



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller
Todd Rydstrom
Deputy Controller

Ms. Angela Calvillo
Clerk of the Board of Supervisors
1 Dr. Carlton B. Goodlett Place Room 244
San Francisco, CA 94102-4689

November 9, 2023

RE: File 231098 – Initiative Ordinance to Provide Transfer Tax Exemption for Conversion to Residential Use; Office Development Allocations

Dear Ms. Cavillo,

Should the proposed initiative ordinance be approved by the voters, in my opinion, it would significantly decrease the City's transfer taxes revenues. Revenue losses from the proposed initiative ordinance would be dependent on the number of properties converted then transferred and the transferred properties' transfer tax rates but could range from \$34 million to \$150 million if 5 million square feet of converted properties are transferred over the 30-year period. However, the transfer tax losses may be offset or increased depending on the behavior of the residential and office sector.

The proposed initiative ordinance would amend the Business and Tax Regulations Code, waiving the current real property transfer tax rate of up to 6% for first time transfers on non-residential properties converted or demolished that are converted to residential use. Are at least 50,000 square feet, and have a qualifying certificate issued by the Planning Department. The tax exemption will apply to the first 5 million square feet of converted property that applies for a qualifying certificate.

Over the 30-year period, if the 5 million square foot cap is reached, revenue loses could range from approximately \$34 million if only condominiums were transferred at the .68% transfer tax rate, to approximately \$150 million if only apartments were transferred at the 6% rate. For context, in Fiscal Year (FY) 2022-2023, revenue from the real property transfer tax was \$186.2 million. However, it is important to note that property transfer tax revenue is the City's most volatile revenue source. However, the transfer tax loss may be offset or increased depending on the behavior of the residential and office sector. The transfer tax loss could be offset by gains in property tax revenue from reassessments after conversion due to property improvements. Alternatively, the transfer tax loss may be increased due to business tax losses resulting from conversions or the transfer tax loss may be compounded by the opportunity cost of an upgraded office space that would have occurred in the absence of the approved ordinance.

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

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the ordinance would reduce square footage requirements on office developments where a former office space was demolished.

Sincerely,

Janice Levy FOR
Ben Rosenfield
Controller

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