

# **GOING UPTOWN IN DOWNTOWN OAKLAND: MARKET-RATE HOUSING AS A REDEVELOPMENT TOOL**

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## *Abstract*

At least since urban renewal efforts of the 1960s, local governments around the country have struggled with how to revitalize city centers in order to turn around declining populations and job opportunities. Traditionally, these efforts have focused on employment growth or retail and industrial development. Beginning in the 1990s, however, there was increased focus on a different strategy: attracting new residents into market-rate units. Proponents argue that new residential development will itself spur greater retail and job growth. The city of Oakland, California represents one of the fullest implementations of this strategy. Between 2000 and 2008, over 10,000 new residential—mostly market-rate—units were approved for construction in the downtown area. This paper examines how a consensus emerged around market-rate residential development, with a focus on the negotiations between the mayor, city council, developers, and community advocates over one specific project, “The Uptown.” A strong mayor was the primary driver of the development, yet other stakeholders came to support it and managed to have at least some of their interests fulfilled.

In Oakland, California at the beginning of the 21<sup>st</sup> century, a consensus emerged among developers, politicians, and other city officials that market-rate residential development was the best strategy for revitalizing the city's downtown. At that particular moment in time—at the height of the housing bubble—and with a location just minutes from San Francisco, it seemed like downtown Oakland was poised for a comeback. This sentiment was prevalent despite a fairly consistent abandonment of downtown by residents and retail since the 1950s. True, downtown had once been “a thriving commercial and business district,” home to multiple department stores as well as smaller retail (Slater 1999). Nearby residents, however, soon moved to the suburbs en masse, accompanied by the department stores. The 1989 Loma Prieta earthquake only served to finalize the abandonment that had been occurring for decades (Rosenburg 2004). Over the past twenty years, the city tried various efforts to revitalize the area. A 1985 plan, calling for a retail corridor anchored by four department stores in the Uptown district, proceeded fairly far along in the development process, but was eventually undone by a mix of death and scandal (Thompson 2001). In 1995 and again in 1997, the city selected two more developers for an entertainment-focused retail district including a movie theater, plans which also failed to materialize (DeFao February 2000).

Yet the officials and developers who regularly gathered at downtown offices and lunch spots believed that *this time* the development would happen. Seven years later, the downtown was filled with construction—in some places, you have to walk more than five blocks to escape the site of scaffolding—suggesting that, on some level, the prediction was right. The purpose of this paper is to explore the forces that led to this sea of construction, that led a diverse group of people to back a largely similar vision of downtown development. This article begins with a discussion of the redevelopment strategy adopted in Oakland over the past several years and increasingly popular across the county, which consists of targeting residential projects as the first step in revitalization. This strategy can particularly raise controversy when it involves public subsidies to market-rate projects, as it did in at least one Oakland development. The paper then turns to a review of the history of that development, “The Uptown,” and the negotiations that led to its final construction.

The research for this paper was conducted in the fall of 2008. That moment, and the months since, has proved to be one of the most tumultuous periods for the development and housing industries in decades. Previous assumptions, even those provided during interviews at the beginning of this research, are being called into question on a daily basis. Projects that were in the midst of construction in the fall have since been halted or shifted direction, such as switching from condos to rentals (Avalos 2009, Torres 2009). Nonetheless, despite the economic crisis, parts of San Francisco and Berkeley—just

outside the Oakland borders—have seen home values remain stable or even increase and redevelopment officials remain hopeful (Avalos 2009, Said 2009). Though some of the details of the redevelopment strategies described here may no longer be as relevant as they were just a few months ago, the fundamental question of how to bring economic development back to the urban core remains more crucial than ever.

### HOUSING AS ECONOMIC DEVELOPMENT

In Oakland at the beginning of the 21<sup>st</sup> century, various responses to the question of urban revitalization were suggested, but one rose unambiguously above the fray: residential development. This shift to housing as a tool of economic development represents a relatively new approach. Well into the 1990s, most observers of urban development agreed on the underlying causal order of development: first come the factories and jobs, then come the people. In a recent update to a classic text on urban development, Logan and Molotch (2007) admit that they did not anticipate how this approach would shift in the years following the initial 1987 publication of their work. “Increasingly, we are made aware—and influential books like Richard Florida’s *Rise of the Creative Class* help spread the doctrine—that residents are themselves an engine of development.” In their updated preface, Logan and Molotch point to the growing number of cities that are focusing efforts on attracting cultural institutions, cafes, boutiques, and other amenities appealing to upper-income residents.

Recent literature suggests that the attempt to attract residents directly—even before the cafes and boutiques—is a new but growing trend. Even as recently as 1995, a review of downtown redevelopment efforts identified seven strategies commonly employed by cities, including support of retail venues, office complexes, waterfront development, and pedestrian enhancements. The review relegated housing development to a concluding list of “other” strategies (Robertson 1995). Just three years later, however, the Fannie Mae Foundation organized a panel entitled “Downtown Housing as Urban Redevelopment.” The panel included professors from across the country who agreed that “downtown housing currently is booming and may in fact be the ‘hope’ of a revitalized downtown” (*Housing Policy Debate* 1999). The panelists noted that this is a shift for city governments, who traditionally had focused housing development in the more “neighborhood” parts of cities and had worked on “large projects” like convention centers in the downtown areas. They each described cities around the country that adopted policies similar to those of Oakland. Pointing to downtown New York and the efforts of a Business Improvement District, Eugenie Birch notes, “They felt that if they could attract a 24-hour downtown population, then the retail would follow” (*Housing Policy Debate* 1999).

Though she and other panelists conclude that such efforts have had mixed results, data does suggest that downtowns are experiencing increasing population growths. Examining data for 44 cities, Birch noted that downtown populations experienced growth in the 1990s, for the first time in twenty years (Birch 2006). After significant population declines in the 1970s and stagnation in the 1980s, downtowns witnessed 10% growth in the 1990s. A similar study, drawing on census data for 24 downtowns, found that two-thirds of these cities experienced population growth in the 1990s (Sohmer and Lang 2001). In fact, six of these cities experienced overall population declines in the 1990s, but witnessed growth in the downtown areas.

### **“THE UPTOWN” IN DOWNTOWN OAKLAND**

In campaigning for office in 1998, Oakland’s Mayor Jerry Brown hoped to capitalize on these trends. He promoted the idea of attracting new residents to downtown Oakland, in the form of the “10K Initiative”—a plan to build housing for 10,000 new downtown residents. The San Francisco Chronicle editorial endorsing Brown days before the election noted that Oakland was perhaps not desperate for the type of change this initiative represented, but that residents wanted to assure a continued upswing. “Oakland is doing reasonably well these days. Jack London Square is bustling for the first time in decades to the sounds of jazz and active cash registers. There are fresh signs of life downtown, with government offices and a new housing complex opening... Still, there is a sense in Oakland that it should be doing better, that it should be leading rather than always waiting for the overflow when prosperity reaches the Bay Area” (San Francisco Chronicle May 22, 1998).

This article makes clear that Brown was not the first to suggest housing development downtown but, among recent politicians, he was certainly the most vocal and successful. Beyond his storied legacy and personality, he also had another significant tool: a newly adopted strong-mayor system of government. Previous mayors had proposed and failed to win support for projects a fraction of the size of Brown’s efforts, and attributed these failures to their lack of real power in city government (Mullin, Peele, and Cain 2004). That’s why within days of winning election—still months away from taking office—Brown began campaigning heavily for Measure X, a proposal on the November 1998 ballot that would significantly increase the mayor’s power within Oakland’s government. Measure X would transfer more budgetary powers to the mayor and give him direct authority over—and power to hire and fire—all city employees, including the city manager (Mullin, Peele, and Cain 2004). A similar measure had appeared before voters twice before, most recently in 1996, and suffered defeat both times. In 1998, however, Measure X passed with a 3 to 1 margin (Slater 1999).

This shift in government was to play an important role in moving forward Brown's vision of downtown development. And within a short time of taking office, he made clear that this vision had one focus: market-rate residential development. Brown rejected questions about affordable housing and preservation as secondary given the urgent needs for development downtown. At a community meeting, Brown affirmed his commitment to market rate housing, stating that "either you want gentrification or you want 'slumification'" (DuPont, Dennis, and Csekey November 1999). Beyond such off-the-cuff comments lay a real commitment to target upper income households, regardless of what opposition he faced. "Everything I have proposed has been opposed," Brown said, "but everyone who has been opposed has been disposed or deposed" (DeFau November 10, 1999).

Development of "The Uptown"—a 665-unit project with market-rate units, affordable units, and retail, one of the biggest components of Mayor Brown's 10K Housing Initiative— was no exception to this statement; its early stages met with significant obstacles and delays. Exploring the history of this development process provides a useful lens for understanding how Brown took advantage of the new mayoral powers and other groups compromised in order to reach the agreements necessary to move forward. The city initially approached the developer Forest City West in 1998 to informally explore the possibility of building on the Uptown site, two large square blocks encompassing 14 acres on the edge of downtown Oakland (Gammon June 2002). The city owned about half of the land under consideration and was making efforts to clear the remaining lots. The initial Forest City proposal called for a 2,000-unit development, with a request for a rebate of future property tax increases that could eventually be worth up to \$5 million a year (DeFau February 2000). The City Council soon voted to enter into an exclusive negotiating agreement with Forest City, which turned out to be just the first of many negotiating agreements approved by the City Council and the first of many proposals that came across the city's desks. In 2002 alone, Forest City's proposals shifted between rentals and condos, including at various points student dormitories, a grocery store, and smaller retail; the proposal at that point also requested more than \$60 million in city subsidies (Gammon 2002).

Yet despite the city's exclusive negotiating agreement with Forest City West for this site, other ideas continued to be floated at this time, two of which received serious consideration. One, there were continued proposals for an increased focus on retail. In 2001, Oakland's Community and Economic Development Agency (CEDA) commissioned a study on the site's potential. The consulting firm's findings suggested a move away from prioritizing housing, recommending a shift to regional retail (Platoni 2001). The other proposal for the site widely was to build a baseball stadium for the Oakland A's, a strategy largely reported to be City Manager Robert Bobb's "baby." In April 2002, Bobb led his

staff on a nation-wide tour of urban ballparks and later commissioned a study on the public's attitude toward using city funding to subsidize the stadium. Brown flatly rejected these possibilities, and in 2002 imposed a gag order on his staff, prohibiting them from discussing the ballpark option (*The Oakland Tribune* May 2003). Bobb eventually accepted the defeat of the ballpark proposal and moved on to become an ardent backer of Forest City's plan, yet in July 2003 was fired by Brown. Brown stated publicly that Bobb's firing was a cost-cutting measure, but most observers assumed that there were deeper reasons. In an editorial, *The Oakland Tribune* pointed to Bobb's strong will, his uneasy relations with the city's labor unions, and, of course, the rift over the ballpark proposal (*The Oakland Tribune* July 2003).

By this point, if not earlier, it seemed that any alternative plans for the Uptown site were clearly dead. The final development process could not move forward, however, without approval from one last stakeholder: community advocates. Community organizations—which came together as the Coalition for Workforce Housing—did not necessarily oppose downtown development, the provision of city subsidies, or even the plan for market rate housing. They did, however, look to take advantage of this moment to ensure that current downtown residents and workers benefited from city funding, not just private developers or newcomers who could afford market-rate units.

In addition to meetings, demonstrations, and city council speeches, one of the biggest strategies undertaken by the Coalition was the release of a plan illustrating an alternate design for the Uptown site, which illustrated that it was feasible and financially-viable to create an all-affordable project. The purpose of the alternate proposal was not necessarily to win city adoption—though that would have been welcomed—but to illustrate that affordable housing *was* a viable project for downtown. It was a negotiating tool in order to push for the more realistic demands: that the development include more affordable units, that Forest City accept tenants with Section 8 vouchers, and that there be more larger units to accommodate families. Nearly two years of negotiations ensued, resulting in a Cooperation Agreement—signed by the Coalition and the city—that leaves the Forest City development at its initial, 20% level of affordable housing. But instead of developing three parcels of land, one of those parcels was set aside for an affordable housing project—with a developer to be chosen via an RFP process—which is to include SRO and family-size units. The Cooperation Agreement bound the city to provide the land for this parcel at no cost (as they had planned to do for Forest City), provide additional development subsidies, and manage and fund site improvements.

Backing from community advocates appeared to be the last hurdle that Forest City needed to cross in order to proceed with the project. In July 2004, the City Council voted unanimously to approve

Forest City's project. The final project included three residential buildings for a total of 665 apartment units, ranging from studios to three-bedroom apartments. The project also has 9,000 square feet of neighborhood retail and a public park, and is Oakland's first LEED-certified residential building (Forest City 2008, [www.theuptown.net](http://www.theuptown.net)). In February 2008, the first of the residential buildings opened for occupancy. October 2008, however, represented the "grand opening" of the project (though some units remain under construction), with rents at the time ranging from \$1,448 to \$3,058 (Burt 2008).

After multiple proposals, the city of Oakland ultimately subsidized the Uptown's construction with approximately \$61 million, including the costs of assembling the land (\$23.5 million), financial assistance in cash (\$13.6 million), property tax abatements through 2020 (\$12.1 million), the costs of environmental clean-up at the site (\$4.1 million), infrastructure and streetscape improvements (\$5.7 million), and construction of an adjacent public park (\$1 million). Additionally, for at least the next 66 years, Forest City is committed to renting the land from the city. Forest City wants a return of at least 12% on the project, and Oakland has agreed that they are exempt from paying rent on the land if they do not reach that goal. If the project does prove profitable, then Forest City will pay rent valued at 25% of any profit over the 12% threshold, until the point that they have repaid most of the \$61 million subsidy. The city's ultimate expenditure on this project, therefore, depends largely on its future profitability. Perhaps one of the most important features of this project is that it shifts risk from the developer onto the city (MacDonald 2004).

### **MARKET RATE REDEVELOPMENT?**

The Uptown is a particularly illustrative example of how various groups worked together to produce residential development in Oakland, but it is just one of many developments going up in downtown. As of July 2008, over 4,500 new residential units were completed or under construction, with another 5,000 awaiting planning approval. In the coming years, the future of the Uptown may also serve as a bellwether for the outcome of this residential push, providing insight into two main redevelopment questions. One, can residential development spark the kind of retail and job growth that its supporters claim? And two, will the city's substantial financial investment appear, in the end, to be worthwhile?

The financial future of the project will be especially crucial to monitor, given that the city's own finances are in part dependent on its success. The city argued that this particular project required an infusion of public dollars, both because it was a rental project (which CEDA staff suggested are harder to fund than for-sale units) and because of the large size of the project (Hilmer 2008). "Our view is that the

Uptown [area] will not develop without a large project," Brown stated, "and that no such project will be financed without substantial city help" (DeFau December 18, 2002). Other developers, however, questioned the provision of subsidies to only this project. While acknowledging that portions of the funding were typical—such as the toxic clean-up and funding for the park—other components, particularly the property tax abatement, were unusual (*Oakland Tribune* 2003). Community advocates often question the value of city subsidies in general, questioning how much of the investment ends up being returned to local residents. The provision of a city subsidy did, however, open the Uptown up to certain requirements that did not apply to unfunded projects, such as the mandate to pay prevailing wages during construction, to ensure 20% local business participation, and to ensure that subsequent users of the property also pay prevailing wages (Hilmer 2008). The public funding also provided the Coalition for Workforce Housing with its leverage to demand community benefits in return.

Only the future can tell how successful the Uptown will be at leasing market-rate units, at benefiting local residents, and at stimulating future retail and job growth. Yet a review of its history up to this point provides important insights into how redevelopment strategies evolve. Development of the Uptown involved a wide range of players, many of whom had diverse views of the future of downtown and the role of the city in shaping this future. Each player brought a certain type of power to the table, and together they shaped the development project.

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