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Does the Los Angeles region have too many vacant homes?

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Data Resources

The Lewis Center provides a list of data available across our research areas for students and stakeholders to conduct their own analysis and answer pressing questions about the Los Angeles region and beyond. For those interested in performing their own vacancy data analysis, we have published population and housing counts, vacancy rates, and vacancy characteristics for all metropolitan and micropolitan statistical areas in the U.S. for 2018. This data can be found at: lewis.ucla.edu/southern-california-data-resources/ and is titled “Vacancy Data for U.S. Metropolitan/Micropolitan Areas.”

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Abstract

In recent years, vacant homes have increasingly been identified as a potential indicator of speculation or otherwise underutilized housing stock. Recently constructed market-rate and mixed-income housing, in particular, has been cast as villain in this debate, with relatively high vacancy rates taken as a sign that this type of housing isn't needed. Using Los Angeles as a case study, this working paper explores the nature, extent, and causes of housing vacancy, and draws conclusions about what should be done about vacant homes in high-cost locations like L.A. Analyzing multiple data sources with varying jurisdictional boundaries, I find that Los Angeles vacancy rates rank among the lowest in the nation, and are lower today than they were for most of the past 15 years. The types of vacancies in the city and metro area ("market" and "non-market" vacancies) also appear in similar proportion to other jurisdictions. And, accounting for the lease-up periods of newly constructed buildings, vacancy rates in the booming neighborhood of Downtown Los Angeles are similar to those of the rest of the city. It is suggested that proposals such as vacancy taxes may achieve modest reductions to vacancy, but will do little to address the needs of overcrowded households, super-commuters, or future generations, among others.

Business Now Booming for Apartment Owners

Population Growth in Valley Catches Up With Construction as Vacancies Drop

Source: *Los Angeles Times* (June 24, 1962)

Compared to historical trends, the city of Los Angeles has built a relatively small number of new homes over the past decade -- roughly 100,000 units since 2010, compared to an average of nearly 200,000 per decade from 1940 to 1990 (**Figure 1**, below). Despite this, some argue that the city and broader region are building too much housing, particularly for higher-income households. The number of vacant homes is pointed to as evidence for this claim, noting, for example, that the city of L.A. has more vacant homes than homeless residents. Is this argument valid, or not? What does the presence of vacant homes mean for housing policy in the region?

First, some background: The debate around vacancy boils down to a question of whether high vacancy rates are good or bad. Economists, planners, and academics mostly agree that low vacancy rates are good for landlords, allowing them to take their pick of tenants and increasing their leverage for lease negotiations. Conversely, high vacancy rates are good for renters because they provide more housing options and increase competition amongst landlords. Experts suggest vacancy rates above 5% to be an indicator of a tenant-friendly housing market, although equilibrium or “natural” vacancy rates vary from place to place. Academic research has found, both theoretically and empirically, that deviations below this “natural” vacancy rate lead to more rapid rent growth (Igarashi, [1991](#); Rosen & Smith, [1983](#); Gabriel & Nothaft, [2001](#)).

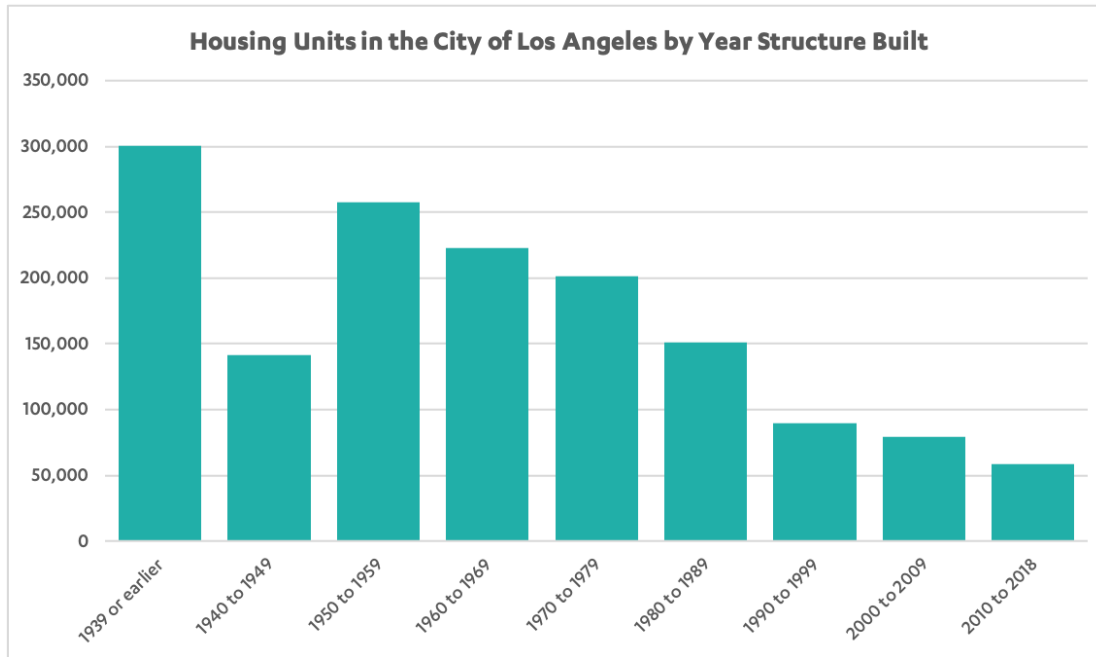
Los Angeles has seen the impacts of low vacancies on various occasions throughout its history. In the 1960s, multifamily development boomed and vacancy rates in some areas reached 30% or higher. When construction slowed and vacancies finally began to fall, the executive manager of the Apartment Association of Los Angeles County, Fern Cheesebro, told the L.A. Times she anticipated “rentals being increased in the coming months, the use of firm leases, or more stress upon payment of first and last month rent when someone moves in” (Sederberg, 1966).

A decade later, in 1977, countywide vacancy rates fell to 2%, with rents increasing 20% to 35% over the prior two years. Cary Lowe, a statewide coordinator for California Housing Action and Information Network (CHAIN), a tenant’s organization, claimed that “a shortage of low- and middle-income housing ... [made] rentals scarcer and more expensive” (Avery, 1977). By 1980 L.A.’s vacancy rate had fallen below 1%, the lowest in the nation. The city’s housing director, Kathleen Connell, told the Times: “It’s not easy to be a tenant in this city, and it’s getting harder. The poorest tenants in the city will continue to find it difficult to find affordable housing” (Scott, 1980).

Public officials, tenant advocates, and apartment owners alike recognized that low vacancy rates made life harder on renters.

Opponents of this view point to high vacancy levels in *new* housing as a sign that there is a glut of market rate homes that are not meeting the needs of lower- and middle-income residents. This concern and others will be addressed by this working paper.

Figure 1. Housing units by year structure built in the city of Los Angeles.



Housing units by year structure built. Note: Census data lumps together decades prior to 1940, and data is only reported to 2018 for the most recent decade. According to the Department of City Planning’s [2018 annual report](#), approximately 91,000 units were permitted from 2013 through 2018. Given the long construction timelines for new developments, many of these new homes were not completed by the end of 2018. Source: American Community Survey one-year data, 2018.

Vacancy rates in Los Angeles

Before we can say whether L.A.’s vacancy rate is too high or too low, we first need to determine what the vacancy rate actually is. There are various sources of vacancy data, the most common being the [American Community Survey](#) (ACS) and [Current Population Survey/Housing Vacancy Survey](#) (both managed by the U.S. Census Bureau). Private businesses like CoStar also track vacancies across regions, cities, and submarkets. None of these is perfectly accurate or perfectly up to date, but they are some of the best available data sources.

The 2018 1-year American Community Survey (the latest year for which data is available) reports 120,400 vacant homes in the city of Los Angeles and 318,400 in the Los Angeles-Long Beach-Anaheim metro area, yielding vacancy rates of 8.0% and 6.8% respectively. The Housing Vacancy Survey (HVS), meanwhile, reports an average vacancy rate of 4.0% for the L.A. metro area in 2019 (through Q3). The HVS vacancy rate also averaged

4.0% in 2018, the same time frame as the latest ACS data. The different methodologies for the two surveys can be found [here](#) (U.S. Census Bureau, 2011). but the takeaway is that the ACS consistently reports higher vacancy rates than the HVS. CoStar reported [a 3.8% vacancy rate](#) for LA County at the end of 2018 (Reed, 2019), more in line with the HVS estimate, and a recent analysis of United States Postal Service data for L.A. County estimates [an overall vacancy rate of just 0.9%](#) (including owner-occupied housing, which typically has lower vacancy rates, and rental housing) (Sun, 2020).

We can sidestep debates about which measure is superior by comparing Los Angeles to other cities and metro areas. If it consistently ranks among the places with the lowest vacancy rates, regardless of methodology, then it's safe to assume it's not experiencing *more* vacancies than a typical jurisdiction. And that's exactly what we find: Among the 50 largest cities in the U.S., the American Community Survey ranked L.A. #14 for lowest vacancy rates in 2018. (The California cities of San Jose, Long Beach, Sacramento, Fresno, and San Diego ranked even lower.) Among the 75 metro areas included in the Housing Vacancy Survey, L.A. ranked #9 in 2019. Los Angeles, overall, has a lower rate of vacancies than most big cities and metro areas in the country.

A historical perspective on vacancy rates is also informative. According to the Housing Vacancy Survey, which goes back to 2005 for metro area estimates, L.A.'s rental vacancy rate climbed to nearly 7% in the late 2000s and fell to approximately 3% by the mid-2010s. **Figure 2** charts this trajectory and shows that the vacancy rate is roughly the same today as it was 15 years ago.

Figure 2. Average rental vacancy rate for the Los Angeles metro area (through 3rd quarter of 2019).



Rental vacancy rates in the Los Angeles metro area climbed to nearly 7% in the late 2000s then fell in the early 2010s. As of 2019, the vacancy rate had returned to roughly the same level as in 2005. Source: Housing Vacancy Survey (U.S. Census Bureau).

Types of vacancy: market and off-market

These numbers comprise several different kinds of vacancies, listed in **Table 1** for the city of L.A. and its metro area. Some can be considered normal, “frictional” or “market” vacancies. They include units currently for rent or for sale, and those recently rented or sold but not yet occupied. These vacancies are the inevitable gaps in tenancy that occur when a lease is ended, a home goes on the market to be resold, or a new building opens and hasn’t yet leased or sold all its units. In the city of Los Angeles, 50.2% of vacant homes, a little more than 60,000, fall into one of these market vacancy categories.

The largest component of market vacancies is units available for rent, constituting about 38,500 vacant homes. Approximately 19% of renter households moved into their unit in the past year, and another 33.6% moved in the past 1-4 years, so many of these vacancies are a result of natural turnover of rental housing, with time off the market as units are cleaned, brought to a state of good repair, and advertised and shown to potential new tenants. Units that have been rented but not yet occupied are the second-largest subcategory of market vacancies.

The three remaining categories are “for seasonal, recreational, or occasional use” (11.9%), “for migrant workers” (0.1%), and “other vacant” (37.8%). Seasonal, recreational, or occasional use vacancies include winter/summer homes, time-shares, and similar uses; “other” vacancies include any reason for vacancy not mentioned in the previous categories. The U.S. Census Bureau website defines each of these vacancy types in greater detail in its subject definitions report (U.S. Census Bureau, 2017, p. 42).

Table 1. Characteristics of vacant housing in Los Angeles city and metro area in 2018.

Housing occupancy	Los Angeles city	Los Angeles metro
Total housing units	1,502,686	4,672,663
Total vacant units	120,393	318,361
For rent	38,455	91,866
Rented, not occupied	9,423	24,609
For sale only	7,330	23,274
Sold, not occupied	5,244	18,770
For seasonal, recreational, or occasional use	14,300	53,819
For migrant workers	169	500
Other vacant	45,472	105,523
Vacancy rate	8.0%	6.8%

A breakdown of characteristics for vacant housing in the city of Los Angeles and the Los Angeles-Long Beach-Anaheim metro area. Source: American Community Survey one-year data, 2018.

Seasonal/recreational and “other” vacancies are considered “off-market.” They are also a major focus of advocacy and concern over vacancies. This isn’t without reason: In a high-poverty, high-inequality city like Los Angeles, homes that remain vacant or otherwise off-market most of the year feel like an extravagance that perhaps shouldn’t exist, or at least should be discouraged. This is part of the argument in favor of a [vacant homes tax](#) (Alpert Reyes & Khouri, 2019).

“Other vacant” homes are less well-defined than seasonal/recreational homes, and according to the Census Bureau they include “units held for occupancy by a caretaker or janitor” as well as “units held for personal reasons of the owner.” The former seems benign, while the latter is more likely to include less desirable uses (or non-uses). For example, “personal reasons” might mean keeping a unit vacant in the hopes that neighborhood rents will rise before leasing it out. However, “personal reasons” might also mean saving the home for an elderly parent planning to move in soon. Better reporting, which could be accomplished through a vacant home registration and/or tax, could help clarify the different causes of vacancy and off-market uses.

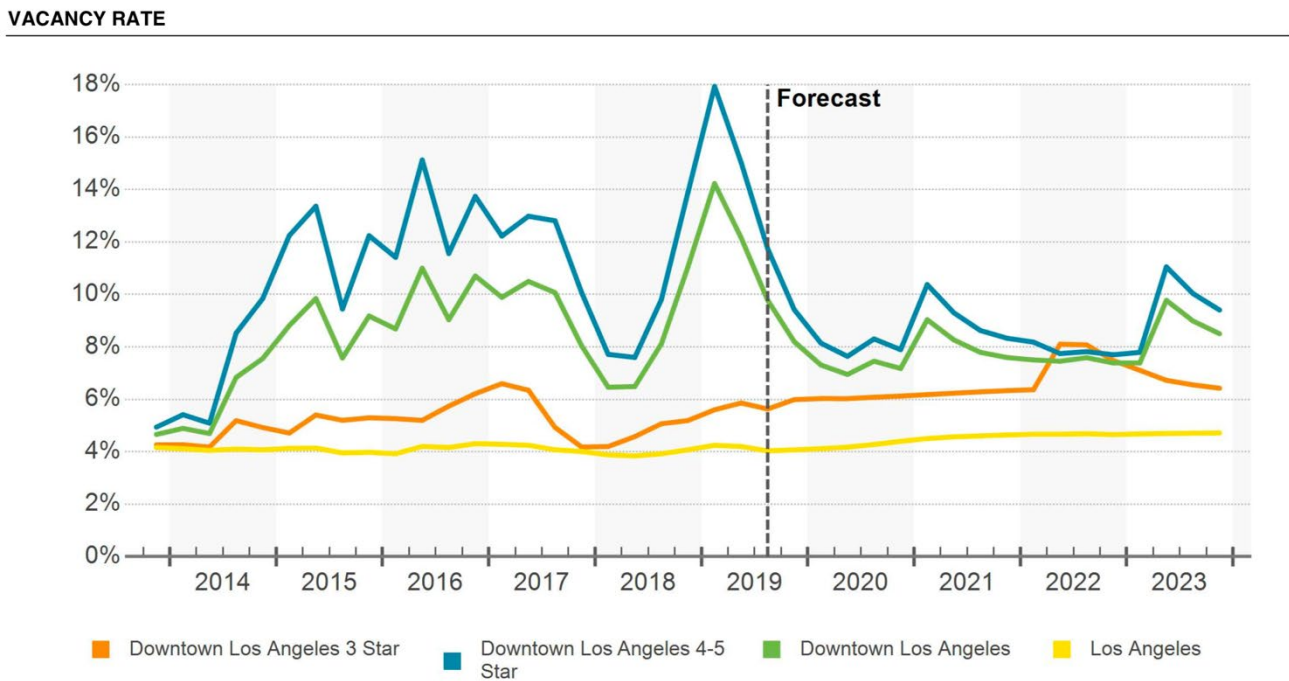
As noted above, L.A.’s vacancies are evenly split between market and non-market. Ranking the 50 largest U.S. cities by the share of vacant homes that are “market” vacancies, Los Angeles is in the middle of the pack at #27. Many cities with a greater proportion of market vacancies also have much higher rates of residential development, such as Fort Worth, Raleigh, Charlotte, Dallas, Denver, and Austin, each of which added homes at 2.5 to 3.5 times the pace of L.A. over the past decade. These are cities where we would expect to find more new units listed for rent or for sale, and where less acute housing shortages reduce the appeal of speculative investment.

Vacancies in new apartments and condos

Seasonal/recreational and “other” vacancies receive a lot of attention, but new apartment developments -- especially high-rises -- probably receive the most scrutiny. Common in the vacancy discourse is the observation that many units’ windows in high-rise developments are dark in the evening. Insofar as darkness indicates vacancy (which is far from certain -- sometimes it indicates sleeping), the American Community Survey would list most of these units as “vacant, for rent.” About 38,500 L.A. homes were vacant and for rent at the latest count, slightly more than 2.5% of all housing in the city.

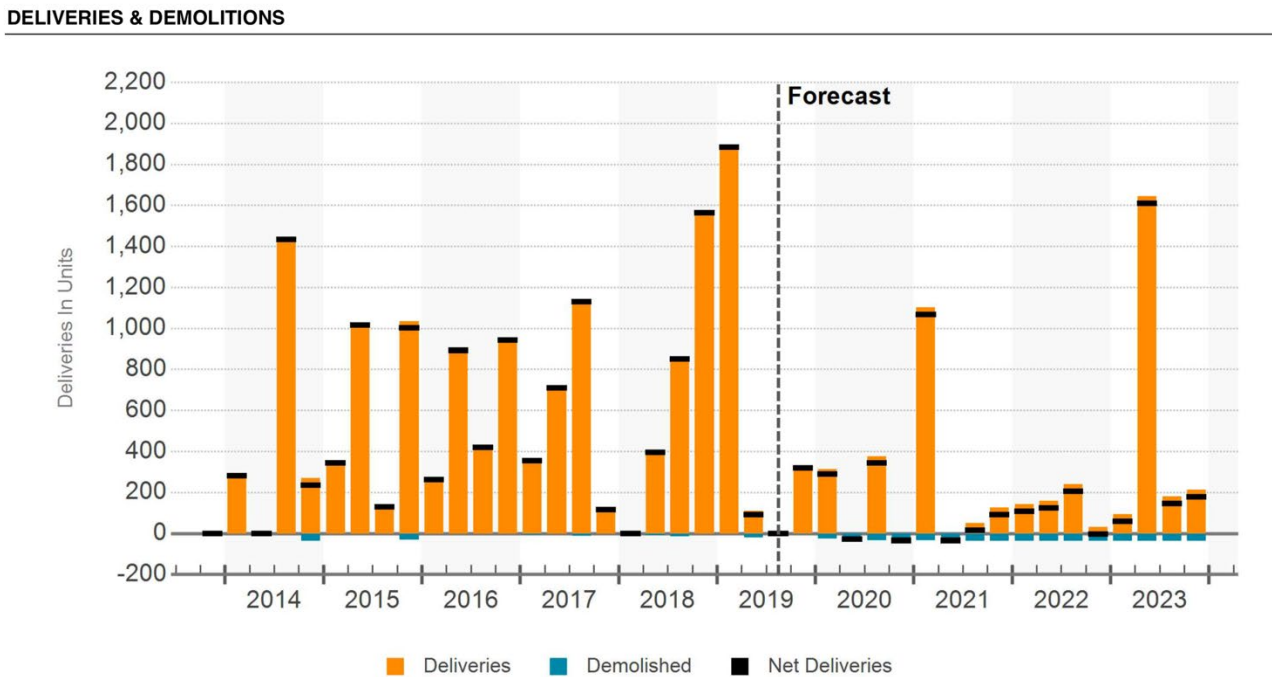
Downtown L.A. has been the region’s epicenter for this debate, with journalists and advocates closely following the [rise](#) and [fall](#) pattern of vacancies in the booming neighborhood (Lloyd, 2017, Chiland, 2018). Submarket data shared by CoStar, and visualized below in **Figure 3**, indicates that citywide vacancy rates held at roughly 4% from 2014 to 2019, but in Downtown they’ve fluctuated dramatically: from 5% to 13% in 2014, then down to 9% and back up to 15% the following year, and finally dipping to below 8% in 2018 and peaking at roughly 18% in early 2019. Each spike in the vacancy rate sparked new concerns about whether too much housing was being built, but every peak eventually subsided as units were leased and moved into.

Figure 3. Downtown L.A. vacancy rate (quarterly).



Source: CoStar (reprinted with permission).

Figure 4. Housing units added to Downtown’s housing stock (quarterly).



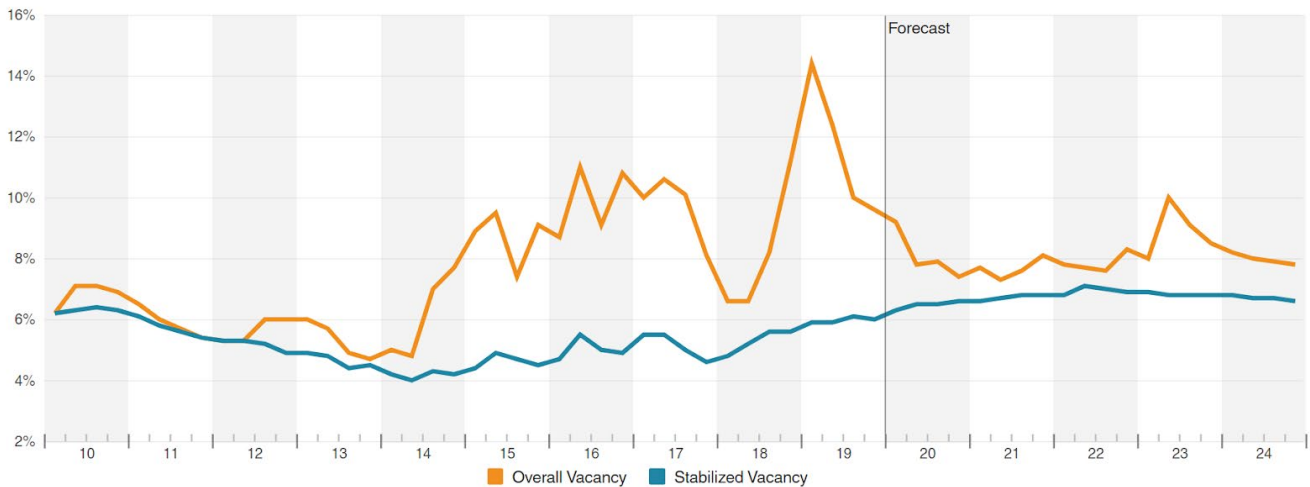
Source: CoStar (reprinted with permission).

The cause of these rising vacancy rates was not old buildings emptying out nor newer buildings staying vacant. Rather, it was large, brand new buildings opening their doors for the first time. **Figure 4** shows the persistent construction of Downtown L.A. housing since 2014. According to CoStar, the neighborhood’s vacancy rate exceeded 10% for the first time in many years in early 2015, after 2,000 new homes had opened their doors in the previous year. At the time, this represented a nearly 20% increase in Downtown’s housing stock, from roughly 11,000 to 13,000 four- or five-star units (definitions below). Eventually, those units found tenants, but production didn’t slow down: The number of four- and five-star multifamily units in Downtown had grown to 23,800 by November 2019, with roughly 13,000, or 55%, completed in just the past five years.

As a clarification, CoStar defines four-star buildings as “higher end” and five-star as “luxury” (CoStar, n.d.). Recent reporting on vacancy rates in Downtown and elsewhere has been limited to four- and five-star developments, comparing the vacancy rate of Downtown’s higher-end rental housing against the citywide vacancy rate for *all* rental housing, including lower-quality units. When including 1-to-3-star housing, Downtown’s vacancy rate is 3-4% lower than media reports, with a peak of roughly 14% -- not 18% -- in early 2019.

This has been the story of vacancy in Los Angeles: Large new buildings open their doors and temporarily boost the local vacancy rate, then the vacancy rate slowly falls as units lease up, and eventually another new building opens its doors and vacancies rise once more. But before too long, the buildings fill up: Writing for the Los Angeles Times in 2018, Urbanize L.A. founder Steven Sharp noted that Downtown buildings open for more than a year had a vacancy rate of 4.7% (Sharp, 2018), similar to the city as a whole and very low by the standards of other U.S. cities. CoStar has recently developed a “stabilized vacancy” measure which excludes buildings opened in the past 18 months that have not yet reached 90% occupancy; **Figure 5** shows the stabilized vacancy for Downtown L.A. in blue, indicating a much steadier vacancy rate for buildings over 18 months old.

Figure 5. Overall and “stabilized” vacancy rate for the Downtown Los Angeles submarket.



Source: CoStar (reprinted with permission).

Some have argued that developers, at least in certain cases, would rather keep new apartment units vacant than charge lower rents (Alpert Reyes & Khouri, 2019), but there are a few reasons to doubt this claim. First, new housing is not rent-controlled so there's no clear financial benefit waiting for lease rates to climb; the owner can always raise their tenants' rent the following year if the market heats up. There is some incentive to wait for tenants who will pay top dollar, but this is negated if a building fails to fully lease up, or "stabilize," within 12-18 months. Second, competition among property owners in Downtown is fierce. New buildings have opened in nearly every quarter of the past five years, so keeping units vacant while waiting for a seller's market would have made for an extremely poor bet. Far from raising rents on tenants each year, this stiff competition is forcing Downtown property managers to offer [weeks of free rent](#) (Dove, 2019), free parking, and other concessions to attract tenants to their buildings.

Condominiums may be a different story. Unlike apartments, for which there is no obvious upside to long-term vacancy, condos have at least the *potential* to be profitable investments, even if left unoccupied, when home values are rapidly appreciating. Even in this case, however, a new condo is an even better investment when rented out *and* appreciating in value. Most crucially, a high return on investment is dependent on scarcity: If condos and apartments are in abundant supply then they will tend to appreciate at a slower rate. Investors can only profit from vacant condos if appreciation is very high; this is a sign that more condos should be built, not fewer.

Unfortunately, state [condo construction insurance laws](#) (@housingforca, 2018), local regulations including higher park fees, and features inherent to ownership housing -- e.g., the fact that builders can only sell each unit once, making timing very important -- all conspire to make condos riskier and more expensive to build. It is possible that vacancy rates are higher for condos than apartments (though reliable data is lacking), but, given how few condos are being built, this would nonetheless represent a small number of units. Further, homebuyers could just as easily purchase condos in existing buildings if newer options were unavailable.

Vacancies don't tell us how much housing should be built

There is very little evidence that Los Angeles has too many vacancies and quite a lot of evidence that it has too few. But even if vacancies in new buildings are more common than we would like, this begs the question of what should be done about it. What's clear is that slowing or halting new development is not an appropriate response to modest apartment and condo vacancies.

According to the 2017 American Housing Survey, only 15.5% of U.S. households who moved into a home built in the past two years migrated from more than 50 miles away.¹ In other words, the vast majority of residents living in new homes are from the area where their home is located. Were this housing never built, it wouldn't just be immigrants and people from other parts of the country who were forced to find a different place to live -- mostly, it would be people who already call Los Angeles home. Even if a 100-unit building were only 80% occupied, those 80 households would still need another home in L.A. if their building had never been built. Near-100% occupancy

¹ This calculation is limited to households that reported the location of their previous residence in the 2017 American Housing Survey; approximately 16% did not. Migration data for new units in the Los Angeles metro area is not available due to small sample sizes, but the share of households moving from within 50 miles into older housing (built 1970 to 1979, 1980 to 1989, etc.) is comparable between Los Angeles, California, and the nation as a whole.

may still be a worthy goal, but achieving it by perpetuating the region's housing shortage would do more harm than good.

Relying on vacant homes to address housing needs also presents a timing problem. If we go back to 1990 when L.A. had a population of roughly 3.5 million residents, the vacancy rate was 6.4%, or about 82,000 units. Had we resolved to stop building homes in 1990, many who call Los Angeles home would have no place in the city to live. Those who *did* find a home, meanwhile, would pay more for rent due to an even more severe housing shortage. Using vacancies to accommodate growth or house the homeless might tide a city over for a year or two, but it's not a viable housing strategy for the medium- or long-term. A growing population requires a growing supply of homes.

Finally, vacancy-based anti-housing arguments hinge on the presumption that the current distribution of housing is fair and just. It clearly is not. Some people have much more housing than they need, while many others have far too little, of too low quality, and in areas with poor mobility, few amenities, and limited access to opportunity.

Approximately 215,000 residents of the Los Angeles metro area have round-trip commutes of 3 hours or more, and another 800,000+ commute at least two hours per day. There are more than 300,000 additional residents in the Riverside-San Bernardino metro area with commutes of 2 hours or more. Reducing the number of vacancies in the city, however desirable, will do nothing for the vast majority of these residents, many of whom would be thrilled to find a home closer to their work, school, and/or family in the coastal counties.

Similarly, almost 500,000 households in the L.A. metro area live in "crowded" conditions, defined as having more than one person per room.² Of these, nearly 200,000 are "severely crowded," with more than 1.5 persons per room. Out of the 1% most crowded census tracts in the U.S., [more than half](#) are located in L.A. and Orange Counties (Alpert Reyes & Menezes, 2014). Building more homes is the only way to relieve these problems for Southern California residents.

What should be done about vacant housing?

When we talk about vacancies we must be clear which kind we're referring to. "Market" vacancies -- units that are for rent or sale -- are inevitable and, in moderate quantities, they're a sign of a healthy housing market. Many examples, including in Los Angeles County, point to higher vacancies being associated with greater tenant power and lower rents. L.A. could benefit from more housing options and a reduction in landlord power.

What about "off-market" vacancies, including units held vacant for seasonal or recreational use, or in the hopes that prices will rise? If policy reforms can transition some of these units into fully-occupied housing, that's all to the good. As noted above, it's likely that some of these units are already occupied and merely reported as "other vacant" because of survey methodology. As a first step, the city could improve its tracking practices to distinguish between these different uses and vacancy types, then develop policies to incentivize preferred behaviors and discourage others. It may turn out that "off-market" vacancies are less common than many imagine, but we can't know if we don't measure them.

² "Rooms" include bedrooms, kitchens, living rooms, finished basements or attics, dining rooms, rec rooms, and similar enclosed spaces.

A tax on vacant homes may also be a welcome change. Taxing vacant homes implicitly acknowledges that the supply of homes has an influence on housing affordability; if taking units off the market reduces affordability, it follows that adding units to the market should increase it. A vacant homes tax could be worthwhile for its symbolic value alone.

If the experience of Vancouver, B.C. is any guide, the actual impact of a vacancy tax would be modest. Vancouver, one of the most expensive cities in North America, enacted an “Empty Homes Tax” in 2017, charging 1% of the value of any home left unoccupied for the majority of the year. (A vacant home worth \$1.5 million, for example, would pay a \$15,000 tax.) As a result, the number of vacant homes fell from 1,085 to 922, [a 15% decline](#). (CBC News, 2019). Returning 163 homes to the market was undoubtedly beneficial, but of limited impact in a city with nearly 310,000 housing units. Even if the tax returned *all* vacant units to the market, this would grow the city’s available housing stock by just 0.35%. Further, it’s likely that most of the homes would be unaffordable to the median buyer or renter. Of greater importance, arguably, was the [\\$34 million raised by the program in 2017](#) and \$23 million raised in 2018 (City of Vancouver, 2019). This could subsidize the cost of approximately 100 affordable homes per year in L.A.

We should also reevaluate state policy. Allowing vacant homes and *pieds-a-terre* may be objectionable in a market like L.A.’s, but *subsidizing* them is far worse -- and yet that is exactly what we do in California. Homeowners are currently able to deduct mortgage interest on second homes, costing the state approximately \$300 million per year. [A bill to end the tax break](#) was proposed in 2016, but it died in the Assembly the following year (Dillon, 2016). Even more than taxing vacant homes, ending this subsidy should be a high priority for advocates and policymakers.

Despite rhetoric to the contrary, eliminating or dramatically reducing the number of vacant homes would not be a lasting or particularly effective solution to Los Angeles’ homelessness crisis, nor its affordability crisis more broadly. Even if the number of long-term vacancies weren’t overstated, and even if every reportedly-vacant unit could be returned to productive use, it still wouldn’t be nearly enough to accommodate our current needs or future growth. Fixing our housing market will require a wide range of solutions, and those solutions will depend on a clear-headed assessment of our problems. Reducing vacancies may play a minor role in solving the region’s housing crisis, but there is no avoiding the fact that the region needs much more housing, especially housing affordable to low- and middle-income households. We shouldn’t allow a small number of vacant homes to cause us to lose sight of that goal.

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