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OFFICE OF THE CITY CLERK  
CITY OF BERKELEY

July 14, 2015

Eric Angstadt, Planning Director  
Carol Johnson, Land Use Planning Manager  
City of Berkeley Planning & Development

Dear Eric Angstadt and Carol Johnson:

**Regarding: Evaluation of Multifamily Residential Rent Premiums for High Rise Buildings in Downtown Berkeley**

**Purpose**

The following memorandum summarizes AECOM's analysis estimated rental premium in high rise multifamily apartment buildings in Downtown Berkeley for buildings over 75 feet.

**Background**

The Berkeley City Council is currently evaluating proposed policies related to high-rise multifamily residential apartment construction in Downtown Berkeley. AECOM was retained to estimate the approximate rental premium that could be achieved in high rise buildings above 75', as superior views and higher floor levels garner higher rents compared to their low- and mid-rise counterparts. The analysis is confined to the view premiums of upper floor units and does not attempt to calculate the marginal gain in profit from achieving more floor area through increased height allowances.

**Study Methodology**

To determine the estimated premium high-rise apartment projects could achieve, AECOM first determined the current premium for higher floors in the Downtown Berkeley area. Current available apartments, at several apartment buildings within the Downtown Plan Area, were surveyed to determine the range of rent premiums achieved by floor. However, current rent premiums in Downtown Berkeley for buildings up to 6 stories do not reflect an associated high-rise rental premium due to the area's lack of buildings above 75'. In order to include a high-rise component and achieve a larger sample size of available properties, AECOM surveyed available units within high rise buildings in the Bay Area, with a focus on the East Bay to determine the associated premium for high-rise views.<sup>1</sup> The gross rents were then adjusted for operating expenses and vacancy to determine the net operating income (NOI)<sup>2</sup> gained.

<sup>1</sup> Properties evaluated as part of this analysis include the eight apartment buildings collectively managed under The Berkeley Apartments (Gaia, Berkeleyan, Buchenheimer, Touriel, Artech, Renaissance, Action, and Fine Arts), Berkeley Central, Avalon

Once the rental premium was determined, the value of the premium was capitalized to estimate total value on a per square foot basis. The capitalized value is a standard value determination of real property using the stabilized NOI<sup>3</sup> divided by the market-determined capitalization rate. The NOI measures how much net operating income the property will produce during a standard year while the capitalization rate accounts for the property-specific risk. A lower capitalization rate indicates lower investment risk.

### Overall Findings

Overall, apartments on higher floors achieve higher rents than apartments on lower floors; units with more desirable views achieve higher rents than comparable units in the same building. Market rents for the majority of apartments surveyed are determined by a revenue management system,<sup>4</sup> which uses a multitude of variables to determine the market rent for a given unit on any given day. The major objective of a revenue management system is to maximize revenue by balancing vacancy and rental price. Typically, the rent management algorithm assigns a rent premium due to location on a higher floor and/or superior view. However, other factors, such as a closer move-in date and available unit mix, may negate the premium and result in a similar or lower rate when compared to lower floor units. Thus, the precise rental premium of units in buildings over 75 feet cannot be easily isolated. As a result, this analysis assumes the conservative value of the rental premiums identified through the rental survey.

### Prevailing Rents in Downtown Berkeley

Overall, the average asking monthly rents for developments constructed since 2001 is approximately \$4.12 per square foot or approximately \$2,183 per month for a studio and \$2,558 for a one bedroom.<sup>5</sup> Rents per square foot varied from \$1.89 to \$7.71 per square foot with the smallest units commanding the highest price per square foot. Spreads within individual buildings varied from a low of \$0.50 PSF and \$2.85 PSF.

### Capitalization Rate

Current cap rates for multi-family Class A complexes range from 3.5% to 6.5%. Because Downtown Berkeley benefits from strong student demand in a land-constrained market, a 3.5% capitalization rate is utilized in this analysis.<sup>6</sup>

### Estimated Floor Premium

Residential complexes in the Berkeley area are predominantly low-rise buildings and the approximate premium between floors varies considerably. Per floor premium is estimated at approximately 6 cents per square foot of monthly rent net of operating expenses and vacancy. A 5<sup>th</sup> floor premium equates to 24 cents per square foot, or approximately \$150 per unit in net monthly rent.

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*Berkeley, Fourth & U Apartments, Hillside Village, Library Gardens, New Californian Apartments, Stadium and Allston Place, The Grand, Nema, and 1200 Lakeshore. Details on surveyed properties are found in Appendix B.*

<sup>2</sup> NOI is gross rental income less 30% operating expenses and 3% vacancy loss allowance.

<sup>3</sup> Stabilized NOI is taken during a normal, stabilized year and excludes years during initial lease-up.

<sup>4</sup> Large apartment buildings owned by institutional investors often utilize revenue maximizing software to determine the price of any given unit. Examples include Rainmaker LRO and YieldStar Price Optimizer. Hundreds of inputs affect the market price for a unit and pricing is updated daily. Variables that affect the market rate of any given unit include unit size, unit mix, floor, view, type of appliances, amenities within the unit, amenities within the complex, seasonal trends, rents in the area, rents in selected competitive set, move-in date, and lease term. Rent premiums are typically allocated on a dollar basis, per unit.

<sup>5</sup> Source: RealFacts Berkeley, CA properties

<sup>6</sup> The capitalization rate range of 3.5% to 6.5% is based on the PwC Real Estate Investor Survey™ from 2Q2015.

**Calculated Market Value of Upper Floor Units**

AECOM surveyed additional high-rise multi-family residential projects to determine the rent premium by floor. The average per square foot value of the first floor above 75' ranges between 1.3 cents and 6.4 cents per month, resulting in a capitalized value range of \$4.60 to \$22.10 per square foot. Furthermore, an additional premium is given for views achievable in Berkeley. A limited amount of buildings would be developed to this height and therefore the achievable per-floor premium is estimated at an approximately 50% higher premium compared to the per-floor premium. Taking into account a 50% view premium, the per floor premium ranges from \$7 to \$33 per square foot with an average value of \$20 per square foot. Each additional floor achieves a higher rent premium.

The total value of rental premiums was evaluated for buildings going from 75' to 120' and from 75' to 180'. For buildings growing from 75' to 120', the additional value per square foot averages \$50 per square foot. The observed range is between \$17 and \$83 per square foot in value. For buildings adding height from 75' to 180', the average additional rental value is \$120 per square foot, with a range of \$42 to \$199. Buildings with heights of 180' experience the same value gained as buildings with a height limitation of 120', plus value from the additional floors between 120' and 180', adding an average of \$150 PSF in rental value. The range for the floors between 120' and 180' is \$52 to \$248 per square foot. Calculations are found in Appendix A and property descriptions are located in Appendix B.

The range estimated above is conservative and indicates the maximum amount of value that could be captured by community benefits. The achievable rent premium could be higher due to the following factors:

- An institutional-quality development would be able to obtain an equity partner backed by institutional investors. Co-investment would require less capital from the developer and subsequently result in higher overall returns compared to the limited amount of capital invested.
- High rises are able to achieve higher floorplate efficiency, resulting in a larger amount of net rentable square feet within the building.
- High rise buildings are able to obtain operational efficiencies that result in lower operating expenses and higher revenues.
- A high rise with rooftop amenities/common areas is able to charge higher rent.
- A limited number of high rise apartment buildings in the area creates a scarcity of high-rise apartments with views and therefore a higher rental premium can be charged.

**Financial Summary**

<i>Assumptions</i>	<i>Value</i>	<i>Notes</i>
Additional Floors	10	From 75' to 180'
Average Gross Floorplate	9,246	Net floorplate assumes 85% efficiency ratio
Average Unit Size	625	
Units per Floor	12.6	

Additional View Premium: 50%  
 Cap Rate: 3.5%

<i>Monthly Net Rent Premiums Per Square Foot</i>	<i>Low</i>	<i>High</i>	<i>Average</i>
Floor Premium	\$0.013	\$0.064	\$0.039
Capitalized Value of Floor Premium <sup>1</sup>	\$4.63	\$22.08	\$13.36
Value of Floor and View Premium	\$6.94	\$33.13	\$20.03

<i>Value PSF by Building Height</i>	<i>Low</i>	<i>High</i>	<i>Average</i>
Floors between 75' and 120' <sup>2</sup>	\$17	\$83	\$50
Floors between 75' and 180' <sup>3</sup>	\$42	\$199	\$120
Floors between 120' and 180' <sup>4</sup>	\$52	\$248	\$150

<sup>1</sup> Value aggregates per floor  
<sup>2</sup> Blended average for 4 additional floors  
<sup>3</sup> Blended average for 10 additional floors  
<sup>4</sup> Blended average for 6 additional floors above 120'

I am happy to discuss further how the proposed building heights within the Downtown Area Plan can be valued. Should you have any questions, feel free to reach me by phone or email.

Sincerely,



Kelly Rytel  
 Economist  
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 Kelly.Rytel@aecom.com

**Appendix A: Downtown Berkeley Multifamily Rents: High Rise/View Premiums**

**Financial Summary**

Assumptions	Value	Notes
Additional Floors	10	From 75' to 180'
Average Gross Floorplate	9,246	Net floorplate assumes 85% efficiency ratio
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Units per Floor	12.6	

Additional View Premium:	50%
Cap Rate:	3.5%

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Floors between 120' and 180' <sup>4</sup>	\$52	\$248	\$150

<sup>1</sup> Value aggregates per floor

<sup>2</sup> Blended average for 4 additional floors

<sup>3</sup> Blended average for 10 additional floors

<sup>4</sup> Blended average for 6 additional floors above 120'

Property	Low Floor		High Floor		Premium	
	Floor(s)	Net Rent PSF/month	Floor(s)	Net Rent PSF/month	Per Floor/month	Capped Value
Gaia	1	\$4.89	5	\$5.03	\$0.035	\$12.03
Fine Arts	2	\$3.70	5	\$3.83	\$0.046	\$15.60
Berkleyan	1	\$3.75	5	\$3.86	\$0.030	\$10.22
Bachenheimer	3	\$3.96	5	\$3.98	\$0.006	\$1.91
Touriel	2	\$4.02	5	\$3.91	-\$0.039	-\$13.42
ARTech	3	\$3.88	5	\$3.94	\$0.027	\$9.24
Renaissance	1	\$2.53	3	\$3.13	\$0.297	\$101.90
Acton	2	\$2.65	5	\$2.92	\$0.090	\$30.71
Avalon Berkeley	2	\$2.36	5	\$3.03	\$0.224	\$76.96
The Grand	6-7	\$2.94	18-21	\$3.04	\$0.008	\$2.75
Nema	3	\$3.44	37	\$4.24	\$0.023	\$8.01
1200 Lakeshore	18	\$2.91	24	\$3.07	\$0.026	\$9.08
				Average	\$0.064	\$22.08

Property	Low Floor		High Floor		Premium	
	Floor	Net Rent PSF/month	Floor	Net Rent PSF/month	Per Floor/month	Capped Value
Avalon Berkeley	3	\$2.82	5	\$2.94	\$0.061	\$20.90
Berkleyan	3	\$4.08	5	\$4.20	\$0.061	\$20.90
Berkleyan	2	\$3.88	5	\$3.96	\$0.026	\$8.84
Berkleyan	3	\$3.94	4	\$3.94	\$0.000	\$0.00
Berkleyan	2	\$3.45	5	\$3.44	-\$0.005	-\$1.57
Bachenheimer	3	\$3.96	5	\$3.98	\$0.006	\$1.91
Touriel	2	\$4.55	3	\$4.47	-\$0.081	-\$27.68
Touriel	2	\$3.85	5	\$3.91	\$0.019	\$6.56
ARTech	3	\$3.88	5	\$3.93	\$0.024	\$8.13
ARTech	4	\$3.97	5	\$3.96	-\$0.012	-\$4.03
Acton	2	\$2.60	5	\$2.66	\$0.022	\$7.66
Acton	4	\$2.80	5	\$2.82	\$0.023	\$7.98
The Grand	6	\$3.10	18	\$3.26	\$0.013	\$4.48
The Grand	7	\$2.98	16	\$2.98	\$0.000	\$0.00
The Grand	17	\$2.94	21	\$2.98	\$0.008	\$2.75
The Grand	10	\$2.72	19	\$2.88	\$0.018	\$6.15
Nema	20	\$3.65	29	\$3.81	\$0.017	\$5.75
Nema	31	\$4.05	37	\$4.24	\$0.031	\$10.51
Nema	3	\$4.02	14	\$4.16	\$0.012	\$4.23
1200 Lakeshore	18	\$2.91	24	\$3.07	\$0.026	\$9.08
				Average	\$0.013	\$4.63

**Appendix B: Property Profiles**

**Gaia**

Address 2116 Allston Way  
Berkeley, CA 94704  
Units 91  
Floors 9  
Avg. Rent \$2,816  
Avg. Room SF 537  
Avg. Gross PSF Rent \$5.24  
Owner Equity Residential  
Property Mgr Equity Residential

**Berkeleyan**

Address 1910 Oxford St  
Berkeley, CA 94704  
Units 56  
Floors 5  
Avg. Rent\* \$3,268  
Avg. Room SF 607  
Avg. Gross PSF Rent\* \$5.39  
Owner Equity Residential  
Property Mgr Equity Residential

**Touriel**

Address 2004 University Ave  
Berkeley, CA 94704  
Units 35  
Floors 5  
Avg. Rent\* \$3,096  
Avg. Room SF 478  
Avg. Gross PSF Rent\* \$6.48  
Owner Equity Residential  
Property Mgr Equity Residential

**Renaissance**

Address 1625 University Ave  
Berkeley, CA 94703  
Units 28  
Floors 3  
Avg. Rent \$3,070  
Avg. Room SF 700  
Avg. Gross PSF Rent \$4.48  
Owner Equity Residential  
Property Mgr Equity Residential

**Avalon Berkeley**

Address 651 Addison Street  
Berkeley, CA 94710  
Units 94  
Floors 5  
Avg. Rent \$2,836  
Avg. Room SF 827  
Avg. Gross PSF Rent \$3.43  
Owner Avalon Bay Communities Inc  
Property Mgr Avalon Bay Communities Inc

**Nema**

Address 8 10th Street  
San Francisco, CA 94103  
Units 754  
Floors 24  
Avg. Rent \$4,743  
Avg. Room SF 857  
Avg. Gross PSF Rent \$5.53  
Owner Crescent Heights  
Property Mgr Crescent Heights

**Fine Arts**

Address 2110 Haste Street  
Berkeley, CA 94704  
Units 100  
Floors 6  
Avg. Rent \$2,849  
Avg. Room SF 484  
Avg. Gross PSF Rent \$5.88  
Owner Equity Residential  
Property Mgr Equity Residential

**Bachenheimer**

Address 2119 University Ave  
Berkeley, CA 94704  
Units 54  
Floors 6  
Avg. Rent\* \$3,373  
Avg. Room SF 661  
Avg. Gross PSF Rent\* \$5.10  
Owner Equity Residential  
Property Mgr Equity Residential

**ARTech**

Address 2002 Addison St  
Berkeley, CA 94704  
Units 21  
Floors 5  
Avg. Rent\* \$4,044  
Avg. Room SF 671  
Avg. Gross PSF Rent\* \$5.76  
Owner Equity Residential  
Property Mgr Equity Residential

**Action**

Address 1370 University Avenue  
Berkeley, CA 94702  
Units 71  
Floors 5  
Avg. Rent \$2,916  
Avg. Room SF 615  
Avg. Gross PSF Rent \$4.74  
Owner Equity Residential  
Property Mgr Equity Residential

**The Grand**

Address 100 Grand Ave  
Oakland, CA 94612  
Units 243  
Floors 23  
Avg. Rent \$3,486  
Avg. Room SF 839  
Avg. Gross PSF Rent \$4.15  
Owner Essex Property Trust  
Property Mgr Essex Property Trust

**1200 Lakeshore**

Address 1200 Lakeshore Ave.  
Oakland, CA 94606  
Units 173  
Floors 25  
Avg. Rent \$4,451  
Avg. Room SF 1302  
Avg. Gross PSF Rent \$3.42  
Owner Diamond Investment Properties  
Property Mgr Diamond Investment Properties

\*asking rents

Source: Real Facts, CoStar