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# Oakland: Why housing costs so much to build (and what can we do about it?)



**2013:**

**Why can't developers build housing in San Francisco for the people who need it most instead of for the rich?**

# 2014:



\$120,000<sup>1</sup>

Land cost per unit of housing



\$240,000

Construction cost per unit (hard costs) at \$300 per square foot



\$48,000

Permits, city fees and professional-services fees at 20% of \$240,000



\$27,000

Subsidy to build affordable below-market rate [BMR] units (12% of total unit count) based on a \$200,000 per unit subsidy times 12, divided by the remaining 88 units



\$34,800

Selling expenses (marketing, legal fees and real estate commissions) at 8%

**\$469,800**

Total cost per 640-square-foot unit

*This is very simplified and does not include construction financing expenses, contingencies or developer's profit, among other things.*

from the housing issue of *The Urbanist*, February 2014

# What's changed since 2014?

- Land costs have risen above \$250,000 per unit (for an entitled project) in some cases in San Francisco.
- Construction costs have risen steeply. \$400/square foot (gross) is not uncommon for wood frame over podium construction.
- Sales prices have continued to rise. The average selling price in new buildings is over \$1250/ square foot (in April, this was up 22% in one year).

Number of units completed in 2014:  
3454



Number of units permitted in 2014:  
3834





**Oakland, 2010-2014 (five years):  
2008 units built**





**Why isn't there more building in Oakland?**

# What's different in Oakland?

- Land costs can be less than \$50k/ unit even in central areas like Jack London Square or adjacent to downtown.
- Oakland rents have gone up 88% since 2010, versus 57% in San Francisco. (per Real Facts LLC via Paragon Real Estate)
- Sales prices have also risen dramatically, however top of the market units are selling for much less than in San Francisco (\$700-\$750/ square foot).

# What's **not** different in Oakland?

- Construction costs are almost the same in Oakland as they are in San Francisco.

## Example:

# 100 unit market rate multifamily project

### Assumes:

Limited parking in a one story concrete podium with 4 floors of wood construction above.

Located in a central part of Oakland.

A 640 square foot typical unit

(800 s.f. was used in calculations to account for 80% building efficiency)

Land cost per unit of housing: **\$40,000**

Construction cost per unit (hard costs):

$\$375 \times 800$  s.f.:  **$\$300,000$**

Soft costs:

Permits, city fees and professional services fees at 20% of \$300,000:

**\$60,000**

Total cost so far: **\$400,000**



Selling expenses (marketing, legal fees and real estate commissions) at 8%:

**\$32,000**

Construction financing at \$18/square foot:

**\$14,400**

Total cost per 640 square foot unit:

**\$446,400**

Total Development Cost  
per square foot (gross):

**\$558**

Total Development Cost  
per square foot (net):

**\$698**

**Development cost: \$698/sf**  
**Sales price (existing high end): \$728/sf**





**Average mid-rise sales price: \$518/sf**

## Moving forward:

- Townhome, duplex and single family home development already pencils out and these type of projects are being built now.
- Reduced parking requirements would reduce construction costs, especially on dense infill sites.
- Rental multifamily is more financially feasible than for-sale.



# Oakland Market Context

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- Major downturn during Recession
- Followed by growing regional economy fueled by technology sectors
- Growth focused in SF, West Bay, South Bay
- Increased interest in Oakland and East Bay followed thereafter
- Now, increasing spillover from SF to Oakland
  - Central location
  - Urban character
  - Transit accessibility
  - Recognition of assets

# Market Context (cont'd)

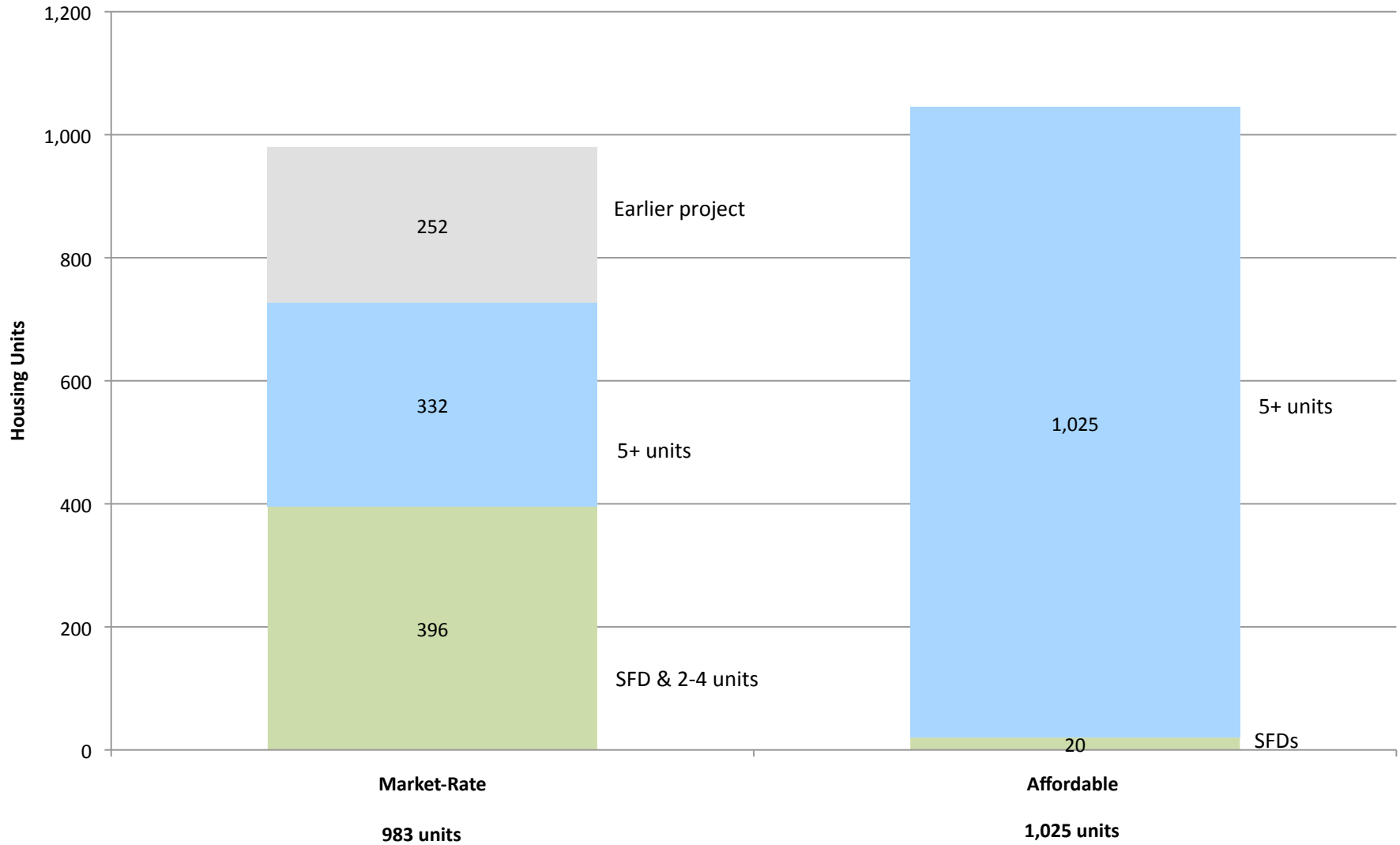
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- Oakland real estate market context
  - Occupancies increase
  - Rents and prices go up
  - Increased investment in existing buildings
  - Increasing potential for new development
  - Only limited development thus far
- Development feasibility:
  - Oakland rents below and approaching those needed for costly building types:
    - Multi-family residential
    - Office building development
  - Strong potentials for future development if economy stays strong

# Multi-Family Housing Development

Prototypes	Feasibility 2015	New Construction?
<p><b>H-3 Lower/Mid-Rise Apts.</b> West Oak/East Oak/ parts of North Oak</p>	<p>Marginal to small positives with today's rents; building types are costly</p>	<p>Limited; no large market rate projects completed since recession</p>
<p><b>H-4 Mid-Rise Apts.</b> Downtown/JL/BV/ parts of North Oak</p>	<p>Very sensitive to assumptions</p> <p>Recent high rates of increase in rents</p>	<p>Projects to be proceeding based on higher, future rents</p>
<p><b>H-5 High-Rise Apts.</b> Prime Sites: DT/JL/ BV</p>	<p>Feasibility much improved with higher rents if trends continue; could take 2-3 years</p> <p>Net effect on feasibility depends on increasing costs.</p> <p>For-sale condos are not feasible today</p>	<p>Large pipeline</p> <p>Oakland still perceived as risky; lack of recent comps. Need "successes on the ground" to provide evidence of feasibility.</p>

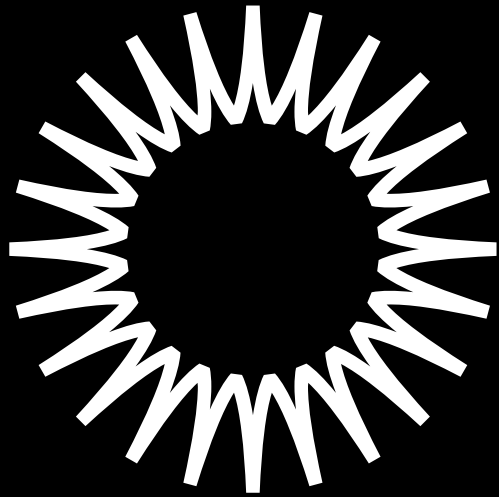
# Housing Development 2010-2014 (5 years)



# Single-Family Housing Development

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Prototypes	Feasibility 2015	New Construction?
<p><b>H-1A Single Family Home</b> East Oak / Infill</p>	<p>Feasible today</p>	<p>Has been proceeding incrementally and in phases</p>
<p><b>H-1B Single Family Home</b> No. / So. / Lower Hills &amp; Rockridge Infill / Larger Dev.</p>	<p>SFD homes in East Oak very sensitive to costs</p> <p>Can be developed incrementally and in phases</p>	<p>SFD and TH development occurring in Hill areas</p>
<p><b>H-2A Townhomes</b> West Oakland</p>	<p>Less risky than multi-family development</p>	<p>Townhome development getting underway in West Oakland with more planned</p>
<p><b>H-2B Townhomes</b> North Hills / South Hills</p>		



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