Chapter 7

ANALYSIS OF OFFICE SPACE IN BERKELEY: IS THE BERKELEY WATERFRONT THE PLACE TO DEVELOP?

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The City of Berkeley is now in a period of transition in terms of its future development. Not only is the outcome of decisions on the development of 175 waterfront acres eminent, but Berkeley is also replanning the downtown area. Berkeley soon will have to decide whether to preserve open space at the waterfront or to allow development. The final decision depends largely upon economics and policics, but ideally the decision should be based on whether the positive effects of office space outweigh the negative effects, and whether alternatives to waterfront development exist.

Three main factors affect Berkeley's future distribution of office space: Bay Area trends in office space, the formulation of a new downtown plan, and the outcome of the Santa Fe waterfront debate. Economics will affect future development, for a developer's ability to build competitively priced office space will limit building in certain areas while expanding growth in other areas. Development on Berkeley's waterfront will be affected by many factors, and this paper will use these factors to analyze the development of office space on Berkeley's waterfront.

There has been no study specifically analyzing office space in Berkeley in connection with waterfront development. This issue has become important with the most recent Santa Fe proposal for development of their land. The City of Berkeley has yet to zone the land and meanwhile is analyzing five possible plans ranging from no development to Santa Fe's proposal of 3,000,000 square feet of office space. The present City Council tends to oppose the maximum growth alternative, and as they will be the ones to make the decision, an outcome will depend on whether this council is still in power or not when the decision is made. If the Council decides for open space, somehow the 100 million dollars that Santa Fe is asking for the land must be raised. People need to evaluate all the pros and cons before the decision is finalized.

The information for this study comes from interviews with leasing agents and real estate persons, the Outline for a Downtown Plan (DPSG, 1985), and various Berkeley City departments involved with planning, issuing building permits, and making waterfront decisions. Vacancy rates, rental rates, convenience to transportation, employment base, and aesthetics of location are factors that interest developers and renters of office space. This study uses employment predictions as well as vacancy rates, and competition with other locations to evaluate the need for more development in Berkeley. If the

need for development of office space in the City of Berkeley can be substantiated, the next step is to find a location. A range of development has been proposed for the waterfront, but the need for office space alone cannot determine how much should be built there. Development on the waterfront is controlled by a variety of factors such as building on bay fill, accessibility to transportation, and open space needs. Alternatives to office space development, such as high-density building downtown, redeveloping outlying urban sprawl areas, and building elsewhere in the Bay Area will decrease the need for development on the waterfront.

Characteristics of Berkeley Office Space

Most of the office space in Berkeley is located in the Downtown Core with boundaries between University Avenue, Oxford and Fulton Streets, Durant Avenue, and Milvia Street. For the past two years a group of ten neighborhood activists, merchants, architects, and planners, named the Downtown Planning Study Group (DPSG) has met to put together an outline for a downtown plan to guide the City in its planning. This outline for a downtown plan recognizes that Berkeley's downtown is a concentrated area which could be used more efficiently. They recommend that the central area have building heights with a twelve story maximum that scales down to seven, then five stories in surrounding buffer areas. Berkeley now has two twelve-story buildings in the central core, with most of the others between three and four stories.

As of 1981-82, Berkeley had 1,480,900 square feet of office space built mostly in the 1960's and early 1970's. An additional 452,350 square feet were either finished, under construction or permitted by 1984 (DPSG, 1985), including the Golden Bear Project with 150,000 square feet of office space. The vacancy rate for office space in Berkeley is around 19% due to the recent increase in construction which hasn't been rented yet (Vicars, 1984, personal communication). The average building in Berkeley's downtown has 25,000 square feet of office space, the largest being the Great Western Building at twelve stories and 154,167 square feet gross building size (Husband, 1985, personal communication). Thus, the addition of three million square feet of office space on the Berkeley waterfront would more than double the total office space that exists in Berkeley.

Office Rental Rates

Rental rates in Berkeley are competitive in comparison with other parts of the Bay Area. Rental rates are affected by land prices, cost of building, market condition, condition of the building, and location. Berkeley's rental rates are compared with other parts of the Bay Area in Table 1.

The difference between the maximum rental rates for Berkeley reflect the difference between new, full-service office space with air-conditioning, and older, "as is" office space with an older lease (DPSG, 1985). to the extra costs of building on bay fill, the rental rates for Emeryville Watergate office buildings are relatively high. Santa Fe has not predicted the rental rates for Berkeley's

Location	Rental Rate ($/sq ft/ year)	
	minimum	maximum
Berkeley[a]	5.40	24.00
San Francisco[b]	18.00	45.00
Watergate Towers--[c] Emeryville	23.40	34.00
Harbor Bay Isle--[d] Alameda	19.80	21.60
Bishop Ranch--[e] San Ramon Valley	18.60	19.80

a DPSG
b Cushman and Wakefield Broker
c Watergate Leasing Agent
d Harbor Bay Isle Leasing Agent
e Sunset Development Company Marketing Manager

Table 1. Rental Rates in Berkeley and Bay Area

waterfront, but said they would depend on market conditions and might be comparable to Harbor Bay Isle rental rates (Falconn, 1985, personal communication). Because of low prices for land, business parks such as Bishop Ranch in Contra Costa County have relatively low rental rates. None of these rental rates take into account a load factor, an additional rate of 10 to 12% of the square footage of the common areas such as halls that some offices add on to basic rates.

As the rental rates for waterfront development have not been estimated with any precision, comparisons are difficult. Berkeley waterfront development would be competing with areas such as San Francisco and Contra Costa County more than with downtown Berkeley because of the aesthetic location and new buildings.

Economics of Waterfront Development

Data concerning economic benefits are important to the City of Berkeley for facilitating their decision on waterfront development. The Santa Fe proposal contains mainly office space, hotel, and retail development. In comparison with a hotel, an equal square footage of offices employs 1,000 persons, whereas a hotel employs 240. The trend is opposite in the amount of tax revenue generated. A hotel generates $4 per square foot per year; office space generates $1 per square foot per year (BPCD, 1985). Santa Fe predicts that net revenues to the City from property and hotel taxes, sales tax, and business license fees could total $6.4 million annually in 1983 dollars. Santa Fe has increased the incentive to build by offering Berkeley $1 per square foot of office space built, a total of $3 million to be placed in a Public Trust Fund if the Santa Fe plan is accepted.

The costs to the City, such as police, fire, education, and general government, are approximately $1.4 million and have to be subtracted from the gross income, leaving the City with a predicted total income of $5 million per year (Falconn, 1985, personal communication). As historically it has been shown that revenue sources such as property tax do not keep pace with the cost of services, the City has to adopt measures to reduce ongoing public costs (BCW, 1984). The City will not pay for sewer, gas and electric lines out to the site, but these, and especially the sewer, might limit development. If the flow rate of sewage is enough that a 48" pipe or larger is necessary, "EBMUD will most likely answer no to a request for connection" (Wisley and Ham, 1982, p. 5).

The City also has to consider the impact of new development on its employment. Of the 56,000 employed people living in Berkeley in 1980, 22,000 worked in Berkeley and 34,000 commuted from Berkeley to their jobs (BPCD, 1985). One of the basic problems in Berkeley is that nearly 34,000 people commute from Berkeley to jobs outside the City mainly because of the lack of retail, service and entry level jobs (BPCD, 1985). As the costs of office space are expected to be expensive on the waterfront, the majority of jobs would be in established businesses relocating to the site, not new jobs for the currently unemployed in Berkeley. The benefits Berkeley would get from having its residents employed on the waterfront would be delayed because of a turnover period in employment. The turnover rate is the number of people employed with a certain company that rents office space who leave their jobs and thereby open up jobs for Berkeley residents. Typical turnover rates are approximately 10% per year for office workers, 13% for retail workers, and 14% for hotel workers, all including a 3% per year growth rate (BPCD, 1985). To benefit the City of Berkeley, the jobs at the waterfront would have to be for Berkeley residents and correspond to their skills. The statistics Santa Fe has presented so far raise many questions as to the development's effectiveness in solving any of Berkeley's employment problems . (See Jillane Newsom's paper on Employment in this report.) Most of all, Berkeley should remember that no conceivable amount of development at the waterfront will solve employment problems altogether (McGuire, 1985).

Other Effects of Development

If office space were built on the waterfront, some anticipated effects might be some deterioration of Berkeley's downtown, creation of housing problems, and the need to rework the transportation system. As the waterfront office space will be expensive, already existing businesses will relocate from other areas. This leads some to argue that because of the high vacancy rate in downtown Berkeley, if businesses were to relocate from Berkeley's downtown, buildings that now pay Berkeley taxes would be vacated. Vacant downtown buildings would lower the total amount of revenue generated by the waterfront development. This effect would not occur if the waterfront location were so expensive that even businesses currently in Berkeley's downtown could not afford the rent.

Downtown Berkeley's location as an employment center is convenient because of its proximity to BART and bus lines; and a city focus is essential for coherence. Thus, even if waterfront development has no direct economic impact on the downtown, it would be in the City's interest to redesign the downtown and maintain this area as the City Center.

Downtown Berkeley could become more competitive in the office market by rehabilitating some of its older buildings and perhaps redesigning some of its buildings in the downtown area. Renovated historic buildings would bring higher rental rates and would be an attraction in the downtown area. More efficient use of central employment areas would decrease the impact of increased growth on urban sprawl, and open areas are thus preserved for recreation and aesthetic purposes.

Caltrans and Santa Fe projections and evaluations of traffic give no strong evidence that the added development at the waterfront will impact traffic congestion, but these studies are under question, considering just regional growth's impact on existing transportation systems (BWP, 1984). Unless the developers institute a shuttle for workers or mass transit incentives, traffic congestion at the waterfront may limit development. Utilizing existing office space and developing areas near existing public transit rather than developing at the waterfront would alleviate this problem.

Berkeley has a shortage of housing which would be made even more scarce if development were built at the waterfront without housing to accommodate employees. Housing on the waterfront would be very expensive, however, because of engineering problems involved in building on bay mud and because of the aesthetics of the bay location. Even if there is no waterfront development, Berkeley needs more housing. The Association of Bay Area Governments (ABAG) has predicted that Berkeley will need 4,600 new housing units by the year 2000 to accommodate development apart from any planned for the waterfront (ABAG, 1983). No location for a low income housing project funded by the U.S. Department of Housing and Urban Development has been agreed upon, illustrating the difficulties in providing housing in an already heavily-developed area.

Conclusion

How Berkeley and developers handle the problems which arise from building on the waterfront will ultimately determine the success of any development. There are still a great number of questions to be answered in terms of whether there should be any development at all, and certainly all results of development cannot be predicted. Park space per person is relatively low in Berkeley, and the waterfront is an ideal place, separated from the city by the freeway and relatively undeveloped. Not only do the citizens of Berkeley benefit from the open bay-front, but so do people from around the bay where development has replaced open space. It is also difficult to reconcile that Berkeley would be the only city to reap economic profits from waterfront development when people from many areas around the bay lose access to a wholly undeveloped, large area on San Francisco Bay. To find answers for how to deal with the increase in growth is difficult, but the Berkeley waterfront is a natural resource that

should be protected. The City of Berkeley has a number of problems and should not look for a quick solution on the waterfront when such valuable open space is at stake.

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