

Abandoned Projects: The Economic Impact in San Luis Obispo

Andrew Horton

California Polytechnic University
San Luis Obispo, California

San Luis Obispo is in the midst of a housing crisis. This small college town cannot keep pace with the growing number of students and residents. The problem is that there are very few new housing options being developed. Other than the new freshman dorms, the housing market in San Luis Obispo has been stagnant for years. The housing market cannot afford inefficiency and waste, but there are still many abandoned construction sites around the city. These sites are not only eye sores and safety hazards, but they are wasted opportunities. They cost the city millions of dollars every year. Even in today's economic boom, these abandoned sites are still all over the city. When a recession hits, the costs regarding abandoned projects will surely skyrocket. Whether the sites have been abandoned for weeks, months, or even years, they still have the potential to be completed or, at least, redeveloped. Each situation is different, and each site is abandoned for a different reason. Whether it's permitting or a lack of funding each site has an obstacle to overcome. In order for San Luis Obispo to house the vast number of students these sites need to change.

Keywords: Abandoned Projects, Land Reuse, Economic Inefficiency, Residential Development, Redevelopment

Introduction

Abandoned construction sites have a significant impact on the local economy of San Luis Obispo. Over 25 of these abandoned projects exist in San Luis Obispo and effectively drag down the local economy. I have first hand experience with the ill-effects abandoned projects can have on a community. My residence of the last 2 years has been next door to an abandoned construction sight. This abandoned project was a notable eyesore for the community and a threat to public safety. This project inspired me to further research abandoned construction projects in the city of San Luis Obispo in order to fully understand the impact they have on our local community. There has been research done in the past regarding the reasons for project abatement, but there has been much less research into the effect that these abandoned projects have on a local economy, especially a smaller city like San Luis Obispo. My goal was to collect enough data to have an accurate idea of the status of the issue in the city of San Luis Obispo and outline my methodology clearly so that the data collection can be conducted elsewhere. Another goal I had for this project was to send it to the city of San Luis Obispo and show them the negative impact that some of their policies are inflicting.

Literature Review

It can be hard to tell if a construction site is abandoned. Many construction projects are delayed, temporarily halted, or await permits and testing. There can be a very fine line between a project that is simply struggling and one that is abandoned. This creates a challenge for the city of San Luis Obispo. How do you define an abandoned construction site and how do you go about enforcing regulations against them? According to John Mezzapesa, a code enforcement officer for the city of San Luis Obispo, there are a number of resources that the city references in order

to define and, if need be, take action against abandoned construction sites. The first is the California Building Code. The California Building Code lays out many standards that must be met when dealing with unsafe buildings and makes it clear that abandoned construction sites are included as unsafe buildings. The code requires that, in order to keep a building permit open, a building official must inspect a construction project every 180 days to ensure progress. In addition to the California Building Code, the city also references two other documents. The first is the International Property Maintenance Code. This code goes into detail about regulations regarding the exterior property areas, exterior structure, component serviceability, and rubbish and garbage. John Mezzapesa states these are the most important sections to look at in regards to an abandoned site. The other document that the city references when looking at abandoned sites is the 1997 Uniform Code for the Abatement of Dangerous Buildings. This document is specifically written about abandoned sites and their upkeep.

Upkeep

The upkeep portion of these codes and standards listed above are a key focus. Upkeep of an abandoned project can be extremely expensive and time consuming. The codes and standards regarding upkeep can be very rigorous and detailed. Even things as simple as putting up and maintaining boarding and fences can add up. Especially when the time period that they are needed for is indefinite. The owners and contractors, having already failed on the project and forced to abandon it, must transition into an upkeep phase where no profit is being made but costs can still be incurred. This puts a massive burden on the owner and contractor and as a result, many of them are frustrated with the system currently in place. One local developer, John Belsher of PB Companies, is currently in court trying to fight the violations totaling a staggering \$13,200. Belsher has said that he does not want the site to be abandoned and has simply had trouble with permits. “We’re on our third chief building official,” Belsher said. “We’ve gotten three different directions, three different interpretations” (Lambert 2015). Other local developers share the frustration of Belsher facing violations and codes they think are unfair. These violations can quickly add up and sometimes the remedy is also expensive. One developer was told to “put in fencing and that he keep a daily log showing that he’s at the site and that he’s keeping the vagrants out” (Howe 2008). Something as simple as this can be so costly and have a ginormous time impact. The city understands that the developers and contractors can struggle with this, but they have to enforce the codes. Tim Girvin, the city’s chief building official, has also expressed his dismay with the current system, “How can you put these financial requirements out on a project where the guy’s got no money to move forward?” (Howe 2008). The city is in a bad position and ends up receiving very little of the fines that they issue.

International

Although it can be expensive to pay for the upkeep of an abandoned site, it is minimal compared to the lost revenue and damage to the economy that abandoned sites cause. Abandoned projects effect almost everyone because there are so many people upstream and downstream. Materials are not being purchased, subcontractors are not being hired, and furniture is not being bought when a project is abandoned. In addition, home buyers cannot move in, which stunts the growth of a community and has negative impacts on the local economy (Hoe 2013). If enough projects are abandoned an entire country can grind to halt. Developing countries, such as Nigeria and Malaysia have enormous issues with abandoned projects and also rely heavily on the construction industry, “The construction industry plays a very important role in the economy of a developing country like Malaysia, contributing an average of over 3% to the overall gross domestic product” (Hoe 2013). When the construction industry plays such a big role, abandoned projects can doom the national economy. In Malaysia, “there are still a total of 95 abandoned housing projects involving 37,316 units of houses and 26,170 house buyers” (Hoe 2013). In Nigeria, “there are about 4,000 uncompleted or abandoned projects belonging to the Federal Government of Nigeria with an estimated cost of above \$300 billion” (Doraisamy 2014). These countries deal with horrible corruption and poor economies, but even so, the number of abandoned projects is astounding. These abandoned projects are having a significant impact on the national economy and are likely to remain unfinished.

Local Housing Market

In San Luis Obispo, the issues are not nearly as bad as they are abroad, but we still face a large obstacle. The city of San Luis Obispo is facing a housing crisis. A 2015 report by Beacon Economics on the status of the county's economy stated that, "There is not enough housing" (Kinkade 2015). The city is in dire need of more housing and is even more desperate for affordable housing. San Luis Obispo is one of the most expensive places to rent in the entire country. Low income families have been forced to move. The influx of new students and the limited supply will continue to hamper the ability of low income families to live in the city. It has become so unaffordable that Julia Ogden, chief executive officer of Habitat for Humanity for San Luis Obispo County, has said, "I think we are at a crisis point" (Kinkade 2015). This is a situation that will continue to get worse and worse because the same report has a dismal outlook on the future, "We're looking at five years of more population growth and household formation with very little change of the housing stock" (Kinkade 2015). The future looks even worse when you account for a possible recession. Unfortunately, a recession seems to be on the way, or at least the city of San Luis Obispo thinks so. "The national economy has been in the largest period of economic expansion in our history," City Manager Derek Johnson wrote in an email to The Tribune. "A recession would have typically happened by now" (Wilson 2018). The city is so concerned about the looming recession, that in June of 2018 they set aside a million dollars in order to hopefully offset the forecasted downturn (Wilson 2018). An economic downturn would have huge implications on the local economy, especially on the construction industry.

Economic Downturn

The current construction market is booming. The construction market in California is up 32.2% since 2010, one of the highest rates in the country (Henderson 2016). San Luis Obispo mirrors the trend and the construction industry is way up. The problem is that even in this booming economy, there are still numerous abandoned sites across the city. This fact, compounded with the history of San Luis Obispo is worrisome. The construction industry typically does not fare well in times of recession. Construction in San Luis Obispo is no different, "The impact of the money-lending crisis locally has been widespread, hitting thousands of local investors and stalling or killing dozens of projects" (Howe 2008). The Great Recession took a massive toll on the construction industry and if the next recession is anything like it, San Luis Obispo could face a huge, growing number of abandoned projects. The Great Recession of 2008 saw "national home construction take its biggest dive in 24 years" when the "construction of new homes and apartments fell 15.5 percent in a month" (Boston Globe 2009). In the end, the amount of construction put in place decreased 32% and California was hit hard (Smithwick 2017). In Southern California, San Luis Obispo County included, median sales price of homes fell 40% in a year (Boston Globe 2009). If a recession of a similar magnitude hits in the near future, San Luis Obispo could see the amount of abandoned sites skyrocket. There is currently a lot of new construction underway and a recession could cause many of them to lose funding and become abandoned. These sites would join the already high number of abandoned sites that exist across the city and create a serious issue. Thankfully, there are solutions and the city and local developers are starting to take action. Land redevelopment is a crucial part of the battle against abandoned sites. It is the practice of taking an abandoned construction site or building and transforming it into a useable, safe building. This can happen by demolition or it can simply be the completion of the project that had been abandoned. In San Luis Obispo, a few examples have already started to pop up. A developer "agreed to purchase the former Sunny Acres Orphanage with plans to restore the structure, which has been abandoned for 40 years. That building would be transformed into affordable housing" (City of San Luis Obispo 2017). This is a perfect example of what could be done in order to combat the problem of abandoned sites. Property redevelopment could help transform the local economy of San Luis Obispo into a much more efficient system.

Research Objective

The research objective of this essay was to determine the number of abandoned sites that exist in the city of San Luis Obispo. Another goal was to determine the number of active construction sites that exist as these could become abandoned sites in the future. Another research objective was to consult local members of the construction community in order to get a deeper understanding and history of the abandoned projects in San Luis Obispo.

Methodology

I canvassed the city looking for construction, abandoned or not. Every address with any sign of construction that would require a permit was written down. While I focused on residential properties, I noted all addresses with construction, including commercial projects. These addresses would be cross-checked against public records to see if an active construction permit was registered to the property. I also consulted public construction permit records from the city's online database in order to thoroughly gather the background information on each site. Each construction site was split into two categories. The first was active, permitted construction. The second was abandoned construction with no active construction permit registered to the address. These sites were then mapped and their information logged. In addition, I also reached out to local contractors, owners, and city officials in order to gather more information about the local construction industry and abandoned sites in the area. One local contractor was interviewed in detail regarding the cost of upkeep for an abandoned construction site. The local contractor, Contractor X, wished to remain anonymous for his own privacy and the privacy of his clients.

Results and Data Analysis

A total of 497 addresses in the city of San Luis Obispo were noted as having some form of construction present. Of these, 466 were active, permitted construction sites. The rest, 31, are abandoned construction projects. There is no way to know the exact reason why each of the projects were abandoned, but the most common reason, according to Contractor X, was probably loss of funding, "Nobody wants to stop construction halfway through the project, but when there is no more money, there isn't much to do". Funding and cash flow relate heavily to the abatement of a project and when money is scarce and the economy tanks there is a rise in the number of abandoned projects. The construction sites noted were in all different phases of construction and there was no observable trend in the level of completion in relation to abatement of the project. I had expected to find very few abandoned projects that were almost complete, but I found quite a few. I had figured that the closer a project was to completion, the less likely it would be to fail, but this was not the case. Cashflow played a big role in this because the further a project progresses, the more money is being spent, the harder it becomes to manage cash flow.

Illegal Construction

An illegal construction site is a site with ongoing, non-permitted construction. It can be difficult to differentiate between an abandoned construction site and an illegal one. However, the City of San Luis Obispo takes the issue of illegal construction extremely seriously and code enforcement officers will issue stop work orders and fines quickly. When asked about illegal construction in San Luis Obispo, Contractor X scoffed at the idea. He said, "You can't really get away with anything in this city. People in San Luis Obispo are too nosy and they will report you to the city as soon as they get the chance." In addition to this statement by Contractor X, none of the sites deemed abandoned had construction workers on site at the time of observation. With that being said, illegal construction did not play a large role in the results.

Geographic Trends

When the data was mapped, there was a clear correlation between geographic location and the number of abandoned projects. There were a couple of neighborhoods with much higher rates of abandoned projects. These neighborhoods with the higher rates were the older, historic neighborhoods near downtown. Of the 31 abandoned construction projects, 17 were in the downtown historic districts. There are a number of reasons why these neighborhoods would have a higher rate of abandoned projects. The first is the actual age of the house. Many houses in San Luis Obispo's historic districts are over 100 years old. These older homes would have larger renovations done and worse foundations than the houses in the newer neighborhoods. This would cause more abandoned projects because there would be a greater opportunity for unforeseen conditions that could prove costly and force the project to be abandoned. Another reason why the historic neighborhoods of San Luis Obispo have a

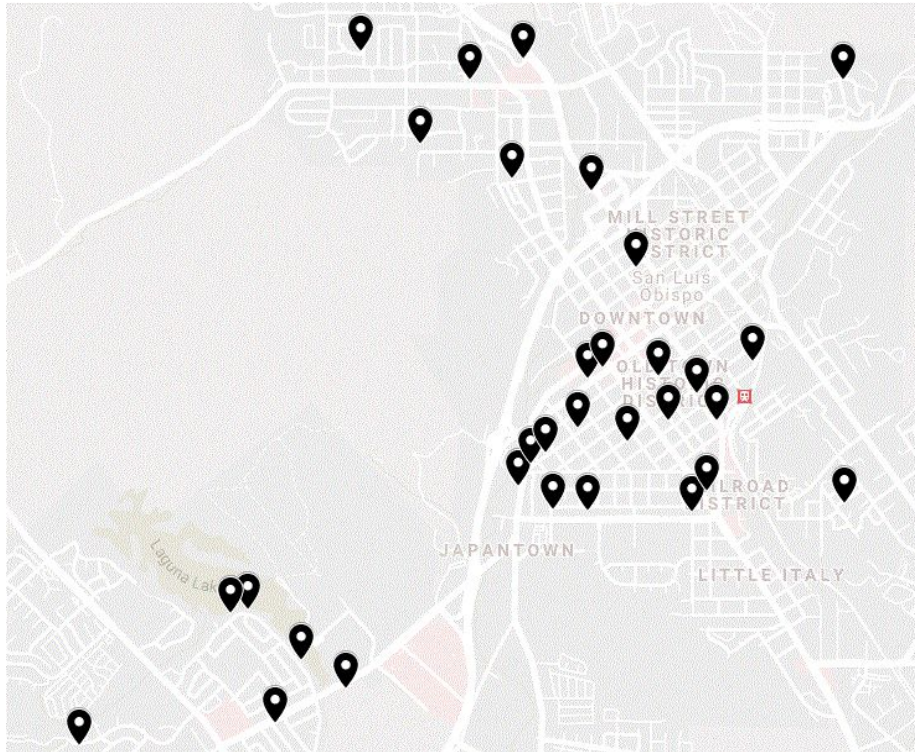


Figure 1: Abandoned Construction Projects in the City of San Luis Obispo

higher rate of abatement is the city's policies on historic houses and properties. The city has stringent regulations that can make new construction and renovations a nightmare. Many of the historic homes, in order to retain their status as a historic landmark, have to remain the same color. Little policies like that can cause a project to grind to a halt because of the difficulty in construction. Many owners do not want to lose their status as historic homes because there is a tax break for such homes. This combined with the age of the house and the materials used to build it cause the homes and projects to be abandoned more than similar houses in newer neighborhoods.

Cost of Upkeep

The cost to upkeep an abandoned site can be very expensive, and not just in dollars. The management of an abandoned site can be extremely time consuming and frustrating. There are number of factors and costs that many contractors are unaware of, even when managing an abandoned site. The first and most obvious cost is securing the site. This is much easier said than done for a number of reasons. The city of San Luis Obispo requires all abandoned construction sites to be fenced and boarded up if necessary. These requirements can be tough to meet because of the strict standards set by the city. Even with the standards followed, theft and vandalism are still likely. An abandoned construction site is much more likely to be vandalized than an active project. Also, an abandoned site with valuable materials laying around, is prone to theft because there is nobody on site at all. This leads some contractors to hire a security guard, but almost all of the abandoned projects in San Luis Obispo are either too small or cannot afford a guard. The threat of vandalism and theft goes hand in hand with the threat of a fire. Many abandoned projects have burnt down due to fires started on the site by trespassers. In addition to these costs, the city can also have a significant cost impact. With such rigorous standards for securing a dangerous, abandoned construction site, there are often code violations which result in a fee. According to Contractor X, San Luis Obispo is notorious for handing out fees and causing many local contractors to become very frustrated. Some local contractors have racked up over \$15,000 dollars in fees on their abandoned construction projects. Local contractors feel that these fines are ridiculous and that the city is just trying to take advantage of them. Contractor X said, "They aren't just after your wallet, they will try to get you on everything." Contractor X was extremely frustrated with the city and has been forced to take the city to court in the past, racking up legal fees as well. The upkeep of an

abandoned project can cost you time as well. The city has even stipulated in the past that a contractor must keep a daily log showing that they were on site everyday. All in all, the upkeep can really add up. Contractor X estimates that he spends anywhere from 4 to 8 thousand dollars on the upkeep of an abandoned project every year. This includes all of the costs including securing the site, code violations, and legal fees. Sadly, these are not the only costs that abandoned sites have on the local economy of San Luis Obispo. There is also the depreciation and loss of utility of the materials left on site or in place. Many materials are not meant to just lie around and must be removed from site, which would cause many more costs, or stored properly on site. Removing the materials from site will cause a contractor to have multiple mobilizations on a project. This means that the contractor or owner would have to store or find storage for the material and an additional mobilization would triple shipping costs because now the material has gone to the site, left the site, and will eventually need to go back to the site.

Total Cost

The total cost that abandoned projects have on the local economy of San Luis Obispo is astounding. The cost of upkeep for an abandoned project is a lot, but the cost of lost rental income is even more sizeable. Rental prices have been steadily increasing in San Luis Obispo for years. As more and more students populate the city, prices continue to rise. The shortage in housing has fed the price hike and the housing crisis in San Luis Obispo will continue to get worse. This year's freshman class was the largest ever at Cal Poly and many of those students will move off campus, increasing the demand while the supply for housing stays stagnant. Based on the personal experience with the rental market in San Luis Obispo, my interview with Contractor X, and the background information for all of the abandoned sites, I concluded that the average rental income would be \$2850 per month per property. There is no way to tell exactly how much these projects could end up being rented for, but San Luis Obispo is such a small market in terms of housing that figuring out about how much each one will go for is not too difficult. This estimated loss of rental income per month would mean that the city would lose \$1,060,200 every year in lost rental income. This figure, combined with the cost of upkeep is \$1,308,200 a year. That is an average cost of \$42,200 per project per year. Additionally, there is also the immeasurable lost potential growth of the local economy due to people and families not being able to move into these projects. The added boost these potential renters would have provided the economy by living in San Luis Obispo could spark the housing market and lighten the effects of the housing crisis. The total cost that abandoned projects have on the local economy is a massive number and the detrimental effects are widespread, affecting the housing market and local businesses who desperately want their business. Abandoned projects already cost the city millions of dollars, but it will soon start to cost the city even more.

Economic Downturn

The next economic downturn is looming in the near future. Economists know it, housing professionals know it, and even the city of San Luis Obispo knows it. At this point, the upcoming recession is not an "if" question, but a "when" question. There are 31 abandoned projects in the city of San Luis Obispo. This is a whopping 6% of construction in the city. This rate is surprising given the recent boom in the California construction industry. Many of the active construction sites will be at risk during the next downturn. Many of them will be able to finish the project and no abatement will be necessary, but there will be some projects that do not make it all the way to completion. A large chunk of the active construction sites are involved in a new housing tract of over 300 new homes. These housing tracts are generally at the greatest risk of failure and abatement because the entire tract could fail if the project owner loses funding. The failure of this tract of homes would have a massive negative impact on the housing community and the local economy in general. It is difficult to predict exactly what impact the next economic downturn will have on the local economy and housing market. Based on data taken from the Great Recession about a decade ago, the number of abandoned construction projects is likely to triple. During the last recession, the monthly valuation of residential construction put in place dropped from \$470 Billion to \$91 Billion in 3 years. That is an astounding 81% drop in 3 years. While much of the drop in construction put in place has to do with less new projects beginning, there is surely a large percentage of projects that were abandoned. The number of abandoned projects would most likely double or even triple. If the tract home project of brand new homes fails, the number of abandoned projects could multiply by ten. Thankfully, these homes will be staggered and not being fully built at the exact same time, but there is still a large potential for failure. Even if only 10% of active construction projects fail in San Luis Obispo, a conservative estimate, the result would be an additional 47 abandoned projects.

That would result in a grand total of 78 abandoned projects, all together costing the local economy \$3.29 million a year. It is impossible to predict exactly what effects the next downturn will have, but it is easy to predict that the city of San Luis Obispo will have a large, expensive problem with abandoned projects. The city needs to prepare itself for an economic downturn and rethink the policies it has in regards to abandoned projects in order to avoid such a lofty cost.

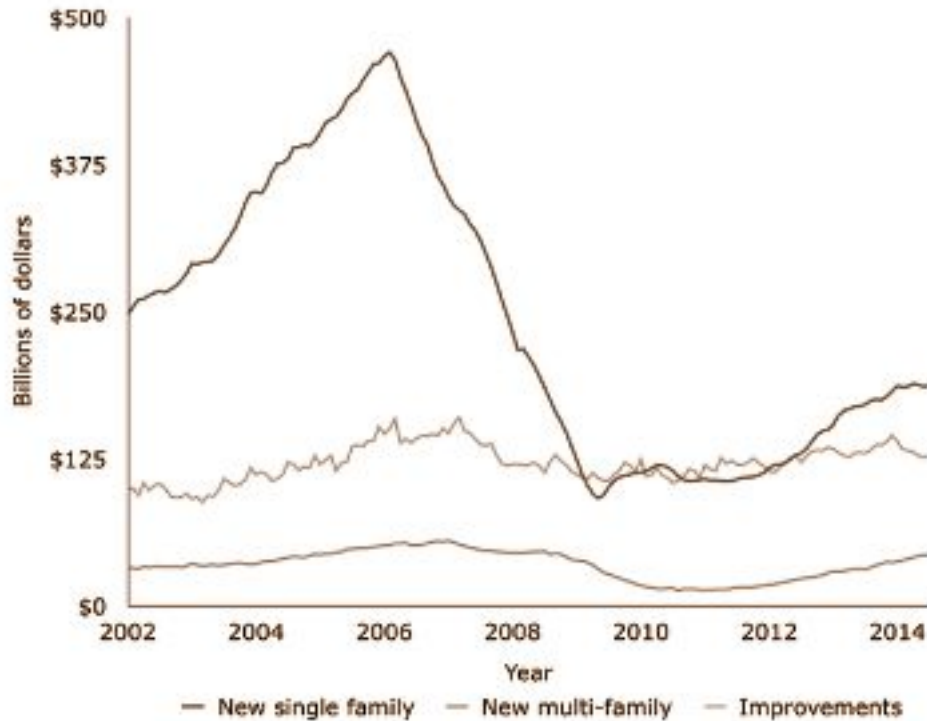


Figure 2: Monthly Valuation of Residential Construction, 2002-2014
Source: U.S. Census, Construction Spending, July 2014

Conclusion

Abandoned construction sites are frustrating for all parties involved. The owner wants their project to be completed, the contractor wants to collect all the money they are due, the city wants the projects completed to strengthen the economy and for public safety, and the community wants the project to be completed so the neighborhood is more beautiful and complete. Abandoned projects create a tough situation because usually everyone wants the project completed but thinks that nothing can be done. There are ways that abandoned projects can be completed or altered, but they usually require thinking outside the box. Land redevelopment is a crucial aspect in the battle against abandoned buildings. Major progress can be made by converting abandoned projects into finished buildings which contributes to society. Whether the project just needs a little push to get to the finish line or the existing progress needs to be demolished to make way for something new, abandoned projects need to be addressed. Land redevelopment will also have a positive impact on the local ecosystems. Less new construction would be necessary and more open, healthy ecosystems could thrive. Further research could be done on land redevelopment and strategies to resolve the abatement of projects. More in depth research on abandoned projects could be done over a longer timescale. Abandoned projects have a significant impact on the local economy. In order for real solutions to be reached, the city and local contractors must work together and make solving this issue a priority.

References

- California Building Code. (2016) *California Building Standards Code (California Code of Regulations, Title 24)* [WWW Document] URL <http://www.bsc.ca.gov/Codes.aspx>
- City of San Luis Obispo. (2017, February 8) *Council approves \$850,000 to help fund affordable housing project for self-sufficient mentally ill* [WWW Document]. URL www.slocity.org/Home/Components/News/News/4875/.
- Doraisamy, Sunitha. (2014, June 27). *A Review on Abandoned Construction Projects : Causes & Effects* [WWW Document]. URL <http://eprints.uthm.edu.my/6613/1/367.pdf>.
- Henderson, Tim. (2016, August 30). *U.S. Construction Is on the Rebound after the Great Recession* [WWW Document]. URL www.pbs.org/newshour/economy/u-s-construction-rebound-great-recession.
- Hoe, Yap. (2013, May) *Causes of Abandoned Construction Projects in Malaysia* [WWW Document]. URL <http://eprints.utar.edu.my/803/1/SCA-2013-0708775-1.pdf>.
- Howe, Patrick, and Barbieri, Patrick. (2008, July 2) *Abandoned Buildings Rare but Troublesome* [WWW Document]. URL www.newtimeslo.com/sanluisobispo/abandoned-buildings-rare-but-troublesome/Content?oid=2947775.
- International Property Maintenance Code. (2015) [WWW Document] URL <http://www2.bgky.org/assets/files/aqoB3Kn5.pdf>
- Kinkade, Jono. (2015, November 24) *Building Blocks: As Population Grows in SLO County, the Housing Supply Struggles to Keep Up* [WWW Document]. URL www.newtimeslo.com/sanluisobispo/building-blocks-as-population-grows-in-slo-county-the-housing-supply-struggles-to-keep-up/Content?oid=2940940.
- Lambert, Cynthia. (2015, July 14) *Developer Owes \$13,200 in Fines over SLO Property, Officials Say* [WWW Document]. URL www.sanluisobispo.com/news/local/article39056682.html.
- Smithwick, Jake. (2017) *An Analysis of Construction Overhead Expenses During the Great Recession* [WWW Document]. URL www.ascpro0.ascweb.org/archives/2017/CPRT170002017.pdf.
- The Boston Globe. (2009, March 18) *Scenes from the Recession* [WWW Document]. URL www.archive.boston.com/bigpicture/2009/03/scenes_from_the_recession.html.
- International Code Consortium. (1997) *Uniform Code for the Abatement of Dangerous Buildings*. [WWW Document] URL <https://archive.org/details/gov.law.icc.ucadb.1997>
- Wilson, Nick. (2018, May 31) *There's a Recession Coming, SLO Officials Say. And the City Wants to Sock Away \$1 Million* [WWW Document]. URL www.sanluisobispo.com/news/local/article212259254.html.