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Honorable Member of the City Council
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Attention: Heleen Ramirez, Legislative Coordinator

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COUNCIL REPORT BACK ON THE AMOUNT OF VACANT, HABITABLE HOUSING UNITS IN LOS ANGELES

SUMMARY

The General Manager of the Los Angeles Housing + Community Investment Department (HCIDLA) respectfully requests that your office review and approve this transmittal and forward it to City Council for further consideration. Through this transmittal, HCIDLA requests to receive and file this report and this report is to serve as HCIDLA's official report back to the Housing Committee as instructed.

On September 20, 2019, the City Council adopted the motion directing HCIDLA to work with the Department of City Planning (DCP), and the Department of Building and Safety (DBS), to report on the amount of vacant, habitable housing units in Los Angeles. While also directing the Chief Legislative Analyst, with the assistance of the City Administrative Officer to examine the "Empty Homes" penalties, vacancy taxes, and speculator taxes in other jurisdictions, and report with policy options for a potential "Empty Homes Penalty" structure in Los Angeles, for consideration by voters in 2020.

HCIDLA has consulted and worked with DCP and DBS to conduct extensive research and analyses to respond to the motion. This report provides a background on various jurisdictions which have established an empty homes or vacancy tax and a summary of implementation outcomes, as well as presents the latest estimate of the number of vacant units in Los Angeles and the data sources HCIDLA staff utilized to perform analysis.

RECOMMENDATION

The General Manager of HCIDLA respectfully requests that this transmittal be received and filed and serve as HCIDLA's official report back to the Housing Committee's above referenced instructions.

BACKGROUND

The Los Angeles City Council is considering the establishment of an "Empty Homes Penalty" in Los Angeles that would likely require voter approval, and the City is in pursuit to place this initiative on the November 2020 ballot. The City of Los Angeles' housing inventory includes a higher shortage of affordable housing units in comparison to the abundance of luxury housing units that are produced. According to the 2019 Greater Los Angeles County Homeless Count, there are 36,000 homeless individuals who can benefit from affordable housing units, and many Angelenos who are financially struggling to retain the unit that they are currently renting. As *The Atlantic*, "Why Manhattan's Skyscrapers Are Empty" explains, the most expensive housing markets, which include Los Angeles, haven't built nearly enough homes for the middle class. *The Atlantic* further states that as urban living has become too expensive for workers, many of them have either stayed away from the richest, densest cities or moved to the south and west, where land is cheaper. This is a huge loss for many individual workers who work in the City of Los Angeles, but are unable to afford living in the City and have either extensive commute times to work or reside in overcrowded situations in an attempt to afford their rental unit in the City. As such, this creates further disparities and access to affordable housing choices, forcing some Los Angeles residents to work many hours and experience longer commuting times, while living far away from their place of employment.

The issue of housing availability and affordability extends beyond the City itself and is apparent statewide. The UCLA Affordable Housing Brief of February 2020, indicates that in California, some 17 percent of homeowners and 30 percent of renters face severe affordability burdens, paying over half of their household income for housing. The Housing Brief also indicates the stark reality that California's population growth continues even as the state has seen markedly reduced increments to housing supply. As a result, this has pushed up prices and reduced affordability around the state, particularly coastal areas such as Los Angeles which experiences strong demand-side pressures along with geographic and land-use regulatory supply constraint.

Measuring Vacancy

Given the challenge of available housing supply, particularly the number of available affordable units in the City of Los Angeles for those of low and moderate-income, the City has a low vacancy rate. As the law of supply and demand indicates, as the availability of housing units are limited in Los Angeles for those in most need, the rental price of units tend to increase. In *Curbed Los Angeles*, "Are luxury apartments sitting empty in LA?" - it states that fewer vacancies often translate to limited options for renters, which means more competition—and higher prices.

Furthermore, *Curbed Los Angeles* also explains that vacancy data is often distilled down to what is known as the vacancy rate; the rate can signal whether an area has too many empty apartments or too few, and that affects rental prices. In this same article, UCLA's Lewis Center for Regional Policy Studies states that having a decent number of vacant homes is a fairly reliable sign that the demand for housing is not "significantly outpacing" the amount of housing that's available.

UCLA’s Lewis Center for Regional Policy Studies says academic research has found that vacancy rates below 5 percent—what experts call a “natural” vacancy rate—lead to more rapid growth in rental prices. (That natural rate varies city by city.) Los Angeles is considered to rank among the places with the lowest vacancy rates, regardless of the methodology used. According to real estate data tracker, CoStar, among major U.S. cities, only New York’s vacancy rate is lower than Los Angeles’.

CITIES ADDRESSING HABITABLE AND UNINHABITABLE VACANT UNITS: RESEARCH FINDINGS

Various cities around not only the country, but the world are facing a similar housing crisis to Los Angeles. They have responded by establishing some form of an “Empty Homes Penalty,” or vacancy tax, to address their respective issues with property owners who keep habitable units vacant.

As Los Angeles entertains the idea of placing a vacancy tax, also called an Empty Homes Penalty on the November 2020 ballot for voters, the City must consider the vacancy policies of other cities such as Vancouver, Oakland, and Washington, D.C. Each city has its own approach in responding to the needs of their respective vacancy rates which may serve as valuable models for Los Angeles to adopt the most advantageous elements for our City.

The City of Vancouver

Vancouver became the first North American municipality to levy a tax on empty homes. This tax is based on an overall vacancy, not specific to rental units. Vancouver’s statistics indicate the successful outcome of the city’s empty homes tax on the rental market, proving the tax served its intention to return empty homes to the market so those who are in need of housing have rental options. Research indicates in less than four years Vancouver has seen the curve flatten, illustrating that the program is effective. The *CBC News*, “Vancouver raising empty homes tax by 25%,” explains that the 2018 statistics demonstrate the number of vacant properties had fallen by 15 percent in one year and just over half of those previously empty homes had been returned to the rental market.

In a recent *Global News* article, “Vancouver empty homes tax nets another \$39M as number of vacant properties drop, city says” provides details about the city’s tax. Vancouver’s empty homes tax took effect in 2017 as a way to fight back against rampant speculation and foreign ownership that left many homes in the city empty during the recent housing crisis. The relatively new policy requires homeowners to prove their homes are occupied for at least six months out of the year by either themselves or renters. Otherwise, they are charged an additional one percent tax on the property’s assessed value. The revenue collected by Vancouver’s empty homes tax goes towards affordable housing projects and programs in Vancouver, including the creation of new housing and enhanced protections for renters.

Vancouver’s Empty Homes Tax Annual Report (2018 tax year) further details how the city’s tax funds are utilized, particularly during the implementation period. In 2018, the city carried out a public engagement process to seek feedback from the public on how to use the initial \$8 million in empty homes tax revenue funds. Vancouver’s Council allocated an additional \$20 million in the later part of 2018 toward initiatives to address housing supply and affordability and to improve availability and support for renters, including vulnerable citizens: to deepen the affordability of housing for people experiencing homelessness, assist people receiving public assistance for various needs, as well as people receiving pensions. In addition to these efforts, tax revenue collected at the time of the Empty Homes Tax Annual Report were considered sufficient to cover the one-time implementation costs of \$7.5 million and annual

operating costs of \$2.5 million. Money collected from the tax was first allocated to cover annual operating costs with the remainder being available for initiatives supporting an increase in affordable housing funding.

After its first year of implementation, it was estimated that Vancouver's empty homes tax would generate \$38 million. In *CBC News*, "Vancouver raising empty homes tax by 25%," an article written on November 28, 2019, explains the revenue outcome of Vancouver's empty tax. Since its launch in 2016, the city reported that the empty tax generated \$39.7 million (slightly higher than estimated) in net revenue to fund affordable housing initiatives for tenants, who face a vacancy rate that is less than one percent. For 2020, the City of Vancouver planned to increase its empty homes tax by 25 percent for the 2020 tax year, with further increases planned for the following two years, in an effort to tackle a crisis in the lack of long-term affordable rental housing. Furthermore, Vancouver's city staff were directed to use additional revenue from the tax hike starting at the beginning of this year, 2020, to strengthen efforts to provide affordable housing for households with an annual income of less than \$50,000.

The City of Oakland

In the City of Oakland, voters passed Measure W, the Vacant Property Tax Act in 2018. Oakland's tax is based on an overall vacancy, including non-residential and undeveloped properties. The Vacant Property Tax Act applies to homes that are in use fewer than 50 days a year, these properties are subject to the tax; the annual special tax on vacant properties was approved for the next 20 years, and will provide funding for affordable housing services for the homeless and the clean-up of blighted properties and illegal dumping. Furthermore, the tax gives property owners a financial incentive to develop properties in Oakland. The City is expected to raise an estimated \$10 million annually for 20 years.

According to *East Bay Express*, "Oakland's Vacant Lot Tax Sowing Confusion," under the implementation ordinance debated in the fall of 2019 at the City's Council Committee on Finance and Management, a property is deemed vacant if it is in use less than 50 days in a calendar year, and not subject to any of the ten exemptions. The tax rate is \$6,000 for residential, non-residential, and undeveloped properties; and \$3,000 for condos, duplexes, and town homes.

In November 2019, the Oakland City Council adopted Ordinance No. 13571 clarifying the definition of vacant, and further defining the ten allowable exemptions. The allowable exemptions for qualified owners and properties are: very low income, financial hardship, demonstrable hardship unrelated to personal finances, exceptional specific circumstances, active construction, building permit application, low income senior, disabled owner, non-profit organization, and substantially complete application for planning. The initial determination notice that is sent to property owners provides them with the opportunity to file a "Petition of Vacancy" or apply for one of the ten allowable exemptions.

Washington D.C.

As a third city with a property tax on vacant property, we also learn from Washington, D.C. In 2011, the District of Columbia created a new class of property tax for vacant commercial and residential property, and still another for "blighted" property. Like the other aforementioned jurisdictions, Washington D.C.'s tax is based on an overall vacancy, however, the District of Columbia's tax is unique in also capturing "blighted" properties. The vacant property is taxed at \$5 per \$100 of assessed value and the "blighted" property at double the amount, \$10 per \$100 of assessed value. Ordinary property is taxed at 85 cents per \$100 of value, making the new tax on undeveloped property significantly higher.

According to *PEW*, “Can Extra Taxes on Vacant Land Cure City Blight?,” in the 2017 article it explains while the development boom in Washington resulted in some of the property being redeveloped and put on the market, some property owners have chosen to simply pay the tax; speculators were willing to pay in order to keep the properties a little longer, figuring prices will continue to rise. The District collected nearly \$9.4 million in new taxes on the vacant property in fiscal year 2016.

Washington D.C. also encountered an issue by some owners of vacant property making attempts to circumvent the law by filing for exemptions (include permitted construction or renovations; a property being actively marketed for sale or rent; pending legal, zoning, or historic preservation cases involving the property; or “economic hardship due to extraordinary circumstances” on the owner’s part) or asking for building permits and then never making improvements. In 2017, the District Council approved a bill that increases penalties for not paying the tax and tightens regulations regarding how long a property owner can keep filing for exemptions. In addition, the law places the burden on landlords rather than the District to prove that they have fixed issues with their vacant properties.

Curbed Washington DC’s article, “D.C. landlords can now register vacant properties with the city online” explains that the District’s law requires for owners of vacant or blighted properties to register them within 30 days of those properties becoming unoccupied. Otherwise, the owners could face “civil and/or criminal penalties of \$2,000 in fines per violation and up to 90 days imprisonment.”

As reported in an August 2018 Curbed Washington DC article, DCRA reported over 900 vacant properties were registered in the city. The assumption is that the District likely has hundreds of more vacant properties due to missing data. Ordinarily, vacant properties have to be registered with the city every year, and registration fees are \$250 per property. By law, owners are required to make sure that vacant properties meet specific maintenance standards pertaining to doors, roofs, walls, and other elements.

CITY OF LOS ANGELES VACANCY DATA RESULTS AND ANALYSIS

In the City of Los Angeles, there is no one reliable source for vacancy data. In order to estimate the total number of vacant units in the City, HCIDLA analyzed and compared data from four sources: The Census Bureau’s American Community Survey (ACS), the United States Postal Service (USPS), the Los Angeles Department of Water and Power (LADWP), and CoStar. This analysis includes all vacant units and does not distinguish between units that have been rented but not occupied and units that are currently for rent or sale. As such, HCIDLA cautions against using these estimates to make broader claims about the health of the housing market or as a reason to limit new housing development.

Based on a review of these sources’ methodologies and reported findings, HCIDLA estimates a citywide vacancy rate between 6% to 7%, amounting to approximately 85,000 to 100,000 empty units. According to these vacancy estimates, an Empty Homes Penalty has the potential to yield substantial revenue to support housing programs (in addition to returning thousands of unoccupied units to market). For instance, if the City pursued Oakland’s model of a flat fee for vacant properties - conservatively assuming a minimum \$3,000 charge and 50,000 eligible vacant parcels - an Empty Homes Penalty could yield \$150 million per year.

In analyzing vacancy data, HCIDLA found that higher-end, 4 or 5 star-rated dwelling units (as defined by CoStar) are disproportionately vacant while mid- and low-end units have especially low vacancy rates (see Appendix B for CoStar unit ratings). Further, neighborhoods with a greater proportion of new, high-

end units have some of the highest vacancy rates in the City, while those areas experiencing less residential development have vacancy rates consistently below 5%. The geographic and market distribution of vacant housing units provides insight into how an Empty Homes Penalty should be structured and enforced in Los Angeles.

Methodology

This analysis relies on data from four agencies whose approaches to measuring vacancy differ substantially. Each agency - ACS, USPS, LADWP, and CoStar - studies the City's housing stock from a different perspective and purpose: either conducting surveys, delivering mail, providing utility service, or conducting market research. These different functions and definitions of vacancy create inconsistencies between the sources and varying degrees of reliability. HCIDLA evaluated the strengths and weaknesses of these agencies' methodologies in order to estimate a range of total vacancies in the City. HCIDLA assessed vacancy by census tracts to allow for a clearer comparison across neighborhoods. The City of Los Angeles contains approximately 995 census tracts, but only 157 zip codes. Only census tracts with their centroids within the City boundaries were included in this analysis (See Appendix A).

Overall Vacancy

The extent of vacancy in Los Angeles varies widely across the four data sources reviewed in this report. As described in Chart 1 below, LADWP reported approximately 70,000 vacancies, ACS estimated nearly 100,000 vacancies, CoStar recorded around 44,000 vacancies, and USPS found as few as 13,000 vacancies. HCIDLA concluded that LADWP's methodology is likely the most reliable, as this data set utilizes utility service records to determine unit occupancy. However, LADWP records do have a limitation pertaining to individual and master metered information. Although the majority of housing units in the City have individual meters, there are some apartment buildings that are master metered, using one meter for several units. Due to this limitation, the LADWP data may slightly undercount the total number of vacancies, however, it still serves as the most reliable data source.

ACS data, which had the highest estimate of vacant units, includes all housing units, but uses survey participation to assess vacancy. If the Census Bureau does not receive a survey response from a selected household, the housing unit is assumed to be vacant. Although ACS responses are required by law, absence at time of the survey might be attributable to reasons other than vacancy. As a result, vacancy data reported by ACS may be slightly inflated. ACS also uses representative surveys of several thousand households in order to estimate broader statistics at the neighborhood and city level, which results in significant margins of error. In contrast, utility service, as with LADWP's data, offers a relatively stable measure of habitation.

CoStar data only considers housing in structures with at least five units, and as a result undercounts vacancy, particularly in areas of the city with smaller multifamily buildings. However, this data set, which is intended for real estate investors, provides the most granular information on which types of units and which areas of the City experience the highest vacancy rates.

Lastly, data from the USPS reports the lowest number of vacant units (13,333), which when compared to the other sources, appears to be a vast undercounting. USPS determines if a unit is vacant based on whether or not mail has been collected by addressees. This is an imprecise method of evaluating vacancy that likely has significant lag time and risks underestimating the extent of vacancy. Specifically, addresses are

considered vacant only after 90 consecutive days without mail collection; this assessment methodology likely overlooks uninhabited dwellings where mail is intermittently collected. Additionally, the Postal Service data includes a category for addresses with unknown occupancy status. However, this classification counts addresses in buildings under construction as well as addresses that mail carriers determine are unlikely to be in operation for some time. This general unknown category was omitted from HCIDLA’s analysis because its inexact definition lacks specific criteria.

Based upon the review of these four data sources, HCIDLA identified the expected range of vacant units to be greater than the 70,000 reported by LADWP but likely slightly less than the 100,000 reported by ACS.

Table 1: Vacancy Data Sources: Definitions, Limitations, and Findings				
Source	Definitions of Vacancy	Limitations	Total Vacant Units	Vacancy Rate
LA Department of Water and Power	Housing units with individual utility meters that are not receiving electricity service.	Only units with individual utility meters	71,236	5.9%
American Community Survey (2018 5-year Estimates)	Housing units with no one living in it at the time of interview. Units occupied at the time of interview entirely by persons who are staying two months or less and who have a more permanent residence elsewhere are considered to be temporarily occupied, and are classified as “vacant.”	Uses survey responses as a metric of occupancy	99,565	6.8%
CoStar	Housing units not currently occupied by a tenant, regardless of any lease obligation that may be on the space.	Only includes multifamily buildings with 5 or more units	44,002	4.6%
United States Postal Service	Housing units at which mail has not been collected for 90 days or longer.	Only considers whether or not mail has been collected, not based on the resident's presence.	13,333	.86%
<p>Additional Notes:</p> <p>(1) Calculations derived by data at census tract level within the City of Los Angeles</p> <p>(2) Aggregate CoStar data includes cities and jurisdictions outside the City of Los Angeles</p> <p>(3) ACS differentiates between different types of vacancy, such as: units currently on the rental or sale market; units that are leased but not occupied; units sold but not occupied; units used for seasonal or recreational use; units for temporary seasonal workers; and a catch-all “other vacant” category. For the purposes of this report back, our analysis includes all such vacancies, regardless of classification.</p>				

Vacancy by Geographic Area
Geographic Distribution of Vacant Units

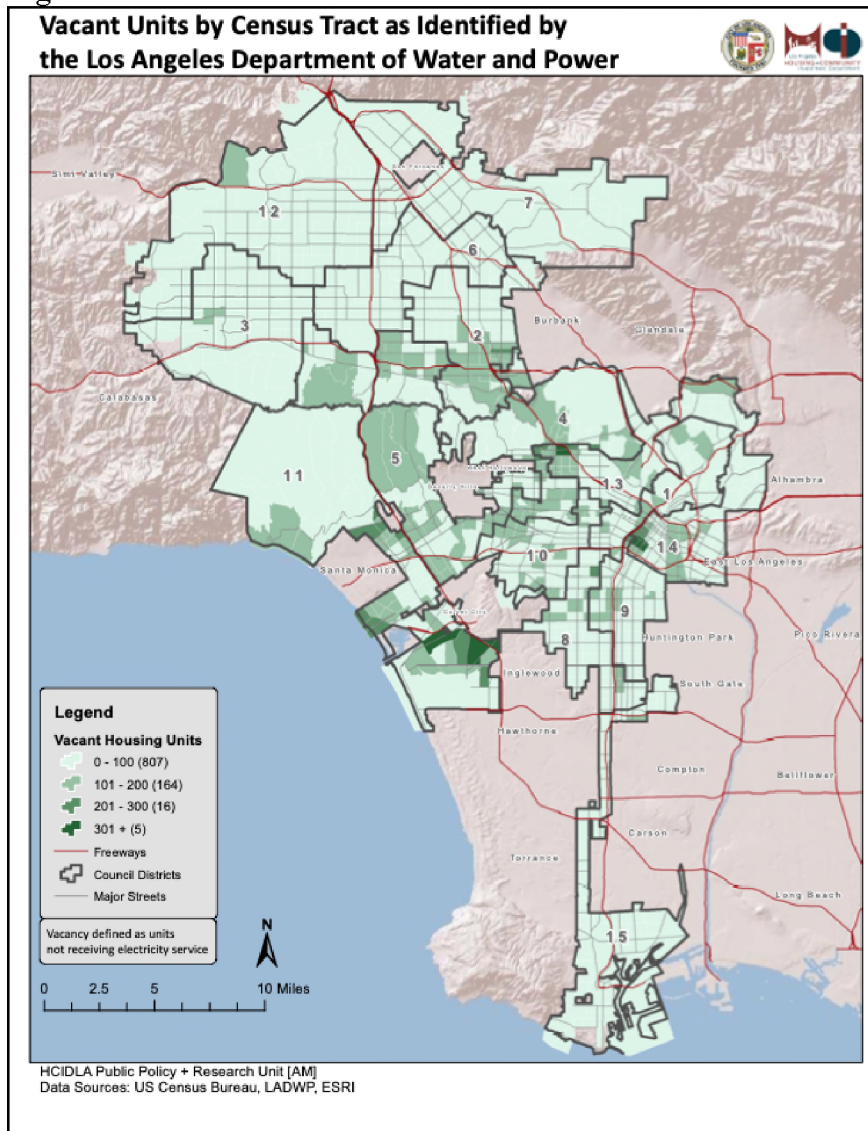
Vacant housing units are not evenly distributed across Los Angeles. To illustrate the distribution, this analysis examines where uninhabited units are concentrated according to the ACS, LADWP, and CoStar data.

Notably, neighborhoods with some of the City’s hottest housing markets, including Hollywood, Venice, and Koreatown, have the highest vacancy rates according to all three of these sources, as detailed in Table 2. In Hollywood, for example, the number of vacancies range from 1,372 to over 3,000, with vacancy rates as high as 15%. In each of these neighborhoods all three data sources reported at least 1,200 vacant units, among the highest incidence of vacancy in the City.

Table 2: High Vacancy Neighborhoods in Los Angeles Based on American Community Survey, Department of Water and Power, and CoStar Data				
		ACS	LADWP	CoStar*
Hollywood	Vacant Units	2,453	1,372	3,040
	Vacancy Rate	14.8%	10.7%	7.8%
Venice	Vacant Units	1,752	1,256	1,676
	Vacancy Rate	15.2%	12.5%	7.8%
Koreatown	Vacant Units	2,073	1,246	2,792
	Vacancy Rate	10.5%	7.7%	5.0%
*CoStar submarkets do not perfectly align with <i>Los Angeles Times</i> neighborhood boundaries. Compare these data with caution.				

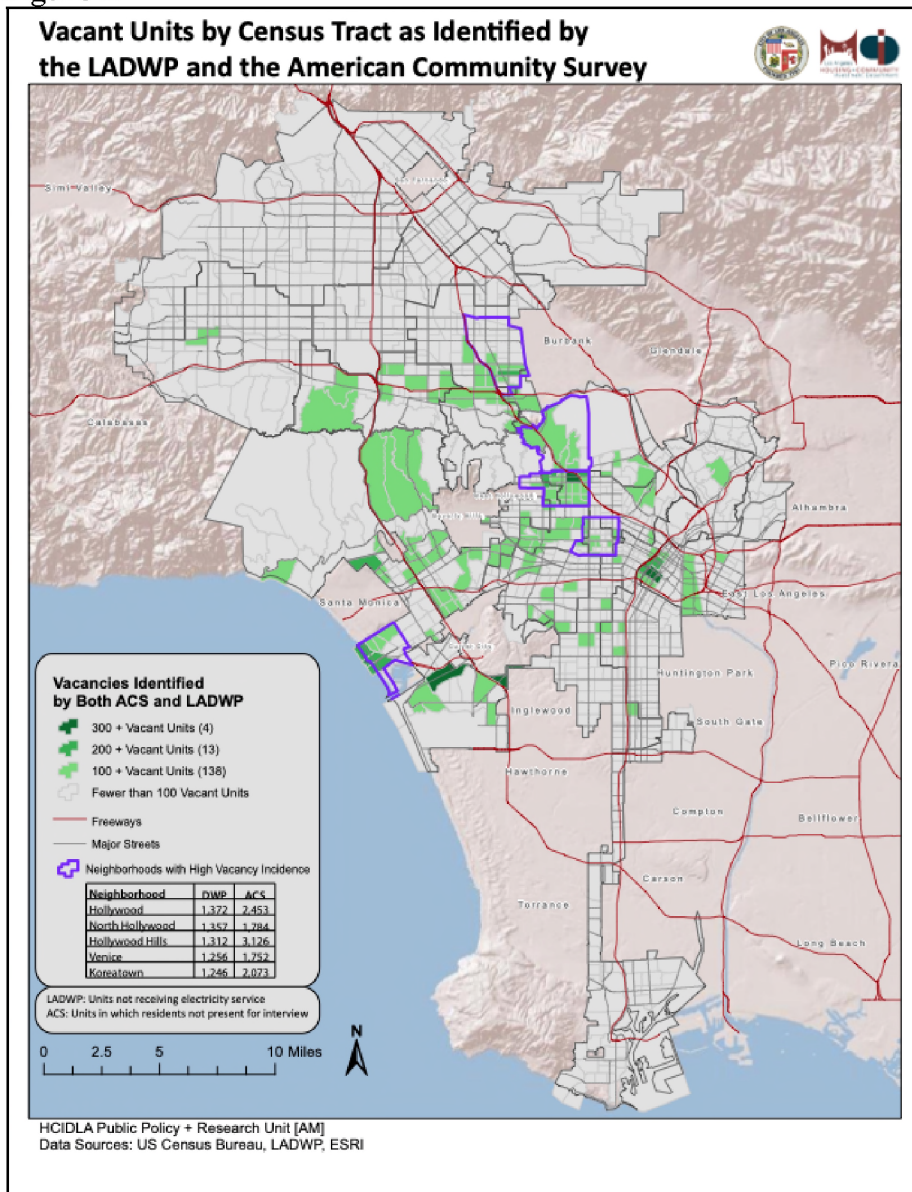
The accompanying maps both illustrate the distribution of vacancy throughout the city according to the LADWP and Census Bureau data, and visualize the trends described in Table 2. As conveyed in Figure A, according to LADWP data, census tracts with more than 100 vacant units are primarily located on the City’s west side, with pockets of vacancies in Central LA and around North Hollywood in the southern tip of the Valley. Although the majority of the city’s tracts contain no more than 100 vacant units, this map demonstrates that these vacancies are not dispersed evenly throughout the City.

Figure A



To further illustrate the geographic distribution of vacancy and compare findings across data sources, Figure B considers vacancies reported by both the Census Bureau’s American Community Survey and LADWP. In this map, census tracts in which 100 or more vacancies are identified are shaded in progressively darker tints of green. Notably, all five neighborhoods with the highest incidence of vacancy - Hollywood, North Hollywood, Hollywood Hills, Koreatown and Venice - are areas seeing significant building activity.

Figure B



Notably, vacancy reporting may be slightly inflated in these neighborhoods because of the normal lag between construction completion and occupancy. Typically, newly constructed buildings take several months to be fully leased or sold, which may cause areas with more new residential construction to have somewhat elevated vacancy rates. Additionally, certain data sources define vacancy based on whether units are inhabited at the time, rather than whether the unit is leased or sold. For example, CoStar considers a unit vacant until an occupant is physically present, regardless of whether a unit has been purchased or leased. Despite these caveats, the consistently high incidence of vacancy across three datasets with different time periods suggests prolonged periods of housing units sitting idle in these neighborhoods.

Distribution of Vacancy by Market Segment

In addition to geographic distribution, the incidence of vacancy varies dramatically by market segment. In its reports, CoStar distinguishes buildings on a 5-star scale according to quality, design, and amenities, with high-end, amenity-rich properties scored with 5 stars and lower-end units receiving 1 star (see Appendix B). Table 3 illustrates the significant disparities in vacancies between the top-end market segments and the mid- to low-end segments as of the second quarter of 2020.

Table 3: Vacant Units by Market Segment in Los Angeles Metro Area Properties with 5+ Housing Units Reported by Costar				
	4 or 5 Star Units	3 Star Units	1 or 2 Star Units	Total Units
Vacant Units	11,168	9,166	23,667	44,001
Total Units	106,920	211,660	640,938	959,518
Vacancy Rate	10.4%	4.3%	3.7%	4.6%

Based on the CoStar analysis, more than 1 in 10 high-end units are vacant, and these 4 or 5 star units are more than twice as likely to sit vacant than mid- and low-end units. Further, although mid- and low-end units represent the overwhelming majority of the City’s housing, these units are the least likely to be empty. According to CoStar, only 3.9% of the City’s 850,000 mid- and low-end units are unoccupied, in contrast to a 10% vacancy rate among the approximately 107,000 high-end units. Some of the 4 or 5 star vacancies can be explained by the lag between completing construction and taking up occupancy as discussed previously. However, the dramatic difference in vacancy rates between these market segments indicates that luxury, high-end units are disproportionately sitting vacant relative to the tight mid- and lower-range segments.

Moreover, according to CoStar, these types of high-end developments with consistently higher vacancy rates represent the majority of new construction in Los Angeles. As conveyed in Table 4, the high-end multifamily housing market has been booming over the past few years, adding more than 24,000 units to the supply between 2016 and 2019. In contrast, supply in the mid- and lower-ends of the market has been minimal or even negative, with a net loss of 1,163 low-end units and net gain of 988 mid-end units between 2016 and 2019. These losses could be attributed to demolitions or renovations of existing stock as these properties age, fall into disrepair, or are redeveloped into higher-end dwellings. Additionally, fewer than 3,000 mid- or low-end units are currently in construction, while another 23,000 high-end units are currently underway.

Table 4: Units Added and Under Construction by Market Segment			
Properties with 5+ Housing Units Reported by Costar			
	4 or 5 Star Units	3 Star Units	1 or 2 Star Units
Units Currently Under Construction	23,307	2,007	65
Net Supply Change, 2016 to 2019	24,738	988	-1,163

CONCLUSION

Los Angeles is able to learn from other jurisdictions in how they have responded to empty properties through their establishment of an “Empty Homes Penalty,” or vacancy tax. After comparing data from four valuable sources: ACS, the USPS, LADWP, and CoStar, HCIDLA estimates a citywide vacancy rate between 6% to 7%, amounting to approximately 85,000 to 100,000 empty units. Since the Empty Homes Penalty has the potential to yield substantial revenue to support housing programs (in addition to returning thousands of unoccupied units to the market) this appears to be a positive option and proper timing for the City to actively implement. After researching various data sources, as mentioned, HCIDLA concludes that LADWP’s source of data is likely the most reliable for studying vacancy data even though it has some limitations, as this data set utilizes utility service records to determine unit occupancy.

HCIDLA also discovered that higher-end, 4 or 5-star-rated dwelling units (as defined by CoStar) are disproportionately vacant while mid- and low-end units have especially low vacancy rates. In addition, neighborhoods with a greater proportion of new, high-end units have some of the highest vacancy rates in the City- these areas generally represent neighborhoods of higher opportunity (i.e., access to a substantial number of grocery stores, high achieving schools, areas of larger park spaces, etc.), while those areas experiencing less residential development have vacancy rates consistently below 5%.

The disproportionately high vacancy rate in higher-end properties relative to mid- and lower-end properties, coupled with the abundant supply of high-end units in the development pipeline, suggests that vacancy in 4 and 5-star properties may increase in coming years. In fact, CoStar explicitly projects the impact of the COVID-19 pandemic to fall overwhelmingly at the top end of the housing market, where vacancy rates are already above the citywide average.

After examining the vacancy policies of other cities such as Vancouver, Oakland, and Washington, D.C., if Los Angeles pursued Oakland’s model of a flat fee for vacant properties - conservatively assuming a minimum \$3,000 charge and 50,000 eligible vacant parcels - an Empty Homes Penalty could yield \$150 million per year. This indicates the City has the potential to deter the practice of keeping higher end units

vacant for an extended period of time, and thus, generating needed tax revenue. Furthermore, given the impact of the COVID-19 pandemic on residents' housing opportunities and finances, the City has an even greater urgency to consider other revenue options to make housing units available within a realistic reach.

FISCAL IMPACT STATEMENT

There will be no impact to the General Fund.

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ATTACHMENT:

Appendix A & B

Appendix A: Methodology

HCIDLA conducted this analysis by gathering and evaluating data from four sources - the Los Angeles Department of Water and Power, the American Community Survey, CoStar, and the United States Postal Service. This evaluation considered each source's data collection strategy, geographic scope, and findings.

Data Collection Strategy

Each of these sources collects data according to their primary function: for instance, CoStar produces reports for investors and developers in the real estate industry, while the American Community Survey records population statistics. Accordingly, these entities employ different methods to collect vacancy data, which yield varying results: for instance, the American Community Survey determines occupancy based on whether individuals are available to participate in an interview, the Department of Water and Power determines occupancy based on whether a residence is receiving electricity service.

HCIDLA reviewed these different approaches to data collection and evaluated the reliability of each methodology. This evaluation revealed that LADWP's data collection approach offers a useful benchmark for vacancy rates by using utility service as an indication of occupancy. In contrast to ACS, CoStar, and the USPS data, LADWP's approach does not depend on individual presence at a point in time and uses electricity service as a more steady measure of habitation.

Geographies

In addition to using different methods, these organizations produce data at different geographic scopes. For example, the Department of Water and Power publishes its data by zip code, while the Postal Service data publishes its data by census tract (see table below). However, zip codes and census tracts are drastically different sizes, are not drawn according to City boundaries, span multiple jurisdictions, and therefore yield different results. To conduct a comprehensive analysis of vacancy in the City, HCIDLA assessed vacancy by census tracts, which allow clearer comparison across neighborhoods. For example, in the City of Los Angeles, there are approximately 995 census tracts, but only 157 zip codes; by using census tracts, HCIDLA can closely examine nuanced patterns of vacancy in the City. HCIDLA considers only those tracts whose central points, or geographic centroids, lie within Los Angeles city boundaries. This methodology maximizes accuracy by ensuring that census tracts that are primarily located within Los Angeles are included, and excludes census tracts that are only partially within the City. Using this methodology, HCIDLA's analysis avoids overestimating vacancies by excluding vacancies recorded in neighboring jurisdictions.

To address these inconsistencies, HCIDLA used a tool, provided by the United States Department of Housing and Urban Development, to convert zip codes to census tracts. Essentially, this adjustment accounts for the location of census tracts within certain zip codes by applying a geographic "weight" according to the extent of overlap between the two areas.

To illustrate, a census tract that is entirely contained within a zip code would receive a weight of 1, a census tract that has half of its area within a zip code would receive a weight of .5, and a

census tract that does not intersect with a zip code receives a weight of 0. Then, the number of vacancies within each of these census tracts would be multiplied by each weight, which converts the different geographies to a single standard.

Table A1: Geographic Scale by Data Source	
Data Source	Available Geographies
Department of Water and Power	Zip Code
American Community Survey (2018 5-year Estimates)	Census Tract, Zip Code (among other geographies)
CoStar	Metro Area, Neighborhood Submarket
United States Postal Service	Census Tract

Results

These four data sources revealed substantial differences in vacancy throughout Los Angeles: LADWP reported approximately 70,000 vacancies, ACS estimated nearly 100,000 vacancies, CoStar recorded around 44,000 vacancies, and USPS found as few as 13,000 vacancies.

LADWP uses utility service records to determine unit occupancy. However, these records are limited to housing units with individual utility meters. Although the majority of housing units in the City have individual meters, there are some apartment buildings that are master metered, using one meter for several units. Due to this limitation, the LADWP data may slightly undercount the total number of vacancies, however, it still serves as the most reliable data source.

ACS uses survey participation to assess vacancy. If the Census Bureau does not receive a survey response from a selected household, the housing unit is assumed to be vacant. Although ACS responses are required by law, absence at time of the survey might be attributable to reasons other than vacancy. As a result, vacancy data reported by ACS may be slightly inflated. ACS also uses representative surveys of several thousand households in order to estimate broader statistics at the neighborhood and city level, which results in significant margins of error. In contrast, utility service, as with LADWP's data, offers a relatively stable measure of habitation.

CoStar conducts real estate market research for developers and investors. Their surveys only consider housing in structures with at least five units, and as a result undercounts vacancy, particularly in areas of the city with smaller multifamily buildings. However, this data set, which is intended for real estate investors, provides the most granular information on which types of units and which areas of the City experience the highest vacancy rates.

Lastly, data from the USPS reports the lowest number of vacant units (13,333), which when compared to the other sources, appears to be a vast undercounting. USPS determines if a unit is vacant based on whether or not mail has been collected by addressees. This is an imprecise

method of evaluating vacancy that likely has significant lag time and risks underestimating the extent of vacancy. Specifically, addresses are considered vacant only after 90 consecutive days without mail collection; this assessment methodology likely overlooks uninhabited dwellings where mail is intermittently collected. Additionally, the Postal Service data includes a category for addresses with unknown occupancy status. However, this classification counts addresses in buildings under construction as well as addresses that mail carriers determine are unlikely to be in operation for some time. This general unknown category was omitted from HCIDLA’s analysis because its inexact definition lacks specific criteria.

Table A2: Vacancy Data Sources: Definitions, Limitations, and Findings				
Source	Definitions of Vacancy	Limitations	Total Vacant Units	Vacancy Rate
LA Department of Water and Power	Housing units with individual utility meters that are not receiving electricity service.	Only units with individual utility meters	71,236	5.9%
American Community Survey (2018 5-year Estimates)	Housing units with no one living in it at the time of interview. Units occupied at the time of interview entirely by persons who are staying two months or less and who have a more permanent residence elsewhere are considered to be temporarily occupied, and are classified as “vacant.”	Uses survey responses as a metric of occupancy	99,565	6.8%
CoStar	Housing units not currently occupied by a tenant, regardless of any lease obligation that may be on the space.	Only includes multifamily buildings with 5 or more units	44,002	4.6%
United States Postal Service	Housing units at which mail has not been collected for 90 days or longer.	Only considers whether or not mail has been collected, not based on the resident's presence.	13,333	.86%
Additional Notes: (1) Calculations derived by data at census tract level within the City of Los Angeles (2) Aggregate CoStar data includes cities and jurisdictions outside the City of Los Angeles (3) ACS differentiates between different types of vacancy, such as: units currently on the rental or sale market; units that are leased but not occupied; units sold but not occupied; units used for seasonal or recreational use; units for temporary seasonal workers; and a catch-all “other vacant” category. For the purposes of this report back, our analysis includes all such vacancies, regardless of classification.				

MULTI-FAMILY BUILDINGS

The quality and desirability of multi-family buildings is largely defined by the by the specifications of the dwelling units offered to tenants, as well as the amenities associated with the property overall. The following describes the components of the multi-family rating system.

Multi-family Building Components

Architectural Design:

The overall design of a multi-family building can be a key factor in attracting tenants and establishing the prestige of a property. In multi-family buildings, this ranges from buildings that exhibit the most current trends in apartment design and construction to the long lasting aesthetic of classic early 20th century buildings. These characteristics range from the exterior materials selection, the quality of interior finishes and the level of landscaping and exterior spaces. Additionally, unlike office and industrial buildings, regional and vernacular trends in design can play a role in the design of multi-family buildings.

Structure/Systems:

Structural and systems decisions in a multi-family building can be attributable to some of the value creating elements of the property. Tall/vaulted ceilings, adequate acoustic separation, open floor plans, as well as efficient, central HVAC systems with individual controls are all examples of building systems that have a differentiating effect in the market.

Amenities:

The package of unit and on-site amenities that are offered by a multi-family property speaks directly to the overall quality of the building and the ability of the property to attract and retain tenants. This includes the types of on-site amenities such as a swimming pool, tennis court, and fitness center; as well as the quantity and quality of unit amenities such as high-end appliances, stone countertops, integrated lighting, and hardwood floors.

Site/Landscaping/Exterior Spaces:

The design of a building's site, landscaping, walkway treatment, exterior spaces and amenities all enhance both the visible presence of the building and its context, as well as the exterior environment provided to tenants. In more urban contexts this includes roof terraces and courtyards

Certifications:

Various third-party certification programs are available for buildings to demonstrate performance in particular areas. For example, Leadership in Energy and Environmental Design (LEED), and Green Globes are all programs that recognize environmental performance and energy efficiency at a level above national standards, as well as the presence of sustainable building features and management practices.

Multi-family Star Rating Definitions

RATING	GROUP	DEFINITION	
★★★★	A 5-Star building represents the luxury end of multi-family buildings defined by finishes, amenities, the overall interior/exterior design and the highest level of specifications for its style (garden, low-rise, mid-rise, or high-rise).		
	Architectural Design	Exterior Materials/Façade	High-quality durable materials – natural stone, glass, well detailed and constructed metal panel, wood veneer, or terracotta cladding; accentuating lighting.
		Fenestration/Glazing/Views	Large windows, abundant natural day lighting, generally available exterior views, high efficient glazing specification.
		Overall Aesthetics	Representing current trends and standards in design and/or of a timeless, perhaps a historic quality. Aesthetically exceptional arrangement of forms, massing and materials. Possibly designed by a notable or signature architect.
	Structure/Systems	High ceilings; modern energy-efficient, central HVAC, individually controlled systems, high-speed elevators, likely new or newly renovated.	
	Amenities	Unit Amenities/Design	Requires numerous high quality finishes such as hardwood floors, granite countertops, stainless steel appliances, bay window(s), crown molding, a balcony/patio and in-unit washer/dryers. Also typically has an open floor plan and high/vaulted ceilings of 9'+
		Site Amenities	Requires plentiful on-site shared facilities including a clubhouse/party room, fitness center, business center, pool, concierge, etc.
	Site/Landscaping	Continually maintained landscaping where applicable; exterior gathering spaces, roof terrace or courtyard.	
Certifications	Possibly a certified/labeled green and energy efficient building.		
★★★★	4-Star buildings are constructed with higher end finishes and specifications, providing desirable amenities to residents and designed/built to competitive and contemporary standards.		
	Architectural Design	Exterior Materials/Façade	Durable materials, well-detailed and constructed metal panel, wood veneer or terracotta cladding; possibly exhibiting minor signs of weathering and wear.
		Fenestration/Glazing/Views	Large windows, great natural day lighting and views.
		Overall Aesthetics	Representing recent trends and standards in design and/or of a timeless, perhaps an historic quality.
	Structure/Systems	Likely to have some 5 Star qualities, or of a prior generation of buildings.	
	Amenities	Unit Amenities/Design	Includes some high quality finishes such as hardwood floors, granite countertops, stainless steel appliances, bay window(s), crown molding, a balcony/patio and in-unit washer/dryers. Also may have an open floor plan and high/vaulted ceilings.
		Site Amenities	Several on-site shared facilities such as a Clubhouse/Party Room, Fitness Center, Business Center, Pool, Concierge, etc.
	Site/Landscaping	Well maintained landscaping where applicable; likely to have exterior gathering spaces, roof terrace or courtyard.	
Certifications	Possibly a certified/labeled green and energy efficient building.		
★★★	Architectural Design	Exterior Materials/Façade	Brick, stucco, EIFS, precast concrete, vinyl or fiber cement siding, possibly 4 Star materials with signs of age.
		Fenestration/Glazing/Views	Punched windows, fair mix of glazed and opaque surfaces that provide adequate natural light.
		Overall Aesthetics	Average with respect to background buildings, contextually appropriate.
	Structure/Systems	Likely smaller and older with less energy-efficient and controllable systems.	
Amenities	Unit Amenities/Design	Average quality finishes, layout conducive to compact lifestyle	

CoStar Building Rating System

RATING	GROUP	DEFINITION	
		but not necessarily an open floor plan.	
	Site Amenities	A few on-site shared facilities and spaces such as a Clubhouse/Party Room, Fitness Center, Business Center, Pool, Laundry Facilities, etc.	
	Site/Landscaping	Modest landscaping and likely small or no exterior spaces.	
	Certifications	Possibly a certified/labeled green and energy efficient building.	
★ ★	Architectural Design	Exterior Materials/Façade	Brick, stucco, EIFS, precast concrete, siding with noticeable aging.
		Fenestration/Glazing/Views	Small, seemingly inadequate windows.
		Overall Aesthetics	Average, functional.
	Structure/Systems	Purely functional.	
	Amenities	Unit Amenities/Design	Below average finishes, inefficient use of space.
		Site Amenities	Likely only one or no on-site shared facilities.
	Site/Landscaping	Minimal or no landscaping, no exterior spaces.	
Certifications	Unlikely a certified/labeled green and energy efficient building.		
★	Practically uncompetitive with respect to typical multi-family investors, may require significant renovation, possibly functionally obsolete.		