

JOAQUÍN TORRES
ASSESSOR-RECORDER



SAN FRANCISCO
OFFICE OF THE ASSESSOR-RECORDER

September 30, 2022

Supervisor Catherine Stefani
San Francisco Board of Supervisor
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 273
San Francisco, CA 94102

Re: Office of the Assessor-Recorder's Response to Supervisor Stefani's Letter of Inquiry about Downtown Commercial Valuation

Dear Supervisor Stefani:

Thank you for your letter of inquiry about the effects of remote and hybrid work on San Francisco commercial real property values. We appreciate the opportunity to join our sister departments to inform your consideration of this matter of such importance to state and local tax finance. Please accept this letter as the Office of the Assessor-Recorder's response to your questions related to San Francisco's commercial real property assessments and recent real estate transaction activity.

Key Functions of the Office of the Assessor-Recorder

The Office of the Assessor-Recorder is responsible for several real estate valuation and taxation functions for the City and County of San Francisco. Our primary function is the discovery and valuation of all taxable real and business personal property. This work establishes the annual assessment roll which is the foundation for San Francisco's property tax system and basis for the levy and collection of property taxes.

For fiscal year 2022-2023 (FY2023), San Francisco's assessment roll reflects over 211,500 property parcels and 37,000 business assessments, with a total assessment roll value of almost \$330 billion. It is estimated that this roll value will generate approximately \$3.9 billion in property tax revenue.

The Office of the Assessor-Recorder is also responsible for the collection of transfer tax, a one-time tax levied when real properties change ownership. A real property transfer tax is typically triggered if a deed is recorded. On average, the office has collected \$372 million in transfer tax revenue annually over the past five years.

The below responses to your inquiry are based on data derived from the Assessor's Real Property and Transactions divisions.

Supervisor Stefani Inquiries and the Office of the Assessor-Recorder Responses

How have property values changed and can we forecast any impact?

Despite the pandemic, San Francisco's property tax base has grown steadily and by more than a third (35%) over the past five years. The table below shows the assessment roll's steady increase ranging between 3.5%-10.7% growth per year.

Fiscal Year (FY)	Total Value \$ (Billions)	Percentage Increase
FY2018	234.7	
FY2019	259.9	10.7%
FY2020	281.7	8.4%
FY2021	302.0	7.2%
FY2022	312.6	3.5%
FY2023	329.1	5.3%

Source: Controller's Office, Certificate of Assessed Valuation

The tax basis for property tax bills due in December and April of any given fiscal year is established through assessments of the property value on January 1 of the preceding fiscal year. Thus, for FY2023, the assessment roll reflects the assessed value of all real and business property in San Francisco as of the lien date on January 1, 2022. The roll reached over \$329 billion, a 5.3% increase over the prior year, which represents an additional \$16.5 billion in assessed value.

Roll growth is driven by several factors. The leading contributors are: processing of incoming change in ownership and new construction items including high value transfers and large construction projects, assessment of in-progress new construction, and the application of an annual adjustment to base year values of 2% or by California's Consumer Price Index (CPI) factor, whichever is lower. We have also seen strong roll growth in the past several years as our office closed a historic assessment backlog. As the backlog is now largely cleared, we anticipate this driver of roll growth will be minimized in the years ahead.

It is important to note that property tax revenue tends to be less volatile than other tax revenues because of how California's Prop 13 assessment system is structured. Under Prop 13, a property's taxable value grows no more than 2% annually which results in

many property owners paying lower property taxes than they would pay if taxed based on their properties' market value. This is because market values are typically increasing at a rate greater than 2%. The longer a property is owned, the wider the gap between the assessed value and the market value tends to grow. This results in assessment rolls with taxable value of most properties less than their market value.

Under this system, properties that change ownership more frequently tend to be assessed more closely to market value (and therefore pay more in property taxes). And properties that have not changed ownership in many years tend to have larger gaps between their assessed values and market values (and therefore deliver greater value recapture when they do change ownership). Over the past five years, only 4% of all San Francisco properties have changed ownership. Therefore, because changes in real estate conditions affect a relatively small portion of San Francisco's diversified property tax base, property tax revenue is fairly well insulated from significant year-to-year real estate fluctuations.

What is the share of property tax revenue from commercial real estate?

San Francisco's property tax base is diverse; it is distributed across many areas of the City and many types of property. For FY2023, commercial real property accounts for 30% of the total roll value at approximately \$96.5 billion; it includes office, retail, hotel, and other commercial properties (highlighted in yellow below). Residential real property accounts for the single largest property type by value at over 66% of the total roll value, totaling \$211 billion.

Here is a summary of our office's FY2023 secured property roll by property type as of lien date January 1, 2022:

Property Type	Parcel Count	Total Value \$ (Billions)	% of Total
Single Family Residential	153,845	142	44.49%
Multi-Family Residential	36,142	69	21.67%
Offices	1,652	56	17.65%
Commercial / Retail	10,077	27	8.50%
Hotels	754	13	4.04%
Miscellaneous	5,487	6	1.84%
Industrial	2,147	6	1.77%
Government	1,447	.10	0.03%
TOTAL	211,551	\$319	100.00%

Source: Office of the Assessor-Recorder

To approximate the value of downtown commercial properties, we have defined downtown as including Assessor volumes 2, 3, and 25 which cover the Financial District, Union Square, Embarcadero, and SOMA neighborhoods. *See attached Assessor Volume Map.* Using this approach, downtown commercial properties account for 22% of the total roll value at \$69 billion, with downtown office buildings accounting for 15% of the total roll value at \$47 billion.

Have there been any recent trends in commercial real estate transaction activity that might impact property tax revenue?

The Recorder division of our office collects transfer taxes on real property and ownership transfers.

For FY2022, there was a 17% increase in commercial transactions over the prior year, from 196 to 230. The pre-pandemic 5-year average (FYs 2015 - FY2019) was 276 transactions. Thus, despite the increase over last year, the FY2022 transaction volume still falls 17% below the pre-COVID average.

Transfer Tax Transactions	FY2019	FY2020	FY2021	FY2022
Commercial, <i>excludes time shares only</i>	218	217	196	230
Percentage change	-19%	0%	-10%	17%

Source: Office of the Assessor-Recorder

Notably, despite the reduction in commercial transactions from pre-COVID levels, the total amount of transfer tax collected in FY2022 nevertheless increased roughly 50% over prior years as a result of Prop I (2020) which increased the tax rate for transfers of property valued over \$10 million. This suggests that any decrease in commercial transaction volume may be moderated by the impact of Prop I.

Are property owners changing the rate at which they request reassessments?

The pre-pandemic 5-year average (FYs 2015-2019) for new appeals filed is 1,738. We see a marked increase in the number of appeals filed beginning in FY2021 and continuing in FY2022, with increases in new appeals filed of approximately 38% and 49% over the pre-pandemic 5-year average, respectively.

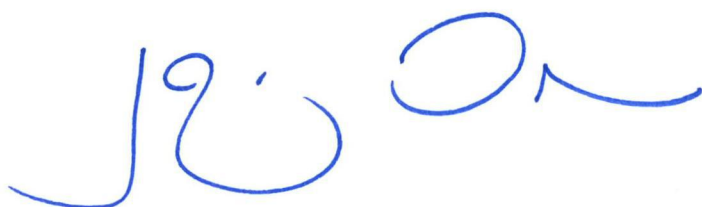
	FY2018	FY2019	FY2020	FY2021	FY2022
Appeals Filed	1,636	1,253	1,417	2,399	2,592
Percentage Changed		-23%	13%	69%	8%

Source: Assessment Appeals Board

Pursuant to Revenue and Taxation Code section 1603, in July 2022, all San Francisco properties were mailed an annual notice of assessed value and property owners had until September 15, 2022 to contest the value to the county Assessment Appeals Board (AAB). The AAB typically establishes and transmits the number of appeals filed for the latest fiscal year sometime in October.

Thank you for the opportunity to respond to your inquiry. We hope this provides you with information about the work of our office. If we can provide additional information to support your inquiry, please do not hesitate to contact us. We will be happy to be of assistance. Please contact Holly Lung at holly.lung@sfgov.org or 415-554-5386 if you have any questions about this written response.

Respectfully submitted,



Joaquín Torres
San Francisco Assessor-Recorder

Attachment: Assessor Volume Map

