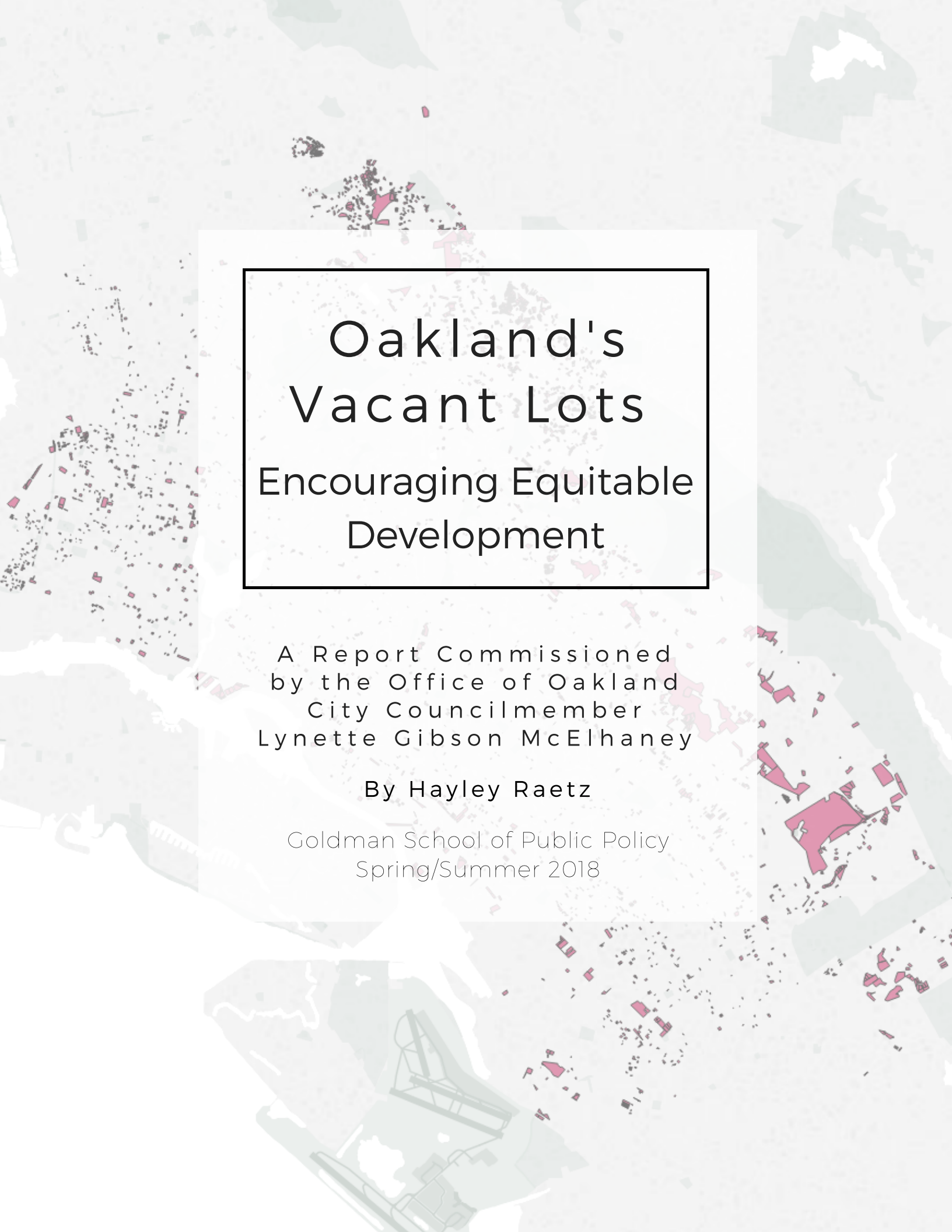


Oakland's Vacant Lots

Encouraging Equitable Development

A Report Commissioned by the Office of Oakland City Councilmember Lynette Gibson McElhaney

By Hayley Raetz

Goldman School of Public Policy
Spring/Summer 2018

TABLE OF CONTENTS

ACKNOWLEDGEMENTS

This report would not have been possible without the support of numerous individuals. I would like to thank Alex Marqusee for his constant support and astute feedback as my client contact throughout this process. I am also grateful to the Office of City Councilmember Lynette Gibson McElhaney for hosting this report, including the Councilmember herself, Chief of Staff Zac Wald, and Senior Constituent Liaison Brigitte Cook for their insight and effort in connecting me to key resources. I am thankful for the support of Terner Center for Housing Innovation, including Faculty Director Carol Galante, and to all the experts who graciously gave their time to be interviewed. Finally, I would like to thank Professor Steve Raphael for his thoughtful edits, guidance, and encouragement as my faculty advisor on this project.

EXECUTIVE SUMMARY

As property values skyrocket in Oakland, vacant parcels remain scattered throughout the City's neighborhoods and industrial areas. Even at the height of the building cycle, these parcels remain empty, filled with tall grass or paved over. Vacant parcels have been associated with lowered quality of life for nearby residents, negatively impacting mental health and offering opportunities for illegal dumping. Additionally, vacant parcels, if left unkempt, may lower the value of surrounding homes. Constituents of Oakland City Council District 3 highlighted these concerns to the client of this report, the Office of City Councilmember Lynette Gibson McElhaney, inspiring the following investigation into tools to encourage development on vacant parcels.

Interviews with 15 experts, including developers, architects, brokers, stakeholder group leaders, and city employees, illuminated an array of reasons why vacant parcels remain off of the market or fail to sell. Some parcels are physically less desirable, due to a challenging location or their irregular shape. In other cases, the owner's management of a parcel may complicate a sale. Owners may keep their parcels off of the market because they forgot about the parcel in a larger asset pool, the parcel ownership is shared and stakeholders cannot agree on its use, or they are tentative to work with developers or brokers due to inexperience in the market or their political views. In many cases, owners pay little in terms of property tax on their parcels due to state-wide restrictions regulated by Proposition 13. For those owners, it is easy to speculate on the value of their land: holding their parcel at low cost for long stretches of time until they can sell at their desired price. New impact fees may lengthen terms of speculation by limiting the amount developers can afford to pay for land, typically considered a residual development cost. Multiple factors like market forces, regulatory intervention, and the physical characteristics of the parcels often combine to keep parcels vacant.

In order to define the extent of the problem, I first analyzed public and agency data to identify, map, and characterize the vacant parcels in Oakland. I included surface parking lots in my data analysis because they are very similar to vacant parcels both in form and in their underutilization as space in an urban environment. Finally, I used this data to analyze two policy approaches to move more parcels into development: one a proposed vacant parcel tax, and the other a program streamlining permitting and lowering impact fees for vacant residential parcels. I consider the measures' relative efficiency as well as their impact on equity concerns, scrutinizing the parties who stand to benefit or be harmed as a result of each approach.

QUANTITATIVE FINDINGS

- This analysis draws on data from the Alameda County Assessor's Office and the City of Oakland to characterize and map the vacant parcels. The analysis found the following:

- There are about 4,000 vacant parcels in Oakland. These parcels are typically small in size and located in neighborhood areas.

- City Council District 3 houses the second highest number of parcels and the highest number of surface parking, normalized by the total number of parcels in the district. Close to 5% of both Community District 3 and 4's privately-owned parcels are vacant.

- The use codes tracked by the Assessor's Office illustrate that the vast majority of the vacant parcels are zoned for residential development, and 2,893 (or 71%) of the vacant parcels are zoned for four units or fewer.

- An analysis of the area of vacant parcels highlighted that the majority of these parcels are small in size. 60% of the vacant parcels were under 7,000 square feet, a parcel size typically suitable for a single family house or duplex. The distribution of vacant parcels towards smaller sites affirms the analysis that the majority of these parcels are zoned for four units or fewer.

POLICY ANALYSIS

ALTERNATIVE 1: PROPOSED VACANT PARCEL TAX

Oakland City Councilmember Rebecca Kaplan proposed the "Oakland Vacant Property Tax Act" this spring. The ordinance imposes a special parcel tax on vacant parcels and units in order to fund homeless services. The measure proposes charging owners an additional $6,000 per year for undeveloped parcels or parcels determined to house a vacant residential or nonresidential structure, and $3,000 per year for each vacant condominium or townhouse unit under separate ownership and for parcels with commercial activity allowed on the ground floor but left vacant.

A data analysis identified that 93% of the vacant parcels are currently taxed at $6,000 or less. Under the proposed parcel tax, 93% of owners will see their tax burden at least double, strongly incentivizing development or applying for an exemption. According to a randomized GIS buffer analysis, the City should expect no drop in service requests (and no subsequent city savings) related to vandalism, illegal dumping, or homeless encampments as vacant parcels become developed. However, the City of Oakland should expect to shoulder the administrative burden of identifying and tracking abandoned units. The cost of tracking parcels should be low: by drawing on tax assessor data the City could compile a list of vacant parcels.

This approach presents an equity concern: the blunt structure of the proposed vacancy tax could result in costs to the community. Due to the flat fee structure, the tax will affect individual owners with less income more acutely than wealthy individuals, trusts, or corporate owners. Data on primary ownership suggests that the majority of owners (57%) only hold one parcel. 75% of parcels are held by owners that own two or fewer sites. Unfortunately, this analysis likely overestimates levels of equity, because owners often spin out individual LLCs for each parcel in their possession. If some of the parcels are owned by families and individuals, a large increase in property tax could potentially burden owners with fewer resources to develop the parcel. Additionally, pushing individuals to sell quickly could lower their return for the land itself, and may undercut a key source of wealth for local individuals. The most recent version of the

ordinance allows for the City Council to draw zones and restrict the tax to parcels falling within those designated areas. While the zoning approach could be used to mitigate the blunt tax structure, varying the tax rate according to the size or zoning of each parcel would provide a more precise answer to equity concerns.

Alternative 2: Streamlined Permitting and Lowered Impact Fees

This alternative proposes creating a program for vacant residential parcels that would approve a set of plans as "by-right" development, cutting the time required to move through permitting processes. In addition, the City would waive or lower impact fees at the outset, allowing developers to spend more of their budget meeting the land owner's desired price, and instead set aside the resulting increase in property taxes for the same funding recipients as the fees. According to a case study pro forma analysis, such an approach would incentivize more development by allowing developers to meet the value of land while still delivering a competitive return on investment. At the same time, the city could recoup the present value of the fees over 12 or 14 years for a duplex and triplex, respectively. After the fees are repaid, the City would benefit in the long run from the increased property tax revenue. By lowering the obstacles to entry, by-right permitting would ideally encourage more owners to develop the parcels themselves.

This approach would address equity concerns by funding a transfer of wealth from developers to owners by cutting fee costs and trimming the development timeline. If there are smaller-scale owners with only one or two parcels to their name, it may be important to ensure that these owners can consolidate wealth for their family. However, this transfer of wealth through cutting fees and recouping the cost through increased property taxes may encounter significant political pushback, potentially rendering the approach infeasible.

Recommendation:

Both the vacant parcel tax and the streamlined approach will likely prove effective in moving smaller residential parcels into development. However, equity for landowners may present a concern. If the City is to fight vacancy while supporting the wealth gain of smaller landowners, Alternative 2 (streamlining permitting and lowering fees), is the strongest approach. If, as is likely, Alternative 2 proves politically infeasible, Oakland should consider marrying the alternatives while adjusting the structure of the vacant parcel tax. By combining the proverbial carrot with the stick, the City can soften the blow of a vacancy tax on small landowners and encourage housing development.

THE PROBLEM: VACANT PARCELS IN A STRONG MARKET

In the midst of a strong building market, many parcels in Oakland remain underdeveloped. Some sites lie vacant while others, such as flat parking lots, are not moving towards the full potential of the city's current zoning regulations. As a representative of City Council District 3, Councilmember Gibson McElhaney seeks to encourage the use of these underutilized parcels for the community good. Developing residential projects on empty parcels would mitigate the current housing crisis, while building in industrial zones could expand the local economy and employ more Oaklanders. This report investigates the issue of vacant and surface parking lots, quantifies the number of these parcels and their effect on the surrounding community, and explores feasible approaches to move parcels to higher use. By reviewing policy tools to encourage development, this analysis seeks to address the opportunity cost of leaving parcels vacant, such as lost tax revenue and lowered quality of life for neighborhood residents.

WHY VACANT PARCELS AND SURFACE PARKING?

This report considers vacant parcels and surface parking as subsets of underutilized parcels, and enumerates ways to improve the uses of such parcels. Underutilization as a concept, however, evades clear definition. Developers interviewed for this report posited that if the value of the land exceeds the value of the improvements on a parcel (such as structures, pavement, lighting, etc.) by a factor, the land could be understood as underutilized in that it represents a good candidate for redevelopment. Unfortunately, available data on the value of land and improvements requires significant cleaning to estimate current values. Under Proposition 13 in California, any annual increases in land values for property tax assessments are limited to a certain percentage of the value assessed at the time of sale or, if never sold, the 1975 value. Current data only provides the tax assessor's estimation of land value for tax purposes. Estimating the true market value of each parcel would require significant data manipulation, which fell outside of the scope of this investigation.

For scholars, underutilized land can simply refer to land currently not being put to its "highest and best use." The meaning of this term varies depending on one's perspective, however; a planner may consider the use of land to the greater community, focusing on mitigating negative externalities and expanding positive impacts. In contrast, the owner of a parcel may consider vacancy the best use in terms of lowering cost in a time when building may be infeasible for personal reasons.[1]

Due to data constraints, this report reviews vacant private parcels and commercial surface parking lots as subsets of underutilized parcels in Oakland. The full universe of underutilized parcels would likely include the sites of blighted properties and structures with less density than current zoning regulations.

[1] Mori, Alison. *Underutilized Land in Boston*. (Boston, Massachusetts Institute of Technology, 2004) 6-11.

IMPACT ON THE COMMUNITY

The data analysis focuses on vacant parcels and surface parking, which the Alameda County Tax Assessor's Office clearly defines in their use code for parcel level data. According to the Tax Assessor's Office, vacant parcels consist of parcels with no significant structures placed on them, typically a grass field.[2] Any use code with the term vacant was included as a vacant parcel for this analysis. Surface parking lots were coded as such in the data, and represent parcels used for parking without structures.

The City Councilmember's office highlighted vacant parcels as potential sites for code violations, such as illegal dumping, homelessness encampments, and graffiti. Research supports a connection between vacancies and dumping, and illustrates a potential impact on mental health. A Philadelphia survey found that residents of a neighborhood with vacant parcels and vacant homes associated the vacancies with a negative impact on their relationships with their neighbors, raised concerns about crime, and undermined the values of their own homes while increasing insurance costs. The survey also raised concerns about trash build-up, dumping, and related health concerns. Finally, participants highlighted the stigma that vacant parcels bring to a neighborhood, and individual mental health impacts such as anger, frustration, and sadness.[3]

If vacant parcels are sites of dumping, vandalism or other types of disorder, these nuisances could result in lowered community and individual well-being. A telephone survey of two large southeastern cities found that identifying less physical disorder in one's neighborhood was associated with reporting a higher quality of life.[4] Neighborhood disorder, broadly, has been linked to issues such as physical health,[5][6] substance use,[7] depression,[8] and perceived powerlessness.[9]

Research shows that vacancy is typically associated with lower values for neighboring homes. A 2008 study in Columbus, Ohio found that vacant properties (rather than vacant parcels) has a

---

[2] Alameda County Tax Assessor's Office, Interview by Hayley Raetz. March 2, 2018.
[3] Garvin, E., Branas, C., Keddem, S. et al. J Urban Health (2013) 90: 412. https://doi-org.libproxy.berkeley.edu/10.1007/s11524-012-9782-7
[4] Chappell, Allison T., Elizabeth Monk-Turner and Brian K. Payne. "Broken Windows or Window Breakers: The Influence of Physical and Social Disorder on Quality of Life" Justice Quarterly, 28:3 (2010): DOI: 10.1080/07418825.2010.526129
[5] Chaix, Basile. "Geographic Life Environments and Coronary Heart Disease: A Literature Review, Theoretical Contributions, Methodological Updates, and a Research Agenda" *Annual Review of Public Health* (2009) 30:1, 81-105.
[6] Hill, Terrence D., Catherine E. Ross, and Ronald J. Angel. "Neighborhood Disorder, Psychophysiological Distress, and Health" *Journal of Health and Social Behavior* (2005) 46: 2, 170 - 186. https://doi-org.libproxy.berkeley.edu/10.1177/002214650504600204
[7] Wilson, N., S. L. Syme, T. Boyce, V.A. Battistich, and S. Selvin. "Adolescent alcohol, tobacco, and marijuana use: The influence of neighborhood disorder and hope" *American Journal of Health Promotion*, (2005) 20:1, 11–19.
[8] Latkin, C. A. and A. D. Curry. "Stressful neighborhoods and depression: A prospective study of the impact of neighborhood disorder" *Journal of Health and Social Behavior* (2003) 44: 34–44.
[9] Geis, K. J., & C. E. Ross. "A new look at urban alienation: The effect of neighborhood disorder on perceived powerlessness" *Social Psychology Quarterly*, (1998) *61*(3), 232-246.

severe impact of the value of a nearby house (about $5,509 per proximate property), but only affected homes within a 500 foot radius., but that this impact lowers when including foreclosed properties in the model.[10] A 2012 study also found that vacant properties lowered the value of properties within 500 feet by between 1.6 and 2.8%, depending on the level of poverty in the neighborhood. Homes within 250 feet of a vacant property experienced a 2.1 to 3.5% decrease in value. The study found that if there were no vacant properties within 500 foot, sellers would gain between $4,800 and $12,500 more in sales price. The researchers theorized that vacancy lowers prices due to more housing on the market, as well as delinquent upkeep over time due to out-of-town ownership.[11] Little research exists on the impact of vacant parcels on surrounding home prices, however, while vacant parcels do not add to the current market supply of housing, they may act similarly to vacant properties by lowering neighborhood values due to delinquent upkeep. Vacant parcels can be understood as negatively impacting the lives of those who live around them, both in terms of quality of life and, theoretically, the value of homeowners' equity.

Obstacles to Land Development

If neighborhoods could benefit from developing underutilized parcels and owners could generate wealth from land sales or development, why have these parcels been left empty? In order to better answer this question, I interviewed 15 experts in the field, including leaders of stakeholder groups, developers, brokers, and city employees. Two issues consistently arose: the interaction of regulations and certain fees with the market, and characteristics of the individual parcel or seller.

Proposition 13, Zoning Speculation, and Fees

Proposition 13, expectations of zoning changes, and impact fees all work to disincentivize placing vacant parcels on the market. Proposition 13 came up consistently in interviews as limiting property taxes and enabling speculative practices in land ownership. Similarly, impact fees were highlighted as essentially lowering the amount of development funds available for land, making it harder to meet owners' expectations for sales. Finally, and to a lesser extent, some owners may expect a change in zoning on their parcel, and hold out for more lucrative windfalls in the future.

Proposition 13

According to interviewees, many owners leave parcels underdeveloped with the hope of selling to a developer and gaining a higher payoff at the height of the building cycle. This speculation may occur more frequently in California cities due to lowered opportunity costs under Proposition 13. In theory, landowners will wait for the value of land to rise as high as possible before they sell, hoping to time their sale with the crest of the building cycle when high demand and rents incentivize developers to pay more for land. Under a typical property tax structure, the cost of the tax increases with the market rate value of the land each year, further incentivizing

[10] Mikelbank, Brian A. "Spatial Analysis of the Impact of Vacant, Abandoned, and Foreclosed Properties," *Federal Reserve Bank of Cleveland*. (2008) 11.
[11] Whitaker, Stephan and Thomas J. Fitzpatrick. "The impact of vacant, tax-delinquent, and foreclosed property on sales prices of neighboring homes," *Federal Reserve Bank of Cleveland.* (2012) Working Paper 1123.

owners to sell the land as its value rises. However, under Proposition 13, the property tax may not exceed 1% of the value of a property (as assessed in 1975) and increasing by no more than 2% each year. The assessed value of property only increases to 1% of the market rate during a title transfer, so if an individual has owned a parcel for decades, they may be paying taxes on an assessed value much lower than the market rate.[12] With low tax rates, owners face a lower cost when compared to the relative benefit of selling land immediately, meaning a larger proportion of owners can afford to wait through multiple building cycles for land values to rise even higher.

For decades, Merchant's Parking Garage at 1314 Franklin Street in the midst of download Oakland, epitomized the story of owners underutilizing land and facing low property taxes. The 1.38 acre parcel was less than 500 feet from the 12 Avenue BART station, making it ideal for dense housing development, but instead it was the site of it a short, 3 level parking structure. [13]According to an interviewee, a number of families who owned businesses downtown bought the parcel and built the parking structure in the 1950s. While developers tried to buy it for decades, the families were able to make money on parking with relatively low ongoing costs, including property taxes. As land values rose and staff issues complicated the garage management, the younger generation decided to sell the parcel, giving developers 30 days to come in with their best offer in 2016. Now, Carmel Partners is constructing a 573 unit apartment project on the land, which will bring much needed housing to the transit-accessible location. The building will feature a doorman, bringing luxury to a location that may have hosted more affordable units if development costs, including the cost of land, were lower.[14]

Zoning Speculation

Land speculation can take many forms; while some owners simply wait for sales prices to raise high enough to support higher land prices, other bank on the hope that the city will change zoning designations to allow for more valuable types of development. For example, if an owner believes that the City of Oakland may consider changing zoning on their parcel from an industrial to a residential designation, they may wait to sell. In this case, the owner hopes a zoning change will allow them to sell at a higher price, as residential rents are higher than industrial rents. Similarly, owners may bank on the hope that the city will increase the zoned density for their parcel, increasing the potential number of units as well as the market value of their land. Proposition 13 helps facilitate this waiting game by lowering the cost of holding valuable land. Of course, these cases occur intermittently, and often on the margins of zones, where owners may have cause to expect or lobby for a zoning change.

[12] California State Board of Equalization. "California Property Tax" (2015). http://www.boe.ca.gov/proptaxes/pdf/pub29.pdf

[13] Brinklow, Adam. "So Long Oakland Parking, Hello Oakland's Newest Apartments?" *Curbed: San Francisco.* (2016) https://sf.curbed.com/2016/4/1/11347620/oakland-parking-garage-turns-apartments

[14] "Atlas" *Carmel Partners.* https://www.carmelpartners.com/property/atlas/

Impact Fees

Finally, rising development costs in the form of impact fees can lower the amount developers are able to offer for land, decreasing the rate of sales. In development finance, land values are considered a residual value, meaning that they are dictated by the remaining projected value of a project after less negotiable costs, like city fees and construction costs, are subtracted from the sales price. In order to build, a developer calculates the cost of building, the cost of city fees, the overhead needed to manage the development, and the profit necessary to repay investors at a competitive rate. The remaining value of the project represents the ceiling on what a developer can afford to pay for land. Many developers interviewed highlighted that increasing impact fees in Oakland resulted in restricting the amount they could afford to pay for land in the current market. If developers cannot charge higher rents, they must pay less for land. However, landowners often react to what is, in effect, the devaluation of their land by deciding to hold onto their parcels until the market prices rise even higher. Some of the phenomenon is behavioral: owners know the prices that others have received for their land, and want to match or beat that number. As impact fees rise, landowners hoard their parcels, fewer units are built, and rents and sales prices climb even higher in a hot housing market.

Despite disincentivizing effect of Proposition 13 and impact fees, experts noted that Oakland is experiencing high levels of development, particularly in the downtown area and on sizable parcels. A few developers noted that, while vacant parcels still exist, many of the prime vacant parcels and parking lots have recently begun the development process. While I was unable to access building records to determine the extent to which the building rate has increased in recent years, it is important to note that market forces at the crest of a building cycle are bringing many underutilized parcels into development. While laws like Proposition 13 may explain speculative activities in land ownership, as prices continue to rise, developers are increasingly able to offer owners sufficient incentive to sell.

Further Impediments to Development

Ownership Issues

Interviews identified idiosyncratic issues with ownership that can obstruct attempts at developing an underutilized parcel. Some owners may essentially forget the parcel in a pool of assets, or the parcel may be managed by a trust, where management and ownership are separated. In other cases, the owner may be emotionally tied to the idea of owning land, particularly if they or their family historically faced systemic discrimination such as redlining. Some owners hope to develop the parcel themselves, but lack access to the resources necessary to make that a reality. Others may be relatively unfamiliar with the development process, and daunted by the prospect of negotiating an agreement with a developer.

Problem Parcels

In other cases, the obstacle to development arises from the physical characteristics of the parcel itself. A few of the parcels mapped in this analysis are irregularly shaped and not ideal for the

zoned usage. Other parcels are poorly located, covering a steep incline on the side of the Oakland hills or directly next to a large highway. The characteristics of these parcels make them less ideal for development, perhaps perpetuating their vacancy status.

Certain issues increase costs for developers, which may prove prohibitive to development on a less valuable parcel. Environmental hazards raise development costs in terms of cleaning the site. One developer noted that most parcels in Oakland include some form of contamination. In riskier or more severe cases, the developer may request indemnity protections, requiring that the landowner leave a certain amount of the sale in escrow to be used in case clean-up costs surpass a set amount. These stipulations can disincentivize owners to sell. In addition, if a parcel is relatively small, the cost of clean-up may overwhelm the smaller potential profit, essentially rendering a project infeasible.

Tax defaulted and properties with liens often present their own challenges to development. Liens on a parcel due to unpaid taxes or fees may not present a problem if the parcel itself is valuable: the developer can cover the cost with a profit margin. Indeed, a developer noted that their company may look for owners with liens because it signifies financial difficulty and a potential interest in selling. However, on a smaller property with less development capacity, the projected sales may not cover the cost of development as well as the lien. Some parcels carry liens so extreme that they leave even more desirable parcels infeasible. Hello Housing, a nonprofit organization, worked with the City of Oakland and Alameda County to purchase 26 tax defaulted homes and vacant parcels in Chapter 8 sales. Some of the parcels had liens up to $350,000, which were vacated by the County when Hello Housing paid about $13,500 for each property with an agreement to build affordable housing for households earning at or below 120% of the area median income (AMI). Hello Housing took an innovative approach to tax defaulted properties, renewing blighted and vacant properties with new homes. However, they chose the parcels from an initial pool of about 76 tax defaulted properties, reducing their risk by focusing on parcels that presented few legal complications.[15] There still exist tax defaulted vacant properties in Oakland, where liens present a key obstacle to development.

VACANT PARCELS AND SURFACE PARKING: CHARACTERISTICS

In order to understand the impact of vacant parcels and surface parking, this project begins by quantifying, mapping, and characterizing these parcels. Recent research covers the topic of abandoned structures in some detail: a 2017 UC Berkeley study estimated that Oakland currently contains 540 abandoned private properties, based on tax default, code enforcement, and garbage service data.[16] Less is known, however, about the current number of vacant and surface parking in Oakland. A 2013 study used GIS and aerial analysis to locate 3008 privately owned vacant

[15] Jennifer Duffy - Hello Housing. Interview by Hayley Raetz. February 9, 2018.
[16] Stetson, Nancy. "The Empty Houses of Oakland: Assessing the Extent and Effect of Property Abandonment" *Goldman School of Public Policy, UC Berkeley* (2017) 18.

parcels, totaling 864 acres of land.[17] In 2015, SPUR Oakland focused on the downtown area of Oakland, conducting an analysis of satellite imagery which found more than 40 acres of flat parking and vacant parcels which would support 9,500 new housing units under current zoning.[18] This research updates and expands prior analyses to determine the number of vacant parcels as well as surface parking lots in the city of Oakland.

Data Analysis

Sources and Limitations

Assessor's Office Data

Alameda County Tax Assessor data includes use codes that identify the current use of each parcel. By pulling every parcel with a use code that included the term "vacant," it was possible to identify vacant parcels, and the data specified a code for surface parking. Merging the secured tax roll data with data sets for primary ownership, parcel location, and the parcel shapefiles created a robust and geolocated dataset.

Some of the vacant parcels had very high assessed improvement value; upon review, these parcels were identified as the site of construction or newly completed projects. The Alameda County Tax Assessor's Office explained that these high values and development on parcels marked as vacant may be due to the date of the dataset itself. The Assessor's Office releases the tax roll once annually, and only changes the use code once the local building department contacts them to confirm that development is complete.[19] As such, significant cleaning of the dataset was conducted, resulting in the removal of all vacant parcels with improvement values over $100,000, and a visual check of parcels with improvement values between $10,000 and $100,000 to ensure that they were free of significant development.

Oakland Data

Geolocated data from the City of Oakland on the City's boundaries allowed the researcher to separate the Oakland parcels from those in the rest of the county. City Council District shapefiles were merged with the dataset in order to identify the districts of the parcels of interest. Finally, 2017-2018 service requests relating to vandalism, illegal dumping, code enforcement, and homeless encampments were cleaned and mapped for a buffer analysis.

[17] McClintock, Nathan , Jenny Cooper, and Snehee Khandeshi,
"Assessing the potential contribution of vacant land to urban vegetable production and consumption in Oakland, California" *Landscape and Urban Planning*, (2013) Volume 3. 46-58,
https://doi.org/10.1016/j.landurbplan.2012.12.009.
[18] "A Downton for Everyone," *SPUR Oakland*, (2015) 18,
http://www.spur.org/sites/default/files/publications_pdfs/SPUR_A_Downtown_for_Everyone.pdf
[19] Alameda County Tax Assessor's Office, Interview by Hayley Raetz. March 2, 2018.

Planning Data

The Oakland Planning Department contributed updated zoning data, as well as shapefiles for impact fee zones, both of which were merged to the main parcel dataset in GIS.

Findings:

Vacant Parcels and Surface Parking Lots

A data analysis of vacant parcels clarifies where vacant parcels are clustered within Oakland, and characterizes them as typically smaller in size and zoned for lower density residential development.

Location

A few large parcels stand out when all vacant parcels within the city are mapped (Figure 2). Some of these parcels are currently on the City Oakland's list of Active Major Project Development Proposals (such as 8750 Mountain Blvd). However, the vast majority of vacant parcels are small and situated within City Council Districts 4, 3, and 1, or West Oakland, North Oakland, and the Oakland hills. A data set of 4,048 vacant parcels were merged with parcel shapefile, resulting in 3,986 mapped vacant parcels. A number of parcels were lost due to duplicates within certain parcel shapes and differing projected coordinate systems. The vacant parcels are typically small and located in neighborhood areas. Larger parcels in the hills may be left vacant due to difficult terrain or limited infrastructure. There are only 306 privately owned surface parking lots, and many of them are located in downtown and West Oakland (Figure 3).

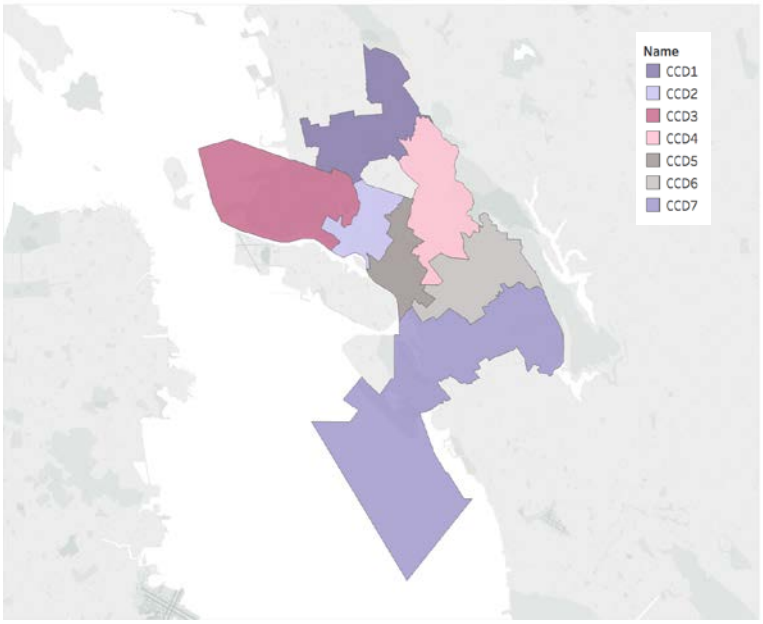


Figure 1: Oakland City Council Districts (CCD)

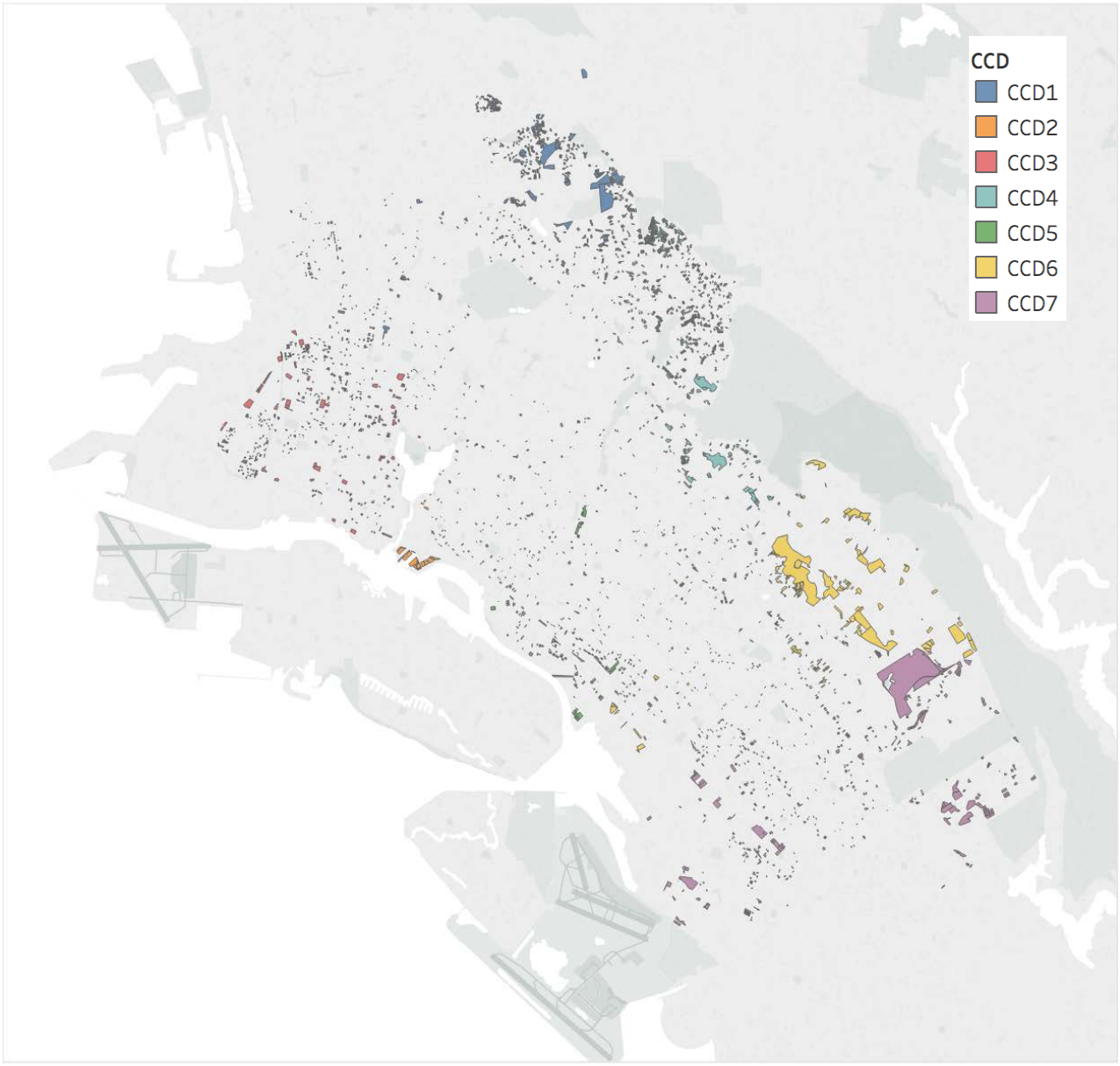


Figure 2: Vacant Parcels in Oakland

Figure 3: Surface Parking Lots in Oakland

City Council District 3 houses the second highest number of parcels and the highest number of surface parking, normalized by the total number of parcels in the district. About 5% of both Community District 3 and 4's parcels are currently vacant. .9% of Community District 3's parcels are surface parking lots (Figures 4 and 5)

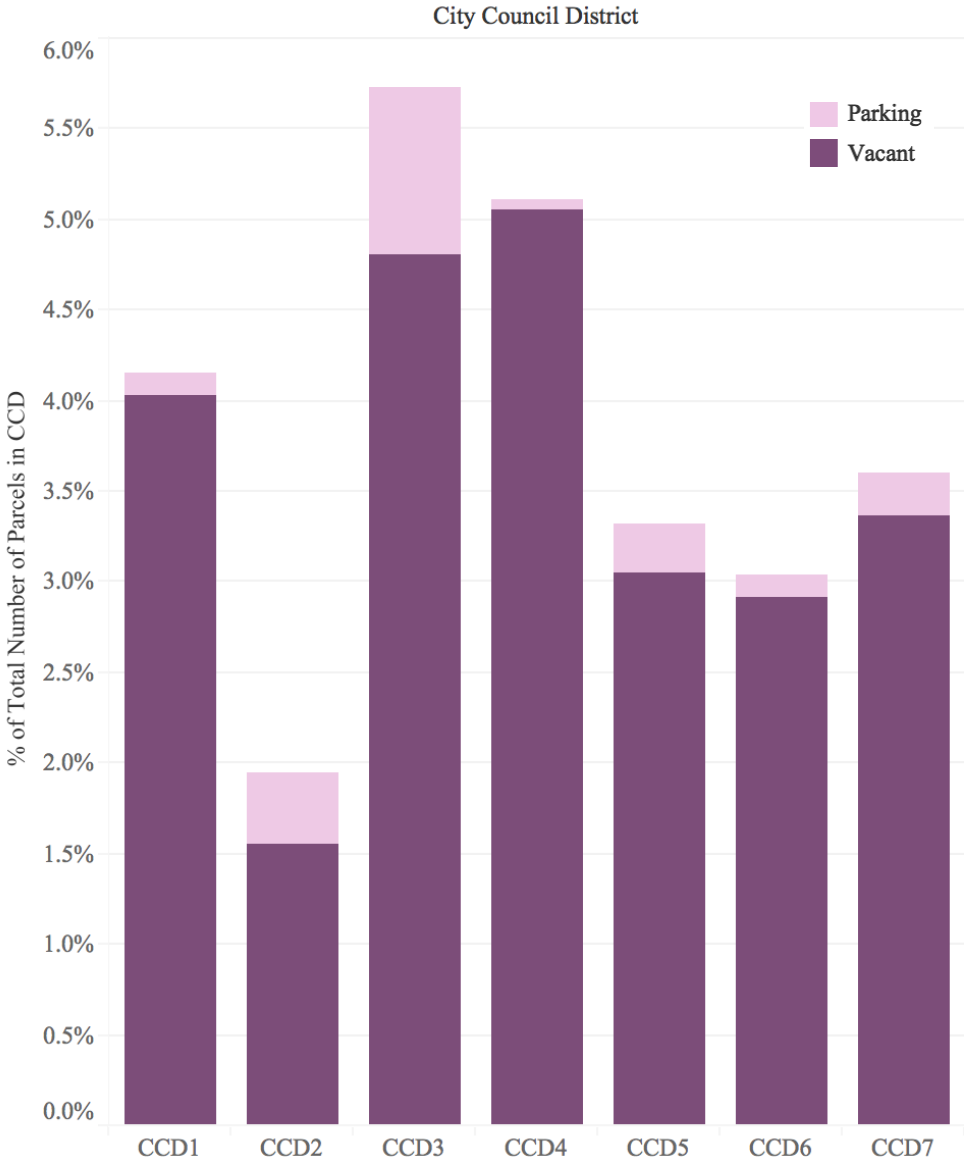


Figure 4: Vacant and Parking Lots as a Percentage of Total Number of Parcels in City Council District

City Council District

Parcel Use	CCD1	CCD2	CCD3	CCD4	CCD5	CCD6	CCD7
Other	95.85%	98.06%	94.28%	94.89%	96.68%	96.97%	96.40%
Parking	0.12%	0.39%	0.92%	0.06%	0.27%	0.12%	0.24%
Vacant	4.03%	1.56%	4.81%	5.05%	3.05%	2.92%	3.36%

Figure 5: Table of Vacant and Parking Parcels as a Percentage of Total Number of Parcels in City Council District

USE TYPE

The use codes tracked by the Assessor's Office provide insight into the zoning designations of the vacant parcels. The data illustrates that the vast majority of the vacant parcels are zoned for residential development, and 2,893 (or 71%) of the vacant parcels are zoned for four units or fewer (Figure 6).

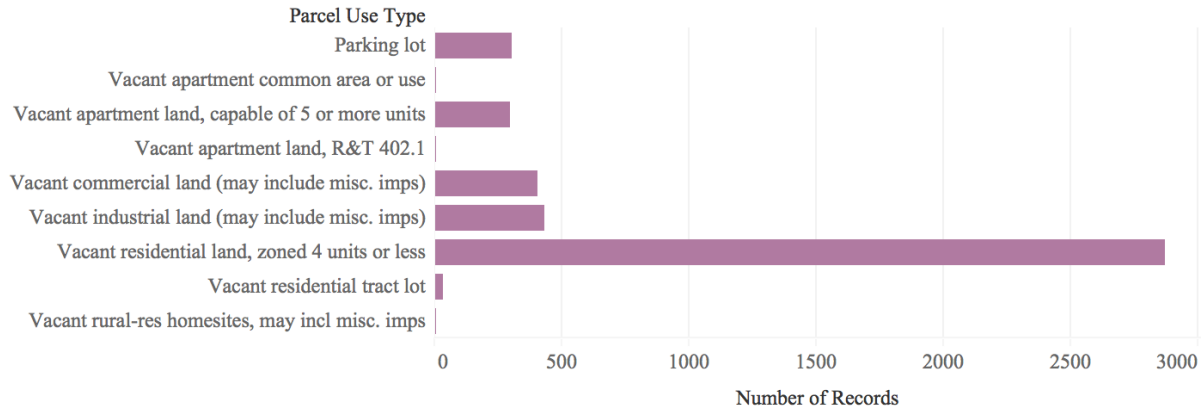


Figure 6: Number of Vacant Parcels by Use Type

Parcel Type	
Vacant apartment common area or use	1
Vacant apartment land, capable of 5 or more units	297
Vacant apartment land, R&T 402.1	3
Vacant commercial land (may include misc. imps)	405
Vacant industrial land (may include misc. imps)	434
Vacant residential land, zoned 4 units or less	2871
Vacant residential tract lot	34
Vacant rural-res home sites, may include misc. imps	3

ZONING AND IMPACT FEE ZONES

In 2016, Oakland began levying impact fees on developers of new projects. These fees go to fund affordable housing, capital improvements, and transportation projects for the City, under the rationale that new development expands the infrastructure needs of the community. In order to mitigate the impact of these fees on development rates, the City stepped up the fees over 3 years, and adjusted the amounts by region. A economic

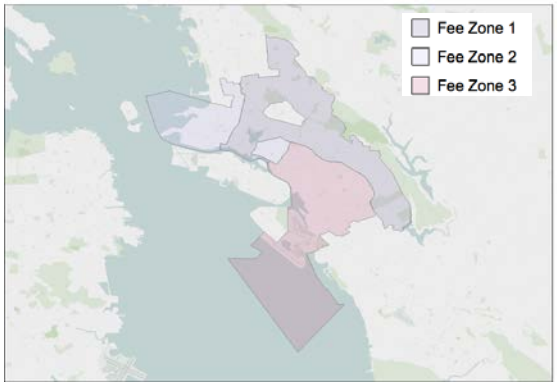


Figure 7: Oakland Impact Fee Zones

feasibility report defined zone 1 as a location that could shoulder higher fee rates and still support a steady stream of development, due to the higher value of developments in the area. The housing markets in fees zones 2 and 3 are weaker, therefore the fees are lower in magnitude. The impact fees are substantial, however: beginning in July of this year they will range from $3,000 per unit for single family or townhomes in zone 3 (stepped up to $10,000 in 2010) to $28,000 per single family home built in zone 1. A recent paper by the Terner Center for Housing Innovation found that per-unit fees on a in 20-unit single family development would constitute 11% of the home's value from 2012-2017. [20]

The majority of vacant and parking lots are located in impact fee zone 1, the most expensive fee zone in the city. Their location in that zone may create challenges in moving the lots into development (Figure 8).

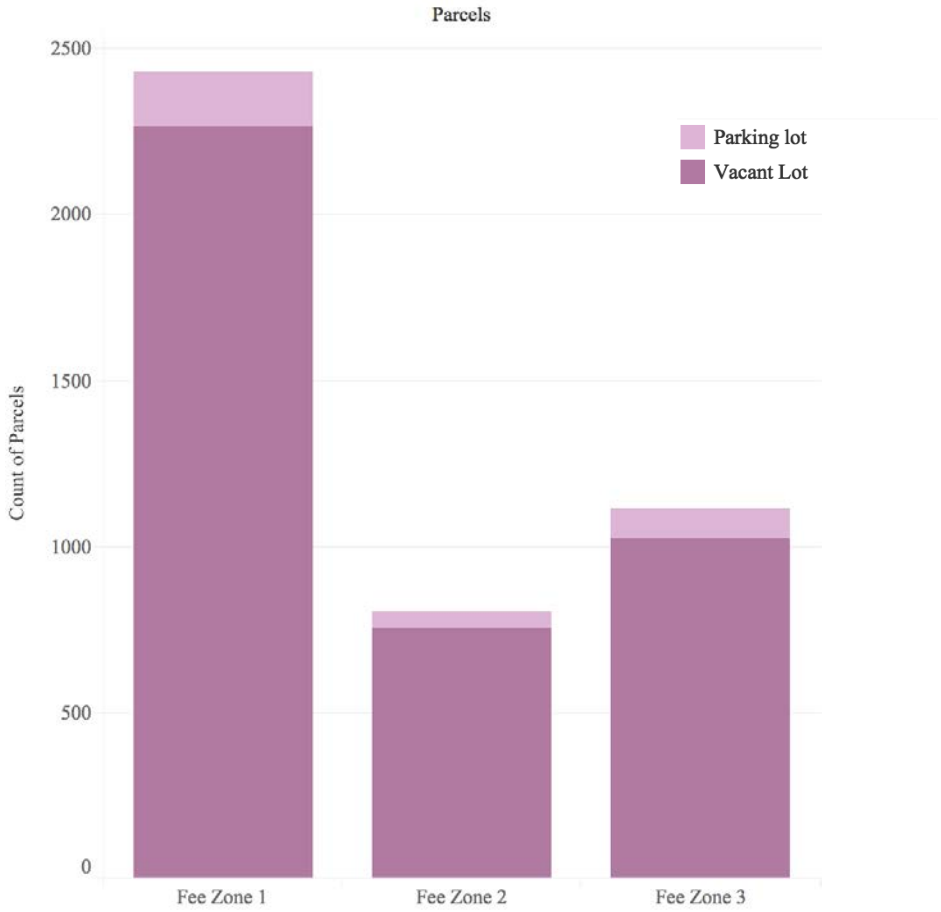


Figure 8: Vacant and Parking Parcels by Impact Fee Zone

[20] Mawhorter, Sarah, David Garcia, and Hayley Raetz. "It all adds up: The Cost of Housing Development Fees in Seven California Cities" *Terner Center for Housing Innovation, UC Berkeley.* (2018). 21.

Area

An analysis of the area of vacant parcels highlighted that the majority of these parcels are relatively small in scale. The median area of a vacant parcel was 5,939 square feet. 60% of the vacant parcels were under 7,000 square feet. For comparison, 95% of single family homes sold in the Western US in 2016 sat on parcels under 7,000 square feet. 75% of vacant parcels fell at 10,000 square feet or less, and 90% measured 20,000 square feet or less. The distribution of vacant parcels towards smaller sites suitable for single family homes or townhomes reinforces the analysis that the majority of these parcels are zoned for four units or less. The distribution includes a significant tail, with a few outlier parcels measuring over a million square feet.

Policy Analysis

This report considers three solutions with potential to move vacant parcels and surface parking lots to higher use. Each alternative is presented and considered according to the following criteria:

1. Efficiency - This analysis will consider the estimated costs and benefits of each approach to the city and its residents.
2. Effectiveness - We will also review the capacity of each approach to move the highest number of vacant parcels into a higher use, bringing more value to the community.
3. Feasibility - This report will consider the probability of successfully implementing the proposed approach within existing city structures.
4. Equity - We will review the ability for each approach to improve social equity in neighborhoods, including the potential to foster or deter gentrification, to expand access to housing, and to improve quality of life for communities that have historically been under resourced and experienced systemic discrimination.

Policy Alternatives

1. A Buyer's Market: The Parcel Tax on Vacant Properties

Proposed Vacancy Tax

In the spring of 2018, Oakland City Councilmember Rebecca Kaplan proposed the "Special Parcel Tax on Vacant Properties". The ordinance imposes a special parcel tax on vacant parcels and units in order to fund homeless services. The measure proposes charging owners an additional $6,000 per year for vacant parcels and parcels with vacant residential or nonresident structures, and $3,000 per year for each vacant condominium or townhouse under separate ownership, as well as parcels with ground floor commercial activity allowed but left vacant.

Parcel Type	*Tax Rate*
Vacant Parcel (Undeveloped)	$6,000 / parcel
Parcel with Vacant Condominium, Duplex, or Townhouse Unit Under Separate Ownership	$3,000 / vacant unit
Vacant Residential or Nonresidential Parcel (developed)	$6,000 / parcel
Parcel with Ground Floor Commercial Activity Allowed but Vacant	$3,000 / parcel

The ordinance would deem vacant any parcel that has not been in use for at least 50 days per year. In the case of properties with condominiums or townhomes, the tax would apply to each vacant unit under separate ownership. For other parcels with multiple units, the tax would only apply if all units are vacant. This report, however, focuses on the impact of the tax on vacant parcels, which are defined by the ordinance as any parcel with "no permanent improvements." The undeveloped parcels would be taxed if in use for less than 50 days in the year. Unfortunately, the proposed City Council resolution does defines "use" somewhat vaguely, as "the performance of a function or operation," making it challenging to conduct a precise analysis.[21]

Revenue from the tax will support an array of homeless services including navigation centers, sanitation, and rental assistance. In her statement, the Councilmember noted that City staff estimated that Oakland currently houses about 5,000 vacant properties. The measure effects properties noted as vacant for over a year, and the City initially estimated that, if approved, the measure could raise $20 million in tax revenue in 2020.[22]

The resolution outlines a number of important exemptions to the tax in her resolution. First, the resolution allows for a number of financial exemptions, including if the tax would create a "financial hardship due to specific circumstances" for the owner.[23] Owners falling below a "very low income" level as defined by the US Department of Housing and Urban Development (HUD) would also be exempt. Owners over 65 years of age may exempt themselves from the tax if they qualify as "low income" under HUD definitions.[24] Other exemptions include owners receiving Supplemental Security Income for a disability, or owners receiving Social Security Disability Insurance while earning an income at or below 250% of the 2012 federal poverty guidelines.

The resolution also provides an exemption for owners "whose property is vacant as a result of a demonstrable hardship that is not financial," leaving the definition of "demonstrable hardship" open. Equally opaque is the exemption for owners "who can demonstrate that exceptional

[21] Oakland City Council. *Draft City Council Resolution (2932066.12)* Oakland: 2018.
[22] Tadayon, Ali. "Oakland council to consider vacant property tax ballot measure" *East Bay Times* (2018) https://www.eastbaytimes.com/2018/03/06/oakland-council-to-consider-vacant-property-tax-ballot-measure/
[23] Oakland, *Draft Resolution*.
[24] U.S. Department of Housing and Urban Development. "FY 2018 Income Limits Summary" (2018). https://www.huduser.gov/portal/datasets/il/il2018/2018summary.odn

specific circumstances prevent the use or development of their property" which will be further defined in a separate City Council ordinance. Non-profit owners, owners with an active building permit, and owners with a "substantially complete application for planning approvals" are also exempt from the tax.

The ordinance allows the City Council to create new exemptions or to further define the exemptions via additional ordinances. In addition, the City Administrator will designate an entity to create the processes for reviewing owner applications for exemptions from the tax. [25]

Historical examples of similar taxes provide some insight on the potential effects of and obstacles to implementing the tax. These examples show that while similar approaches proved effective, voters should weigh the administrative burden imposed by a vacancy tax.

Land Value and Vacancy Taxes

Many localities, including several in Pennsylvania, rely on a land value tax, which taxes the value of the land at a higher rate than the value of improvements on the land. Under a land value tax structure, municipalities lower the tax on improvements (therefore incentivizing development) while increasing tax rates on the value of land (theoretically evading an impact of building activity, promoting efficiency and economic development). In theory, this approach could lower housing prices, increase density, and create positive externalities such as job growth as the economy expands.[26] Of course, such a structure works best in a strong building market; if demand for new development lags, the potential to benefit from lowered improvement taxes also wanes. This approach has impact: in 1979 Pittsburgh taxed vacant land at 6 times the rate of non-vacant land, and saw a 70% increase in building permits over 10 years (a 15-city average decreased by 14% over the same time).[27] Other localities that have implemented land value taxes include Hawaii (phased out), and New London, Connecticut.[28]

There are significant obstacles to implementing a land value tax in California. The rate relies on an updated land value assessment, which estimates the purchase price of the land if it were to be put to the "best possible use."[29] Unfortunately, this approach would likely be illegal under Proposition 13, as it would essentially amount to an ad valorem tax on the property.

Washington, DC

Washington DC implemented a new property tax class in 2011, which increased the tax for vacant property from 85¢ to $5 for every $100 of the land's assessed value. Blighted parcels are

[25] Oakland, *Draft Resolution*.
[26] Dye, Richard F. and Richard W. England. "Assessing the Theory and Practice of Land Value Taxation" *Lincoln Institute of Land Policy*. (2010) 18. https://www.lincolninst.edu/sites/default/files/pubfiles/assessing-theory-practice-land-value-taxation-full_0.pdf
[27] Haas, Astrid R.N, and Mihaly Kopanyi. "Taxation of Vacant Urban Land: From Theory to Practice" *International Growth Centre.* (2017) 11. https://www.theigc.org/wp-content/uploads/2017/07/201707TaxationVacantLandPolicyNote_Final.pdf
[28] Dye. "Assessing the Theory" 15.
[29] Haas, "Taxation of Vacant Urban Land" 11.

subject to a $10 per $100 tax, almost 12 times the rate for ordinary parcels. In 2016, the increased rates accounted for a $9.4 million increase in revenue, and an increase in development. However, the city reported instances of owners filing for building improvements and then failing to build, ostensibly in order to avoid paying the elevated tax rate.[30] A 2017 Act increased the fine for tax noncompliance, and limited the length of exemptions to one year for residential projects and two years for commercial development.[31] Other issues arose from identifying and tracking vacant parcels; a 2017 report by the Office of the District of Columbia Auditor found that the Department of Consumer and Regulatory Affairs improperly granted exemptions, failed to send notices of infraction and notices following inspection, and failed to exact fines, resulting in an estimated loss of $1 million in annual revenue. [32]

Costs of The Proposed Vacancy Tax in Oakland

Community Costs

The blunt structure of the proposed vacancy tax could result in considerable costs to the community. Due to the flat fee structure, the tax will affect individual owners with less income more acutely than wealthy individuals, trusts, or corporate owners. According to the data analysis, 71% of vacant parcels are zoned for residential developments of four units or fewer. Indeed, 60% of the parcels are under 7,000 square feet, meaning that they are smaller parcels best suited for smaller developments. Given their size and zoning designation, these parcels are less valuable, decreasing the likelihood that the majority of these parcels are owned by corporations or other investors. In theory, large financial entities would be more attracted to investing in parcels with a strong potential to provide a return on investment, such as large, centrally located, high density residential parcels.

[30] Povich, Elaine S. "Can Extra Taxes on Vacant Land Cure City Blight?" *Pew Charitable Trusts.* (2017). http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2017/03/07/can-extra-taxes-on-vacant-land-cure-city-blight

[31] Council of the District of Columbia. *B21-0598 - Vacant Property Enforcement Amendment Act of 2016*. DC: (2016). http://lims.dccouncil.us/Legislation/B21-0598?FromSearchResults=true#

[32] Office of the District of Columbia Auditor. *Significant Improvements Needed in DCRA Management of Vacant and Blighted Property Program*. DC: (2017) http://www.dcauditor.org/reports/significant-improvements-needed-dcra-management-vacant-and-blighted-property-program

An analysis of ownership supports the narrative of smaller-scale owners of vacant parcels (Figure 9). Data on primary ownership suggests that the majority of owners (57%) only hold one parcel. 75% of parcels are held by owners that own two or fewer sites. A review of owners with 10 or more parcels shows some owners are nonprofit entities. A Lorenz curve visualizes the equity of parcel ownership by plotting the distribution of lots to owners against a one-to-one ratio; the further the line of ownership curves outwards, the more parcels are concentrated in a few individuals' hands. The curve reveals a relatively equitable distribution (see Appendix, Ownership Analysis: Lorenz Curve).

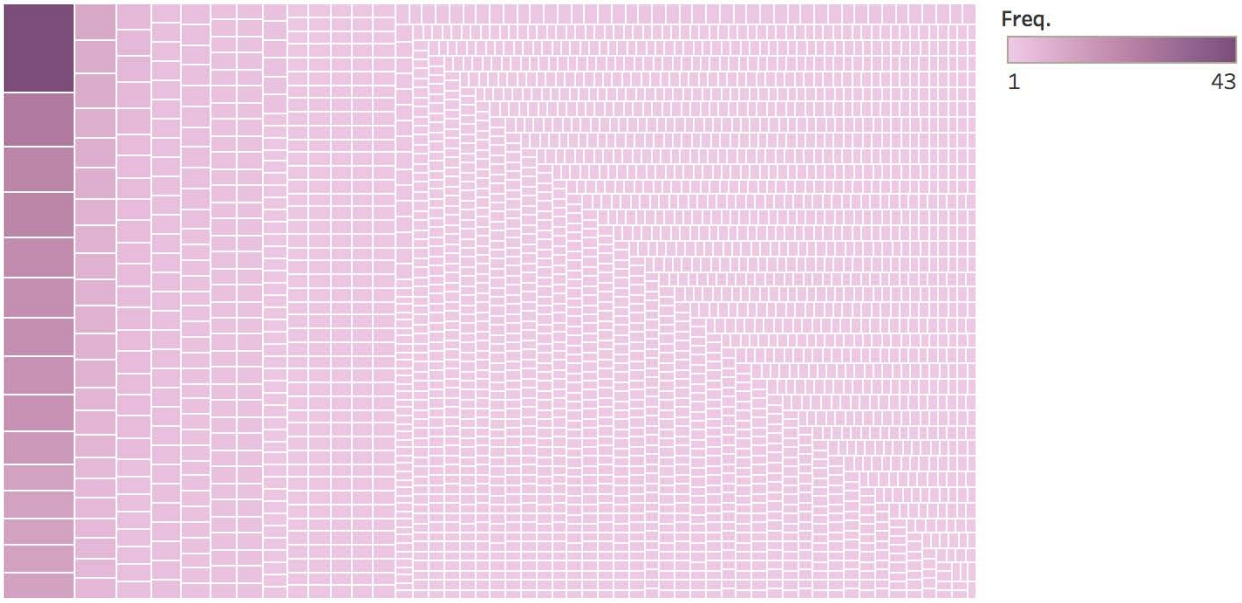


Figure 9: Number of Vacant Lots per Listed Owner

Unfortunately, this analysis likely overestimates levels of equity, in that owners often spin out individual LLCs or entities for each parcel in their possession in order to isolate liability. Despite repeated attempts, I was unable to contact parcel owners, which limited my ability to determine their demographic characteristics in more detail.

Depending on the demographics of parcel ownership, a large increase in property tax could potentially burden individuals with fewer resources to develop their parcels or less knowledge about selling their land on the market. Additionally, pushing individuals to sell quickly could lower their return for the land itself, and may undercut a key source of wealth for local individuals. If a key criteria for analysis is equity, the city should consider the fact that this tax may burden individuals and families. In addition, City Council District 3, which includes West Oakland and a significant Black community, houses more than its share of vacant parcels. Communities that were systemically excluded from wealth generation may be incentivized to place vacant parcels on a weaker market in the wake of the vacancy tax, resulting in lower gains than they would expect on the current market.

City Costs

Costs to the City of Oakland include the administrative burden of identifying and tracking abandoned units. Tracking abandoned parcels should be relatively low cost: by drawing on tax assessor data and satellite imagery, the City could draft a list of vacant parcels and their owners. These parcels could be visually checked via a satellite imagery service by a City employee. Alternatively, the City could follow the example of Vancouver, British Columbia, and send out a citywide survey to the owner of every parcel in the tax roll requesting a declaration of property status.[33] The vacant property list could be updated with building permit records. As the Washington, DC case study showed, updating the list, property inspections, and checking exemptions impose a substantial administrative burden for a city.

Benefits

If the city implemented the tax under the present circumstances with no lag time or exemptions, it would expect to collect about $24.4 million in tax revenue from vacant parcels alone. Of course, the City should expect a number of parcels to develop in the intervening years and an additional portion of parcels to apply for exemptions.

A data analysis showed that the City should expect no drop in service requests as vacant parcels become developed. In her resolution, the Councilmember highlighted community concerns that vacant parcels could be hot spots for vandalism and illegal dumping. In order to test if developing vacant parcels would lower service calls for these concerns, and in so doing, lower costs to the city, the researcher drew 50 foot buffers around Oakland's vacant parcels and overlaid a year of service request calls (March 2017 to March 2018). A matching number of non-vacant and non-surface parking lots were randomized at the city council district level, and treated with 50 foot buffers (see Appendix, Buffer Analysis). The spatial analysis returned a null finding, with developed parcels generating more service requests per parcel than vacant parcels.

Service Request Rates are Similar Between Vacant and Developed Parcels

Service Request Type	Requests per Vacant Parcel	Request per Developed Parcel
Code Enforcement	0.09	0.18
Graffiti/Vandalism	0.05	0.19
Homeless Encampment	0.02	0.03
Illegal Dumping	0.89	1.51

[33] City of Vancouver, British Columbia. *Vacancy Tax By-Law No. 11674*. Vancouver: (2017). http://bylaws.vancouver.ca/11674c.PDF

The data implies that the City should not expect service requests or other code enforcement costs to decrease as vacant parcels move into development. However, the null finding may be due to bias in the form of data collection. Residents call in the SeeClickFix data, and they may be more likely to notice or take action and call in concerns on parcels that are inhabited. Similarly, residents in better-resourced neighborhoods, where parcels are less likely to remain vacant, may tend to call in more requests due to a more positive relationship with the city and code enforcement officials, more expendable time, or other reasons correlated with wealth.

Effectiveness in Developing Parcels

A data analysis identified that 93% of owners of vacant parcels (3,084 individuals) will pay $6,000 or less in property taxes in tax year 2017-2018 (see Appendix, Property Tax Analysis). Under the proposed vacancy tax, these owners will see their taxes double, and in many cases more than double. 97% of parcels would be taxed at an increase of 50% or more. Such a marked rise in the tax rate should incentivize owners, particularly lower-wealth and non-institutional owners, to develop their parcels or apply for a tax exemption. Unfortunately, there is not a lot of information available on the elasticity of land sales with respect to property tax in Oakland. More information on owners' responsiveness to tax would allow us to calculate a more precise estimate of parcel turnover in the wake of a vacancy tax.

Improvements to the Proposed Measure: Equity and Implementation Concerns

Tax Structure

The flat structure of the vacancy tax is a clear weakness in terms of the equity of the proposed measure. If the City Council chooses to implement tax zones, the may be able to target the zone location such that the tax falls on wealthier owners or more valuable parcels. However, the structure of the tax rate remains regressive, impacting individual owners with less wealth more acutely than wealthy individual or institutional owners. The financial hardship exemptions are very important in ensuring that the tax is implemented in the most equitable form possible. The exemptions cover the lowest-income groups: owners who are very low-income are exempt, as well as owners above 65 years who are low income, and those who are collecting SSI for disability or SSDI with an annual income at or below 250% of the 2012 federal poverty level ($27,925 annually for a household of one).[34] Of course, these exemptions cover the lower income populations in our society; middle income families could be affected by an additional tax totaling $6,000. The lower one's income, the more each dollar is valued. Therefore, a $6,000 tax will act as a stronger incentive for lower-income individuals falling outside of the exemptions to sell their land.

While California property tax law makes it difficult to tax parcels according to their market value, the size of the parcel, its zoned floor area ratio (FAR), or the parcel location by region

[34] US Department of Health and Human Services. *2012 HHS Poverty Guidelines.* ASPE: (2012). https://aspe.hhs.gov/2012-hhs-poverty-guidelines

could act as rough proxies for value. By breaking the tax into brackets based on one or more of the listed measures, the City could moderate the vacancy tax by the value of the land. Another approach would be to implement the tax so that more parcels fall under the tax each year. The tax could begin with the more valuable brackets; for example, by setting a size floor for parcels and lowering it every few years, or by including more regions each year. Either approach should more accurately disincentivize land speculation while easing the burden on smaller scale owners or owners who hesitate to sell for personal reasons. This could reduce the equity concerns inherent in a flat tax structure.

DEFINITIONS

In order to understand the true impact of the measure, and for the measure to function effectively, several terms need to be defined in more detail. The term "use," and a few exemptions remain unclear.

Determining what constitutes use will be a vital question for the city to determine. The proposal currently defines the term as "performance of a function or operation," which allows for some variance in interpretation. In terms of effectiveness, the term should be defined in a way that will allow the tax to incentivize the movement of vacant parcels to a higher use. In this way, it should be narrowly defined and restrict typical loopholes, such as paving the parcel at a low cost and offering parking. At the same time, the city must consider the efficiency of the measure, and the ease with which it will be able to monitor the use of a parcel. Uses will likely need to be documented and submitted to the city for review, which restricts the definition of "use" to documentable activities. Given that the city currently contains close to 4,000 vacant parcels, reviewing documentation and issuing inspections could result in a sizable administrative burden for the city. The definition of "use" should also reflect a commitment to equity, considering how proscribed uses may unfairly impact certain groups in the community.

The remaining financial exemption, for owners "for whom the payment of the tax [...] would be a financial hardship due to specific factual circumstances" also could benefit from a closer definition. A similar concern exists with the exemption for "a demonstrable hardship that is not financial." Determining what constitutes a specific financial hardship or a demonstrable non-financial hardship will in many ways shape the equity of the bill as well as its feasibility for implementation.

2. A SELLER'S MARKET: STREAMLINED PERMITTING AND LOWERED FEES

An alternate proposal would be to streamline permitting and lower or exempt impact fees for developments built on currently vacant residential parcels in Oakland. The City could set up a program under which developers could use pre-approved plans to fast-track approvals on vacant parcels zoned under for four or fewer units. Oakland has made some progress in speeding permitting processes; including completing several specific plan EIRs, which speed the environmental review process of projects in the plan areas. In 2016, the Mayor's Office released an approach to encouraging housing, "Oakland at Home," which recommended creating by-right

development designations for certain types of projects. These projects would be automatically approved if they met the current standards, and would not need to go through a public approval process.[35] However, the City of Oakland's Planning Code currently only designates emergency shelters as by-right.[36] By pre-approving a set of plans for residential projects with four or fewer units on vacant parcels, the City would essentially deem those projects by-right development and substantially speed the approval process.

Streamlining permitting lowers costs for developers or owner-developers by shortening the amount of time needed to hold a construction loan, shrinking interest payments. In addition, it would lower the risk of the development timeline expanding for unforeseen complications in the approval process such as public opposition to a project. The risk of an extended timeline and associated cost increases are particularly daunting to owner-developers, who have little to no experience with the process and may have less resources to cover contingencies. Streamlining could help smaller-scale developers build on their own land, perhaps partnering with a small developer or architecture firm to build a duplex or triplex on their parcel.

In addition, the city could waive impact fees on those new residential developments on vacant parcels, opting instead to dedicate a matching amount of the increase in property tax (triggered by the new construction) to the current impact fee beneficiaries: affordable housing, capital improvements, and transportation. In this way, the City could encourage development by lowering initial costs, and earn more revenue on the developed parcels in the long-run.

Other localities have used aspects of this approach to jump-start desirable types of development. These examples show that pre-approved plans and fee waivers are easily implementable and hold potential to encourage dense, single family development in infill parcels.

Pre-approved Plans

Cities like Portland and Seattle have implemented pre-approved plans to encourage infill development on empty parcels. As part of the "Living Smart: Big Ideas for Small Lots" program, Portland selected plans through a competitive process to create design catalogs which are downloadable for free from the city's website. The plans have already passed life, safety, and structural reviews. If the developer maintains the exterior of the plans and purchases building permits, the City guarantees plan approval. If the interior changes, the development architect must approve the changes.[37] The city organizes preapproved designs by zoning designation and parcel size, enabling a range of development. The designs encourage density, ranging from a "house-plex" of two homes, to "cottage clusters" of four, to townhomes and row houses.[38] In

[35] "Oakland At Home: Recommendations for Implementing A Roadmap Toward Equity From the Oakland Housing Cabinet" *City of Oakland, Enterprise.* (2016) 33.
[36] *Oakland Planning Code*. City of Oakland: (2017). http://www2.oaklandnet.com/oakca1/groups/ceda/documents/report/oak061640.pdf
[37] US Department of Housing and Urban Development. *Portland, Oregon: Living Smart Program*. https://www.huduser.gov/portal/casestudies/study_101711_1.html
[38] City of Portland, Oregon. *Infill Design*. https://www.portlandoregon.gov/bps/34024

Seattle, the Kings County "residential basics" program catalogs plans as they pass approval, allowing developers to reuse their own plans with no additional plan review or review fee.[39] This approach primarily benefits large scale developers who are building several projects of a similar type within the County.

Exempt Fees

Portland also fostered success by exempting fees for accessory dwelling unit (ADU) development. The City hoped to increase density in its neighborhoods by encouraging families to build ADUs in the yards of single family homes. In order to encourage this development, the city relaxed regulations regarding minimum square footage, owner occupancy, garage conversions, onsite parking, short term rentals, building design, and setbacks. They also launched an public education campaign and waived system development charges (SDCs) for the units. SDCs are development impact fees levied by Portland for transportation, environmental services, parks, and the water bureau. These fees average about 7% of the cost of new construction, and the ratio can rise for smaller developments like ADUs. One ADU owner highlighted the importance of waiving these fees; noting that they would have cost them an additional $10,000-$15,000 on a project that cost $30,000 in total.[40] The waivers and regulatory changes proved effective: between 2010, when the fee exemption was first implemented, and 2016, the number of ADUs built in Portland increased by over 600%.[41]

Costs

The key cost to the City and the community would be the loss of impact fees on the vacant residential parcels, which go towards the key services of affordable housing, transportation, and capital improvements. The loss could range from $3,000 to $28,000 per parcel, depending on the construction type (single family, townhome, multifamily) and impact fee zone. As shown in the descriptive analysis, the majority of vacant parcels fall under fee zone 1, where fees vary from $24,000 for a multifamily or townhome unit to $28,000 per single family unit. If all the vacant residential parcels identified in this analysis as zoned for four or fewer units were developed with an impact fee waiver, the City of Oakland would lose between $55 and $63 million (under the 2018 fee amounts). However, if impact fees are slowing development, fewer projects are being developed and the potential cost of waiving the fees would be less than that figure. An additional cost would be Oakland's investment in sourcing a range pre-approved plans. This would be a one-time cost, however, with the potential to increase ongoing tax revenue for the City by increasing development.

---

[39] Department of Permitting and Environmental Review. *Residential Basics Program*. King County: (2017). https://www.kingcounty.gov/~/media/depts/permitting-environmental-review/dper/documents/forms/Residential-Basics-Program-pdf.ashx?la=en

[40] Chapple, Karen, Jake Wegmann, Farzad Mashood, and Rebecca Coleman. "Jumpstarting the Market for Accessory Dwelling Units" *Terner Center for Housing Innovation*. (2017). http://ternercenter.berkeley.edu/uploads/ADU_report_4.18.pdf

[41] Bureau of Development Services. *Accessory Dwelling Units*. Portland, Oregon: (2016). https://www.portlandoregon.gov/bds/index.cfm?a=68689

A secondary consideration is the potential cost to quality of life from "cookie-cutter" or similar developments throughout the city. This cost could be mitigated through approving a number of different designs. Additionally, the vacant parcels are distributed throughout neighborhoods such that it would be unlikely to see repetition of one design on the same block.

Benefits

While it remains difficult to predict the pace of parcel turnover with these changes, interviews with developers clarify that, in many cases, impact fees can increase the overall price of development beyond what is financially feasible with current housing prices. In these cases, development slows until prices rise to a point where developers can cover the cost of construction, fees, and offer a value for land that will satisfy land owners. In theory, if the city were to lower development costs by shortening review periods, reducing risk through certifying pre-approved plans, and lowering or waiving impact fees, the city should see a sharp increase in development. This development would lead to reassessment of the parcels under Proposition 13, and substantially increase property tax revenues for Oakland, allowing the City to recapture the revenue from impact fees.

Pro Forma Analysis

A case study pro forma analysis (see Appendix, Pro Forma Analysis) for a duplex and triplex development on a 7,500 square foot parcel show how impact fees lower the return on investment, potentially compromising access to development financing.

The costs were based on conversations with a developer-architect in Oakland, and represent high level estimations that attempt to reflect current market costs. Under this analysis, the net present value of a $1.8 million investment in a duplex would amount to close to $205,000, or an 11% return on investment over a two year development period. This falls below the average annualized return on the S&P 500 between 1973 and 2016 of about 12%. In other words, an owner or developer may struggle to find a funding source for a development with a return close to the typical financial market return and higher associated risks of development: swings in housing prices and potential scheduling increases. Without impact fees, the net present value of the return on investment outstrips the financial market average at 14%, or close to $251,000. This level of return may be enough to convince developers to take on a project. When paired with by-right approval, this approach lowers the scheduling risk for developers, ideally speeding construction and providing more assurance of an on-time delivery.

If a developer were to build a triplex on the parcel, they would just clear a 12% return on investment, totaling close to $250,000 in net present value profit over approximately two years of development. However, if impact fees were excluded from the cost, the deal becomes more attractive, totaling a 15% return on investment, or $319,000. A developer or owner-developer would see a higher return on their time and effort.

According to the pro forma case study, the City of Oakland could recoup the cost of waived impact fees over a maximum of 14 years for a triplex. If the parcel was not sold, but kept by the original owner and rented, the property tax would be reassessed for the value of the improvements alone, the land value would remain assessed at the original purchase price. Considering the value of the home while subtracting the value of the land provides the lower bound of the increase of property value for the parcel. A sample of parcels from the vacant parcel list averaged a property tax rate of 1.35%; as Oakland receives 26% of the property tax,[42] the City could recoup the waived impact fees through increased property taxes for the duplex over 12 years, and the waived fees for the triplex over 14 years. This increased revenue would continue to flow to the city after the waived fees are recouped, representing a secure expansion of Oakland's tax base.

By selecting pre-approved plans that prioritize the highest density of current zoning, Oakland could increase housing density and contribute to much needed housing supply. If an average of two homes were built on each of the currently vacant parcels zoned for four units or less, Oakland would add almost 5,800 new residences. Many of these residences would be mid-sized and oriented towards family use, providing an alternate housing type from the dense multifamily developments proliferating through Oakland.

As previously discussed, the city should not expect any savings from a change in code enforcement activities due to increased levels of development. However, vacant parcels have been shown to produce negative outcomes in terms of health, quality of life, and other community factors. By promoting development of these parcels, Oakland can stimulate more housing development while the city increases its tax revenue.

Effectiveness in Developing Parcels

The pro forma analysis seems to suggest that waiving impact fees would allow more projects on vacant parcels to prove profitable, primarily by meeting the expected returns of land owners. Lowering or waiving fees should encourage development on vacant parcels by expanding the financial envelope to fund land costs as well as achieve a competitive rate of return on investment. Unfortunately, the case study approach does not allow the researcher to suggest a rate of turnover.

Equity Concerns

Since the benefits of the lowered impact fees will flow to both the landowner in the form of the land sale and the developer in terms of a higher profit margin, the equity of this proposal depends on the characteristics of each of those groups. The ownership analysis described in the first policy alternative seems to imply that vacant parcels are relatively well distributed through different owners, with just a few larger-scale owners with many parcels. If those owners are local individuals with fewer assets, than improving their ability to sell their parcel and gain some

[42] *Fiscal Year 2015-2017 Proposed Policy Budget*. City of Oakland: (2015), E-69.

familial wealth would be a relatively equitable outcome. However, if owners are often using LLCs , the ownership analysis will overestimate equity in ownership, and similarly, the equitable outcome of this proposal. The same logic applies to evaluating the impact of the developer on equity concerns. If the developer is a larger institutional firm, some of the increased profit from lowering impact fees will flow into those firms. However, if owners are able to develop on their own, or partner with local small-scale developers for fee development or profit sharing, then we could consider the outcome to be more equitable in that individuals with less familial wealth are able to generate income. This concern about equity could limit the political feasibility of this alternative, as lowering impact fees could be framed as primarily benefiting developers.

AFFORDABLE HOUSING PROGRAMS

Research should be conducted into potential structures for affordable housing programs on vacant, low-density residential parcels. As previously discussed, the affordable housing organization Hello Housing was able to purchase tax defaulted vacant and blighted parcels in Oakland at $13,500 each and build single family homes that were affordable to own for families earning up to 120% of AMI. Unfortunately, the pro forma analysis conducted for this paper relies on compensating owners for the full value of their properties. Although any affordable program would be exempt from impact fees, those savings would not be sufficient to lower housing prices to affordable levels, even when paired with streamlined permitting. However, future research could dig deeper into using funding sources like the HOME funding program at the US Department of Housing and Urban Development to subsidize an affordable home ownership program utilizing vacant parcels.[43]

3. LOWER THE COST OF INFORMATION

When asked about barriers to development, a few developers highlighted the high cost of information on vacant and underutilized parcels, as well as current development projects. The City of Oakland could revitalize the list of blighted properties and compile and release a list of vacant properties. This list would allow developers to more easily find owners of underutilized sites and contact them. The city could rely on tax data in order to establish an initial inventory of parcels, and increase precision by using satellite imagery to visually inspect the parcels, coordinating with the building department to update current uses, and perhaps crowdsourcing data. Both a vacancy tax and a streamlined permitting process will require the city to develop a list of vacant parcels; with very little additional cost, the city could post the list online and update it regularly.

In addition, Oakland should update the list of current development projects. The list of major development projects dates back to the summer of 2017. The Planning Department does a better job of updating current zoning and planning applications, but files each application by week in individual PDFs on their website. These could easily be compiled and translated to a more

[43] U.S. Department of Housing and Urban Development. *HOME Investment Partnerships Program.* (2016). https://www.hud.gov/program_offices/comm_planning/affordablehousing/programs/home

interactive format for the public. Development information aids developers in understanding the current production landscape, and in so doing, lowers risk for new projects.[44] By posting current projects, Oakland can encourage development that better fits the current market demand.

POLICY RECOMMENDATION

This paper reviews the impact of two different approaches to encouraging development on vacant parcels: one which creates a buyer's market and one which creates a seller's market. The former, a vacant parcel tax, could prove very efficient at developing parcels by taxing land owners to encourage them to sell their land. However, if the parcels are owned by individuals and families with fewer resources, the blunt structure of the approach could imperil their ability to generate wealth from a key asset. The latter approach, streamlining permitting processes and lowering or waiving impact fees to encourage development on vacant parcels, would give small developers a wider financial envelope to pay for land or empower owners to develop the land themselves. Streamlining and lowering fees would prove efficient and could result in more equitable outcomes for owners.

Streamlining permitting and lowering or waiving impact fees on low-zoned vacant residential parcels would efficiently move empty parcels to a higher use. A pro forma analysis implies that impact fees can bring certain developments below a market rate of return, potentially dissuading developers, investors, or owners from committing to developing projects, an endeavor that is already high risk. By providing pre-approved plans and lowering fees, Oakland can lower the risk of a project getting caught in an extended permitting process while lowering potentially prohibitive development costs, effectively incentivizing development.

At the same time, the program would lower key barriers to entry for owners to develop their own land, perhaps allowing them to generate more wealth. Even if they chose to sell, lowering impact fees would allow owners to earn closer to the value of the land before the imposition of the fees. If these vacant parcels are truly widely dispersed between a large number of smaller-scale owners, than lowering fees would empower those individuals to generate income for their families from a key asset. Streamlined permitting and lowered fees would answer an equity concern by allowing owners of the vacant parcels to achieve greater returns on a key asset.

While some might argue that lowering fees would represent a loss of revenue for the city, it follows that if fees are so high that development stalls, there will be few developers paying the fees on these low-density parcels. Alternatively, Oakland could recoup the full amount of impact fees in a little over a decade while encouraging much-needed residential development. By committing to set aside the gains in property taxes on newly developed parcels for the same

[44] Planning and Building. *Planning and Zoning*. City of Oakland: (2018). http://www2.oaklandnet.com/government/o/PBN/OurOrganization/PlanningZoning/index.htm

funds as the impact fees, the City would continue to subsidize public needs and consolidate sources of ongoing revenue.

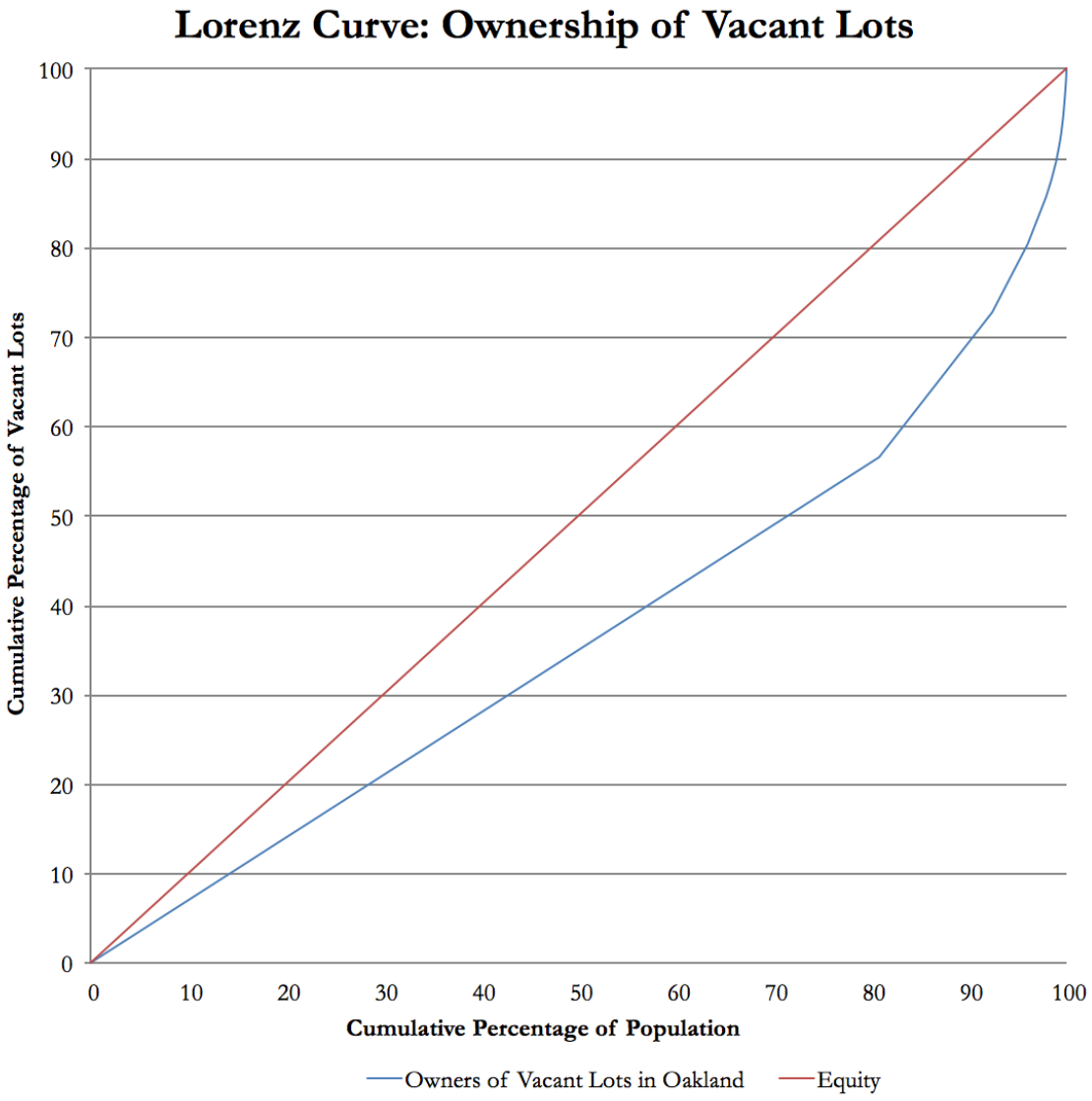
Political feasibility presents the key obstacle to implementing the second policy alternative. It may prove impossible to lower or waive impact fees in the current political climate. It is the hope of the researcher that this program would encourage smaller owners to develop their own land, either individually or in partnership with a developer, and reap greater gains from their effort. However, if this approach does prove politically infeasible, perhaps it can be married to a version of the vacant parcel tax. Ideally, Oakland would vary the amount of the tax according to a proxy for land value, such as the size or zoning of each parcel, to mitigate equity concerns. Combining the alternatives would both incentivize and enable owners to sell their land at a stronger market rate or to build on their land themselves, providing much needed housing supply in an equitable manner.

APPENDIX

ADDITIONAL MAP

VACANT PARCELS IN WEST OAKLAND

OWNERSHIP ANALYSIS: LORENZ CURVE



BUFFER ANALYSIS

The detailed results of the buffer analysis, including the count of each service request code category found within a 500 foot radius of the vacant and developed parcels, are displayed below. In only one category, "Illegal Dumping (report from SeeClickFix)", do service requests per Vacant Parcel outpace requests per developed parcel. During merging in GIS, some randomized developed parcels were not able to be mapped cleanly onto parcel shapes, leading to slightly different parcel counts between the two groups. However, this issue was likely random, and should not skew the findings in a meaningful way. The consistent findings of lower numbers of service requests per vacant parcel as compared to developed parcel suggests that vacant parcels are not, in fact, epicenters of code enforcement activity.

Code Category	Count in Vacant Parcels	Per Vacant Parcel	Count in Developed Parcels	Per Developed Parcel
Code Enforcement	368	0.090	670	0.176
Graffiti - Advertising (posters, signs, etc.)	1	0.000	61	0.016
Graffiti - Other/Complex Issue	2	0.000	6	0.002
Graffiti (report from SeeClickFix)	15	0.004	31	0.008
Graffiti in a Park	16	0.004	76	0.020
Graffiti on a City Building (Library, Rec Center)	9	0.002	18	0.005
Graffiti on OTHER	11	0.003	80	0.021
Graffiti on Private Property	29	0.007	48	0.013
Graffiti on Street Litter Container	6	0.001	16	0.004
Graffiti on Street, Street Light, Traffic Signal,	90	0.022	312	0.082
Graffiti on Traffic Paint	2	0.000	13	0.003
Graffiti on Traffic Sign(s)	19	0.005	80	0.021
Homeless Encampment	88	0.022	113	0.030

Illegal Dumping _ green waste	32	0.008	74	0.019
Illegal Dumping _ mattress/boxspring	528	0.130	978	0.257
Illegal Dumping - debris, appliances, etc.	2880	0.707	4505	1.182
Illegal Dumping - Vehicle Cleanout for OPD	16	0.004	11	0.003
Illegal Dumping (Enforcement Potential)	91	0.022	134	0.035
Illegal Dumping (report from SeeClickFix)	53	**0.013**	46	0.012
Illegal Dumping/Litter - Other/Complex	12	0.003	20	0.005
Park - Vandalism	0	0.000	1	0.000
Grand Total	**4268**	**1.048**	**7293**	**1.914**

PROPERTY TAX ANALYSIS

I estimated the property taxes for the universe of vacant parcels in Oakland by taking 1.3486% of the total assessed value of each parcel (as reported by the Alameda County Tax Assessor's Office). The 1.35% property tax rate was based on reviewing the property tax rates of a random sampling of parcels from the vacant parcel dataset.

The Property Tax on Most Parcels Falls Below $10,000

Estimated Annual Property Tax ($)	Count of Vacant Parcels
0 - 2,000	3,211
2,000 - 4,000	456
4,000 - 6,000	137
6,000 - 8,000	76
8,000 - 10,000	42
10,000 - 12,000	34
12,000 - 14,000	10
14,000 - 16,000	10
16,000 - 18,000	10
18,000 - 20,000	6
20,000 - 22,000	8
22,000 - 24,000	2
24,000 - 26,000	6
26,000 - 28,000	6
28,000 - 30,000	5
>30,000	52

PRO FORMA ANALYSIS

The case study for this pro forma is based on negotiations surrounding developing a parcel in West Oakland that a smaller-scale architect-developer described in an interview. The size of the parcel, costs, and estimated sales price all come from the specific case and interview and do not represent the full universe of development for vacant parcels in Oakland. The cost of Planning/Building Fees and EBMUD fees were based both on an estimate from the developer-architect and a 2015 Analysis of Housing Constraints by the City of Oakland.[45] The Impact Fee Costs are taken from the 2018 amounts for Fee Zone 1,[46] since 68% of vacant parcels are located in the zone, as well as the specific case study considered.

Pro Forma Analysis - Duplex on 7,500 SQ FT Parcel

USES OF FUNDS	WITH IMPACT FEES		WITHOUT IMPACT FEES	
	Total Units	2	Total Units	2
COSTS	Permanent	Per Unit	Permanent	Per Unit
LAND	$ 300,000	$ 150,000	$ 300,000	$ 150,000
CONSTRUCTION	$ 1,000,000	$ 500,000	$ 1,000,000	$ 500,000
PERMITTING/BUILDING FEES	$ 50,000	$ 25,000	$ 50,000	$ 25,000
EBMUD FEES	$ 48,000	$ 24,000	$ 48,000	$ 24,000
ZONING	$ 10,000	$ 5,000	$ 10,000	$ 5,000
IMPACT FEES	$ 48,000	$ 24,000	----	----
ARCHITECTURE	$ 80,000	$ 40,000	$ 80,000	$ 40,000
SURVEY	$ 15,000	$ 7,500	$ 15,000	$ 7,500
STRUCTURAL ENGINEER	$ 10,000	$ 5,000	$ 10,000	$ 5,000
CIVIL ENGINEER	$ 15,000	$ 7,500	$ 15,000	$ 7,500
SOIL	$ 5,000	$ 2,500	$ 5,000	$ 2,500
GREEN BUILDING	$ 5,000	$ 2,500	$ 5,000	$ 2,500
CARRYING COSTS	$ 100,000	$ 50,000	$ 100,000	$ 50,000
PROJECT CONTINGENCY	$ 100,000	$ 50,000	$ 100,000	$ 50,000
TOTAL DEVELOPMENT COSTS	**$ 1,786,000**	**$ 893,000**	**$ 1,738,000**	**$ 869,000**
SALES PRICE	$ 2,000,000.00	$ 1,000,000.00	$ 2,000,000.00	$ 1,000,000.00
RETURN ON INVESTMENT (ROI)				
Other OH/PROFIT	$ 214,000.00	$ 107,000.00	$ 262,000.00	$ 131,000.00
% OH/PROFIT	11%	11%	13%	13%
NET PRESENT VALUE OF RETURN*	$ 204,685.53	$ 102,342.76	$ 250,596.30	$ 125,298.15
% ROI	11%	11%	14%	14%
COST AS % OF PROFIT	12%	12%	15%	15%

CITY OF OAKLAND FINANCIALS	
Increase in Property Value	$ 1,700,000
Increase in Annual Property Tax	$ 18,900.0
Net Property Tax Gain/Year - Oakland	$ 4,914.00
Years Needed to Cover Impact Fees*	**$ 11.15**

**assuming 2.25% interest rate*

[45] "Housing Element of 2015: 6. Analysis of Constraints to Housing." City of Oakland: (2015). http://www2.oaklandnet.com/oakca1/groups/ceda/documents/policy/oak051098.pdf

[46] "Summary of Oakland Impact Fees" City of Oakland: (2016). http://www2.oaklandnet.com/oakca1/groups/ceda/documents/report/oak059846.pdf

Pro Forma Analysis - Triplex on 7,500 SQ FT Parcel

USES OF FUNDS	WITH IMPACT FEES		WITHOUT IMPACT FEES	
	Total Units	3	Total Units	3
COSTS	Permanent	Per Unit	Permanent	Per Unit
LAND	$ 300,000	$ 100,000	$ 300,000	$ 100,000
CONSTRUCTION	$ 1,250,000	$ 416,667	$ 1,250,000	$ 416,667
PLANNING/BUILDING FEES	$ 50,000	$ 16,667	$ 50,000	$ 16,667
EBMUD FEES	$ 72,000	$ 24,000	$ 72,000	$ 24,000
IMPACT FEES	$ 72,000	$ 24,000	----	----
ARCHITECTURE	$ 120,000	$ 40,000	$ 120,000	$ 40,000
SURVEY	$ 22,500	$ 7,500	$ 22,500	$ 7,500
STRUCTURAL ENGINEER	$ 15,000	$ 5,000	$ 15,000	$ 5,000
CIVIL ENGINEER	$ 22,500	$ 7,500	$ 22,500	$ 7,500
SOIL	$ 7,500	$ 2,500	$ 7,500	$ 2,500
GREEN BUILDING	$ 7,500	$ 2,500	$ 7,500	$ 2,500
CARRYING COSTS	$ 100,000	$ 33,333	$ 100,000	$ 33,333
PROJECT CONTINGENCY	$ 100,000	$ 33,333	$ 100,000	$ 33,333
TOTAL DEVELOPMENT COSTS	**$ 2,139,000**	**$ 713,000**	**$ 2,067,000**	**$ 689,000**
SALES PRICE	**$ 2,400,000.00**	**$ 800,000.00**	**$ 2,400,000.00**	**$ 800,000.00**
RETURN ON INVESTMENT (ROI)				
Other OH/PROFIT	$ 261,000.00	$ 87,000.00	$ 333,000.00	$ 111,000.00
% OH/PROFIT	11%	11%	14%	14%
NET PRESENT VALUE OF RETURN*	$ 249,639.83	$ 83,213.28	$ 318,505.99	$ 106,168.66
% ROI	12%	12%	15%	15%
COST AS % OF PROFIT	12%	12%	16%	16%
RENTAL FINANCIALS				
Annual expenses	$ 32,085.00		$ 32,085.00	
Rent	$ 101,376.00		$ 101,376.00	
Net Income	$ 69,291.00		$ 69,291.00	
CAP RATE	3%		3%	

CITY OF OAKLAND FINANCIALS	
Increase in Property Value	$ 2,100,000
Increase in Annual Property Tax	$ 24,300.0
Net Property Tax Gain/Year - Oakland	$ 6,318.00
Years Needed to Cover Impact Fees*	**13.31**

**assuming 2.25% interest rate*