

EXECUTIVE SUMMARY

This report recommends that the City Council place the **RESTORE Oakland Measure** on the November 2026 ballot. The initiative addresses critical market failures in the current real estate climate by narrowing the categorical tax exemption for foreclosure property transfers. This tax is structurally engineered as a counter cyclical tax designed to protect local homeownership and insulate city revenues during economic downturns.

By adding progressive tax friction to institutional acquisitions while providing a total tax exemption for productive adaptive reuse, the RESTORE Act transforms defaults into a source of community stability. It captures a resilient stream of revenue from corporate transactions precisely when standard open market sales freeze during economic contractions, using those funds to build a managed shelter and job readiness pipeline.

I. THE ECONOMIC PROBLEM: SUBSIDIZING SPECULATIVE MARKETS

1. Counter-Cyclical Municipal Revenue During Economic Downturns

Standard real estate transfer tax revenues face extreme volatility, historically collapsing during economic downturns when standard open market home sales freeze. This cyclical drop causes severe general fund deficits precisely when public demands for emergency shelter and social services reach their peak. Because corporate foreclosure acquisitions naturally spike during economic contractions, leaving this loophole open allows billions of dollars in shadow market property churn to escape taxation during a recession, starving the city of resources when they are most urgently required.

Real estate economics are inherently cyclical, driven by macroeconomic fluctuations, debt maturity cliffs, and interest rate adjustments. During significant down cycles, distressed real estate assets experience sharp valuation corrections, frequently trading for pennies on the dollar relative to their original development costs or prior open market appraisals. Well capitalized private equity funds and investors deploy deep pools of cash to purchase distressed assets at historic discounts, operating with the explicit strategic knowledge that the local economy will eventually correct and transition into an up swing.

2. The Commercial Stagnation Loophole

The post pandemic shift away from traditional commercial centers has created structural vacancies across Oakland's office core. With in-person work rates permanently altered, commercial buildings are facing severe valuation corrections. And while office towers capture major headlines, regional data shows that neighborhood retail assets and commercial strip malls experience a parallel form of distress during economic down

cycles. Rather than restructuring debts or repurposing buildings, institutional lenders frequently execute foreclosures or deeds in lieu of foreclosure.

Current OMC Chapter 4.20 exempts foreclosure and deed-in-lieu transfers from Oakland's Real Property Transfer Tax, creating a preferential acquisition pathway for distressed commercial asset investors.

3. Subsidizing the Corporate Elimination of Starter Homes

When a property falls into financial distress and enters foreclosure, it hits a shadow market completely inaccessible to the public. These trustee auctions take place on the courthouse steps and require buyers to purchase the property using 100 percent raw cash or cashier checks immediately on the spot. Traditional mortgages are prohibited, structurally blocking regular families from competing.

In our residential neighborhoods, national real estate investment trusts (REITs) and Wall Street hedge funds routinely outbid local working class families at trustee auctions. These institutional entities buy foreclosed starter homes tax free. This loophole actively subsidizes the rapid conversion of owner-occupied housing into corporate owned rental portfolios, permanently raising the barrier to affordable homeownership for local residents.

II. STRATEGIC POLICY PILLARS: HOW THE TAX SHIFTS BEHAVIOR

1. Driving Commercial Conversions via the Conversion Carrot

To actively solve the commercial vacancy crisis, the measure introduces a carrot and stick dynamic. While a standard institutional foreclosure will now trigger transfer tax liabilities, the amendment makes adaptive reuse—conversion of properties to housing, shelter, or healthcare facilities—exempt. Investors of distressed commercial properties are completely exempt from the transfer tax *if* they certify and convert the commercial asset into interim shelter, single room occupancy (SRO) housing, or local community health facilities within 36 months of the transfer.

2. Altering Lender Calculus: Incentivizing "Workouts" over Foreclosures

The RESTORE Act eliminates the foreclosure transfer tax exemption subjecting incoming investors to standard progressive Measure X tax rates. By forcing the incoming investor to internalize a standard transfer tax at auction, the policy lowers the ultimate recovery value for non-performing loans on the courthouse steps. This structural shift in private market economics indirectly pressures lenders to look beyond the auction block.

Sophisticated investors at auction price in all transaction costs such as transfer taxes when calculating their maximum bid. A transfer tax that raises acquisition costs for auction buyers therefore compresses the auction clearing price, reducing what the lender ultimately recovers on a non-performing loan. This narrowed recovery margin — relative to a cooperative short sale or loan modification that avoids the auction entirely — alters the lender's cost-benefit calculus upstream, before foreclosure proceedings begin. Lenders become more motivated to work with struggling local homeowners early to execute cooperative loan modifications or approve swift open market short sales directly to traditional buyers, preventing corporate displacement before a formal default transfer ever occurs.

The result is indirect but structural: lenders facing lower expected auction recoveries have a stronger financial incentive to pursue early workout agreements, loan modifications, or approved short sales to traditional buyers, all of which bypass the transfer tax entirely.

3. Activating the Work-Ready Self-Sufficiency Pipeline

The companion advisory measure directs new revenues to surge new shelter and encampment closures. The RESTORE Oakland Act funds shelter, paired with job training and addiction treatment, to get people off the street and on the path to self-sufficiency.

Interim sites, critical for encampment closures, are at risk for shutting down due to expiring temporary funding streams, risking a massive wave of street displacement. Oakland has a severe inventory bottleneck: **out of 1261 interim beds in the city of Oakland, there are only 26 that are open city wide** at this time.

The RESTORE Act's goal is to prioritize the work-ready unhoused population. Regional data shows that 20 to 25 percent of individuals in encampments are work ready, possessing job skills or active employment. However, our current response system heavily prioritizes high acuity chronic placement, leaving these capable individuals stuck in encampments for extended periods. This measure fills these gaps with:

- **Shelter Expansion Targets:** Mandates new interim shelter bed targets each year for public accountability and focus on low-cost interventions. These modular cabin sites provide immediate baseline stability, security, and a physical address.
- **Employment Supports:** The program supports job readiness for sheltered homeless, who can be hired to clean trash, beautify neighborhoods, and other goals. This directly addresses public street blight while providing participants with an immediate income, a structured work history, and a clear pathway to private employment.

- Medi-Cal Revenue Leverage:** To maximize local tax dollars, the operational model enables behavioral health and addiction treatments deployed at interim sites be structured to bill directly to Medi-Cal. This leverages outside state and federal dollars, preserving City revenue strictly for infrastructure and direct employment.

III. PROJECTED 10-YEAR POLICY Trajectory

Without this intervention, ongoing foreclosures and inadequate shelter capacity will cause worsening homelessness.

Dimension	Status Quo	RESTORE Oakland Goal
Economic Downtime Resilience	Municipal revenue collapses during recessions, forcing severe cuts to emergency shelters.	Foreclosure tax collections automatically scale up during recessions, anchoring the city budget when shelter demands peak.
Office Core Management	Distressed commercial assets sit gridlocked, vacant, and untaxed.	Exemption drives rapid adaptive reuse conversions into housing assets.
Single-Family Market Dynamics	Subsidizes high-capital cash buyers over local working families.	Removes corporate tax advantage , leveling the playing field for local homebuyers.
Lender Behavior	Prioritizes foreclosure and eviction due to tax free liquidation paths.	Narrows auction clearing prices, altering lenders’ upstream calculus towards alternatives to foreclosure
Shelter Infrastructure Capacity	Declining after long stagnation	Targets for accountability: every \$50,000 generated connects to shelter bed capacity.
Visible Blight Impact	Sidewalk trash and encampments grow unchecked.	Active work ready crews deployed to citywide sanitation operations.

RECOMMENDED ACTION

Approve the resolution submitting the **RESTORE Oakland Measure** to voters at the November 3, 2026, General Municipal Election. There is no basis for taxing working peoples’ home purchases at a higher rate than foreclosure speculators.

By voting for this measure, we use the tax code to reform real estate market behavior, unlock our vacant commercial core, and fund the shelter and job readiness bridge that allows Oaklanders to get back on their feet.