

5. Economics

Market and Economic Impact of the Alternatives

The Market Profile section of the Existing Conditions Report explored the relative strength of the real estate market for various land uses in the Central Estuary and offered projections of potential future demand. This section revisits the market potential of land uses within the context of the three Plan Alternatives.

The section begins with a brief outline of the market potential for two land uses that were not examined specifically in the Market Profile included in the Existing Conditions Report:

- Research and Development (R&D), with a special focus on business incubators, and
- High-rise residential towers.

R&D and BUSINESS INCUBATORS

“Research and Development” (R&D) uses encompass a wide range of business and building types, ranging from dense biotechnology labs to more space-intensive machine testing spaces and small production centers. While there are currently a large number of R&D users in the East Bay, most are located in Berkeley or Emeryville, and to date Oakland has not captured a significant share of the market.

Strategic Economics interviewed several commercial brokers about the potential for R&D in the Plan Area. Brokers reported that some new flex space in Jack London Square and along Mandela Parkway have been occupied by R&D uses, which suggests that there may be potential for R&D space in the Oakland Estuary, provided that it was in a safe environment with good freeway, transit, and retail access. However, the depth of this market is uncertain, and many R&D-oriented buildings in the East Bay are currently vacant. It is likely that many bio- and high-tech labs would prefer to locate in Emeryville or closer to UC Berkeley, rather than the Plan Area, even if it would require higher rents.⁹

In the current market, R&D development in the Plan Area would be perceived by investors as relatively risky; however, the central location suggests that over time, a well-designed, larger project could help to establish a market for this use. Brokers tended to agree that, were R&D space developed in the Plan Area, it would be most successful if it were related to the food industries that have been thriving in the area. One broker specifically suggested that a business park that included for-sale space with roughly 25% office space, a small amount of lab space, and a larger amount of production space would work best. He also suggested that parking ratios of about 2.5 per 1,000 would be necessary to meet market demand.

A business incubator is space that is dedicated to a program designed to support the development of new businesses during their start-up period. The businesses receive support services and resources tailored to their needs. Typical goals of incubation programs are creating jobs in a community, enhancing a community’s entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local

⁹ The preference is a reflection of superior neighborhood amenities and proximity to students and professors in these locations.

economies.¹⁰ In terms of building types, there is little that distinguishes an incubator from other commercial uses. Form tends to vary by context: in eastern cities, incubators are often located in single, mid-size buildings, while in the west, incubators are more often in suburban-style “flex” spaces. Total square footage typically ranges from 10,000 to 30,000 square feet. Some examples include:

- **Water, Energy, and Technology Incubator (Fresno): 13,000 SF:** The Claude Laval “WET” Incubator in Fresno opened in 2007 as a collaboration between the Central Valley Business Incubator, California State University- Fresno, and the International Center for Water Technology. Currently, it houses five on-site members, which have access both to the specialized facilities of the incubator, and to additional lab space/expertise associated with the University.
- **Santa Fe Business Incubator: 30,000 SF:** Founded in 1997, the SFBI is a non-profit organization partly supported by the City of Santa Fe. With on-site technical support and training, the incubator supports the growth of high tech, service and manufacturing businesses.
- **Youngstown Business Incubator: 25,000 SF:** Supported by the State of Ohio, a number of regional universities, and several non-profit organizations, the YBI assists technology-based businesses by connecting entrepreneurs to physical infrastructure, collaboration and networking opportunities, and funding resources.

Most often, incubators are associated with a university or other major institution, and they are generally run as non-profits. San Jose, in particular, has been a hub of incubators, owing in large part to major contributions from the San Jose Redevelopment Agency and San Jose State University. Two of the largest of these incubators are the Environmental Business Cluster and the San Jose BioCenter.

Brokers did not have strong opinions about the potential of an incubator in the Plan Area. However, the proximity of the University of California at Berkeley, Lawrence Livermore Laboratory and other Bay Area institutions and the high rate of business “births” in the Plan Area, (outlined in the Existing Conditions Report), suggest that such a use might be well-received. To be successful, a business incubator would need to be sponsored by a governmental entity or educational institution. Federal assistance for business incubator projects is provided through the Economic Development Administration (EDA).

R&D incubators are proposed in Alternatives 2 and 3. Each is 45,000 square feet, which is substantially larger than the typical range, but these incubators are meant to anchor larger redevelopment of and reinvestment in these industrial areas. The exact size of the incubators would be determined in negotiation with the institutional partner and area developer, and might include small office, lab or other work space in the building itself. In each case, surrounding areas would be developed with small to medium size light industrial and R&D facilities in sizes and formats that are in demand in the current Oakland market.

Residential Towers

During the recent real estate market boom, a considerable number of new condominium projects were built in Oakland, most in downtown and Jack London Square. In the Oakland Estuary, Signature Properties developed a 100-unit project with two- to three story townhouse-style

¹⁰ National Business Incubator Association, www.nbia.org.

attached units along the waterfront. In the current market, there is little potential for additional condominium or apartment development, and it will take some time for the market to absorb hundreds of recently built units that remain vacant or that have been converted temporarily to rental properties. This is especially true in the Plan Area, where 74 foreclosures have been filed for units in one of recently developed condominium projects, and where sales prices have fallen dramatically. Over the longer term, however, it is expected that there will be demand for additional multifamily units in Oakland’s downtown and waterfront areas, given that demographic and consumer trends are increasingly favoring housing in central locations with good access to transit and other urban amenities.

However, while it is clear that there will be additional demand for housing in the Plan Area over time, the feasibility of new construction depends not only on the number of households who would potentially like to live in the market area, but also on construction costs, achievable price points, and the relative attractiveness of the location relative to other opportunity sites. As the market recovers, it is expected that lower-density building types will become feasible sooner than mid-or- high-rise building types, given that these taller buildings have significantly higher construction costs on a per-square foot basis.¹¹ Even under strong market conditions, high-rise condominiums or apartments need to achieve significantly higher sales prices than condo or apartment projects under six stories. Furthermore, denser multi-family housing is considered riskier by investors, because of greater upfront capital requirements, longer timeframes, and larger carrying costs. During the last market cycle, only one high-rise building was completed in Oakland, the Ellington, located near Jack London Square. This luxury project, developed by Oz Erickson, came on the market after condo sales prices had already dropped dramatically. The units are currently being sold below cost.¹²

Thus, although it is difficult to predict the exact timing of the housing market recovery and how construction costs might change in the future, it is highly unlikely that a high-rise residential project would be built in the Plan Area during the next 5 to 10 years. Once the market improves substantially, it is possible that high-rise development of this type might become feasible to construct in the Plan Area. However, given the long time frame, it is more likely that lower-density multifamily development of six stories or less will be proposed at this location.

Impact of Alternatives on Viability of Existing and Future Uses

The following matrices outline the impact of the viability of existing and future land uses, within each subarea, for each of the three alternatives. Each of the plan alternatives represents a set of “trade-offs,” since enhancing the potential for one land use can often lead to the diminished viability of another. The viability of residential uses, for instance, is compromised by the noise, pollution, poor street infrastructure and lack of retail amenities associated with industrial neighborhoods. Conversely, industrial uses are often compromised by the presence of residential uses, which generally entail an amplification of traffic, a reduction of available parking, and an increased likelihood of complaints about industrial operations. In addition, when residential uses become permitted by zoning, the price of land often increases, which can lead to the displacement of industrial firms. Neighborhood-serving retail is dependent on the presence of offices and

¹¹Buildings under six stories can typically be built using wood-frame construction; buildings over six stories are required to use concrete or steel materials, which is more expensive.

¹² “Luxe Oakland Condos Hit Market”, San Francisco Business Journal, April 24, 2009.

residential uses, while the availability of small-scale retail can be an important factor in the viability of such uses. However, the traffic and large parking provision associated with regional-serving retail can often work in an opposite fashion, serving as a disamenity for adjacent uses.

The following matrices outline the impact of the viability of existing and future land uses, within each subarea, for each of the three alternatives. The tables are color-coded based on the net impact on the viability of that land use within the subarea. Green represents a positive impact on viability, yellow represents a neutral impact on viability, and red represents a negative impact on viability.

Table 5.1: Impacts of Alternative I on Viability of Land Uses

	West	Central-West	Central-East	East
Residential	Reinforcing existing food industries will limit the viability of residential development and discourage speculation.	The viability of existing and new residential in this subarea is high, but this alternative does not significantly increase that viability.	Designating the warehouse triangle for residential development will significantly augment the viability of this use.	Zoning for residential, eliminating industrial uses, and enhancing physical infrastructure will significantly increase viability of residential uses.
Office	Orientation toward low density, industrial uses will preclude expansion of neighborhood amenities like retail and transit. This will not significantly impact the viability of office uses.	The viability of office is low in this subarea, but this alternative does not alter this.	The viability of office is low in this subarea, but this alternative does not alter this.	The viability of office is low in this subarea, but this alternative does not alter this.
Light Industry/ Warehousing	By reinforcing the long-term role of food industries in this subarea, this alternative will encourage new investment by these firms.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.	By replacing heavy industry at Owens-Brockway with a business park, the potential for light industry increases. Warehousing is diminished, however, with new residential development.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.
Heavy Industry	While viability of existing industry remains high, potential for new heavy industry is low in this subarea. This alternative does not alter this potential.	The viability of heavy industry is low in this subarea, but this alternative does not significantly change this.	In this alternative the sole heavy industrial use in the subarea is eliminated.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.
Retail	The viability of retail is low in this subarea, but this alternative does not alter this.	The viability of retail is low in this subarea, but this alternative does not alter this.	The presence of higher density employment uses and housing, along with new adjacent retail will increase the viability of retail somewhat.	Zoning for retail and enhancing the physical infrastructure will increase the viability of retail development.

Source: Strategic Economics 2009

Table 5.2: Impacts of Alternative 2 on Viability of Land Uses

	West	Central-West	Central-East	East
Residential	Zoning for residential, eliminating the largest heavy industrial uses and enhancing physical infrastructure will significantly increase the viability of residential uses.	The viability of existing and new residential in this subarea will increase slightly due to the elimination of heavy industry in adjacent subareas.	The viability of existing and new residential in this subarea is low, but this alternative does not significantly alter that.	Reinforcing industrial uses will limit the viability of residential development and discourage speculation.
Office	A larger residential population will increase the viability of neighborhood-serving retail and potentially justify better transit connections, which would increase the viability of office uses.	The viability of office is low in this subarea, but this alternative does not alter this.	By replacing the heavy industry at Owens-Brockway with an R&D incubator, the potential for low-scale office use increases.	The viability of office is low in this subarea, but this alternative does not alter this.
Light Industry/ Warehousing	By allowing residential to continue to expand in this Subarea, the viability of existing and potential light industry/warehousing will be diminished.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.	By replacing the heavy industry at Owens-Brockway with an R&D incubator, the potential for light industry and warehousing uses increases.	By reinforcing the long-term role of industrial uses in this subarea, this alternative will encourage new investment by these firms.
Heavy Industry	By allowing residential to continue to expand in this Subarea, the viability of existing and potential heavy industry will be diminished.	The viability of heavy industry is low in this subarea, but this alternative does not significantly change this.	In this alternative the sole heavy industrial use in the subarea is eliminated. However, the potential for heavier industry increases in the warehouse triangle.	By reinforcing the long-term role of industries in this subarea, this alternative will encourage new investment by these firms.
Retail	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	The presence of a larger residential population in the West Subarea will increase the viability of neighborhood-serving retail.	The presence of higher density employment uses and new adjacent retail will increase the viability of retail somewhat.	Reinforcing industrial uses will limit the enhancement of physical infrastructure that is necessary to make retail viable in this subarea.

Source: Strategic Economics 2009

Table 5.3: Impacts of Alternative 3 on Viability of Land Uses

	West	Central-West	Central-East	East
Residential	Zoning for residential and eliminating the largest heavy industrial uses, without explicitly protecting industrial uses, will increase the viability of residential uses.	The viability of existing and new residential in this subarea will increase slightly due to the elimination of heavy industry in adjacent subareas.	By replacing the heavy industry at with planned development, the potential for residential uses in this, the most transit-rich portion of the Plan Area, increases.	Zoning for residential, eliminating industrial uses, and enhancing the physical infrastructure will significantly increase the viability of residential uses.
Office	The presence of a larger residential population will increase the viability of neighborhood-serving retail, increase the demand for transit, and, consequently, increase the viability of office uses.	The viability of new office development is low in this subarea, but this alternative does not alter this.	By replacing the heavy industry with planned development, the potential for new office increases, particularly given that this is the most transit-rich portion of the Plan Area.	The viability of offices is moderately improved by improvements in physical infrastructure and displacement of heavy industry.
Light Industry/ Warehousing	By allowing residential to continue to expand in this Subarea, the viability of existing and potential light industry/warehousing will be diminished.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.	This alternative does not allocate space for light industry or warehousing in this subarea.	The viability of existing light industry is diminished under this alternative, but losses may be offset by new "spin-off" businesses
Heavy Industry	By allowing residential to continue to expand in this Subarea, the viability of existing and potential heavy industry will be diminished.	The viability of heavy industry is low in this subarea, but this alternative does not significantly change this.	In this alternative the sole heavy industrial use in the subarea is eliminated.	By allowing residential to continue to expand in this Subarea, the viability of existing and potential heavy industry will be diminished.
Retail	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	Zoning for retail and enhancing the physical infrastructure will increase the viability of retail.

Source: Strategic Economics 2009