

The Unintended Consequences of Excessive Transfer Taxes

PREPARED BY SAGE POLICY GROUP, INC.
ON BEHALF OF THE COMMUNITY COALITION FOR JOBS AND HOUSING
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A Sage Analysis



The Unintended Consequences of Excessive Transfer Taxes

EXECUTIVE SUMMARY

In recent years, there have been notable increases in real estate transfer taxes, which are levied on the sale of property by local and/or state governments and are typically defined as a percentage of a property's sales price. In California, for instance, there were 20 ballot initiatives to raise transfer taxes between 2010 and 2020, 13 of which were approved by voters. Sage Policy Group (Sage) was commissioned to examine their economic and fiscal effects in the context of a post-pandemic world.

This report makes no attempt to assail the validity of transfer taxes as instruments of public policy. It also does not seek to diminish the importance of public revenues to support the provision of key services ranging from education and public safety to park and road maintenance. Rather, this report is intended to supply insight for policymakers and other stakeholders regarding the myriad considerations that should enter assessments of appropriate transfer tax rates.

KEY FINDINGS

Based on a combination of literature review, economic analysis, hypothetical case studies, and logic, Sage analysts conclude the following:

- Transfer taxes tend to be regressive, meaning that they disproportionately impact lower income households in the market for property, and seemingly small increases in transfer taxes can result in substantial decreases in housing affordability. This has an outsized impact on first-time homebuyers.
- In a case study of a first-time homebuyer with \$41,300 saved for upfront costs, a 2-percentage point increase in closing costs causes a 16 percent decrease in the homes they can afford.
- There is outsized need for adaptive reuse of existing commercial properties given significant office vacancy in the context of remote work, retail closures as e-commerce continues to acquire market share, and under-occupied hotel space, for which the occupancy rate fell from 65.9 percent in 2019 to 57.6 percent in 2021. Higher transfer taxes would make these properties less likely to be redeveloped.
- Sizable transfer tax increases can render large commercial transactions infeasible. In an analysis of the 3.5 percentage point increase in San Francisco's transfer tax on sales of \$100 million or more, the increase leads to a nearly 20 percent reduction in the rate of return on the sale of a large commercial property.
- A recent analysis by the San Francisco Comptroller estimated that the doubling of transfer taxes on high value properties would reduce investment in commercial properties by \$193 million annually and reduce investment in residential properties by \$300 million annually. If half of that investment was spent on construction, the higher transfer tax rates would cost the city 2,300 jobs, nearly \$150 million in labor income, and over \$420 million of economic activity.
- Transfer taxes present a number of important public revenue considerations. Governments prefer consistent revenues in forming annual budgets and fashioning long-term strategies. Transfer tax revenues tend to be highly volatile, particularly in communities associated with the highest transfer tax rates like San Francisco.



- By lowering property valuations, therefore reducing property tax revenues over time, and pricing out first-time homebuyers, therefore limiting population growth, higher transfer taxes can reduce funding for public school systems. As of 2016, more than 70 percent of all local government tax revenue was generated by property taxes, and local governments provided nearly half of the funding for public education.

Sage's findings are consistent with those reached by others:

- A 1993 study found that when Philadelphia increased transfer tax rates from 3.5 percent to 5.07 percent, sales prices of homes declined by more than 8 percent.
- A 2020 analysis conducted by the San Francisco Office of the Controller concluded that because of the increase in transfer tax rates, “real incomes of San Francisco households would decline, on average, because of the lower incomes and higher housing prices. San Francisco would become less attractive economically as a place to live.”
- A 2005 analysis that examined 16,000 households in the Netherlands demonstrated that a 6 percent transfer tax paid by purchasers would significantly affect the likelihood of households moving. Specifically, a one percentage point increase in the cost of purchasing a home would decrease residential mobility by at least 8 percent.
- A 2011 study in Toronto determined that the city's 1.1 percent transfer tax caused a 15 percent decline in the tally of sales and a decline in home prices roughly equivalent to the tax. The authors conclude that, “relative to an equivalent property tax, the associated welfare loss is substantial, about \$1 for every \$8 in tax revenue.”
- A 2016 study in Germany estimated that an increase of a single percentage point in transfer tax rates diminishes the number of sales of single-family homes by 6 percent. That analysis also found that each additional dollar in revenues generated by transfer taxes causes a 67-cent deadweight loss.
- An alternative perspective is provided by a 2017 study that examined transfer tax exemptions available in Great Britain in 2008 and 2009. These exemptions produced a 20 percent increase in sales in the residential market in the short term.

IN SUMMATION

Transfer tax increases have negative economic consequences for both the residential and nonresidential segments. They are regressive and can lead to decreases in population, real incomes, real estate transactions, investment in structures, and quality of the built environment. They are also associated with higher rents, lower property valuations, reduced residential mobility, and diminished homeownership.

The negative impacts of elevated transfer tax rates stand to be exacerbated by the increased prevalence of remote work, lingering weakness in office space net absorption, elevated mall vacancy rates, and diminished hotel occupancy. Many properties will need to be upgraded and/or adaptively reused to remain viable. Excessive transfer tax rates can frustrate the exchange of property that is often required to return to commercial viability.

Communities that support significant adaptive reuse and investment will prosper, while those that do not will experience increasing vacancy and abandonment, declining property values and quality of life, and sagging commercial real estate assessments. This is the context in which transfer tax rate-setting should be considered.



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TRANSFER TAXES AND SOME RECENT HISTORY

Real estate transfer taxes are imposed on the sale of property. These taxes may be imposed by local and/or state governments and are typically defined as a percentage of the property's sales price. The buyer and/or the seller may pay these taxes.

Transfer tax payments are one-time events. They are part of the closing costs for property transactions and add to the cost of acquiring (and/or selling) property. Governments apply these taxes to all types of property, residential and commercial.

There is an economic logic to the existence of transfer taxes. To facilitate transfers, government must support a legal system that establishes and defends rights between parties, maintains records and defends title over the course of decades while regulating the banking and lending structures that often support these transfers. This report makes no attempt to assail the validity of the existence of transfer taxes. It also does not seek to diminish the importance of public revenues to support the provision of key services ranging from education and public safety to park and road maintenance. Rather, this report is intended to supply insight for policymakers and other stakeholders regarding the panoply of considerations that should factor into an analysis of appropriate transfer tax rates.

Over the last several years, there have been notable increases in transfer tax rates across America. The Sage study team supplies the following examples as being illustrative of some of the shifts, but by no means is this a definitive list of all such increases.

Between 2010 and 2020, there were 20 ballot initiatives to raise transfer taxes in California. To become law, these initiatives require majority approval of city voters. These initiatives took place in either Los Angeles County or the San Francisco Bay region. Voters approved 13 of these initiatives.¹

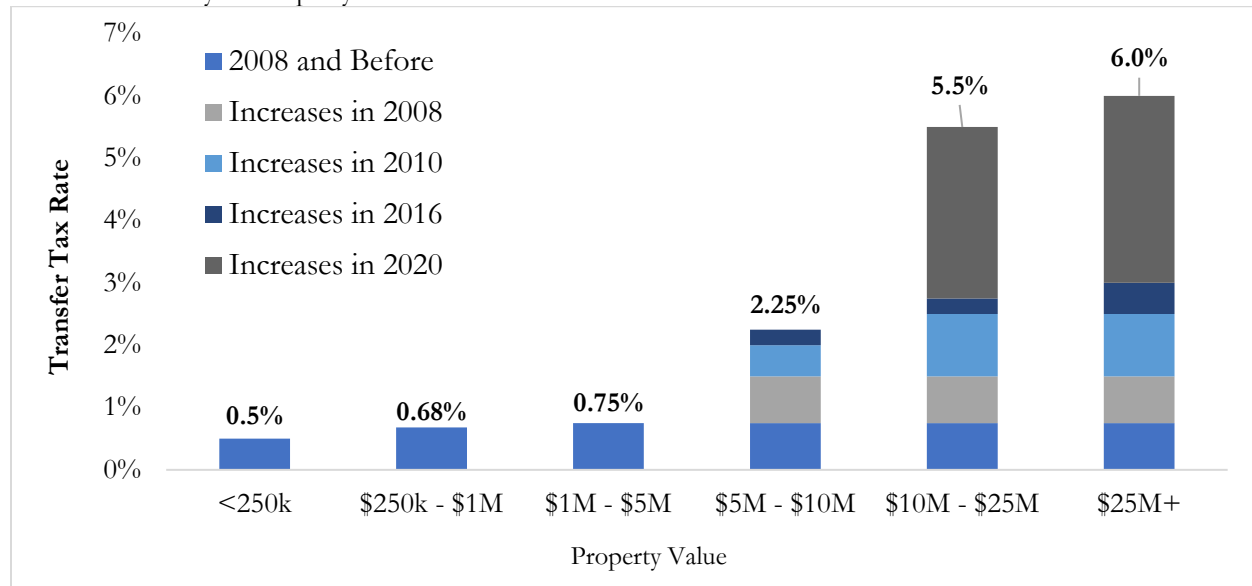
One of the most substantial rate increases occurred in San Francisco, which has witnessed four increases in these tax rates since 2008. These increases, however, have only applied to properties with a value exceeding \$5 million. Prior to 2008, transfer taxes in San Francisco were uniformly applied to property sales with a maximum rate of 0.75 percent of the property value for properties valued over \$1 million. Tax rate increases in 2008, 2010, and 2016 collectively raised the transfer tax rates on properties costing \$5 million to \$10 million to 2.25 percent. For properties costing \$10 million to \$25 million, the rate increased to 2.75 percent. For properties associated with sales prices exceeding \$25 million (which would encompass many commercial properties, though only a handful of residential

¹ California Tax Foundation, "Local Tax Trends in California A Survey of Ballot Measure Elections from 2010-2020", September 1, 2021. <https://www.caltax.org/foundation/reports/2021-Local-Tax-Trends-in-CA.pdf>



ones), the rate increased to 3 percent. Voters approved the most recent increase in November 2020. That one doubled the rate for properties selling for between \$10 million and \$25 million from 2.75 percent to 5.5 percent. For properties worth more than \$25 million, the rate doubled from 3 percent to 6 percent.² Exhibit 1 supplies pertinent summary detail.

Exhibit 1: History of Property Transfer Tax Rates in San Francisco



Source: City & County of San Francisco, Office of the Controller

Voters in Culver City in Los Angeles County also approved a ballot initiative to increase transfer taxes in that jurisdiction in November 2020. The prior transfer tax rate was 0.45 percent for all properties. The new transfer tax rates vary by property value. For properties selling for \$1.5 million or more, the rate increased to 1.5 percent, a rate increase of 233 percent. For properties selling for \$3 million or more, the rate increased to 3 percent, an increase of 567 percent. For properties valued at \$10 million or more, the rate increased to 4 percent, an increase of 789 percent.³ These rates are especially impactful on the transfer of office buildings, shopping centers, hotels, and other commercial segments wherein it is not unusual for individual properties to sell at higher prices.

California is not alone. Major Pennsylvania cities have also raised transfer tax rates in recent years. In December 2017, the Pittsburgh City Council voted to increase the City's real estate transfer tax in two stages. On February 1, 2018, the transfer tax rate increased from 3 percent to 3.5 percent. In January 2020, the rate increased from 3.5 percent to 4 percent. Property sales in Pittsburgh are also subject to

² City & County of San Francisco, Office of the Controller, Office of Economic Analysis. "Increases to the Transfer Tax Rate for Properties Over \$10 Million: Economic Impact Report". 9/23/2020

https://sfcontroller.org/sites/default/files/Documents/Economic%20Analysis/200654_economic%20impact_final.pdf

³ "New Culver City tax will cost commercial property owners millions," November 13, 2020

<https://www.bomaonthefrontline.com/2020/11/13/new-culver-city-tax-would-cost-commercial-property-owners-millions/>



a Commonwealth of Pennsylvania transfer tax of 1 percent. Accordingly, Pittsburgh property sales are subject to a total transfer tax rate of 5 percent.⁴

In 2017, Philadelphia increased its transfer tax rate from 3 percent to 3.1 percent. A year later, the rate increased to 3.278 percent.⁵ Given the Commonwealth's transfer tax, property sales in Philadelphia are now subject to a transfer tax of 4.278 percent. The transfer tax rate in most of Pennsylvania outside of these two major cities is 2 percent.⁶

In 2019, New York State imposed an additional transfer tax on high value properties in cities with populations greater than 1 million (i.e., New York City). Known as the "Mansion Tax," this added transfer tax applies to properties selling for \$1 million or more and ranges from 1.0-3.9 percent.

The Mansion Tax is in addition to state transfer taxes that apply statewide and City transfer taxes. New York State's transfer tax is 0.4 percent for residences worth less than \$3 million as well as for nonresidential property selling for less than \$2 million. For residential and nonresidential properties trading above these values, the State imposes a transfer tax of 0.65 percent. New York City imposes a transfer tax of 1 percent on residences worth up to \$500,000 and 1.425 percent for more valuable residences. The City transfer taxes for nonresidential properties are 1.425 percent for properties worth up to \$500,000 and 2.625 percent for more valuable properties.⁷ This means that some properties face a transfer tax rate north of 7 percent.

In Delaware, the General Assembly increased the state transfer tax rate from 1.5 percent to 2.5 percent in 2017. This is reported to be the highest state transfer tax rate in the nation. The addition of local transfer taxes can increase the transfer tax rate to as much as 4 percent in parts of the First State.⁸

In 2019, Washington State enacted legislation replacing its flat real estate transfer tax rate with a graduated one. Previously, the State imposed a 1.28 percent tax on property sales. The new structure imposes a 1.1 percent tax on property valued up to \$500,000. For property selling from \$500,000-\$1.5 million, the rate is 1.28 percent. For property valued from \$1.5-\$3 million, the rate is 2.75 percent. For values of \$3+ million, the rate is 3 percent. This graduated tax structure reduced transfer taxes on properties worth up to \$500,000 while increasing rates for the most valuable properties.⁹

⁴ Thomson Reuters, Practical Law Real Estate. "Pittsburgh Increases Realty Transfer Tax Rates" January 19, 2018. <https://us.practicallaw.thomsonreuters.com/w-012-6994>

⁵ "Philadelphia Realty Transfer Tax rate increase is effective July 1, 2018" <https://panatptax.com/philadelphia-updates/>

⁶ Thomson Reuters, Practical Law Real Estate. "Philadelphia Passes Stricter Realty Transfer Tax Rules". December 22, 2016. <https://us.practicallaw.thomsonreuters.com/w-005-1524>

⁷ Friedman LLP, "How Changes to New York State Transfer Taxes Impact New York City," January 1, 2020 <https://www.friedmanllp.com/insights/how-changes-to-new-york-state-transfer-taxes-impact-new-york-city>

⁸ Burch, Mia, "It's time to lower the Delaware realty transfer tax," Delaware online, June 4, 2021 <https://www.delawareonline.com/story/opinion/2021/06/04/delaware-realty-transfer-tax-must-lowered/7515575002/>

⁹ Phillips, Shane, "A Call for Real Estate Transfer Tax Reform," UCLA Lewis Center for Regional Policy Studies, July 2020 <https://escholarship.org/uc/item/6wv6k272>



RESEARCH REGARDING THE RESIDENTIAL IMPACT OF TRANSFER TAXES

The most-researched aspect of transfer taxes pertains to their impacts on residential markets, though many of the same impacts are relevant to commercial markets (see the following section on this report on page 17). A 2019 Sage study examined the impacts of proposed increases in transfer taxes in Howard County, Maryland.¹⁰ Sage’s analysis concluded that because housing in Howard County is among the most expensive in Maryland, the burden of recordation and transfer taxes on typical home purchases is especially elevated. Importantly, any increase in these taxes would render it more difficult for first-time buyers to become homeowners and for existing homeowners to purchase homes more appropriate to their needs, such as expanding families. Home prices have skyrocketed since, with median prices in Howard County up more than 25 percent from the start of 2019 to the start of 2022, locking even more young families out of homeownership and exacerbating the economic dislocations produced by high and rising transfer tax rates.

Sage identified two other likely impacts of increased transfer taxes. The first was an increased likelihood that households seeking to purchase a home in Howard County would decide to purchase in another jurisdiction. As a consequence of decreased demand for housing in Howard County, property values would decline all things being equal. These lower property values would generate reduced tax revenues, which could offset any potential tax increases created by higher transfer and/or recordation taxes. A second implication is that wealth formation would be frustrated among both those families that own homes as well as those who can’t afford to purchase a home in the first instance.

Sage’s findings are similar to the findings of other analyses, which establish negative impacts of transfer taxes on sales volumes and home prices. For example, a 1993 study found that when Philadelphia increased transfer tax rates from 3.5 percent to 5.07 percent, sales prices of homes dropped by more than 8 percent.¹¹

Transfer taxes are not exclusive to the U.S. Accordingly, research regarding the effects of transfer taxes on residential real estate have been conducted in numerous nations. For instance, a 2011 study in Toronto determined that the city’s 1.1 percent transfer tax caused a 15 percent decline in tally of sales and a decline in home prices roughly equivalent to the tax. The authors of the study conclude that “relative to an equivalent property tax, the associated welfare loss is substantial, about \$1 for every \$8 in tax revenue.”¹² An analysis in Australia found that a 10 percent increase in stamp duties

¹⁰ Sage Policy Group, “Estimated Impact of Proposed Recordation and/or Transfer Tax Increases in Howard County, MD,” November 2019

¹¹ Benjamin, John D., N. Edward Coulson, and Shiawee X. Yang. “Real estate transfer taxes and property values: The Philadelphia story.” *The Journal of Real Estate Finance and Economics* 7, no. 2 (1993): 151-157

¹² Dachis, Ben, Gilles Duranton, and Matthew A. Turner. “The effects of land transfer taxes on real estate markets: evidence from a natural experiment in Toronto.” *Journal of Economic Geography* 12, no. 2 (2012): 327-354



associated with home purchases reduced sales by 3 percent the first year and 6 percent over a three-year period.¹³

A 2016 study in Germany estimated that an increase of a single percentage point in transfer tax rates diminishes the number of sales of single-family homes by 6 percent. That analysis also found that each additional dollar in revenues generated by transfer taxes causes a 67-cent deadweight loss (the cost to society created by a market inefficiency).¹⁴ An alternative perspective is provided by a 2017 study that examined transfer tax exemptions available in Great Britain in 2008 and 2009. These exemptions produced a 20 percent increase in sales in the residential market in the short term.^{15,16}

Aside from broad market impacts, transfer taxes can have negative impacts at the household/family level, notably in terms of reduced mobility and diminished homeownership. Transfer taxes are also regressive, having outsized impacts on lower-income households and first-time homebuyers.

LOCKED IN AND LOCKED OUT

Research indicates that transfer taxes can hamper residential mobility. For instance, a 2005 analysis that examined 16,000 households in the Netherlands demonstrated that a 6 percent transfer tax paid by purchasers would significantly affect the likelihood of households moving. Specifically, a one percentage point increase in the cost of purchasing a home would decrease residential mobility by at least 8 percent.¹⁷

An analysis of household moves in Finland before and after a significant increase in transfer taxes for apartments in multiple-unit buildings is also instructive. Transfer tax rates for single-family houses were not changed. The main analytical finding was that higher transfer taxes produce significantly negative impacts on mobility. An increase of 0.5 percentage points in the transfer tax resulted in a 7.2 percent reduction in mobility for those living in apartments in multiple-unit housing. These effects were even more pronounced for those seeking to move into larger housing units.

The diminished household mobility identified by the analysis was also tied to potential effects on the labor market. In other words, when people are locked into their housing, that can lock them out of upward mobility since people are also locked into a particular, perhaps stagnant labor market.¹⁸ In

¹³ Davidoff, Ian, and Andrew Leigh. "How do stamp duties affect the housing market?" *Economic Record* 89, no. 286 (2013): 396-410.

¹⁴ Buettner, Thiess, "Welfare Cost of the Real Estate Transfer Tax (February 09, 2017). CESifo Working Paper Series No. 6321, Available at SSRN: <https://ssrn.com/abstract=2924454> or <http://dx.doi.org/10.2139/ssrn.2924454>

¹⁵ Best, Michael Carlos, and Henrik Jacobsen Kleven. "Housing market responses to transaction taxes: Evidence from notches and stimulus in the UK." *The Review of Economic Studies* 85, no. 1 (2018): 157-193

¹⁶ Baudisch, Coletta Frenzel and Carolin Dresselhaus, "Impact of the German real estate transfer tax on the commercial real estate market," December 2018 https://www.researchgate.net/publication/330578643_Impact_of_the_German_Real_Estate_Transfer_Tax_on_the_Commercial_Real_Estate_Market

¹⁷ Van Ommeren, Jos, and Michiel Van Leuvensteijn. "New evidence of the effect of transaction costs on residential mobility." *Journal of Regional Science* 45, no. 4 (2005): 681-702

¹⁸ Eerola, Essi et al, "Revisiting the effects of housing transfer taxes" *Journal of Urban Economics*, July 2021 <https://www.sciencedirect.com/science/article/pii/S0094119021000498#bbib0022>



short, by suppressing residential mobility, transfer taxes can have a limiting effect on socioeconomic mobility, since moving remains a prerequisite to access many higher-paying jobs, even in the context of more pervasive remote work.

NEGATIVE IMPACTS ON THE HOMEOWNERSHIP LIFECYCLE

There is a pattern to homeownership rooted in an ability to buy and sell homes as needs evolve over a lifetime. The pattern begins with initial homeownership, which allows families to accrue significant equity, often for the first time. As families expand, the need for more space generates demand for move-up housing, which is typically associated with more square footage, more bedrooms, and often larger backyards and play areas.

During the pandemic, when an extraordinary fraction of America was working from home, the need for square footage expanded further as people sought room for home offices. Among the principal beneficiaries were retailers like Home Depot and Lowe's as people rendered improvements to basements, garages, and other spaces to better accommodate employment functions. Many people sought additional space simply because they were spending more time at home. Others needed space in which to exercise, with gyms closed or heavily restricted in many communities.

There is, of course, a group of people who seek less square footage and diminished need for lawn maintenance. Couples who become empty nesters often seek to downsize their homes. There is also a financial consideration. When people retire and come to rely on fixed incomes, accessing accumulated home equity via a sale can allow people to meet their financial obligations, including the costs of rent, healthcare, or of a new mortgage.

By increasing the cost of purchasing a home, higher transfer taxes have a ripple effect on this pattern of homeownership. Those seeking to be first-time homeowners face greater upfront costs to purchase a home, thereby reducing the potential number of first-time homebuyers. Families seeking to purchase larger homes because of expanding families and/or the advent of remote work may find it more difficult to sell their current homes at an acceptable price or more difficult to purchase the next (larger) home they seek. This impact extends to seniors, who are retired and on fixed incomes and who are depending on selling their homes to help finance their retirement. Diminished sales prices translate into less financial security for seniors.

In short, large transfer tax increases can disrupt a lifecycle model of housing whereby households adjust their housing as their needs change.

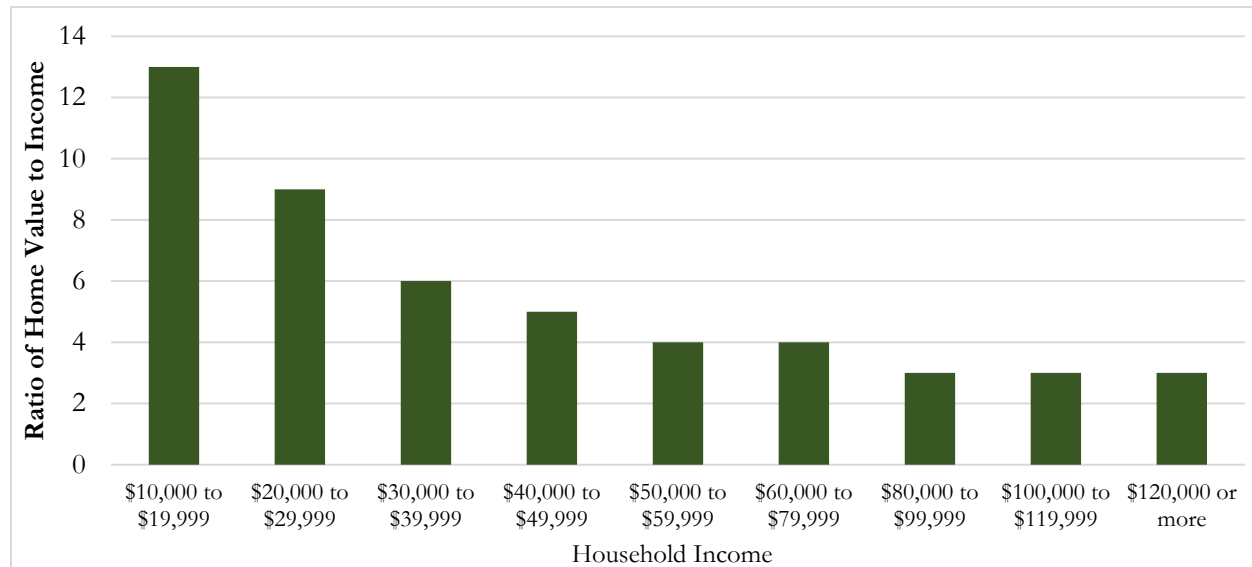


DISPROPORTIONATE IMPACTS ON LOW INCOME HOUSEHOLDS

Many analyses of homeownership and transfer taxes note that these taxes are regressive. In other words, they pose inequitable tax burdens on lower income households relative to higher income ones. A 2003 National Association of Realtors' analysis reviewed American Housing Survey data from 2001 and found that when average home values associated with a spectrum of household incomes were established (i.e., matching home values to incomes), the corresponding transfer tax burden could be calculated as a percentage of income. Assuming a transfer tax rate of 0.5 percent, the transfer tax cost translated into an effective tax rate of 4.2 percent for those with an income of \$12,500 and 0.8 percent for those with an income of \$150,000.¹⁹ That is the essence of regressivity.

Exhibits 2 and 3 revisit this analysis with 2019 data from the American Housing Survey. Exhibit 2 presents the ratio of average home value to average household income for nine income brackets ranging from a low of \$10,000-\$19,999 to the highest income bracket of \$120,000 or more. For the lowest income bracket (\$10,000 to \$19,999), the average home value of \$189,700 is 13 times the average income of that bracket — \$14,592. This ratio steadily declines as income increases. Once income reaches \$80,000, the ratio of home value to income is 3.

Exhibit 2: Ratios of Home Value to Income



Source: American Housing Survey

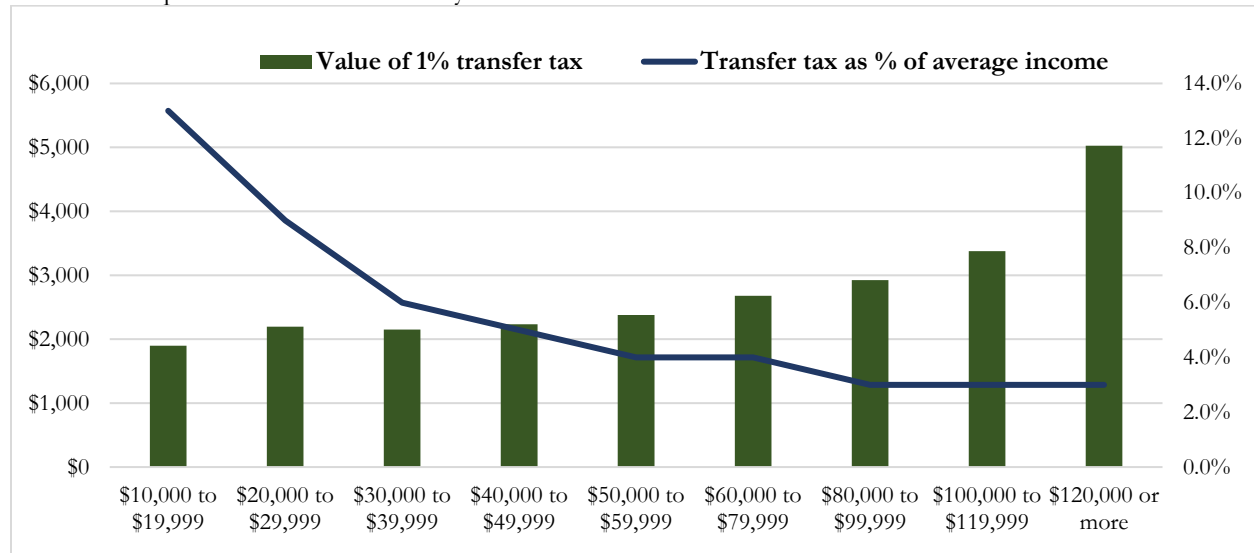
The differential and regressive impact of transfer taxes on households of varying incomes is illustrated in Exhibit 3. This example assumes a transfer tax rate of 1 percent of home value and applies that rate to the housing values used in Exhibit 2. Many of the communities discussed in this report are

¹⁹ National Association of Realtors, "Potential impacts of increases in real estate transfer taxes," August 2003 [https://www.nar.realtor/ncrer/nsf/files/retransfertaxes.pdf/\\$FILE/retransfertaxes.pdf](https://www.nar.realtor/ncrer/nsf/files/retransfertaxes.pdf/$FILE/retransfertaxes.pdf)



associated with transfer tax rates far higher than 1 percent, and therefore regressive impacts in those communities may be even greater.

Exhibit 3: Impacts of Transfer Taxes by Income Level



Source: American Housing Survey

As indicated, the absolute value of the transfer tax steadily increases across income levels as housing values increase. For the lowest income bracket (\$10,000 to \$19,999) for which the average home value is \$189,700, the value of the transfer tax is computed to be \$1,897. The most dramatic increases in the value of the transfer tax occur for the two highest income brackets. For households with incomes of \$100,000-\$119,999, the transfer tax of \$3,377 is 15 percent greater than the transfer tax for the preceding income bracket. For the highest income bracket, households with incomes of \$120,000 or more, the value of the transfer tax increases 49 percent to \$5,026.

But while these transfer taxes rise in absolute terms with income, they steadily decline as a percentage of household income. For the lowest income bracket, the value of this transfer tax represents 13 percent of household income. For the next income bracket, household income of \$20,000-\$29,999, the transfer tax represents 9 percent of income. As income increases, the transfer tax becomes less and less of a burden relative to household income. Once incomes reach \$80,000, the value of transfer taxes dips to 3 percent of household income.

This example illustrates the regressive nature of transfer taxes, which are typically imposed at a flat rate regardless of the value of homes. The lower the income level, the greater the effective tax rate. Some communities have created graduated and rising tax structures to account for the fundamental regressivity of transfer taxes, but while this may diminish regressivity in part or in whole, higher rates produce the economic dislocations discussed elsewhere in this report, including on already beleaguered commercial segments.



IMPACT ON FIRST-TIME HOMEBUYERS

Another recent Sage report examined housing affordability.²⁰ The report studied the potential for increased closing costs to create additional barriers for first-time homebuyers. First-time buyers typically account for more than 40 percent of homes sold.²¹ Without this group's participation, home values would likely decline, destroying considerable accumulated wealth in the process.

Residential real estate has been compared to a ladder that one climbs over a lifetime that stretches from renting to first-time home purchases to move-up home purchases (often several in number and perhaps in different communities) and then back down the other side of the ladder when households begin to downsize, whether in the community in which one has been working most recently, Florida, South Carolina, Arizona, or elsewhere. Within the context of this progression, first-time homebuyers play an especially critical role.

By purchasing a home, frequently an existing home, these buyers free up home-sellers to use the accompanying proceeds to move to larger, more expensive homes. Furthermore, by leaving the rental market, first-time homebuyers effectively expand the supply of rental housing, rendering it easier for others to find a unit, to better afford their rent, and to initiate their own processes of moving up the housing ladder.²²

This consideration is especially important given present rapidly rising apartment rents. According to Realtor.com's year-end Monthly Rental Report, December 2021 saw rents expand for a sixth consecutive month, led by surges in major metropolitan areas like Miami, where rents are up nearly 50 percent year over year to \$2,850/month. In total, the national median rental price in December 2021 reached \$1,781/month, which equates to an annual rent increase exceeding 10 percent.²³ By moving from rental housing to homeownership, first-time homebuyers are also likely to expand tax base. On average, rental properties are less valuable than homes on a per unit basis.

²⁰ Sage Policy Group, "The Unintended Consequences of Impact Fees in Baltimore County," May 2019

²¹ Eisenberg, Elliot F., "Characteristics of First Time Home Buyers," January 23, 2008
<https://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=88533&channelID=311>.

²² Fuller, Cody, "First-Time Homebuyers: Older, Singler, Not Much Richer," August 17, 2015. <https://www.zillow.com/research/first-time-buyer-characteristics-10281/>

²³ Realtor.com, "December Rental Data: Rents Surged by 10.1% in 2021" <https://www.realtor.com/research/december-2021-rent/>



Because first-time homebuyer characteristics are distinctive, housing affordability indices are often modified to reflect differences between those newly entering the housing market and those who are already homeowners. Starter home price is frequently estimated at 85 percent of market-wide median sales price. Moreover, because these buyers are younger and rely on personal savings as opposed to equity in a home to make a purchase, a relatively small down payment is typical. A recent survey found that the typical down payment for first-time homebuyers is 7 percent of home value.²⁴ Because the down payment is less than 20 percent, private mortgage insurance (PMI) is usually required and adds 0.50 percentage points to the mortgage rate.

Accordingly, policymakers should be aware that seemingly small transfer tax increases can generate outsized effect on the ability of first-time homebuyers to purchase a home. Using standard, market-defined parameters, in the instance of a family with \$41,300 in savings, an increase of 2 percentage points in the transfer tax results in a family having insufficient savings to purchase a starter home priced at \$346,885.

Like rents, housing prices over the past year have increased substantially. At the end of 2021, the median price of a home in the U.S. was \$408,100, an increase of \$49,400 or 14 percent over the median price at the end of 2020.²⁵ Given that starter home prices are 85 percent of median home prices, this renders the estimated value of a typical U.S. starter home at \$346,885.

The critical issue for first-time homebuyers is the total upfront cost required to purchase a home. In addition to the down payment, upfront costs include a range of expenses known as closing costs, which can range from 2-5 percent of a home's purchase price.²⁶ A 2021 survey found that Millennials, those aged 25 to 40 and most likely to be first-time homebuyers, have an average of \$51,300 in personal savings.²⁷ The down payment and closing costs can quickly gobble up those savings, especially when one considers the expenditures that typically accompany home purchases, including vehicle acquisition, furniture purchases, and needed home modifications.

²⁴ National Association of Realtors, "Home Buyers Motivated by Desire To Be Closer to Family and Friends, Sellers Collected Full Asking Price," November 11, 2021 <https://www.nar.realtor/newsroom/home-buyers-motivated-by-desire-to-be-closer-to-family-and-friends-sellers-collected-full-asking-price>

²⁵ St. Louis Fed, Economic Research, "Median Sales Price of Houses Sold for the United States," January 26, 2022 <https://fred.stlouisfed.org/series/MSPUS>

²⁶ Zillow, "What are closing cost and how much are they?" <https://www.zillow.com/mortgage-learning/closing-costs>

²⁷ Vega, Nicolas, "Here's how much money each generation has saved for retirement," CNBC, August 20, 2021 <https://www.cnbc.com/2021/08/20/how-much-each-generation-saves-for-retirement.html>



Analysts can utilize these considerations and parameters to evaluate the impact of higher transfer fees on the affordability of housing for first-time homebuyers. Using the midpoint of the range for typical closing costs, these costs, which include transfer taxes, would constitute 3.5 percent of home price. If transfer tax rates increased by two percentage points, closing costs would then increase to 5.5 percent of home price. A down payment of 7 percent of the house price constitutes the rest of these upfront costs.

Exhibit 4 reflects the impact of these increased closing costs on affordability of a starter home priced at \$346,885 for a household with \$41,300 available for upfront costs. If closing costs are 3.5 percent of home price, the first-time homebuyer could afford a house priced at \$393,333 and still have the required 7 percent down payment. If closing costs are 5.5 percent, the homebuyer could only afford a house priced at \$330,400 and still have the required 7 percent down payment with their available savings of \$41,300.

Accordingly, policymakers should be aware that seemingly small transfer tax increases can generate outsized effect on the ability of first-time homebuyers to purchase a home. Using standard, market-defined parameters, in this instance an increase of 2 percentage points in the transfer tax results in a family having insufficient savings to purchase a starter home priced at \$346,885.

Exhibit 4: Impacts of Increased Closing Costs on Housing Affordability

Elements of up-front costs	Closing costs at 3.5%	Closing costs at 5.5%
Available savings for upfront costs	\$41,300	\$41,300
Closing costs	\$13,767	\$18,172
Funds available for down payment	\$27,533	\$23,128
Affordable house price if down payment is 7%	\$393,333	\$330,400

Sources: National Association of Realtors, St. Louis Fed, CNBC, Sage



IMPACTS ON MULTIFAMILY HOUSING

An analysis of the most recent increase in property transfer taxes in San Francisco argued that doubling transfer tax rates on high value properties would slow or even stop construction of new housing, particularly multifamily projects. A follow-on effect of this reduced expansion of the housing base was making housing less affordable.²⁸

Increased property transfer taxes can have other impacts on multifamily housing, like reducing the potential conversion of underutilized office buildings into apartments. The repurposing of these properties has been a growing trend over at least the past decade. Employers have frequently attempted to reduce the square footage per worker in office settings, often by creating open floor plans instead of private office spaces, and the pandemic has greatly accelerated the prevalence of remote work, leaving many office buildings largely vacant. Employers have also forecasted that this pandemic induced reduction in demand for office space will continue for years beyond the end of the pandemic. These underutilized office buildings are also often found in cities where there is inadequate housing near city centers. For these reasons, a record number of office buildings have recently been converted to apartments.²⁹ Increased property transfer taxes can reduce the feasibility of such conversions by increasing transaction costs, decreasing funds available for renovations, and reducing the potential return on investment. Accordingly, the effects of transfer taxes on nonresidential properties can negatively impact residential markets by reducing supply.

Higher property transfer taxes can also be a significant impediment for first-time homebuyers, which keeps these prospective homeowners in rental properties and reduces the availability of housing in multifamily buildings. Thus, increased property transfer taxes can reduce the supply of both existing and new multifamily housing.

Empirical evidence and case-studies show that transfer taxes can distort residential markets, negatively impacting households by increasing costs, hampering residential and socioeconomic mobility, and disrupting the homeownership lifecycle. Transfer taxes are also regressive (place a greater burden on lower income households) and have an outsized impact on first-time homebuyers. But the effects of transfer taxes are not confined to residential markets. Transfer taxes on commercial properties can have negative effects on investment and commercial revitalization, and those effects can have significant implications for public revenues.

²⁸ “What the measure would do,” November 2020 <https://www.spur.org/voter-guide/2020-11/sf-prop-i-transfer-tax-increase>

²⁹ Liu, Jennifer, “A record number of old office buildings were turned into apartments this year,” CNBC, November 24, 2021 <https://www.cnbc.com/2021/11/24/a-record-number-of-office-buildings-turned-into-apartments-this-year.html>



POTENTIAL EFFECTS ON INVESTMENT & COMMERCIAL REVITALIZATION

TRANSACTIONAL VOLUME

Increased transfer tax rates can create disincentives to purchase and sell property. For communities, this is of particular concern when a prospective new owner possesses the ideas and capital to repurpose underutilized and deteriorating properties, but is financially unwilling to embrace a project because elevated transfer taxes render it a financial non-starter, if only at the margin.

These dynamics are especially apparent in jurisdictions where transfer tax rates are less competitive. In localities where transfer tax rates are high, they can potentially add millions to the cost of acquiring a property. While policymakers may consider this a benefit since those taxes inure to government treasuries, the number of transactions is suppressed, leaving ultimate fiscal impacts ambiguous.

At least one party to a transaction is negatively impacted by transfer taxes whether they are paid for by sellers or buyers. For a seller, these taxes reduce sale proceeds, perhaps inducing them to raise their asking price to a level the market will not support. For a buyer, these taxes effectively raise the price of the property, which renders it less appealing for investment purposes. Even if the transaction moves ahead, the buyer will have less capital to invest in the property, resulting in lower property values and diminished tax collections to the extent that property assessments embody the degree of property improvement over time.

These transfer tax increases disincentivize the exchange of property at a time when commercial real estate has been substantially impacted by a global pandemic and attendant behavioral changes. Nearly 3 million jobs in office space-intensive industries were lost during the worst of the pandemic.

These transfer tax increases disincentivize the exchange of property at a time when commercial real estate has been substantially impacted by a global pandemic and attendant behavioral changes. Nearly 3 million jobs in office space-intensive industries were lost during the worst of the pandemic. While many of these jobs have since been recovered, the pandemic has transformed how a range of industries and businesses operate. Almost 49 million people worked from home in May 2020 during a period of especially severe economic lockdown. By September 2021, more than 20 million people continued to work from home or teleworked despite the widespread availability of vaccinations.

GoodHire, a background-check company based in Redwood City, California, surveyed 3,500 American adults from July 27-29, 2021, regarding their perspectives on remote work. Survey



researchers found that 45 percent of Americans would either leave their jobs or begin searching for other remote-friendly work if their employers required them to work from the office. The vast majority of respondents – 85 percent – indicated that they prefer to apply for jobs that offer fully remote or hybrid remote options. Nearly a third said that they wouldn’t even consider applying for a job that required them to be in an office five days a week. Seventy percent indicated that they would be willing to forego benefits, including health insurance, paid time off, and retirement accounts in order to work remotely. Sixty-one percent indicated that they would accept a pay cut. Among this group, most indicated that they would accept 10 percent less compensation. Some said that they would accept a pay cut of up to 50 percent to avoid going back to the office.³⁰

At the time of this writing (May 2022), U.S. unemployment stands at 3.6 percent. Wages are climbing quickly as America’s employers collectively strive to fill nearly 11 million available, unfilled jobs. In December 2021, there were only 58 unemployed Americans for every 100 jobs openings. In short, workers have substantial bargaining power as the economy reawakens in earnest from the pandemic that reshaped the economy in early-2020. That means that if workers want to work remotely, there will frequently be an employer who is willing to offer that flexibility. None of this is particularly comforting for those who own and market office space.

These dynamics undermine the value and transactional potential of office buildings. This has been especially apparent in communities that enforce elevated transfer tax rates. Exhibit 5 lists the annual growth in sales volume for the country as a whole and the four cities that are indicative of the effects of higher transfer taxes, each of which has experienced more years of negative volume growth than the nation. While there was a meaningful bounce back in office building acquisition nationally in 2021, in Pittsburgh and Philadelphia, office space purchases declined. In short, transfer taxes have major impacts on sales volumes and therefore on adaptive reuse and property investment levels.

Exhibit 5: 12-month Sales Volume Growth/Change of Office Space

	U.S.	Los Angeles	San Francisco	Pittsburgh	Philadelphia
2021	52.4%	14.7%	49.4%	-36.4%	-12.9%
2020	-40.7%	-47.7%	-58.3%	30.9%	-6.9%
2019	13.3%	13.4%	106.8%	-19.5%	10.4%
2018	1.4%	-33.3%	-1.5%	-18.3%	-1.3%
2017	-9.0%	-5.7%	-37.9%	-8.3%	-21.4%
2016	-5.5%	67.2%	33.4%	-2.5%	26.2%
2015	14.0%	-24.4%	-35.6%	170.5%	36.2%

Source: MacKenzie Commercial Real Estate

³⁰ Inc.com, “New Survey: 61 Percent of Americans Would Take a Pay Cut to Keep Working Remotely”, by Sophie Downes. <https://www.inc.com/sophie-downes/remote-work-from-home-office-return-goodhire.html>



INVESTMENT IN STRUCTURES & THE NEED FOR ADAPTIVE REUSE

High transfer tax rates can also discourage investment in properties by current property owners. This is because those owners know that investment will both improve the property and increase sales price, but that sales price is further burdened by transfer taxes, which can reduce a property's marketability. As indicated in an ensuing section of this report, the structure of transfer tax rates in places like San Francisco can lead to profound decreases in investment in individual properties. Suppressed investment can complicate a community's public revenue picture since more significant investment would be associated with higher property assessments. The community also suffers diminished quality of life attributable to a less appealing built environment.

Communities that support significant adaptive reuse and investment will prosper, while those that do not will experience increasing vacancy and abandonment, declining property values and quality of life, and sagging commercial real estate assessments.

There is outsized need for adaptive reuse of existing commercial properties given significant office vacancy in the context of remote work, retail closures as e-commerce continues to acquire market share, and under-occupied hotel space. Between the second quarter of 2020 and October 2021, U.S. employers collectively returned 127 million square feet of office space to the market via negative net absorption. While many of the jobs lost at pandemic onset have been recovered, only about 10 percent of the previously unoccupied office space has been re-populated. Office vacancy rates have continued to climb in many markets despite rapid and broad-based economic recovery.³¹ Even if the economy continues to recover, office vacancy rates could continue to rise as leases steadily come up for renewal.

The pandemic has also generated devastating impacts on the nation's hotel industry. In 2020, occupancy for the full year averaged 44 percent and had been as low as 20 percent during that year. Revenue per available room declined 60 percent.³² As of March 2021, 621,000 payroll jobs had been lost in the accommodation and food services industry since the start of the pandemic. Unemployment in the leisure and hospitality industry was twice the national average. While 2021 was a year of recovery, hotel occupancy remains well below its pre-pandemic level. Many hotels are struggling. Some are being converted into apartments, a segment associated with rapidly rising rents. Others will

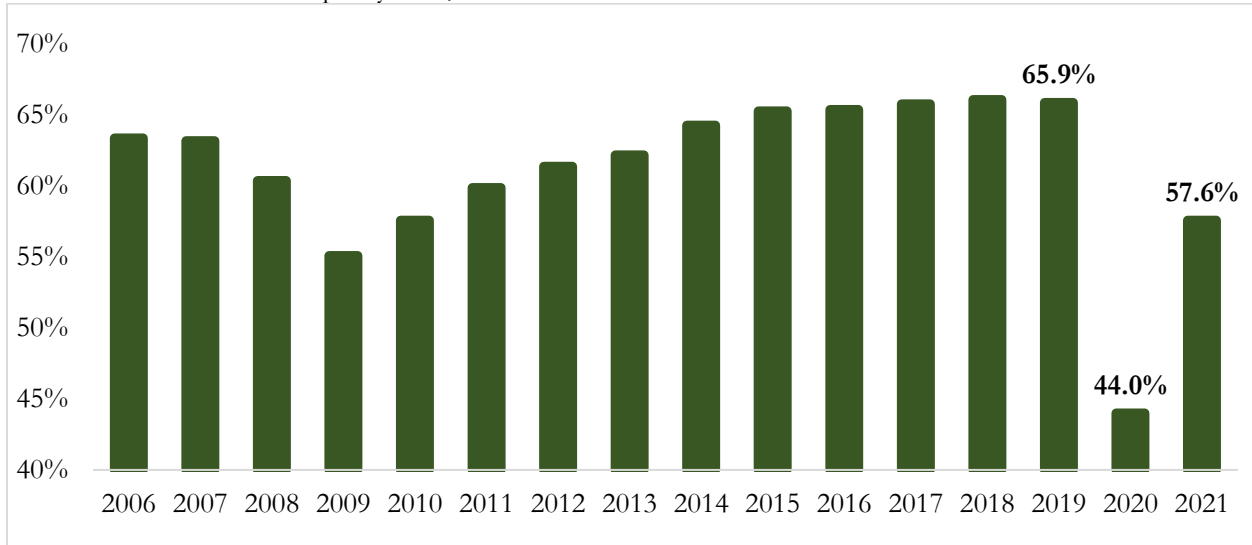
³¹ National Association of Realtors Research Group, "Analysis and Case Studies on Office-to-Housing Conversions," November 2021 <https://www.nar.realtor/research-and-statistics/research-reports/commercial-research>

³² National Association of Realtors Research Group, "Case Studies on Repurposing Hotels/Motels into Multifamily Housing," 2021 <https://www.nar.realtor/research-and-statistics/research-reports/commercial-research>



remain hotels, but need to be dramatically improved if they are to remain viable in a market far from recovery and where business travel is unlikely to quickly recover to pre-pandemic levels.

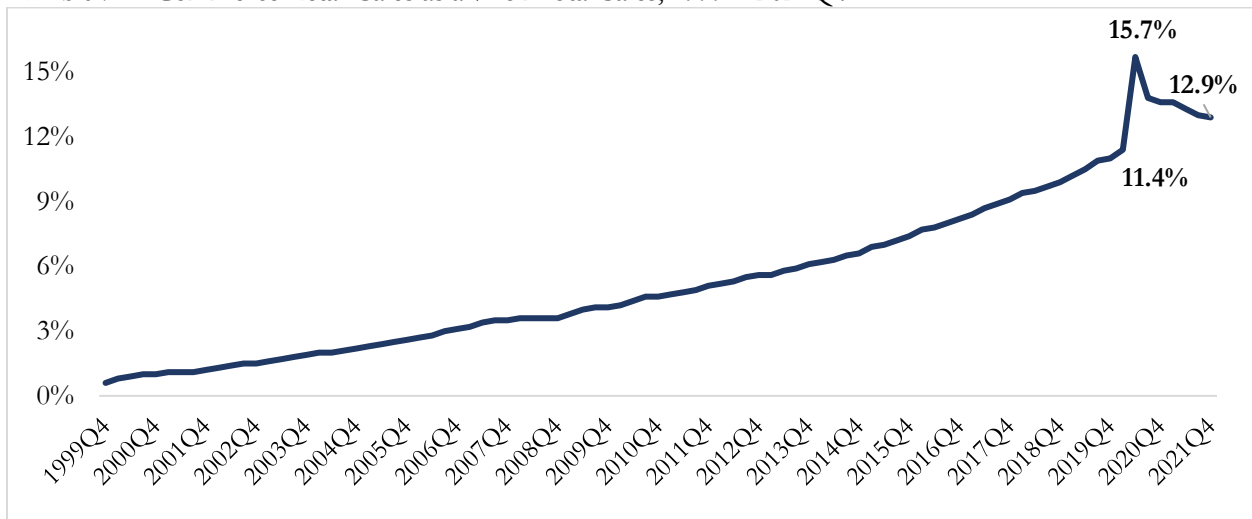
Exhibit 6: U.S. Hotel Occupancy Rate, 2006 – 2021



Source: CoStar

Retail has also been hammered by the pandemic. Even prior to 2020, e-commerce was associated with sizable gains in market share. It is difficult for brick-and-mortar retailers to compete with the inventory, range of prices, and convenience offered by home delivery under normal circumstances, but circumstances have been far from normal over the past two years.

Exhibit 7: E-Commerce Retail Sales as a % of Total Sales, 1999 – 2021Q4



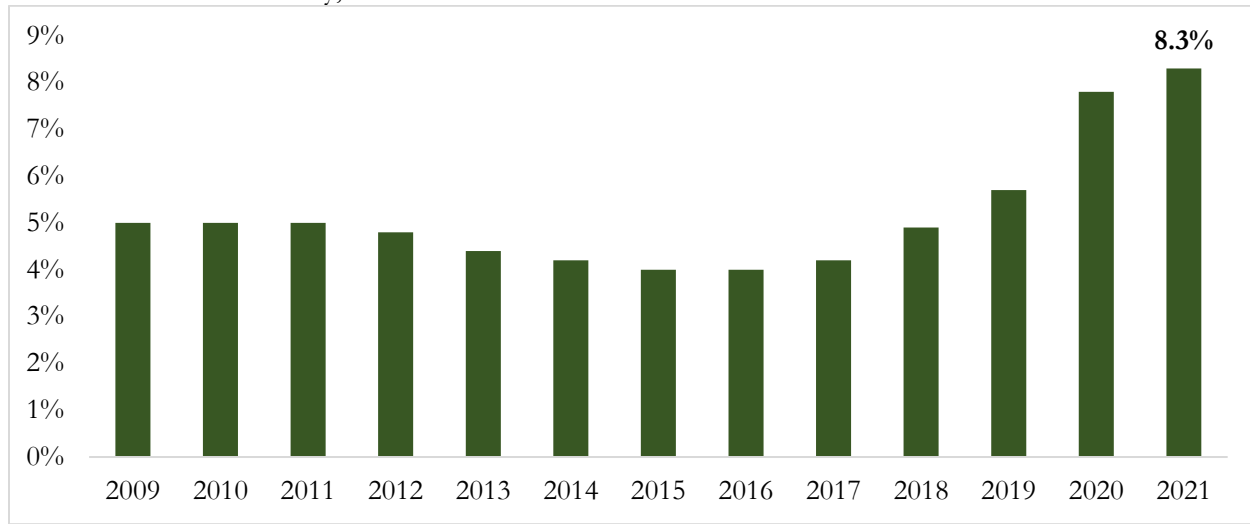
Source: U.S. Census Bureau

In 2001, e-commerce sales totaled just \$34 billion, but by 2019, e-commerce retail sales in the U.S. totaled more than \$576 billion or 10.7 percent of total retail sales. In other words, between 2001 and



2019, e-commerce sales expanded about 1,700 percent.³³ In 2019, before a global pandemic seemed remotely conceivable to many Americans, more than 9,000 retail stores closed. Another 2,000 closed during the initial months of 2020 as the pandemic began to take hold.³⁴ Many prominent retailers went bankrupt during the pandemic, including Pier 1 Imports, True Religion, JC Penney, Neiman Marcus, J. Crew, Lord & Taylor, GNC, Brooks Brothers, Guitar Center, and Francesca's. Vacant malls now dot America's landscape and e-commerce continues to push its market share ever higher.

Exhibit 8: U.S. Mall Vacancy, 2009 – 2021



Source: CoStar

A 2021 Moody's Analytics report predicts that approximately 20 percent of the nation's 1,000 malls will either be renovated, repurposed, or razed to make way for new properties. Some will survive, but to do so they will need to be "well-located and maintained to a high standard, attracting a mix of quality and on-trend tenants necessary to create a critical mass."³⁵ In some cities, Cincinnati, Chicago, Philadelphia, and Baltimore, the dying percentage may be closer to 50 percent because of a combination of slow growth and oversaturation.

To summarize, office, hotel, and retail segments have experienced and are experiencing seismic shifts in how and how much space is utilized. Communities that support significant adaptive reuse and investment will prosper, while those that do not will experience increasing vacancy and abandonment, declining property values and quality of life, and sagging commercial real estate assessments. This is the context in which transfer tax rate-setting should be considered, at least when contemplating the future of commercial real estate in America.

³³ U.S. Census Bureau, Monthly Retail Trade. <https://www.census.gov/retail/index.html>

³⁴ National Association of Realtors Research Group, "Case Studies on Repurposing Vacant Retail Malls," 2020 <https://www.nar.realtor/research-and-statistics/research-reports/commercial-research>

³⁵ GlobeSt.com. "Some Malls Are Fated to Die. Here's What Will Happen to the Rest", By Lynn Pollack, June 28, 2021 <https://www.globest.com/2021/06/28/some-malls-are-fated-to-die-heres-what-will-happen-to-the-rest/?amp=1>



CASE STUDIES OF COMMERCIAL REAL ESTATE CONVERSION

The National Association of Realtors conducted research regarding the conversion of vacant and underutilized commercial real estate to other uses. This repurposing has the potential to transform buildings that no longer support viable activities into spaces that support different and sustainable uses.

Some of the greatest impacts of the pandemic on commercial space have been on office buildings. Millions of square feet of space have been vacated during the pandemic. As businesses have adjusted to remote work, it is likely that work from home will be a permanent aspect of many business operations. Thus, the end of the pandemic is unlikely to herald a repopulating of all the empty office space.

Even as vacancy rates for office space have increased, the absorption of multifamily units and growth in rents are at record levels. Traditionally, office space absorption and apartment occupancy have been positively correlated. A better economy supports activity in both segments, a worse economy does not. But this highlights the fundamental transformation of the U.S. economy during and by the pandemic. One million apartment units were absorbed between the second quarter of 2020 and October 2021. Apartment vacancy rates fell significantly while average rents in many markets increased 11 percent from 2020 to 2021.³⁶

This surge in demand for apartments reflects a chronic under-supply of housing, due at least in part to restrictive zoning. From 2010 to 2020, the number of single-family and multifamily housing units created was 6.3 million fewer than the demand for housing created by the formation of new households and by the loss of housing to demolition or obsolescence. The failure of housing supply to keep pace with demand has rendered much housing increasingly unaffordable, particularly for low-income households. In most states, households earning less than 80 percent of the median income spent more than 30 percent of their income on housing in 2019. In 2020, 22.7 percent of multifamily rental units cost more than \$2,000/month while in 2017 the share of units costing that much was 12.3 percent.³⁷

Given these conditions, the transformation of office buildings into apartment buildings is logical. Indeed, such conversions have been observed for years. More are forthcoming. One prominent example took place in San Francisco, where developers converted a 29-story office building built in 1974 and comprising 373,000 square feet into 418 luxury apartments. Construction began in 2013 and conversion was completed in 2015. Financing for the project included mortgage loans totaling

³⁶ Op. cit., “Analysis and Case Studies on Office-to-Housing Conversions”

³⁷ Op. cit., “Case Studies on Repurposing Hotels/Motels into Multifamily Housing”



\$147 million and a construction loan of \$15 million. The project benefited from increased demand for urban living and community support. The office building was disliked by many in the community including the mayor at the time. While the property is characterized as luxury apartments, it also supplies 48 affordable units.³⁸

At the time the project was being planned and initiated, the transfer tax rate in San Francisco for properties selling for more than \$25 million was 2.5 percent. Currently the rate is 6 percent. If the project were to be undertaken today, the increased cost of the transfer taxes based on the value of the mortgages used to finance the project would be \$5.15 million or roughly one-third of the value of the construction loan that helped finance the conversion. It is conceivable that under present circumstances, that conversion would not have transpired.

The conversion of underperforming commercial real estate to higher and better uses provides a range of benefits to communities. Rather than serving as eyesores and sources of eroded commercial tax base, these properties can redefine quality of life with redevelopment.

These issues pertain to more than office space. In 2020, the National Association of Realtors surveyed commercial members to develop information regarding examples of redeveloped shopping centers. Survey respondents identified 94 vacant malls across the country that had been redeveloped. The most common use of redeveloped malls was for retail stores, pop-ups, or new tenant anchors. Nearly 70 percent, however, were subsequently used for other purposes. One in six was developed as a mixed-use of residential, office, and retail. Other uses included warehouses, multifamily/residential, distribution centers, community colleges or university campuses, and medical facilities.

Reasons for redeveloping these malls were compelling. On average, these malls were vacant for nearly 4 years before they were acquired by new owners. These malls sold at an average discount of 43 percent at a price of \$80/square foot. While one mall was sold for \$417/square foot, another was sold for \$1/square foot. Vacant malls are viewed as potential contributors to urban decay and declining property values. Consequently, they contribute to reduced tax revenues for localities and can create public safety challenges.

One example of a repurposed mall is the Westside Pavilion in West Los Angeles. This mall, located in a prime West Los Angeles location, was developed in 1985 as a 756,236 square foot retail space

³⁸ Op. cit., “Analysis and Case Studies on Office-to-Housing Conversions”



with 70 stores. Over time, the number of tenants declined, including via the departure of anchors Nordstrom and Macy's. As retail tenants departed, new uses including a 12-screen theater and several restaurants occupied vacated space. The departure of the anchors, however, combined with the migration of retail sales from brick-and-mortar stores to e-commerce and declining occupancy rates sparked interest in renovating the mall to render it more accessible to foot traffic and to convert a significant amount of space into offices.

The mall's owner sold a majority interest in 2018 and together with its new partner began plans to repurpose the mall. The focus of these plans was the creation of a state-of-the-art 540,000 square foot creative office space. The following year, the developers secured Google as the primary tenant of the newly developed office space. Other new tenants include Amazon, Lyft, HBO, Salesforce, Netflix, Square, and Riot Games. The redeveloped mall retains 96,000 square feet of space for the existing theater complex, restaurants, and retail stores.

The project is expected to be completed in 2022. Total cost of redevelopment is expected to range from \$500 million to \$550 million.³⁹ It is worth speculating whether this project would have moved forward were Los Angeles County's transfer tax rate meaningfully above 0.11 percent.

Vanderbilt University has been engaged in converting shopping malls into medical centers for over a decade. Its first effort occurred at a suburban mall that now houses 22 specialty clinics that occupy over half a million square feet of space. Its most recent project is to convert what had been the largest shopping center in Tennessee to a medical mall. A recent report noted that the creation of medical malls offers distinct advantages to patients, and suburban locations are often more convenient due to easier access to parking. As one patient noted in a recent report, finding your doctor's office is easier in medical malls than large hospitals. These efforts by Vanderbilt University are part of a national trend that has seen 32 enclosed malls transitioned to accommodating healthcare services.⁴⁰

The conversion of underperforming commercial real estate to higher and better uses provides a range of benefits to communities. Rather than serving as eyesores and sources of eroded commercial tax base, these properties can redefine quality of life with redevelopment. Property values can be restored and enhanced, thus generating greater revenue for local governments. In some cases, projects that repurpose office buildings and hotels to create new housing can serve to meet local needs at a time of rampant housing inflation.

³⁹ Op. cit., "Case Studies on Repurposing Vacant Retail Malls"

⁴⁰ Farmer, Blake, "Mall-to-medicine transitions make healthcare more convenient for suburban patients," April 13, 2022 <https://www.marketplace.org/2022/04/13/mall-to-medicine-transitions-make-health-care-more-convenient-for-suburban-patients/>



Excessive transfer tax rates can frustrate the exchange of property that is often required for that property to return to commercial viability. Communities that support significant adaptive reuse and investment will prosper, while those that do not will experience increasing vacancy and abandonment, declining property values and quality of life, and sagging commercial real estate assessments. This is the context in which transfer tax rate-setting should be considered.

NEGATIVE IMPACTS ON PROJECT FEASIBILITY: A CASE STUDY

As indicated in economic impact reports on proposed transfer tax increases prepared by the San Francisco Controller's Office of Economic Analysis, increases in transfer taxes may undermine the feasibility of some commercial real estate projects. The following hypothetical case study serves to illustrate how an otherwise feasible project may become impracticable under an excessively high transfer tax regime.

This example presumes that an office building in San Francisco worth \$100 million will be converted to a mix of apartments and ground-floor retail use. Funding is available to purchase the property and conduct required renovations. A key factor determining project feasibility is the capitalization rate (or cap rate), which embodies the expected return on investment. This computation is simply net income divided by property value.⁴¹ The current San Francisco cap rate for office space is 4.7 percent.⁴²

Sage compares this project undertaken in 2016 versus 2022. In 2016, San Francisco's transfer tax rate on properties selling for more than \$25 million was 2.5 percent. In 2022, the corresponding transfer tax rate was 6 percent or 3.5 percentage points higher. Because property sellers may increase property prices to accommodate higher transfer tax rates, the presumption is that a property worth \$100 million in 2016 would be priced at \$103.5 million in 2022.

The example also presumes that increased transfer tax charges diminish funding available to renovate the property. As a result, a construction loan of \$3.5 million is required to provide needed additional funding to complete the project under the 2022 scenario. Construction loans tend to require only interest payments on funds borrowed. When construction is complete, a balloon payment is required. This example embodies the notion that the balloon payment is refinanced at terms typical of commercial real estate loans. Interest rates on such loans can vary substantially and according to one source range from 4.75 percent to 9.75 percent. Terms can range from three to 10 years.⁴³ For this scenario analysis, the midpoint of the interest rate range and a five-year term serve as parameters.

⁴¹ Investopedia, "Capitalization Rate" <https://www.investopedia.com/terms/c/capitalizationrate.asp>

⁴² MacKenzie Commercial Real Estate

⁴³ ValuePenguin, "Average Commercial Real Estate Loan Rates", by Erica Gellerman, updated Feb 25, 2022 <https://www.valuepenguin.com/average-commercial-real-estate-loan-rates>



The impact of these higher transfer taxes is illustrated in Exhibit 9. In 2016, with a development cost of \$100 million and a cap rate of 4.7 percent, the office building would be expected to generate net income of \$4.7 million. In 2022, with the transfer tax increase from 2.5 percent to 6 percent, there is an additional transfer tax cost of \$3.5 million. After construction is complete, this cost would be refinanced at 7.5 percent over five years at an annual cost of almost \$860,000 (principal + interest). This cost would be paid out of the income generated by the project and would reduce net income from \$4.7 million to a little more than \$3.8 million.

Diminished net income is used to calculate the new revised cap rate. That revised cap rate is based on a property value of \$103.5 million. The new cap rate is 3.7 percent, which means that this project has shifted from an average investment to an investment that generates below average net income relative to expenditure. In total, the cap rate (return on investment) has been reduced by a full percentage point. It is axiomatic that investment capital flows where it is best treated. This scenario highlights why capital may end up avoiding San Francisco or similarly situated communities sustaining unusually elevated transfer tax rates at a time when many properties need to be upgraded and repurposed.

Exhibit 9: Impact of Higher Transfer Taxes on Project Feasibility

Project Element	Value (\$nominal)
Investment cost, 2016	\$100,000,000
Cap rate	4.7%
Net income	\$4,700,000
Impacts of higher transfer fees	
Transfer tax rate increase (2022)	3.5%
Cost of tax	\$3,500,000
Loan rate	7.25%
Loan term in years	5
Loan repayment, cost/year	\$859,339
Investment cost with added tax, 2022	\$103,500,000
Net income after repaying loan	\$3,840,661
Revised cap rate	3.7%
Reduction in cap rate	1 percentage point

Source: Sage



SECONDARY EFFECTS OF INCREASED PROPERTY TAX TRANSFER RATES

By slowing or stopping the pace of property sales, higher property transfer taxes can generate a variety of secondary effects. The analyses by the San Francisco Comptroller of the series of proposals for transfer tax increases noted that by slowing commercial property sales, these tax increases would have significant impacts on investments in the real estate sector. These proposed tax increases coincide with a time when many properties need to be upgraded and repurposed. The most recent analysis by the Comptroller estimated that the doubling of transfer taxes on high value properties would reduce investment in commercial properties by \$193 million annually and reduce investment in residential properties by \$300 million annually.

Such reductions in investment would have considerable negative economic impacts on the local economy. For example, if half of this \$300 million investment was made in construction of new commercial or residential structures or in the conversion of existing structures, the economic impacts would be substantial.⁴⁴ Exhibit 10 summarizes the direct and total economic impacts of reduced investments that support construction activities. Direct impacts would be the employment and associated income as well as the business sales for the companies conducting such construction activities. The total impacts include the direct impacts as well as the impacts associated with the supply chains for the companies undertaking these construction activities and the impacts on the consumer economy when the direct workers and those in the supply chains spend their earnings in the local economy. As shown, the total loss of economic activity due to the increased transfer taxes would total 2,300 jobs with associated income of \$148 million and business sales of \$423 million.

Exhibit 10: Potential Impact of Higher Transfer Taxes on Construction Industry

Type of Impact	Economic Losses
Direct employment (job years)	1,284
Total employment (job years)	2,349
Direct labor income (millions)	\$92
Total income (millions)	\$148
Direct business sales (millions)	\$247
Total business sales (millions)	\$423

Source: IMPLAN, Sage

Transfer taxes distort housing and investment decisions, and that negatively impacts both residential and commercial real estate markets, as well as individual households. Furthermore, the effects of transfer taxes have significant impacts on public revenues, including with regards to taxable transactions, revenue volatility, impacts on local government revenue, and public education funding.

⁴⁴ Impacts are estimated using IMPLAN software which is an industry standard input-output modeling platform for calculating these types of economic impacts.



PUBLIC REVENUE CONSIDERATIONS

POTENTIAL TO IMPACT TAXABLE TRANSACTIONS

As noted in previous sections of this report, increased transfer tax rates can discourage property sales. In 2014, the United Kingdom changed its system for transfer taxes, known as Stamped Duty Land Tax. The prior system imposed flat rates of 1 percent to 7 percent depending on property value.

Exhibit 11: Transfer Tax Rates in the United Kingdom

Property value	Current tax rate	Property value	Prior tax rate
£0 - £125,000	0%	£0 - £125,000	0%
£125,001 - £250,000	2%	£125,001 - £250,000	1%
£250,001 - £925,000	5%	£250,001 - £500,000	3%
£925,001 - £1,500,000	10%	£500,001 - £1,000,000	4%
Over £1,500,000	12%	£1,000,001 - £2,000,000	5%
		Over £2,000,000	7%

Source: London School of Economics

The current system imposes a graduated tax that begins at 2 percent of the value between £125,001-£250,000 and increases until a maximum rate of 12 percent on property valued at more than £1,500,000 as reflected in Exhibit 11. An analysis of the impacts of the current tax structure indicated that the burden of these taxes had quadrupled on a median priced home in England. In London the tax had increased by a factor of 12. One consequence of this is that in 2016 the annual number of residential real estate transactions declined 38 percent from levels observed in the early 2000s.⁴⁵

POTENTIAL REVENUE VOLATILITY ACROSS BUSINESS CYCLES

Local government revenue from transfer taxes can be especially volatile. Over the past two decades in San Francisco, City revenues from transfer taxes have ranged from a low of approximately \$50 million to more than \$400 million. Some of this volatility is attributable to business cycles. For example, revenues effectively tripled from FY2002 to FY2007 during a period associated with a speculative housing boom and bubble, increasing from nearly \$50 million to almost \$150 million. During the next two fiscal years, which were associated with the Great Recession and a global financial crisis fueled by severe downturn in America's housing market, revenues plunged back to approximately \$50 million. By 2017, revenues had increased to more than \$400 million.

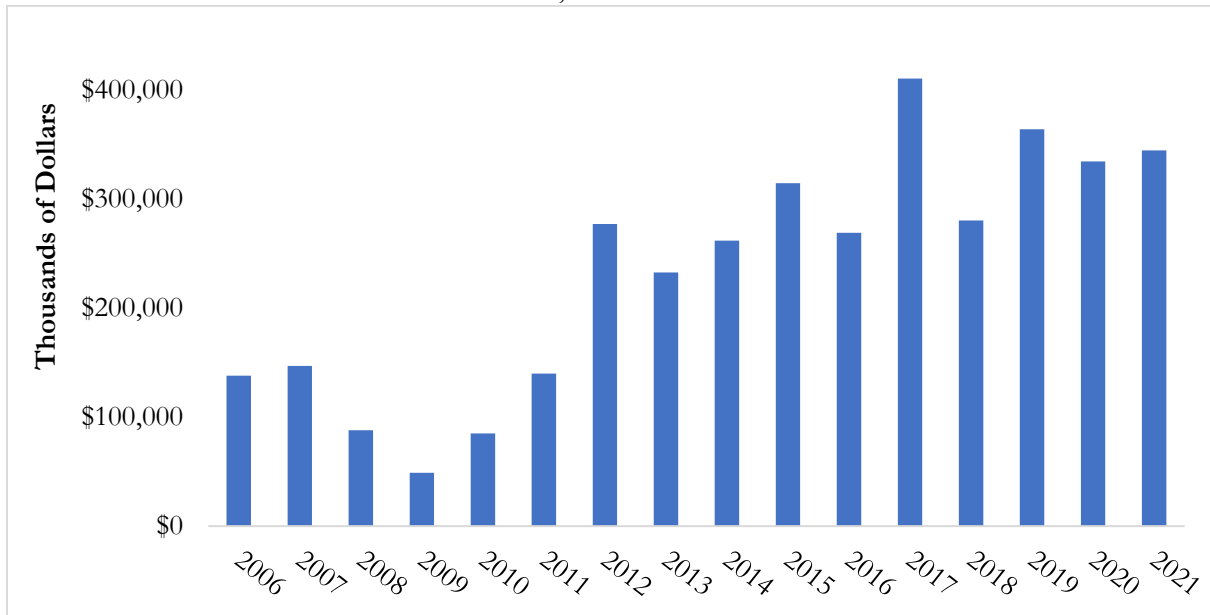
Since governments prize predictability in establishing annual budgets and long-term priorities, revenue volatility associated with transfer taxes can be problematic. From a policy perspective, then, the goal should be to smooth these revenue flows over time.

⁴⁵ Scanlon, Kath et al, "A taxing question: Is Stamped Duty Land Tax suffocating the English housing market?" London School of Economics, November 2017



They are not smooth now. In San Francisco, year-to-year changes in transfer tax collections have typically exceeded \$50 million and twice exceeded \$100 million. The increase in transfer tax rates since 2008, including the doubling of rates for properties valued at \$10+ million, have exacerbated this volatility. The logic is simple. When acquiring properties is expensive, it takes an especially good economy to induce purchases. When the economy turns down, even modestly, the purchase of expensive properties can decline precipitously.

Exhibit 12: San Francisco Transfer Tax Revenue, FY2006 – FY2021



Source: City and County of San Francisco, Office of the Controller

Transfer tax revenue volatility is enhanced by the following consideration. Transfer tax revenues associated with properties valued at more than \$10 million account for large and growing shares of transfer tax revenues despite constituting a small percentage of total sales. During fiscal year 2019–20, transfer taxes on buildings worth more than \$10 million equaled 72 percent of all transfer tax revenues for the City of San Francisco.⁴⁶

The experience of Los Angeles transfer tax revenues during the Great Recession illustrates the sensitivity of these revenue streams to business cycles. Transfer tax revenues in L.A. reached a cyclical peak in 2006 but, four years later, had dipped more than 60 percent. By contrast sales tax revenues, which reached a peak in 2008, fell just 18 percent over that span.⁴⁷

Howard County, Maryland offers additional evidence of the volatile nature of revenue generated by transfer taxes, even for communities far smaller and with less global exposure than San Francisco or

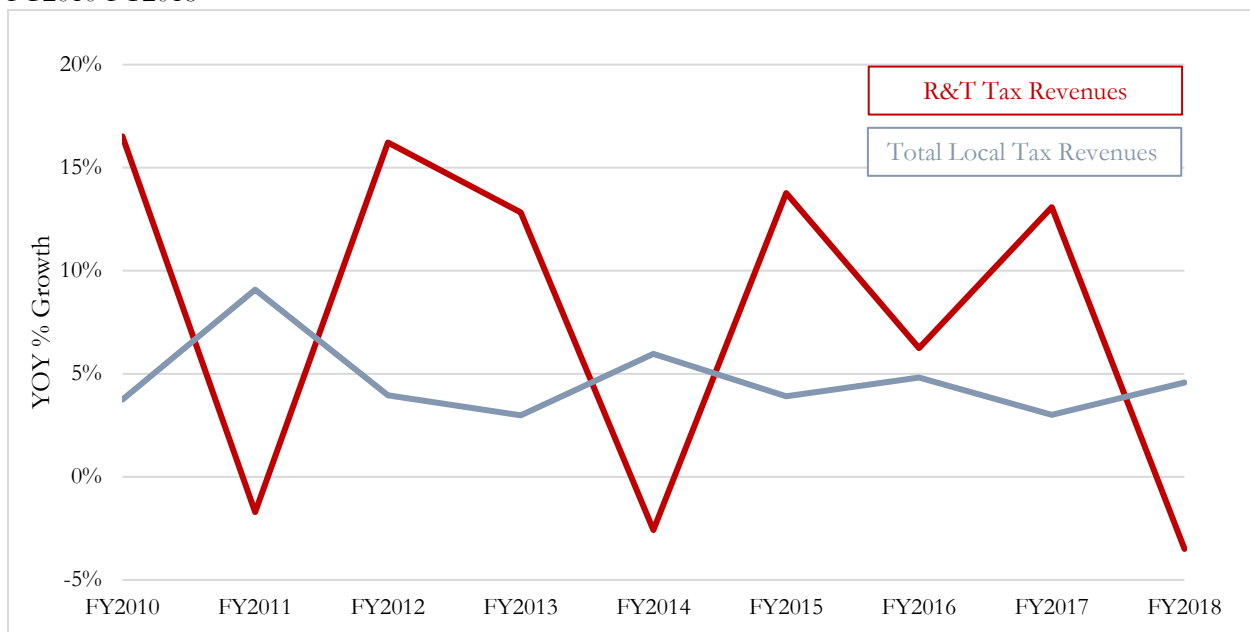
⁴⁶ Op. cit., City & County of San Francisco, Office of the Controller

⁴⁷ Op.cit, “A Call for Real Estate Transfer Tax Reform”



Los Angeles. Exhibit 13 contrasts year-to-year changes in the county’s total tax revenues with changes in revenues generated by recordation and transfer taxes imposed when properties are sold. As the Sage analysis of those revenues noted, higher transfer (or recordation) taxes would theoretically generate higher tax revenues, all things being equal. In reality, however, this stream of revenues is likely to be erratic since sales volumes shift in accordance with changes in mortgage rates and the performance of the broader economy. Anything that raises the cost of housing without expanding the appeal of that housing will generate lower values and sales volumes, all things being equal. This would in turn translate into lower property tax assessments over time, potentially waylaid a meaningful fraction of any revenue gains generated in the short-term via higher transfer and/or recordation taxes.⁴⁸

Exhibit 13: Growth in Howard County Tax Revenues: Recordation/Transfer Taxes v. Total Local Taxes, FY2010-FY2018



Source: Howard County Department of Finance-Comprehensive Annual Financial Reports (CAFRs).

Note: Total local taxes: property, local income, transfer, recordation, building excise, hotel/motel, admissions, county development, mobile home.

⁴⁸ Op. cit., “Estimated Impact of Proposed Recordation and/or Transfer Tax Incentives in Howard County, MD”



CALIFORNIA & OTHER EXAMPLES

Historically, property transfer tax rates in many California localities were low. Prior to 2008, San Francisco charged a flat rate of 0.75 percent for all properties. Los Angeles County imposes a transfer tax of 0.11 percent. While cities in Los Angeles County can charge additional transfer taxes, the highest among cities in the county was 0.45 percent before Culver City increased its transfer tax rates.

One characteristic of property transfer taxes in many California localities is that they are flat taxes. In jurisdictions where this is not the case, and whereby tax rates increase as property values increase, this can create distortions in the real estate market.

San Francisco is an obvious example. A property that sells for \$4,999,999 pays a transfer tax of 0.75 percent or \$37,500, while a property sold for \$5 million pays a property transfer tax of 2.25 percent or \$112,500. A similar transition occurs for properties worth \$10 million. For property priced at \$9,999,999, the tax rate is 2.25 percent or \$225,000. For property priced one dollar more or at \$10 million, the tax rate is 5.5 percent or \$550,000. For jurisdictions like San Francisco, these kinds of step-ups in transfer taxes can create pressure to reduce prices below a particular threshold. They can also discourage investments in properties if those investments are likely to raise property values across thresholds that substantially increase transfer tax liabilities.

Exhibit 14: Transfer Tax Costs in San Francisco

Property value	Transfer tax rate	Transfer tax
<\$5 million	0.75%	\$37,500
\$5 million	2.25%	\$112,500
\$10 million	5.50%	\$550,000
\$25 million	6.00%	\$1,500,000

Sources: City & County of San Francisco, Office of the Controller, Sage

Concerned by the effects of its own policies, the City of San Francisco conducted an economic impact analysis of its latest round of transfer tax increases. That report estimated that these tax rate adjustments would diminish commercial real estate investment by \$193 million/annum. Diminished investment in residential real estate was estimated at \$300 million annually.

While the analysis concluded that the City might still collect more tax revenue, the overall effect on the city's economy was estimated to be negative. These negative impacts were essentially attributable to residential and commercial development that would be rendered infeasible. Specifically, the analysis estimated that the city would lose approximately 625 jobs and that local gross domestic product would be decreased by approximately \$50 million. Roughly half of the estimated job loss would occur in the construction and real estate industries. The city was projected to support 1,050 fewer residents by 2030 than it would were taxes not increased.



This 2020 analysis by the San Francisco Office of the Controller concluded that because of the increase in transfer tax rates, “real incomes of San Francisco households would decline, on average, because of the lower incomes and higher housing prices. San Francisco would become less attractive economically as a place to live.”⁴⁹

Prior to the most recent increase in San Francisco’s transfer tax rates, there were a series of proposals to alter them. The Controller’s Office of Economic Analysis assessed each of them in reports dating from 2010-2016.

These earlier reports also generally concluded that increasing transfer taxes would generate negative effects for San Francisco. By raising the cost of selling and developing real estate, analysts viewed increased transfer taxes as a negative influence on real estate markets. This is underscored by the earliest proposals in 2010 that would have reduced or deferred fees. Policy analysts viewed these proposals as offering benefit for both development and vibrancy of the city’s economy. Even though increased taxes could potentially expand City revenues and create more public sector work, analysts estimated that these benefits were more than offset by losses of private sector activity and employment. These earlier analyses of proposals to change and usually to increase transfer taxes generated findings consistent with the most recent analysis.

The earliest report, issued in March 2010, analyzed two pieces of proposed legislation. This legislation emerged in the wake of the Great Recession and attendant global financial crisis, and each proposed law was intended to stimulate the economy by increasing private construction in San Francisco. The mechanism for this economic boost was offering developers opportunities to defer or reduce some of their costs of development. One option would have allowed developers to reduce affordable housing requirements by a third in exchange for paying a transfer fee on the property. This option would also have applied a 1 percent fee to all future transfers of that property. The other proposal would have allowed developers to defer fee payments until newly constructed buildings were occupied.

The net effect of these proposed ordinances would have been to reduce development costs. By lowering these costs the financial feasibility of projects could be enhanced. Analysts estimated that combined impact of both ordinances could be the construction of 75 to 80 additional housing units per year in San Francisco over a period of 20 years. This increase in development activity would

⁴⁹ City & County of San Francisco, Office of the Controller-Office of Economic Analysis, “Increases to the Transfer Tax Rate for Properties Over \$10 Million: Economic Impact Report.” September 23, 2020
https://sfcontroller.org/sites/default/files/Documents/Economic%20Analysis/200654_economic%20impact_final.pdf



expand the city's economy by \$250 million/ year and create an average of 330 jobs/annum across all industries.⁵⁰

Later in 2010, analysts generated another study of a proposal to increase transfer taxes for properties worth at least \$5 million. At that time, properties selling for more than \$5 million were subject to a 1.5 percent transfer tax. The proposal would have increased the tax for properties worth \$5 million-\$10 million to 2 percent. For properties worth more than \$10 million, the proposal called for a 2.5 percent transfer fee. The analysis of this proposal noted that it was aimed at commercial properties and would affect the vast majority of such properties, particularly offices.

A 2020 analysis by the San Francisco Office of the Controller concluded that because of the increase in transfer tax rates, “real incomes of San Francisco households would decline, on average, because of the lower incomes and higher housing prices. San Francisco would become less attractive economically as a place to live.”

The analysis noted several economic impacts from increased transfer taxes. The value of affected properties would be reduced both because of the higher tax payment and because future buyers would be willing to pay less for properties associated with larger transfer tax burdens. Sellers would not be able to pass on taxes at the time of property transfer and would raise rents on current tenants to offset reduced property values. Tenants most likely to be affected were firms providing professional services, financial services and corporate headquarters, which are each office space-intensive segments. As a result, San Francisco would become less competitive with other jurisdictions and experience diminished job growth relative to a situation in which transfer taxes were left unchanged.

True, increased revenues to San Francisco government would offset some of these negative impacts. However, the analysis estimated that the benefit from increased government revenue would only last a few years. In the longer run, the loss of private sector jobs would outweigh the benefit provided by increased public sector jobs funded by increased tax revenues.⁵¹

In 2012, two new proposals for increasing transfer taxes were being considered. These proposals did not affect the rates for properties worth up to \$1 million. For properties valued at more than \$1

⁵⁰ City & County of San Francisco, Office of the Controller-Office of Economic Analysis, “Transfer Fee and Fee Deferral Options for Developers: Economic Impact Report,” March 22, 2010 https://www.sfcontroller.org/ftp/uploadedfiles/controller/oea/091252_economic_impact_report_final_corrected.pdf

⁵¹ City & County of San Francisco, Office of the Controller-Office of Economic Analysis, “Increasing the Real Property Transfer Tax {Amended}: Economic Impact Report,” July 14, 2010 https://sfcontroller.org/sites/default/files/FileCenter/Documents/928-100750_amended_economic_impact_report_final.pdf



million, transfer tax rates tended to increase, though each proposal would have applied different rates as reflected in Exhibit 15.

Exhibit 15: Existing and Proposed San Francisco Transfer Tax Rates in 2012

Property Value	2012 Transfer Tax Rates	2012 Mayor Proposal	2012 Sup. Avalos Proposal
\$100-\$250,000	0.50%	0.50%	0.50%
\$250,000-\$1,000,000	0.68%	0.68%	0.68%
\$1 million-\$2.5 million	0.75%	0.95%	0.75%
\$2.5 million-\$5 million	0.75%	0.95%	1.25%
\$5 million - \$10 million	2.00%	2.20%	2.00%
\$10 million - \$25 million	2.50%	2.70%	2.50%
\$25 million +	2.50%	2.70%	3.00%

Source: City & County of San Francisco, Office of the Controller-Office of Economic Analysis, "Increasing the Real Property Transfer Tax on Certain Transfers: Economic Impact Report," July 18, 2012

The analysis found that most tax payments would be passed on to buyers and that this would lead to higher prices for housing and commercial real estate. These higher housing prices were viewed as leading to wage inflation because workers would need higher incomes to pay higher prices. Analysts also viewed more expensive commercial real estate as ultimately leading to higher rents for businesses. These two consequences would lead to slower economic growth and slower private sector job growth. Increased City tax revenues would supply some offsetting benefits. The analysis estimated that these proposals would cut 150-155 private sector jobs for every 10-12 public sector jobs created.⁵²

In 2016, there was yet another proposal to increase transfer tax rates applied to properties worth over \$5 million. As indicated in Exhibit 16, rates were to be increased by 0.25 percentage points above the rates then in effect.

Exhibit 16: Existing and Proposed San Francisco Transfer Tax Rates in 2016

Property Sales Price	2016 Transfer Tax Rates	2016 Proposed Transfer Tax Rates
\$100 - \$250,000	\$2.50 per \$500 (0.5%)	\$2.50 per \$500 (0.5%)
\$250,001 - \$1,000,000	\$3.40 per \$500 (0.68%)	\$3.40 per \$500 (0.68%)
\$1,000,001 - \$5,000,000	\$3.75 per \$500 (0.75%)	\$3.75 per \$500 (0.75%)
\$5,000,001 - \$10,000,000	\$10.00 per \$500 (2.00%)	\$11.25 per \$500 (2.25%)
\$10,000,001 - \$25,000,000	\$12.50 per \$500 (2.50%)	\$13.75 per \$500 (2.75%)
\$25,000,001 and above	\$12.50 per \$500 (2.50%)	\$15.00 per \$500 (3.00%)

Source: City & County of San Francisco, Office of the Controller

⁵² City & County of San Francisco, Office of the Controller-Office of Economic Analysis, "Increasing the Real Property Transfer Tax on Certain Transfers: Economic Impact Report," July 18, 2012 https://sfcontroller.org/sites/default/files/FileCenter/Documents/3308-120710_Real%20Property_economic_impact_final.pdf



The analysis of these proposed rates concluded that, because capital gains would be reduced for sellers of more expensive properties, the rate of sales for both residential and commercial property would decline. These reduced sales would have a negative effect on the real estate industry. The analysis also estimated that higher transfer taxes would reduce the willingness of buyers to pay for properties because these buyers would face higher tax liabilities when they sold them in the future.

San Francisco's office vacancy rate increased from 6.1 percent at the end of 2019 to 13.6 percent at the end of 2021, an increase of about 14.8 million square feet of vacant space. That's important, because the most recent study also found that the transfer tax increase would be equivalent to a \$64/square foot impact fee on non-residential development.

The analysis estimated that the impact on the city's economy of these increased transfer taxes would be small. While the increases would lead to some loss of private sector jobs, the number of private sector job losses would be more than offset by increased public sector employment. Nevertheless, the overall effect of the increases in transfer taxes was estimated to be somewhat negative because lost private sector jobs would be associated with higher productivity than public-sector or contractor jobs that would be gained as a result of enhanced tax revenue.⁵³

Notably, these economic impact studies did not incorporate the increasing prevalence of remote work and the attendant decline in demand for office space initiated by the pandemic. San Francisco's office vacancy rate increased from 6.1 percent at the end of 2019 to 13.6 percent at the end of 2021, an increase of about 14.8 million square feet of vacant space. That's important, because the most recent study also found that the transfer tax increase would be equivalent to a \$64/square foot impact fee on non-residential development. This places further downward pressure on investment, improvement in the built environment, job creation, and community vibrancy. Consequently, the negative impact of an increase in the transfer tax rate on the city's real estate sector would almost certainly be more severe than estimated in the most recent Office of the Controller Office of the Controller analysis.

⁵³ City & County of San Francisco, Office of the Controller-Office of Economic Analysis, "Transfer Tax Increase on Properties Over \$5 Million in Value: Economic Impact Report," June 29, 2016 https://sfcontroller.org/sites/default/files/160604_economic_impact_final.corrected.pdf



POTENTIAL IMPACT ON LOCAL GOVERNMENT REVENUE AND PUBLIC EDUCATION

As of 2016, more than 70 percent of all local government tax revenue was generated by property taxes, and local governments provided nearly half of the funding for public education.⁵⁴ Increases in property transfer taxes have been shown to reduce home valuations and, by pricing out first-time homebuyers, limit population growth, therefore constraining expansion of the local tax base. Negative impacts on commercial properties, which tend to be the largest property tax contributors, would serve to exacerbate this effect. This will, all else equal, reduce local tax revenues and have a significant effect on the funding of elementary and secondary public education.

CONCLUSION

Transfer tax increases have negative economic consequences for both residential and nonresidential segments. They are regressive and can lead to decreases in population, real incomes, real estate transactions, investment in structures, and quality of the built environment. They are also associated with higher rents, lower property valuations, reduced residential mobility, and diminished homeownership.

The negative impacts of elevated transfer tax rates stand to be exacerbated by increased prevalence of remote work and lingering weakness in office space net absorption, elevated mall vacancy and diminished hotel occupancy. Many properties will need to be upgraded and/or adaptively reused to remain viable. Excessive transfer tax rates can frustrate the exchange of property often required to transition back to commercial viability.

⁵⁴ Congressional Research Service, “State and Local Financing of Public Schools,” August 26, 2019 <https://sgp.fas.org/crs/misc/R45827.pdf>



About Sage Policy Group

Sage Policy Group is an economic and policy consulting firm headquartered in Baltimore, MD. Dr. Anirban Basu, Sage's chairman and CEO, founded the firm in 2004. Over a period spanning nearly two decades, Sage has managed to create a client base that encompasses more than forty states and seven countries and includes Fortune 500 companies, NFL teams, aquariums and zoos, state and local governments, insurance companies, banks, major medical systems, trade organizations, and law firms, among others.

The company is especially well known for its analytical capabilities in economic impact estimation, school enrollment forecasting, economic development, economic forecasting, fiscal impact analyses, legislative analyses, litigation support, environmental economics, and industry outlooks, and has significant experience in the subject areas of construction, healthcare, energy, real estate, manufacturing, professional athletics, lotteries, agriculture, tourism, entrepreneurship, government contracting, secondary and post-secondary education, and the economics of retirement. The firm is also known for its superior communications and messaging skills.

In addition to leading Sage, Dr. Basu has emerged as one of the nation's most recognizable economists. He serves as the chief economist to Associated Builders and Contractors and the International Food Distributors Association and as the chief economic adviser to the Construction Financial Management Association. He chaired the Maryland Economic Development Commission from 2014 to 2021 and currently chairs the Baltimore County Economic Advisory Committee. He has been interviewed by CNBC, CNN, Fox Business, Axios, the New York Times, Washington Post, and many others.

Dr. Basu's lectures in economics are delivered to audiences across the U.S. and abroad. In recent years, he has focused upon health economics, the economics of education, and economic development. He has lectured at Johns Hopkins University in micro-, macro-, urban, and international economics, and most recently, global strategy.