

VOTE "NO."

CITY OF LOS ANGELES "MANSION TAX" MEASURE ULA - TRANSFER TAX

City of Los Angeles: Measure to Add Tax on Property Sales Over \$5 Million

Setting the Stage

On November 8, 2022, Los Angeles residents will decide the fate of a measure that seeks to increase taxes on City of Los Angeles property sales to fund new affordable housing units and services, including down-payment assistance and eviction prevention.

The measure will add a transfer tax rate of 4.0% for residential and commercial property sales of \$5.0 to \$9.9 million and 5.5% for sales valued at \$10 million or more. This is in addition to the existing transfer tax of 0.45% for any sale.

Transfer Taxes if the Measure Passes

The sales volume of City of Los Angeles properties sold at \$5 million or higher totaled \$13.3 billion in 2021, yielding a transfer tax collection of \$60.0 million under current law. If the measure would have been in effect in 2021, then the new tax collections would have totaled \$735.3 million, a differential of \$615.2 million.

Taken at the property-level, the hypothetical sale of a \$50 million office building would result in tax collections of \$2,975,000 under the new measure compared to \$225,000 prior to its passage; a \$2,525,000 differential, or a 1,222% increase.

City of Los Angeles Property Sales in 2021 Commercial and Residential

The Current Transfer Tax

	Number of Properties Sold	Sales Volume	Current Transfer Tax Rate	Current Transfer Taxes Collected
Properties Sold for \$5 to 9.9 Million	575	\$3,903,175,908	0.45%	\$17,564,292
Properties Sold for \$5 to 9.9 Million	362	\$9,438,947,360	0.45%	\$42,475,263
Totals	937	\$13,342,123,268		<u>\$60,039,555</u>

Additional + Current Transfer Tax

	Number of Properties Sold	Sales Volume	Additional Transfer Tax Rates	Additional Transfer Taxes Collected	Additional + Current Transfer Tax Collections
Properties Sold for \$5 to 9.9 Million	575	\$3,903,175,908	4.0%	\$156,127,036	\$173,691,328
Properties Sold for \$10+ Million	362	\$9,438,947,360	5.5%	\$519,142,105	\$561,617,368
Totals	937	\$13,342,123,268		\$675,269,141	<u>\$735,308,696</u>

Source: Newmark, LandVision

United to House LA, which collected the signatures to put the measure on November's ballot, estimates the tax could generate revenue of up to \$875 million per year and lead to the creation of 26,000 new housing units in the first ten years of the measure's implementation. Misleadingly named the "mega mansion tax" by advocates, additional transfer tax collections will go into effect on April 1, 2023 if the measure is enacted; properties that provide affordable housing will be exempt.

Implications for Commercial Real Estate and Current Residents

Sellers usually pay the transfer tax in California, and according to several Los Angeles property owners, passage of the measure would decrease the property values of properties over \$10 million by 5.5% due to the added transactional costs sellers would have to pay. To compensate for lost value, owners will likely impose higher rents on tenants before they sell.

A reduction in sales volume is another concern. Land-owners, for instance, will be hesitant to bring their sites to market if property values are lower, which works against the measure's goal of building additional affordable housing. One cannot build without land. While the long-term ramification of the measure's passage remain to be seen, developers with under construction projects currently underway stand to lose money when they sell. Future developers will know the law to underwrite accordingly.

Any increase in taxes – whether at the city-, county- or state-level – negatively impacts California's reputation as a business-friendly state, which is already poor. Based on 2021 studies, Chief Executive ranked California as last in the nation, CNBC placed it at 32nd and Forbes had it as 29th. Forbes ranked Arizona and Texas as 17th and third, respectively; both states are the beneficiaries (among others) of businesses and high-net worth residents relocating out of state. These themes and others were explored in a Newmark whitepaper published in early 2021, entitled "[Are High Profile Company Departures and Issue for California's Economic Future?](#)"

Source: Bloomberg, Business Insider, California Association of Realtors, Chief Executive, CNBC, CoStar, Esri, Forbes, Los Angeles Times, NBC Los Angeles, SmartAsset, The Real Deal, UCLA, United to House LA

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