,120,947	326,252,953		5,210,144
General Merchandise	585,044	562,078,060	91,242,850	701,992,940		13,161,016
Home Furnishings and Appliances	4,805,576	170,624,205	27,697,645	266,341,429		3,995,153
Specialty	N/A	543,356,050	88,203,682	826,389,038		12,722,642
Comparison Goods Subtotal	6,128,877	1,498,572,103	243,265,125	2,120,976,361	23,319,000	35,088,955
Eating & Drinking	37,343,754	539,820,200	87,629,703	783,237,593	38,865,000	12,639,850
TOTAL	56,709,423	2,950,069,809	478,888,603	3,957,894,207	77,730,000	69,075,667

Source: Conley Consulting Group, HdL, State BOE, Claritas, Inc., US Census American Community Survey; 2009

¹ Expenditure potential for the City of Oakland population is based on statewide expenditure patterns for California in 2008.

² Expenditure potential for the Oakland Asian population is based on statewide expenditure patterns for California in 2008.

³ Expenditure potential for the East Bay Asian population is based on statewide expenditure patterns for the 6-County Bay Area in 2008.

⁴ Per capita income for Planning Area Office Employees in the 1/2 mile trade area was unavailable. Office worker expenditure potential was derived by estimates of expenditure patterns for office workers.

⁵ Expenditure potential for the Planning Area Asian population is based on statewide expenditure patterns for California in 2008.

TABLE 5.2 POPULATION GROWTH - SUPPORTABLE RETAIL SPACE

	2010-2020						2020-2035					
	High 100% ABAG		Moderate 70% ABAG		Low 50% ABAG		High 100% ABAG		Moderate 70% ABAG		Low 50% ABAG	
Population ¹	27,993		24,904		22,845		38,353		32,092		27,982	
Per Capita Income ²	\$27,010		\$27,010		\$27,010		\$27,010		\$27,010		\$27,010	
	<u>Supportable SF</u>	^{Δ from} 2010	<u>Supportable SF</u>	^{Δ from} 2005	<u>Supportable SF</u>	^{Δ from} 2005	<u>Supportable SF</u>	^{Δ from} 2020	<u>Supportable SF</u>	^{Δ from} 2020	<u>Supportable SF</u>	^{Δ from} 2020
Convenience	144,634	35,464	128,675	24,825	118,036	17,732	198,166	53,532	165,812	37,137	144,580	26,545
Comparison	389,033	95,391	346,107	66,773	317,490	47,695	533,023	143,990	445,998	99,891	388,889	71,399
Eating & Drinking	140,139	34,362	124,676	24,053	114,367	17,181	192,007	51,868	160,659	35,983	140,087	25,720
Total	673,805	165,217	599,458	115,652	549,893	82,608	923,196	249,390	772,470	173,012	673,556	123,663

Source: Conley Consulting Group; Dyett & Bhatia, ABAG *Projections 2007*; 2010¹ Population counts were estimated by using Dyett & Bhatia Household projections and citywide HH size.² Per Capita Income is for 2009 estimate for the City of Oakland from Claritas, Inc.

VI. OFFICE

To evaluate the potential for new office development in the City of Oakland and the Planning Area, projected employment growth and current office market conditions are analyzed below.

A. Office Demand from Projected Employment Growth

1. Employment Trends

The East Bay is a major Bay Area employment center, offering jobs in a broad range of industry sectors. Traditional sectors such as basic manufacturing, retail, and community services have been augmented by growth in high tech, life sciences, telecommunications, software, and multimedia. The East Bay's strategic location provides companies with access to several distinct advantages over other Bay Area locations, including the largest workforce, the largest amount of developable land, a central location with excellent transportation networks, and a lower cost of doing business.

According to ABAG, the City of Oakland provided 6% of the nine-county San Francisco Bay Region's employment in 1990, or 178,000 jobs (see Tables 6.1 and 6.2). From 1990 to 2000, the City of Oakland added 21,000 jobs (a 12% increase). Given the past decade's two recessions, including the dot-com collapse and the current downturn, ABAG estimates a 7% employment decline for the region during 2000 to 2010, and a 5% decrease for Oakland (or 11,000 jobs). However, by 2020, ABAG projects that the city's jobs will exceed 2010 levels, and will grow rapidly reaching 282,000 jobs by 2035, an increase of 49% over 2010 levels. The City of Oakland is projected to represent 27% and 6%, respectively, of the total jobs in Alameda County and nine county Bay Region as a whole by 2035. ABAG projects the largest future job sectors in Oakland will be largely the same as in 2000, with Health, Education, and Recreation Services; Manufacturing; and "Other" jobs as the largest future categories of employment (see Table 6.3).

According to the Oakland Metropolitan Chamber of Commerce, 20% of Oakland workers are employed by federal, state, regional, and municipal government entities (see Figure 6.1). Compared to the country and the region, Oakland has a higher employment concentration in the health care and social assistance, professional, scientific, and technical services, trade and logistics, financial and educational services, management, and information sectors. The East Bay's fastest growing sectors are trade, technology, manufacturing, and health care. Traditionally, the East Bay also had a large representation of construction jobs, but that sector has been particularly hard hit by the current recession.

Fiscal constraints caused in part by the recession suggest that in the future state and local government employment will also contract, which will impact the pace of the economic recovery in Oakland. Thus it is likely that the city will become less reliant on government jobs and more diverse in terms of employers in years to come. The East Bay Economic Development Alliance predicts little to no growth in the economy through mid-2010, with growth returning to normal levels by the end of 2010 and beginning of 2011.

TABLE 6.1 HISTORIC EMPLOYMENT: Alameda County, Cities, and Surrounding Area

	1990	2000	2010	1990-2000 Change		2000-2010 Change	
				Total	%	Total	%
City of Alameda	38,730	27,380	26,970	-11,350	-29%	-410	-1%
City of Berkeley	73,580	78,320	76,170	4,740	6%	-2,150	-3%
City of Emeryville	14,390	19,860	18,610	5,470	38%	-1,250	-6%
City of Fremont	75,100	104,830	94,440	29,730	40%	-10,390	-10%
City of Hayward	77,440	77,660	72,400	220	0%	-5,260	-7%
City of Newark	14,900	21,420	20,350	6,520	44%	-1,070	-5%
City of Oakland	178,340	199,470	188,590	21,130	12%	-10,880	-5%
City of Pleasanton	33,710	59,480	56,700	25,770	76%	-2,780	-5%
City of San Leandro	47,330	44,370	40,940	-2,960	-6%	-3,430	-8%
Remainder of County	90,580	117,370	117,680	26,790	30%	310	0%
Total Alameda County	644,100	750,160	712,850	106,060	16%	-37,310	-5%
<i>Oakland</i>	27.69%	26.59%	26.46%	19.92%		29.16%	
<i>as % of County</i>							
Total Bay Region	3,206,080	3,753,460	3,475,840	547,380	17%	-277,620	-7%
<i>Oakland</i>	5.56%	5.31%	5.43%	3.86%		3.92%	
<i>as % of Bay Region</i>							

Sources: Conley Consulting Group, December 2009; Association of Bay Area Governments, Projections 2002 and 2009.

TABLE 6.2 EXISTING AND PROJECTED EMPLOYMENT: Alameda County, Cities, and Surrounding Area

	2010	2020	2035	2010-2020		2020-2035		2010-2035	
				Change		Change		Change	
				Total	%	Total	%	Total	%
City of Alameda	26,970	32,850	42,730	5,880	22%	9,880	30%	15,760	58%
City of Berkeley	76,170	79,610	86,200	3,440	5%	6,590	8%	10,030	13%
City of Emeryville	18,610	22,340	28,010	3,730	20%	5,670	25%	9,400	51%
City of Fremont	94,440	101,050	140,440	6,610	7%	39,390	39%	46,000	49%
City of Hayward	72,400	79,750	99,100	7,350	10%	19,350	24%	26,700	37%
City of Newark	20,350	22,810	24,830	2,460	12%	2,020	9%	4,480	22%
City of Oakland	188,590	229,720	281,900	41,130	22%	52,180	23%	93,310	49%
City of Pleasanton	56,700	67,790	79,130	11,090	20%	11,340	17%	22,430	40%
City of San Leandro	40,940	45,680	57,760	4,740	12%	12,080	26%	16,820	41%
Remainder of County	117,680	143,470	199,580	25,790	22%	56,110	39%	81,900	70%
Total Alameda County	712,850	825,070	1,039,680	112,220	16%	214,610	26%	326,830	46%
<i>Oakland</i>	26.46%	27.84%	27.11%	36.65%		24.31%		28.55%	
<i>as % of County</i>									
Total Bay Region	3,475,840	4,040,690	5,107,390	564,850	16%	1,066,700	26%	1,631,550	47%
<i>Oakland</i>	5.43%	5.69%	5.52%	7.28%		4.89%		5.72%	
<i>as % of Bay Region</i>									

Sources: Conley Consulting Group, December 2009; Association of Bay Area Governments, Projections 2009.

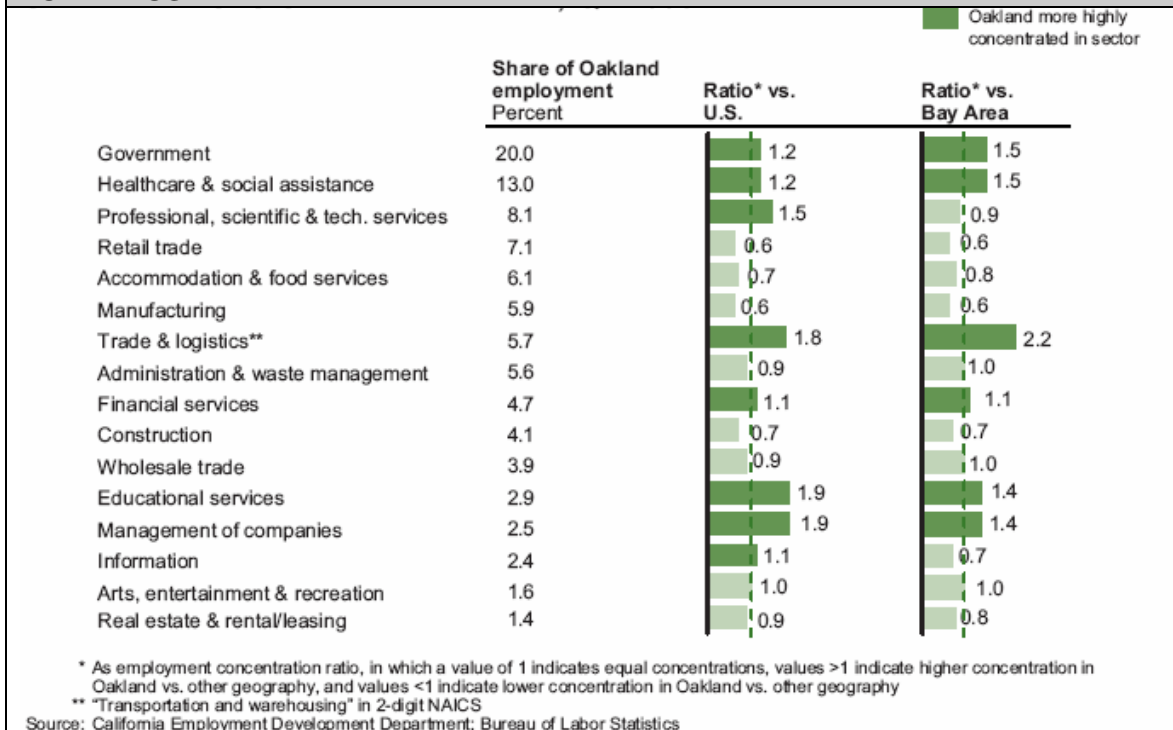
TABLE 6.3 HISTORIC, CURRENT AND PROJECTED JOBS BY INDUSTRY SECTOR

	1990	2000	2010	2020	2035
City of Oakland					
Agriculture	580	300	280	300	300
Manufacturing	31,050	47,750	40,490	52,900	59,030
Retail	24,190	14,650	11,960	16,670	23,280
Financial, Prof. Service	63,910	37,590	35,960	43,220	54,570
Health, Eduation, Rec. Service (1)	N/A	65,690	65,650	83,300	100,970
Other	58,610	33,490	34,250	33,330	43,750
Total	178,340	199,470	188,590	229,720	281,900
Total Alameda County					
Agriculture	3,900	1,940	1,790	1,940	1,940
Manufacturing	131,820	194,120	170,240	195,320	233,900
Retail	111,570	83,900	75,770	87,530	112,870
Financial, Prof. Service	215,350	144,870	139,750	161,500	208,150
Health, Eduation, Rec. Service (1)	N/A	218,420	226,060	266,330	336,980
Other	181,460	106,910	99,240	112,450	145,840
Total	644,100	750,160	712,850	825,070	1,039,680
Total Bay Area Region					
Agriculture	36,980	24,470	24,520	25,070	25,490
Manufacturing	708,920	863,420	717,180	819,010	967,530
Retail	534,960	402,670	347,400	399,950	529,530
Financial, Prof. Service	1,067,460	851,610	766,860	893,550	1,166,260
Health, Eduation, Rec. Service (1)	N/A	1,056,030	1,120,700	1,322,650	1,659,740
Other	857,760	555,260	499,180	580,460	758,840
Total	3,206,080	3,753,460	3,475,840	4,040,690	5,107,390
Oakland as % of Bay Area Region					
Agriculture	1.57%	1.23%	1.14%	1.20%	1.18%
Manufacturing	4.38%	5.53%	5.65%	6.46%	6.10%
Retail	4.52%	3.64%	3.44%	4.17%	4.40%
Financial, Prof. Service	5.99%	4.41%	4.69%	4.84%	4.68%
Health, Eduation, Rec. Service (1)	N/A	6.22%	5.86%	6.30%	6.08%
Other	6.83%	6.03%	6.86%	5.74%	5.77%
Total	5.56%	5.31%	5.43%	5.69%	5.52%

Sources: Conley Consulting Group; December 2009; Association of Bay Area Governments, Projections 2002 and 2009.

(1) Data for the Health, Education, Rec. Services Sector in 1990 are included as "Other" jobs.

FIGURE 6.1 EMPLOYMENT SECTOR CONCENTRATION, OAKLAND COMPARED TO THE US AND BAY AREA



Source: Oakland Metropolitan Chamber of Commerce, *Taking Stock of Oakland's Economy*; April 2007.

Major Oakland employers include city, state, and federal government offices, Kaiser Permanente (health care), Clorox, Children's Hospital, Alameda County Medical Center (formerly Highland Hospital), Summit Medical Center, Peralta Colleges (including Laney), BART, Claremont Resort & Spa, and the Oakland Unified School District.

2. Projected Employment Growth, City of Oakland

As shown on Table 6.3, ABAG projects significant employment growth for Oakland over the next 25 years, with gains of 41,130 employees by 2020 and a total gain of 93,310 jobs by 2035, a 49% increase. Based on these growth scenarios, we have estimated the number of office jobs¹¹ that will likely be generated from the increase in total jobs in Oakland as follows (see Table 6.4):

- Based on ABAG's projection, approximately 17,000 new office jobs are forecast for Oakland between 2010 and 2020, and an additional 24,000 new office jobs by 2035. Thus in total the Oakland office market is projected to accommodate 101,000 jobs by 2020 and 125,000 total office jobs by 2035.
- Projected job growth in Oakland will create a demand for an additional 5 million SF and 7.5 million SF by 2020 and 2035, respectively, assuming an industry standard ratio of 250 SF of space per office employee.

¹¹ Note that while most economic sectors generate demand for office jobs, the percentage of office jobs varies widely by sector. In Oakland, there is significant office space occupied by EBMUD, BART and AC Transit, all entities in industry sectors not usually associated with office development.

TABLE 6.4 OAKLAND CURRENT AND PROJECTED OFFICE JOBS: 2010-2035

Item and Job Category (1)	% of Total Jobs in Office Space	Total Office Related Jobs 2010 to 2035		
		2010	2020	2035
Employment Sectors				
Ag, Natural Resources	10%	28	30	30
Mfg. Wholesale, Trans. (2)	25%	10,123	13,225	14,758
Retail	10%	1,196	1,667	2,328
Financial, Professional	80%	28,768	34,576	43,656
Health, Ed, Rec, Services	45%	29,543	37,485	45,437
Other	45%	15,413	14,999	19,688
Total Jobs		85,070	101,982	125,896
Sqft per Employee	250			
Total Potential Supportable Space (rounded)		21,267,000	25,495,000	31,474,000
Incremental Growth in Office Space Demand			4,228,000	5,979,000
Percent Increase			20%	23%
Average Annual Demand			422,800	398,600

Sources: Conley Consulting Group, ABAG *Projections 2009*; February 2010

(1) Per ABAG *Projections 2009*. Other jobs include construction, information, and public administration.

(2) The ratio of office jobs to of total jobs in Manufacturing, Wholesale, and Transportation is higher than typical because BART and AC Transit headquarters are located in Oakland.

3. Projected Employment Growth, Planning Area

Transit Analysis Zone (TAZ) data based on ABAG *Projections 2007* indicate 7,000 new jobs by 2035 in the Planning Area. At the ratios calculated for the City of Oakland (See Table 6.4), this would generate demand for 850,000 SF of office space by 2035.

B. Office Demand Based on Historic Market Trends

The Oakland office market has an inventory of 13.8 million SF¹² and is comprised of three main submarkets: City Center, Lake Merritt, and Jack London Square (see Table 6.5). Note that the Lake Merritt office submarket is not co-terminus with the Lake Merritt Planning Area (See Figure 1.1).

The large amount of space occupied by stable, longer-term tenants such as Kaiser Permanente and various government entities has typically limited volatility in the Oakland office market. However, the current economic downturn has resulted in rising vacancy rates, falling net absorption, and lower effective rents. Despite unfavorable regional and national office market conditions, gross leasing activity in Oakland has continued, particularly for renewal and sublease space.

Kaiser Permanente is the largest private sector user of office space in Oakland, occupying 700,000 SF of leased space, and an additional 1.1 million SF of owned space. Office property ownership is highly concentrated in downtown Oakland. Approximately 40% of all Class A office space is owned by either Shorenstein Properties or the CIM Group. These developers and property owners control office campuses with ample amenities and can ensure maintenance of a quality environment that will continue to attract tenants. Further, these developments have achieved sufficient critical mass that infill office development for private clients is viable.

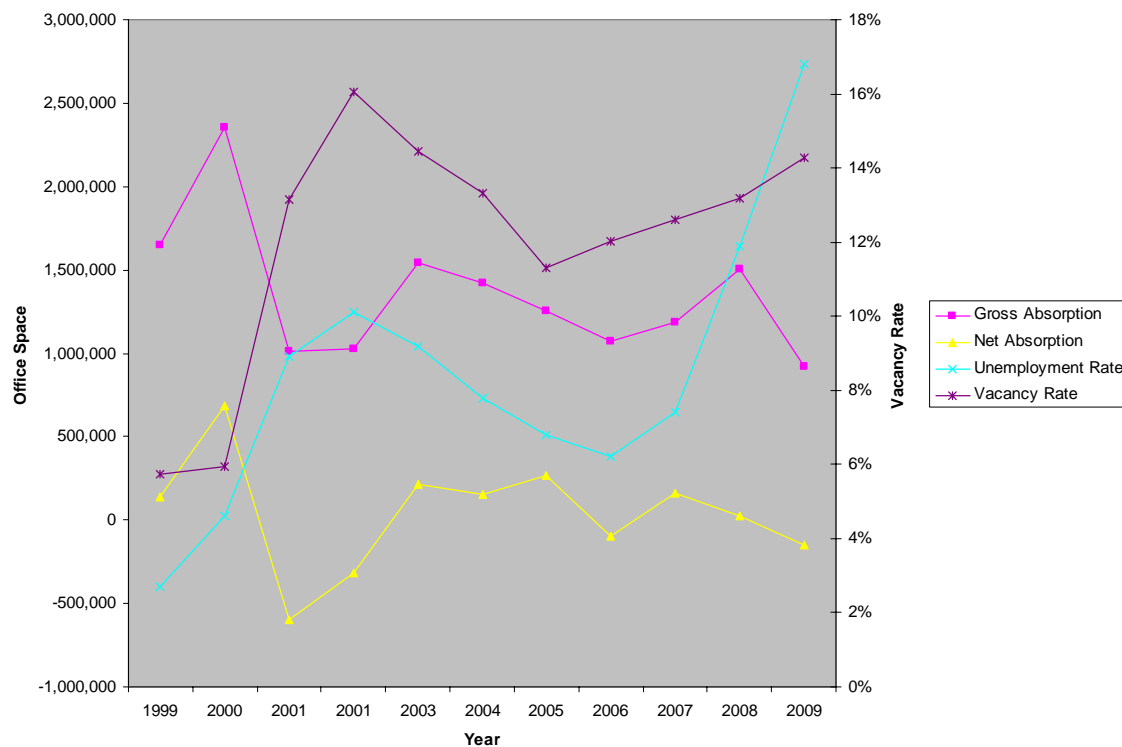
Oakland remains a lower cost alternative to San Francisco and provides tenants with a central location, access to a highly skilled labor force, good transportation, and healthy neighborhoods. When economic expansion leads to employment growth, net absorption in the Oakland office market will likely grow at a slow but steady pace.

¹² Note that commercial brokerage firms are the usual source of office market inventory data and do not always fully represent space in owner occupied and government buildings. Brokerage inventory data is also typically focused on Class A and B office space, and is often incomplete with regard to older Class C buildings, which are common in Oakland.

1. Office Market Performance Trends

According to BT Commercial¹³, at the end of the third quarter of 2009 (3Q09) the East Bay office market vacancy rate was 17.7% and the Oakland office market had negative net absorption¹⁴ for the fifth consecutive quarter in a row (see Table 6.5). However, the pace of increased vacancy has slowed substantially. In the 3Q09, Cushman Wakefield reported that vacancy and rental rates remained fairly stable, but a wide spread existed between asking and effective rents, due to increased availability of Class A sublease space. Figure 6.2 shows historic trends in employment, occupied office inventory, and office vacancy rates in Oakland from 1999-2009.

FIGURE 6.2 HISTORIC EMPLOYMENT AND OCCUPIED OFFICE INVENTORY IN OAKLAND



Source: Conley Consulting Group; BT Commercial, 2009; California Employment Development Department, 2009; Federal Bureau of Labor Statistics, 2009; East Bay Economic Development Alliance; 2009

Asking rents increased steadily in Oakland until 2008, when rents dropped in all of the Oakland submarkets. The 2009 weighted average rent was \$2.28/SF for the City Center, Jack London Square, and Lake Merritt submarkets combined (see Table 6.5).

¹³ BT Commercial, *Third Quarter 2009 Office Report, the East Bay (I-80/880 Corridor)*.

¹⁴ Net absorption is defined as the change in the amount of space occupied between periods, and is different than gross absorption or leasing activity. Negative net absorption occurs when the amount of occupied space in a market declines between periods.

TABLE 6.5 OAKLAND OFFICE INVENTORY**(in 000s)**

3RD QTR. 2009	Total Building SF	Available Square Feet			Vacancy 3Q '09	Vacancy 3Q '08	Avg. Asking Rent (FS)
		Direct	Sublease	Total			
Oakland	13,771	1,735	202	1,937	14.07%	11.48%	\$2.28
City Center-Oakland CBD	5,252	581	150	731	13.90%	10.20%	\$2.20
Lake Merritt- Oakland CBD	7,011	915	34	949	13.50%	13.60%	\$2.37
Jack London Square	1,508	239	18	257	17.00%	6.10%	\$2.13
Emeryville	3,984	552	132	685	17.2%	13.0%	\$2.19
EAST BAY 1-80/880 CORRIDOR TOTAL	29,334	4,958	590	5,188	17.7%	14.5%	\$2.16
<i>Oakland</i>							
<i>As % of East Bay 1-80/880 Corridor Total</i>	46.95%						

Sources: Conley Consulting Group; BT Commercial; December 2009.

TABLE 6.6 HISTORIC OAKLAND OFFICE MARKET PERFORMANCE TRENDS**(IN 000s)**

HISTORIC TRENDS	2005	2006	2007	2008	YTD -2009
City Center-Oakland CBD					
Gross Absorption	745	495	447	636	400
Net Absorption	315	-99	-5	-19	3
Vacancy Rate	10.7%	12.6%	13.6%	14.0%	13.9%
Average Asking Rent/FS	\$2.03	\$2.14	\$2.14	\$2.37	\$2.20
Lake Merritt- Oakland CBD					
Gross Absorption	419	470	628	788	235
Net Absorption	-21	-29	168	13	-50
Vacancy Rate	12.3%	12.7%	13.0%	12.8%	13.5%
Average Asking Rent/FS	\$1.91	\$2.09	\$2.43	\$2.42	\$2.37
Jack London Square					
Gross Absorption	93	110	113	83	28
Net Absorption	-26	33	-2	27	-68
Vacancy Rate	8.9%	6.5%	6.6%	12.5%	17.0%
Average Asking Rent/FS	\$1.79	\$1.79	\$2.09	\$2.96	\$2.13
Emeryville					
Gross Absorption	677	712	498	582	519
Net Absorption	256	170	-52	-60	-148
Vacancy Rate	13.5%	9.2%	12.0%	13.5%	17.2%
Average Asking Rent/FS	\$2.02	\$2.42	\$2.67	\$2.65	\$2.19
EAST BAY 1-80/880 CORRIDOR (TOTAL)					
Gross Absorption	3,130	3,299	3,017	3,097	1,814
Net Absorption	542	317	196	-587	-406
Vacancy Rate	14.5%	13.6%	13.9%	16.3%	17.7%
Average Asking Rent/FS	\$1.91	\$2.08	\$2.24	\$2.36	\$2.16

Sources: Conley Consulting Group; BT Commercial; December 2009.

In the 1960s and 1970s the Kaiser Center complex was developed in what is now the Lake Merritt office sub-area and became the most prestigious office location in the central business district. Despite the addition of two new Class A buildings adjacent to Snow Park, in general this submarket has become less dominant. Over time, successful build out of redevelopment plans for the newly created City Center sub area attracted premier tenants to that part of the downtown. Today, City Center has become the premier location for office tenants in the city, attracted to development of a first class development environment and amenities.

2. Planning Area

The area within a half mile radius of the Lake Merritt BART station, as distinct from the Lake Merritt office submarket, has a reported office inventory of almost 2 million SF, of which 41% is Class A space, 38% is Class B space, and the remaining 20% is located in smaller Class C buildings dating back to the early 20th Century (see Table 6.7)¹⁵.

3. Government Office Tenants

According to Cornish & Carey Commercial, approximately 5 million SF of office space in Oakland is occupied by government entities¹⁶. Government tenants occupy large blocks of space in Oakland's Central Business District, particularly the Lake Merritt submarket. Major government employers in the Planning Area include the State of California, Alameda County, the Federal government, ABAG, Metropolitan Transportation Commission, East Bay Municipal Utility District, and the Internal Revenue Service. Other downtown Oakland government tenants include the City of Oakland, State of California, and the Port of Oakland.

4. Historical Absorption Rates

In periods of strong economic growth and where there is also new Class A building added to the inventory, the Oakland office market has captured up to 1.5 million SF of new leasing (gross absorption) annually, but typically net absorption has hovered at 200,000 SF per year or less. Since 2007 absorption has actually been negative, that is there has been less space occupied at the end of each period than in the period before.

Thus even in strong market conditions any new office building has a big impact on the available Class A inventory and vacancy rates, and often results in a 'trickle up' of tenants that move from older buildings to more modern and efficient space as it becomes available.

Today's 2 million vacant SF of office space represents 4-10 years of net absorption at historic rates.

¹⁵ Note that the brokerage provided inventory data for the Planning Area, which includes almost 2 million SF, excludes owner occupied condominium office space in Chinatown, and Federal, State and County owned buildings.

¹⁶ Source: Cornish & Carey Commercial, *Market Segment, East Bay I-80 & I-880*, 2008. The Cornish & Carey reports include Federal, state, regional and local government entities. In *The Market for Office Space in the Central Business District of Oakland* (, October 2007) Gruen + Gruen reports that government entities own and occupy approximately 3.0 million SF of space.

5. Planned Office Construction

There is very little planned office construction activity given the current economic climate. The only construction completion in the Oakland market in the past year was the Jack London Market at 55 Harrison Street. SKS Investors has suspended plans to renovate 1100 Broadway and Shorenstein Properties was granted an extension to construct a 585,000 SF Class A office building in the City Center submarket until tenant demand and market conditions improve. It is likely that any additional development will be delayed until 2014 and beyond.

Potential opportunity for new office development in downtown Oakland include the redevelopment of existing older office buildings in the Lake Merritt office submarket and new development on underutilized sites in the nearby Uptown and Upper Broadway areas. There have also been indicators of development interest in new medical office space for the Pill Hill area north of 29th and Broadway. In addition, there is potential for new development of new office buildings in City Center, Jack London Square and on older sites along Broadway.

6. Planning Area Opportunity

The primary office market opportunity for the Planning Area is for continued development of the area as a cluster of government, healthcare, and educational uses, and for retail and professional services that support those uses. The Planning Area primarily has an older building stock and inferior amenities and services for office workers compared to other downtown locations. In the 1980s the 105,000 SF Lakeside Plaza office building was developed at 1401 Lakeside Drive for law firms seeking proximity to the County Courthouse, but was not successful in capturing that market segment. The building was subsequently acquired by Alameda County and is now occupied by County offices. Creation of a major office complex of 500,000 to 1,000,000 SF with appropriate office oriented amenities would be required to attract non-government Class A tenants to the Planning Area.

Alameda County is a major space user in the Planning Area and is currently undergoing a twenty-year real estate master planning process to determine the optimum use of County owned and leased facilities in Oakland, including the Planning Area. The County's draft Master Planning Report provides a series of recommendations to the County Board of Supervisors including (as one option) consolidating County facilities in a new +/-400,000 SF building at the site of the current obsolete parking structure at Madison and 12th Streets. A final decision on the master planning process has not been reached.

TABLE 6.7 PLANNING AREA OFFICE INVENTORY

Building Name and Address¹	Bldg. SF	Class	Year Built or Rehabbed
UCOP Building 1111 Franklin St	396,312	A	1998
Transpacific Centre 1000 Broadway	325,000	A	1982
EBMUD Building 375 11th St	100,000	A	
Former Oakland Athletic Club 1438 Webster St	85,500	B	2002
ABAG/MTC Building 101 8th St	30,000	B	1984
120 11th St	7,060	B	1955
Shelley Building 1531 Webster St	35,000	B	1950
The Leslie Building 427-435 13th St	49,453	B	1930
Broadway Atrium 449 15th St	41,935	B	1927
Asian Resource Center 310 8th St	46,906	B	1927
Central Building 436 14th St	136,769	B	1925
Tribune Tower 409 13th St	82,371	B	1923
Lakeside Plaza 1401 Lakeside Dr.	138,602	B	
Westlake Building/Oakland Commerce 350 Frank Ogawa Plaza	52,000	B	1911
1515 Webster St	36,234	B	1915
737 2nd St	2,475	B	1996
388 9th St	5,187	B	
211 10th St	16,500	B	
1537 Webster St	14,450	C	1960
Unity Building 428 13th St	50,300	C	1915
Financial Center Building 405 14th St	80,000	C	1926
1212 Broadway	106,210	C	1925
McMullen Building 1305 Franklin St	31,780	C	1925
The Dome Building 564-582 14th St	20,400	C	1918
TAFC Building 414-416 13th St	22,000	C	1904
420 14th St	34,651	C	1903
285 17th St	23,000	C	
Total SF	1,970,095		
Source: Conley Consulting Group, Colliers International; December 2009			
(1) includes only buildings for which inventory data is available.			

C. Local Serving Office Demand

In addition to general office serving citywide or regional employment generators, Chinatown has local serving office uses including medical, legal, community services, educational and non profit tenants. These uses typically occupy the upper floors of mixed use buildings. Dyett & Bhatia estimates that approximately 463,000 SF of office space occupies the upper floors of mixed use buildings in Chinatown. Members of the Chinatown coalition estimate that 30-40% of upper floor office space is occupied by cultural and community service institutions.

Given future population growth in the Planning Area and continued growth of the East Bay Asian population there will be growth potential for upper floor local serving office tenants patronized by local residents and the Chinatown market. Local serving office uses may support an additional 125,000 to 165,000 SF by 2020, and an additional 186,000-249,000 SF by the end of the planning period.

VII. HOTEL

A. Oakland Hotel Market Overview

Oakland has a relatively small hotel sector that is dwarfed by the robust tourist and corporate traveler supported San Francisco hotel sector (32,000 rooms), and the corporate traveler oriented Silicon Valley hotel sector (29,000 rooms). There are roughly 98 hotel properties in Oakland, with nearly 4,000 rooms spanning the range of property sizes, operating formats and quality levels.

There are two major concentrations of lodging facilities in Oakland, totaling roughly 3,000 rooms. The eight properties in Jack London and the downtown represent almost half of this inventory, with the remainder located around the Oakland Airport. The historic 295 room Claremont hotel, which is located in the Oakland/Berkeley hills and attracts a brisk visitor trade, is excluded from this group, as are several smaller mom and pop operations. The Planning Area includes the 162 room Marriott Courtyard Hotel located on Broadway at 10th Street.

TABLE 7.1 SELECTED OAKLAND HOTEL INVENTORY

	# Hotels	# Rooms
Downtown and Waterfront	8	1,485
Oakland Airport Area	9	1,545
	17	3,030

Source: Hausrath Economics Group, *Upper Broadway Specific Plan*; 2009

Historically Oakland hotels have commanded relatively strong operating results, with high occupancy levels and stable room rates, and have been less subject to economy related fluctuations than other cities' hotel markets (see Figure 7.1).¹⁷ Given the historically stable performance, even in the current recession Oakland hotels have not resorted to marketing to the government market by discounting room rates to a level consistent with state and federal per diem guidelines. Thus, although government employment represents 20% of the city's jobs¹⁸, the city's hotel sector doesn't capture this price sensitive market. According to the Oakland Convention and Visitor's Bureau (OCVB), government travelers tend to patronize hotels in Emeryville and San Leandro.

According to the OCVB, the estimated distribution of market support for competitive lodging facilities in the Oakland market is:

TABLE 7.2 OAKLAND HOTEL MARKET DEMAND SEGMENTS

Demand Segment	% Share
Group/Leisure	50
Corporate	40
Government	10

Sources: CCG, OCVB; January 2010

The OCVB also reports that room night demand peaks in the months between June and November and towards the end of the week on Thursday through Sunday nights.

¹⁷ The current recession is an exception, with a pronounced drop in occupancy and room revenues since 2007-08.

¹⁸ See Section VI.

Additionally, the Bureau reports that the Oakland leisure segment tends to be group related: family reunions, civic and cultural event attendees, and other typical Social Military Educational Religious Fraternal (SMERF) demand segment travelers. The regional tourism market is overwhelmingly captured by facilities in San Francisco and other more developed visitor attraction locations.

The current expansion of the city's dining and entertainment offerings in the downtown, Old Oakland, Jack London Square and elsewhere such as Rockridge, Piedmont Avenue, Glenview, and Grand Lake make Oakland a more attractive location for regional visitors. Nevertheless the city is not likely to effectively compete for tourist (leisure) business with the far more established attractions in San Francisco.

B. Future Development Trends

Prior to the onset of the recession in 2007, the Oakland market hovered close to the 75% occupancy level that is generally seen as a signal that introduction of new hotel room inventory is feasible. According to the OCVB, hotel market analysts have repeatedly examined the Oakland market on behalf of various potential new operators. However, given the small size of the city's room's inventory, each full service hotel represents a significant addition to the market, and is thus considered a highly risky investment.

As described in Section VI above, ABAG projects roughly 40,000 new jobs by 2020 and 93,000 new jobs by 2035, an increase of almost 50% of the local employment base in the next 25 years. Thus projected job growth is a major source of potential demand for new hotel rooms in Oakland. However, hotel development to serve that growth will likely lag significant expansion of the city's employment base.

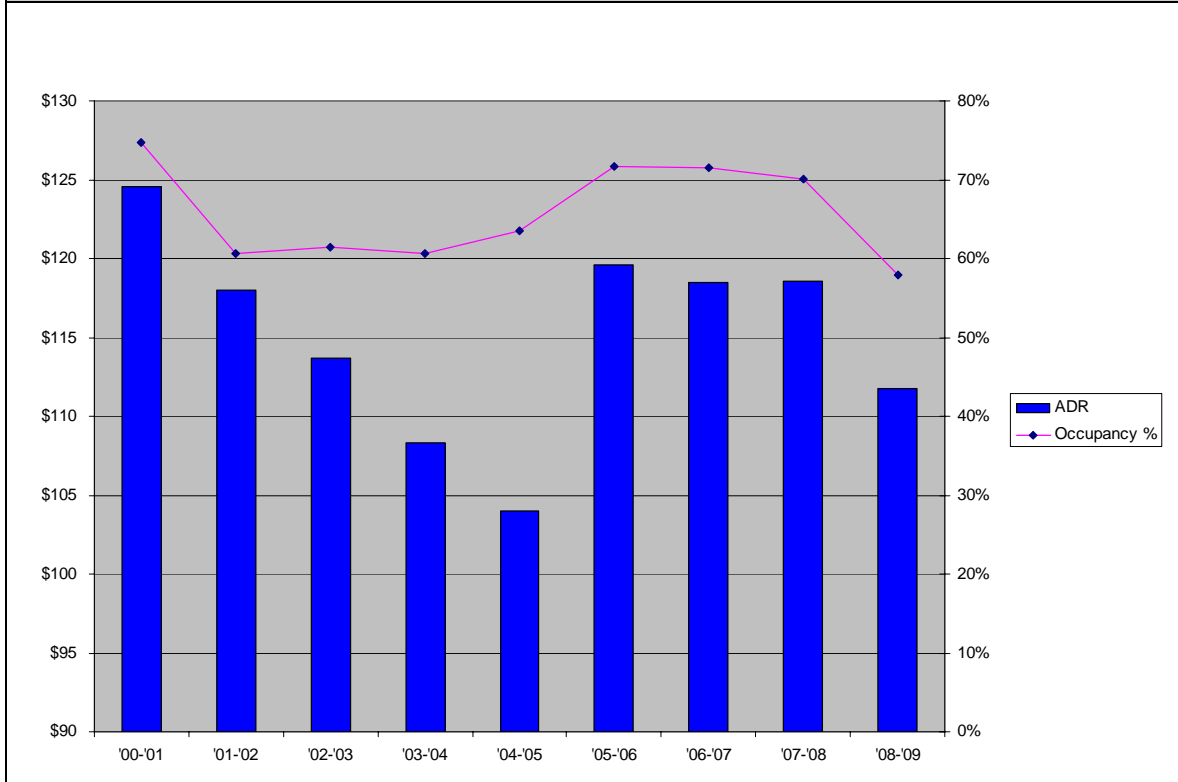
We note that similar to the retail sector, hotels in surrounding communities serve the demand generated by Oakland activity. In Emeryville, there are four relatively new hotels with a total of 925 rooms, which are partially supported by Oakland demand generators.

To date four new hotels have been proposed for the Oakland market, some of which have been in the planning stage for most of the previous decade. These include:

TABLE 7.3 PROPOSED FUTURE HOTELS		
	Delivery Date	# Rooms
Jack London Square	Uncertain	230
"W" Hotels (Airport lower end product)	Uncertain	300
Renovation (vacant property on Hegenberger)	2010	200
New Clarion (remodeled apartment building)	2010	30
Source: Conley Consulting Group, OCVB; 2009		

Hotels are a land use particularly impacted by the economic contraction which started in 2007 and is projected to “bottom out” in 2010. The recession has led to a collapse in the demand for lodging across most demand segments, and the resulting drop in occupancy rates has threatened the financial viability of many properties nationally. As the decade started there was a wave of foreclosures and surrendered deed in lieu actions for troubled hotel properties throughout the Bay Area, especially those recently developed luxury properties with high loan balances. With the exception of one smaller new hotel, Oakland properties are older properties, and are not currently known to be troubled.

FIGURE 7.1 OAKLAND HOTELS HISTORIC OCCUPANCY PERCENTAGES AND AVERAGE DAILY RATES



Source: Conley Consulting Group; Oakland Convention and Visitors Bureau; 2009

C. Opportunities for Planning Area

If the hotel market opportunity expands as projected, there is opportunity for additional hotel development in Oakland. Sites in the Planning Area with water views would be excellent hotel development opportunities, and would be competitive with other locations for new first class hotel development. This includes sites overlooking Lake Merritt and the estuary. There is enough proposed competition, including but not limited to the properties listed above, that it is likely that only the strongest potential site(s) would be developed. There could be support for either a small boutique hotel (30-100 rooms) or a 200 room full service facility in the Planning Area. Note that by ordinance Oakland currently prohibits development of limited service hotels and therefore new hotels are required to include restaurant and meeting space.

VIII. CAVEATS AND LIMITATIONS

CCG has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Such information was compiled from a variety of sources deemed to be reliable, including state and local government, planning agencies, real estate brokers, Claritas, and other third parties. Although CCG believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties. Further, no guarantee is made as to the possible effect on development of current or future federal, state, or local legislation including environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions that were developed using currently available economic data, project specific data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.

1. The analysis contained in this document is based, in part, on data from secondary sources such as state and local government, planning agencies, real estate brokers, and other third parties. While CCG believes that these sources are reliable, we cannot guarantee their accuracy.
2. At the time of the writing of this report (Winter 2009/10), the U.S. economy was in the grips of a severe global recession. Continued job losses are projected across most economic sectors nationally through part of 2010, with a shallow recovery beginning in 2010 and no broad economic expansion likely until 2011. If the local or national recession is prolonged beyond those assumptions or if an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.