OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

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Mr. John Arntz
Department of Elections
City Hall 1 Dr. Carlton B. Goodlett Place Room 48
San Francisco, CA 94102-4689

December 11, 2023

RE: Proposition C – Real Estate Transfer Tax Exemption and Office Space Allocation

Dear Mr. Arntz,

Should the proposed initiative ordinance be approved by the voters, in my opinion, it would significantly decrease the City's transfer taxes revenues. Revenue losses from the proposed initiative ordinance would be dependent on the number of properties converted then transferred and the transferred properties' transfer tax rates but could range from $34 million to $150 million if 5 million square feet of converted properties are transferred over the 30-year period. However, the revenue impact to the City will likely be further affected, depending on future decisions by office lessees and property investors, as described below.

The proposed initiative ordinance would amend the Business and Tax Regulations Code, waiving the current real property transfer tax rate of up to 6% for first time transfers on non-residential properties converted to residential use. The tax exemption will apply to the first 5 million square feet of converted property that applies for a qualifying certificate from the Planning Department Additionally, the ordinance would reduce square footage requirements on office developments where a former office space was demolished.

Over the 30-year period, if the 5 million square foot cap is reached, revenue loses could range from approximately $34 million if only condominiums were transferred at the .68% transfer tax rate, to approximately $150 million if only apartments were transferred at the 6% rate. For context, in Fiscal Year (FY) 2022-2023, revenue from the real property transfer tax was $186.2 million. It is important to note that property transfer tax revenue is the City's most volatile revenue source.

Additionally, the City's revenue loss may be subsequently increased, or diminished, depending on the property acquired, and the behavior of investors. These impacts may be complex, because office and residential properties pay property tax to the City, while many office tenants pay the gross receipts tax and other business taxes to the City.

- If the Transfer Tax exemption makes residential conversion of a permanently-vacant office building financially feasible, the City would lose transfer tax, because of the exemption, but would likely gain a greater amount of property tax, because the new residential property has a higher value than the vacant office building.

- If the transfer tax exemption makes residential conversion of an office building financially feasible, but that building would have been eventually occupied by future office tenants, the exemption would most likely lead to a net negative revenue impact for the City. The City would lose transfer tax because of the exemption, gain property tax from the new residential investment in the property, but would forego business taxes from future tenants of the office building. In this scenario, the business tax loss would likely exceed the property tax gain, given the comparative rates of the two taxes. The City could additionally face foregone property taxes from potential office investors, who are not eligible for the exemption.

The proposed initiative ordinance would also authorize the Board of Supervisors to amend or repeal any aspect of the real property transfer tax, including adding additional exemptions, without voter approval to the extent that it's permitted by the California constitution.

Sincerely,

Ben Rosenfield
Controller

Note: This analysis reflects our understanding of the proposal as of the date shown. At times further information is provided to us which may result in revisions being made to this analysis before the final Controller's statement appears in the Voter Information Pamphlet.