Real Property Transfer Tax

Description

Real Property Transfer Tax revenues are generated from the transfer of ownership of real property. This tax is applied to the sale price of the property and may be paid by either the buyer or the seller, or the buyer and seller may split the payment. Property Transfer Tax is one of the City's most economically sensitive revenues, increasing during times of economic expansion and contracting during a slowdown.

Size[1]

FY 2004-05 Budget: $70.00 million, or approximately 3.3 percent of General Fund resources.
FY 2003-04 Actual: $78.85 million, or approximately 3.8 percent of General Fund resources.
FY 2002-03 Actual: $51.48 million, or approximately 2.6 percent of General Fund resources.
FY 2001-02 Actual: $47.27 million, or approximately 2.4 percent of General Fund resources.
FY 2000-01 Actual: $62.34 million, or approximately 3.1 percent of General Fund resources.

Key Authorizing Statute(s)

San Francisco Business Tax & Regulation Code, Article 12-C, Sections 1101 through 1116.

Revenue Base

Transactions of real property (land and improvements) within the City provide the revenue base. Since there is comparatively less raw land for new development within San Francisco, most property transfer tax comes from sales of existing real estate, rather than newly created properties or subdivisions. During the past few years, however, several new high-rise condominium projects, hotels and office complexes have been completed, and their sales have added to the revenue stream.

Tax/Rate Structure

Between 1967 and October 15, 1994, the property transfer tax rate was 0.50 percent on all sales values. The new rate structure adopted in October 1994 is three-tiered, depending on the value of the transaction. Rates are the same for commercial and residential properties.

Value of Transaction	Tax Rate
>$100 and < or = $250,000	0.50%
>$250,000 and < $1,000,000	0.68%
= or > $1,000,000	0.75%

[1] Resources are defined here as operating revenues and transfers in.

Real Property Transfer Tax Rates can vary by jurisdiction and have both a city and county component. The table below summarizes transfer tax rates for the 10 largest cities in California as well as neighboring jurisdictions in Alameda County. Our rate is shown as an average, since it is three-tiered, unlike other jurisdictions that seem to have a single rate regardless of the size of the sales price.

Trends & Projections

Property Transfer Tax revenue is based upon the number and value of property transactions. Revenue grew in mid-1990s after a dip during the recession at the start of that decade. Beginning shortly after the first quarter of FY 1994-95, the new property transfer tax rate structure was introduced, increasing rates for properties with a sales value of more than $250,000. Between FY 1995-96 and FY 1999-2000, Property Transfer Tax revenue growth was in double digits, due in large part to increases in the value of transactions. Real Property Transfer Tax revenue is one of the most volatile revenues for the City, dropped over 30 percent from FY 1999-00 at $69.9 million to FY 2001-02 at $47.3 million, bounced back 67 percent attaining $78.9 million in FY 2003-04, and is projected to reach its FY 2004-05 peak at $93.6 million, almost doubling the FY 2001-02 level. These strong revenue levels are driven by low mortgage rates and the likelihood of rising interest rates by mid-2005, which is providing additional incentive for real estate transactions to occur sooner than later. The table below summarizes the last twenty plus years of revenue activity. The double-digit growth rates, both positive and negative year-over-year, exemplify the heightened volatility of this revenue stream.

Trends in both the residential and commercial real estate markets affect property transfer tax projections. Home prices in San Francisco declined in the mid-1990s, and then began to climb again by 1996. In San Francisco in the late 1990s, many residential properties shifted from the lowest tax tier (transaction value at or under $250,000) to the middle and highest tax tiers (also known as “bracket creep”), contributing to increased revenue. The economic downturn in 2001 and 2002 resulted in downward pressure on asking and sales prices and lower transaction volume in parts of the million-dollar-plus housing market segment generally, but sales prices and volumes of residential properties under $1 million fared much better.

The value and volume of commercial property transactions increased with the record-breaking low vacancy rates and high rental rates in the late 1990s. Economic softening, particularly in the high technology and dot-com sector, resulted in increasing office vacancy rates and falling rental rates by early 2001 and continuing through 2002.

Real Property Transfer Tax receipts have traditionally lagged behind an economic upturn or downturn by four to six months, which often represents the time it takes for transactions to be completed. Given the particularly attractive interest rate environment as well as real estate likely being seen as a ‘safer harbor’ than other investment classes in recent history, this revenue has been doing better sooner in the economic recovery cycle than one would have otherwise anticipated.

	Fiscal Year	Real Property Transfer Tax Revenue ($000)	Annual Growth: $ Change ($000)	Annual Growth: % Change
	FY 1982-83	$ 11.85		
	FY 1983-84	$ 12.96	$ 1.11	9.3%
	FY 1984-85	$ 13.87	$ 0.92	7.1%
	FY 1985-86	$ 18.79	$ 4.91	35.4%
	FY 1986-87	$ 19.06	$ 0.27	1.4%
	FY 1987-88	$ 19.19	$ 0.13	0.7%
	FY 1988-89	$ 24.79	$ 5.60	29.2%
	FY 1989-90	$ 20.72	$ (4.07)	-16.4%
	FY 1990-91	$ 13.70	$ (7.02)	-33.9%
	FY 1991-92	$ 13.80	$ 0.10	0.8%
	FY 1992-93	$ 13.07	$ (0.73)	-5.3%
	FY 1993-94	$ 15.86	$ 2.79	21.4%
	FY 1994-95	$ 20.04	$ 4.18	26.4%
	FY 1995-96	$ 22.97	$ 2.93	14.6%
	FY 1996-97	$ 33.57	$ 10.61	46.2%
	FY 1997-98	$ 44.01	$ 10.43	31.1%
	FY 1998-99	$ 56.13	$ 12.13	27.6%
	FY 1999-00	$ 69.88	$ 13.75	24.5%
	FY 2000-01	$ 62.34	$ (7.55)	-10.8%
	FY 2001-02	$ 47.27	$ (15.07)	-24.2%
	FY 2002-03	$ 51.48	$ 4.21	8.9%
	FY 2003-04	$ 78.85	$ 27.37	53.2%
Budget	FY 2004-05	$ 70.00	$ (8.85)	-11.2%
Actual YTD	FY 2004-05	$ 72.04	$ 2.04	2.9%
Six-Month Projection	FY 2004-05	$ 93.58	$ 14.73	18.7%

Note: FY 2004-05 actual year-to-date exceeds budget by $2.04 M.

Sensitivities
Real Property Transfer Tax revenue may be affected by the following major factors:

- Number of properties sold
- Sales prices
- Housing stock availability
- Redevelopment
- Jobs growth
- Interest and mortgage rates
- Personal income growth and
- Consumer confidence

In general, Property Transfer Tax is sensitive to changes in overall economic conditions, particularly interest, mortgage, and employment rates. A decline in interest rates will usually lead to an increased number of transactions, while a decline in employment rates will often result in decreased transactions. Transactions of high-price properties, such as large apartment buildings or office complexes, also contribute to volatility. Revenue from these high-value transactions is likely to drop during an economic downturn, as the income-generating potential, and thus asking price, of such properties will deter owners from placing them on the market. However, that being said, the attractiveness of real estate as an asset class (i.e. being a 'safer harbor') relative to other investment classes, such as stocks or bonds, can also impact this revenue favorably as real estate may become even more appealing to both institutional and individual investors.