City and County of San Francisco

Office of the Controller – Office of Economic Analysis

Increasing the Real Property Transfer Tax (Amended): Economic Impact Report

Item #100750

Office of Economic Analysis

July 14, 2010

Introduction

- The City charges a tax on the transfer of real property, residential and commercial, equal to a percentage of the property's sale price.
- The tax is progressive in that sellers of higher-valued properties pay a higher tax rate.
- The proposed legislation would split the highest bracket, and raise the tax rates in the two highest brackets only.

Current and Proposed Transfer Tax Rates

Current Transfer Tax

Sales Price	Tax per $500 Value	Effective Percentage Tax Rate
<$250k	$2.50	0.50%
$250k -$1M	$3.40	0.68%
$1M - $5M	$3.75	0.75%
$5M+	$7.50	1.50%

Proposed Transfer Tax

Sales Price	Tax per $500 Value	Effective Percentage Tax Rate
<$250k	$2.50	0.50%
$250k -$1M	$3.40	0.68%
$1M - $5M	$3.75	0.75%
$5M - $10M	$10.00	2.00%
$10M+	$12.50	2.50%

Only properties selling for above $5 million would be affected by the tax. These are primarily commercial properties, and the vast majority of commercial properties would be affected.

Fiscal Impact of the Proposed Increase

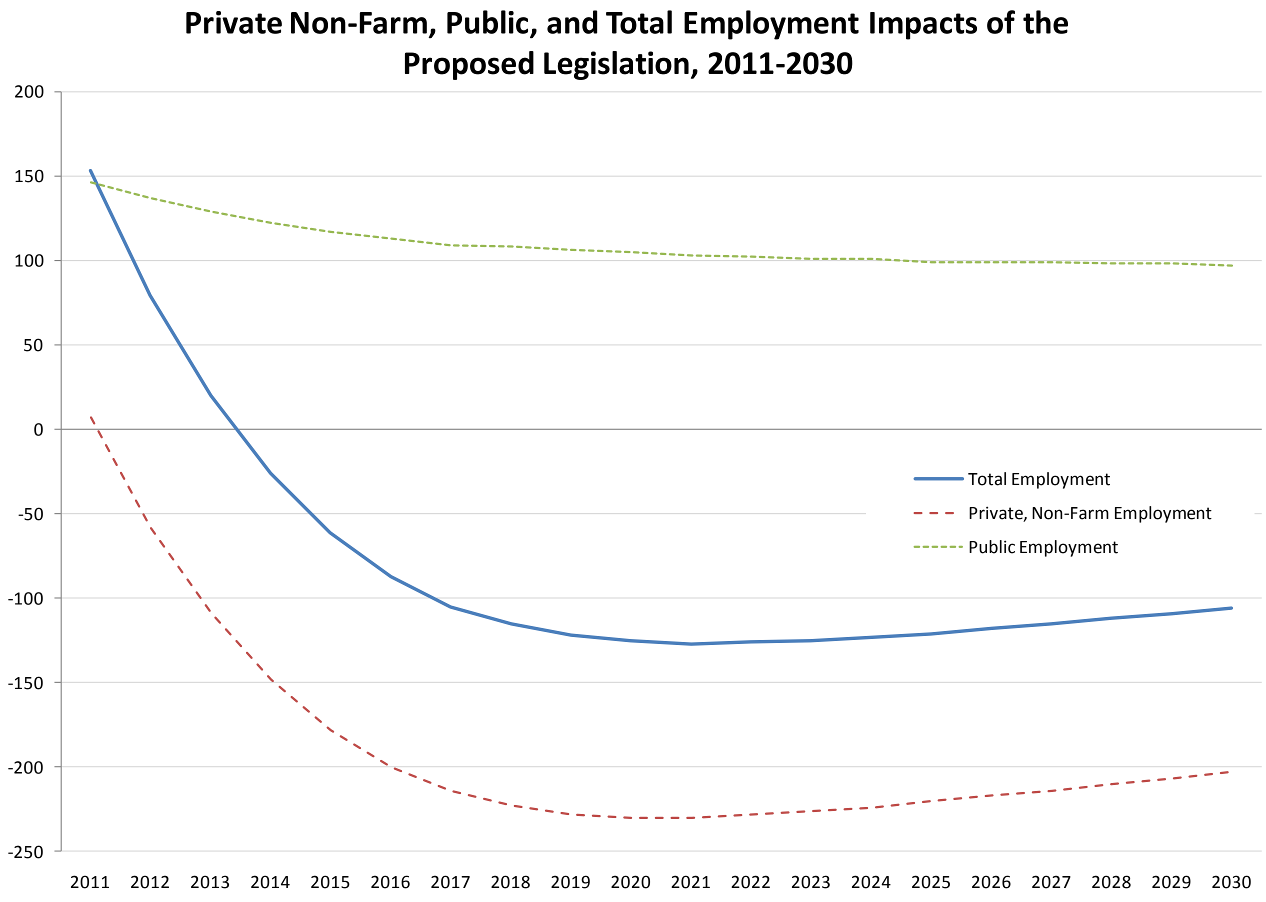
- The transfer tax is the City's most volatile tax revenue, and estimating changes to the tax involves high levels of uncertainty.
- If the proposed rates had been in effect the past nine years, the revenue gain would have fluctuated from $6M to $90M, with an average gain of $35M.

Fiscal Year	Revenue: Current Rates	Revenue: Proposed Rates	Gain Under Proposed
FY01	$85.2	$113.4	$28.2
FY02	$53.2	$59.8	$6.6
FY03	$56.9	$62.8	$5.9
FY04	$95.9	$114.3	$18.3
FY05	$160.6	$216.1	$55.5
FY06	$190.4	$266.7	$76.3
FY07	$203.3	$293.2	$89.8
FY08	$112.9	$144.3	$31.4
FY09	$52.8	$59.1	$6.3
			$35.4 Average Gain

Economic Impact Factors

- The vast majority of affected properties would be commercial real estate, particularly offices.
- These value of these would be reduced, both because of the higher tax payment upon transfer, and because a future buyer would pay less for a property with a larger transfer tax attached to it.
- Sellers would not be able to pass the tax on to buyers at the time of transfer. However, since essentially all office owners are affected, they would be able to raise rents on current tenants to offset their reduction in asset value.
- This pass-through would make San Francisco less competitive and reduce job growth relative to what it would be without the tax. The increased revenue to the City would be a countervailing economic benefit.
- The analysis on the next page assumes the tax is worth $35 million a year to the City, that 80% of office space in San Francisco is renter-occupied, and that commercial landlords can pass through 90% of the tax value to tenants in professional services & financial services, and corporate headquarters.

Economic Impact of Higher Rent and Government Spending



The initial impact of the legislation is positive for jobs and the economy, as the stimulus effect of increased government spending outweighs the contractionary effect of higher office rents. After year 2013, however, the loss of private sector jobs outweighs the public sector job benefit, for net job losses through 2030.

The average 20-year job loss is 180 private sector jobs, and 80 jobs in the public & private sectors. The average reduction to City GDP over 20 years is $30 million.

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