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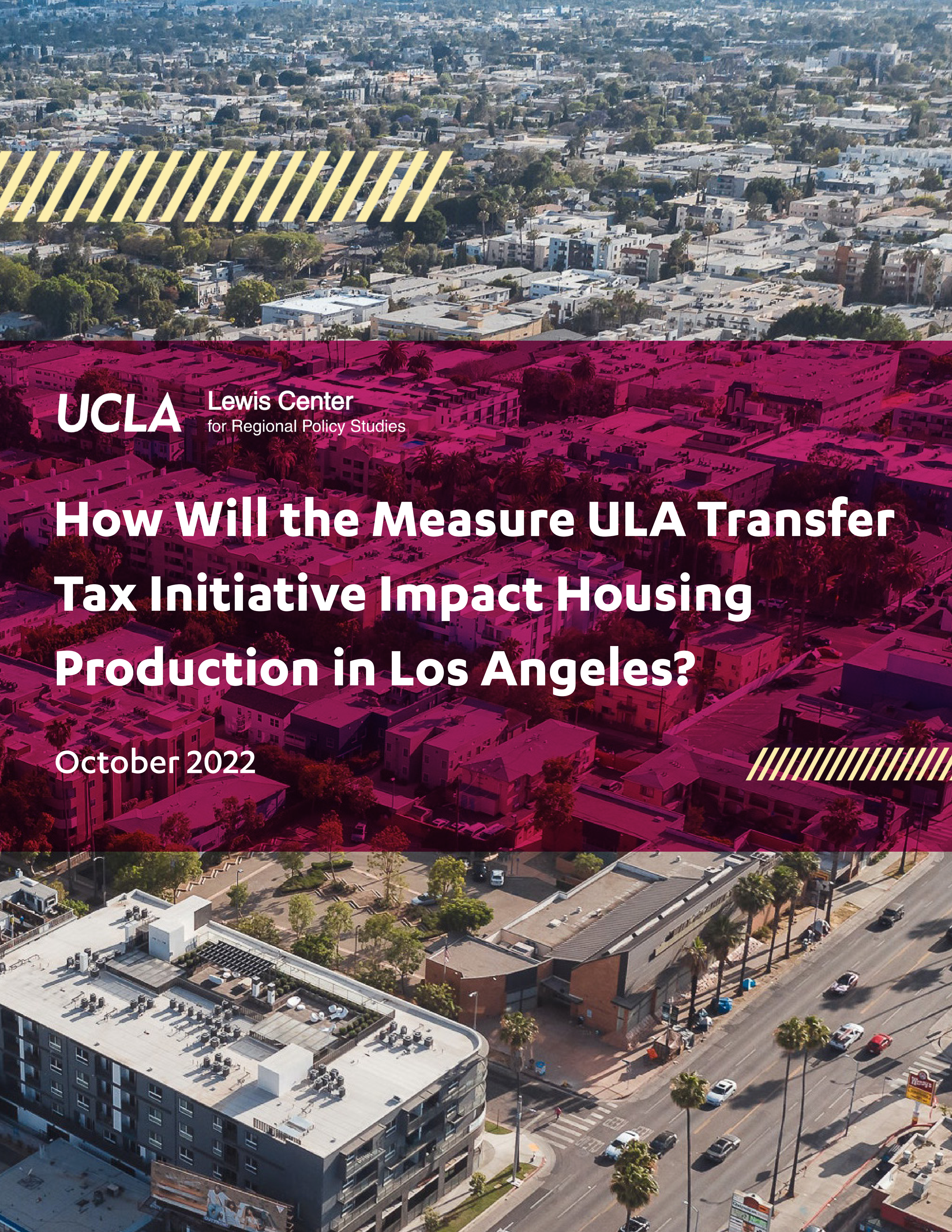

UCLA Lewis Center for Regional Policy Studies

How Will the Measure ULA Transfer Tax Initiative Impact Housing Production in Los Angeles?

October 2022

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Disclaimer

The authors were not involved in the drafting of ballot Measure ULA, but Shane Phillips did provide feedback on the initiative to the United to House LA coalition, including participating in its research committee.

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Key Takeaways

- Measure ULA is a November 2022 ballot initiative that would increase taxes on the sale of properties valued $5 million or above in the City of Los Angeles. If approved, it will raise an estimated $900 million annually for subsidized housing development, housing acquisition and rehabilitation, rent assistance, and other housing- and homelessness-related purposes.
- There is concern that Measure ULA may depress new housing production by serving as a tax on apartment development. Specifically, applying the tax on new multifamily housing could generate very little additional revenue but reduce the production of market-rate and below-market housing. This could result in higher rents and displacement relative to a tax that exempts sales of new multifamily.
- We develop a model for identifying projects that may be most at risk of not being built because of the increased tax. To be considered "potentially at risk," a project must be large enough to be valued near or above $5 million, be built on a parcel with moderate-density residential zoning, and have sold within approximately five to eight years of completion. Projects in higher-density zones are expected to retain their attraction to developers, and new developments do not pay the increased transfer tax if they do not sell.
- Only a small percentage of units completed between 2013 and 2016 — between 1.8% and 4.1% per year — meet our definition of "potentially at risk." Extrapolated to current production trends, including requirements for on-site below-market units in most new developments, this averages out to approximately 50 below-market units and 390 market-rate units per year.
- Although the number of potentially at-risk units is relatively small, the cost of replacing them using transfer tax revenues is considerable. Applying the Measure ULA tax to newer multifamily buildings sold in 2019 would have raised only $26 million, about $12 million of which could be used for construction subsidies. Subsidizing enough new housing to replace at-risk units could cost roughly four times the revenue generated by taxing new apartment building sales. In other words, the social cost of taxing new apartment sales could be greater than the financial cost of exempting them.
- This report is not a complete accounting of the costs and benefits of Measure ULA. Our analysis focuses only on the possible impacts to privately funded housing production and taxes generated from the sale of such projects. Evaluating Measure ULA more holistically, the number of potentially at-risk units is relatively small, and the total revenue generated by the tax could be used to subsidize a much larger number of below-market homes. In addition, the tax will fund various other housing services and investments for lower-income and unhoused residents, and most taxes will be paid by affluent households and businesses.
- The city should consider exempting new apartment buildings from the tax if Measure ULA passes in November. The initiative allows the City Council to amend the tax if its amendments further the goals of the initiative, which include supporting affordable housing development.

Introduction

Transfer taxes are one-time taxes levied on the sale or transfer of real estate. In most California cities, transfer taxes are low — usually 0.45% of a property's sale price — and flat, applying the same rate to a property sold for $500,000 as to one sold for $50 million. Seeking to shore up government budgets and increase the share of taxes collected from wealthy property owners, voters in many California cities have recently approved higher and more progressive transfer taxes — that is, higher tax rates for more valuable properties.

Following the success of ballot initiatives to increase transfer taxes in Culver City, Santa Monica, and various Bay Area cities, a coalition including labor unions, affordable housing developers, and local nonprofits has developed a transfer tax proposal for the City of Los Angeles: Measure ULA.[1] The initiative would levy a tax of 4% on properties sold for $5 million to $10 million, and 5.5% on sales of $10 million or more. Properties sold for under $5 million would continue to be taxed at the current municipal rate of 0.45%. Should it pass, the measure is projected to raise around $900 million in revenue per year. The funds would be dedicated to subsidized housing development for low-income and formerly unhoused households, housing acquisition and preservation, rent assistance, legal support for tenants facing eviction, and similar efforts.

Two years ago, Phillips (2020) published a report analyzing the revenue potential of a progressive transfer tax in Los Angeles. The report suggested that the city should adopt a higher and more progressive transfer tax, and included several recommendations for the design of the tax, some of which were not included in the final draft of the measure. These recommendations were:

1. **The tax should apply broadly.** This would increase tax revenues and make them more consistent year to year. It would also spread the burden of the tax more evenly and signal that

1 The full text of the measure can be found at: https://unitedtohousela.com/app/uploads/2022/05/LA_City_Affordable_Housing_Petition_H.pdf

owners of less-valuable properties have also benefited from Los Angeles's real estate market and can afford to contribute. Instead, Measure ULA leaves rates unchanged on sales under $5 million.

2. **The tax should apply marginally.** Because the proposed tax is not assessed on the marginal dollar, it introduces sharp discontinuities in tax liability. A property sold for $4.9 million would pay no new taxes, but a property sold for $5 million would pay an additional $200,000, for example.
3. **New housing developments should be exempt from the tax if their first sale is made within several years of completion.** No such exemption is included in the initiative, although nonprofits that meet certain conditions are exempt from the tax.

The intent of the third recommendation — exempting new buildings, especially multifamily housing — was to prevent the tax from discouraging much-needed housing production, both market-rate and below-market. Without an exemption for new multifamily housing, increased transfer taxes could function as an "apartment tax" on new developments; this concern is exacerbated by the high threshold for the increased tax, which would apply to a large apartment building with mostly moderate-income households but not a $3 million home occupied by a very wealthy household. Importantly, however, the recommendation to exempt new multifamily housing was based on speculation about the possible impacts of the tax, not an empirical analysis of development trends or other housing market data.

In this report we use parcel and transaction data to estimate the impact of the proposed real estate transfer tax increase on future residential development in Los Angeles, should the initiative be approved by voters. Specifically, we are interested in whether the additional cost of the tax may discourage some property sales that lead to residential redevelopment, and how the estimated social cost of reduced housing production compares to the financial benefits of taxing new residential development.

We identify projects built between 2013 and 2016 that may not have been built if a higher transfer tax were in place at the time of sale, identifying vulnerable projects by building size (number of units), parcel zoning, and subsidy status. Most importantly, a project must have sold within approximately five to eight years after completion to be considered "potentially at risk." Developers who build, lease, and then hold on to their projects are not subject to the tax (unless they purchased the land for $5 million or more), while those who build, lease, and then eventually sell will pay the tax. Those who plan to sell within just a few years of construction will be especially attentive to the impact on their bottom line and are most likely to change their behavior in response to an increased transfer tax — up to and including not building at all.

Although the ballot initiative cannot be amended before the election, this analysis is not entirely an intellectual exercise — its findings can be acted upon. Should the measure pass, the Los Angeles City Council is empowered to amend the initiative to further its goals, which include the production of affordable housing. If, for example, the tax leads private developers to build 200 fewer homes for low-income households — referred to in this report as “below-market” homes — and taxes on the sale of new apartment buildings only generate enough revenue to build 150, then the council may have the legal authority to revise the city’s municipal code and establish an exemption.

Market-rate units, which are not restricted to low- or moderate-income households, have also been shown to reduce rent growth and displacement in the surrounding community (Asquith et al., 2021; Chapple and Loukaitou-Sideris, 2021; Pennington, 2021), so reduced market-rate production may also impose costs that should be offset by transfer tax expenditures. These costs are harder to estimate than the direct cost of subsidizing below-market units, but several studies indicate that market-rate housing has roughly half the social benefits of below-market housing: Marcus and Zuk (2017) find that below-market housing is twice as effective as market-rate housing at reducing displacement, and both Bratu et al. (2021) and Mast (2021) estimate that 100 new market-rate units result in vacancies in roughly 50-60 units in below-median-income neighborhoods. We, therefore, conclude that the social cost of not building a market-rate unit is approximately half that of not building a below-market unit.[2]

The estimates included in this report, despite their empirical grounding, are necessarily imprecise. We do not assess each project’s history in detail, and we cannot be certain that past trends will predict future activities. This is a preliminary effort at estimating the impact of the transfer tax on housing production in the city. Should voters approve Measure ULA, researchers and city officials should closely track the impacts of the tax on new development, both market-rate and below-market, and use their findings to inform future reforms.

How an increased transfer tax could discourage housing production

Our model for how the transfer tax might discourage housing development is described below. It refers to cases where a property is first purchased for less than $5 million; this purchase, whatever the buyer’s intent, is exempt from the higher tax. Next, depending on who purchases it, the property may be redeveloped and thereafter valued at $5 million or more — and subject to the increased tax if sold — or it may retain its existing use and continue to be valued under $5 million.

2 This estimate does not take into account site-specific circumstances of redevelopment, such as the location and previous use of a property, the number of households displaced (if any), and so on.

When a developer plans to buy underutilized land, redevelop it, and then sell the completed building, they must first estimate the cost to build the project (including a profit margin) and the sale price of the completed project. The difference between these two figures is the maximum the developer can spend on land acquisition, known as the residual land value ("residual"). The value of the completed project is determined by the market, not the developer's tax liability, so we assume the seller must pay the cost of the additional tax; the buyer will not pay more than the market value of the project, tax or no. The developer must therefore deduct the tax from their sale proceeds, thus lowering the residual.

With a lower residual, the developer cannot pay as much for land; **Figure 1** illustrates how an additional $320,000 tax liability on an $8 million development lowers a $1.55 million residual land value to $1.23 million. Some landowners will be unwilling to sell at the new, lower price, while others will sell to buyers who plan to maintain the existing use rather than redevelop the property. These "maintainers" may be able to pay more than a developer for a given property because they don't intend to redevelop it to a higher density, and therefore higher value, so the owner won't be subject to the higher tax whenever they choose to sell. (Also, if they purchase with the intent of maintaining the existing use then they're unlikely to sell the property anytime soon.) If these properties do not sell to developers and instead retain their use as strip malls, single-unit detached houses, and other lower-density uses, despite otherwise favorable zoning, then the city and its residents lose out on the construction of new homes and their corresponding benefits.

Figure 1. How a tax on the sale of recently completed developments can reduce the maximum amount that developers can bid for land, which could in turn result in fewer land sales and reduced housing production

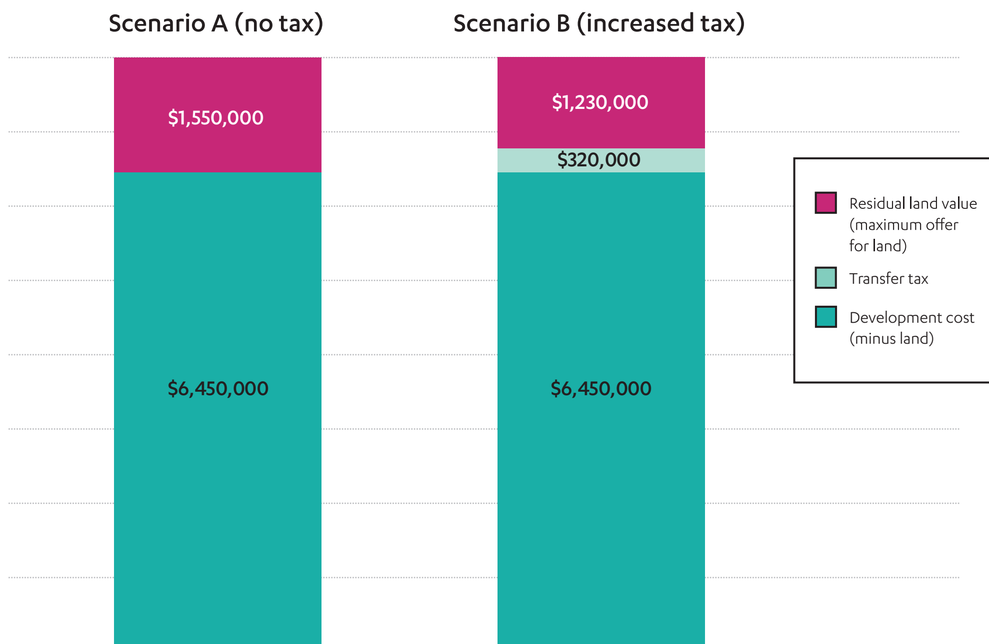


Figure 1 has a real-world corollary in 570 N. Normandie Ave. This large 3,350-square-foot house is located on 9,000 square feet of land, and in September 2021 it sold for $1.55 million. The buyer has submitted plans to replace the house with a 16-unit apartment building using the city's Transit Oriented Communities incentive program, which requires two units to be reserved for very low-income households at affordable rents. Assuming the completed building would be valued at $8 million, or $500,000 per unit, then under Measure ULA it would pay a transfer tax of $320,000 upon sale. (Crucially, the tax would be paid only *if* the property was sold after redevelopment. Some developers hold properties for many years after their project is complete.) Because property sales are already taxed at 0.45% in the city, the incremental tax increase — the amount paid above the current rate — is $284,000. If the developer's residual land value calculation was previously at or near $1.55 million (as indicated by the actual sale price of the property), and they intend to sell the completed project after redevelopment, then the higher tax will reduce their residual land value to less than $1.3 million.

With an offer of $1.55 million, the developer beat their competitors for the purchase of 570 N. Normandie Ave., allowing them eventually to turn a home worth more than $1 million into 16 lower-priced homes, including two units affordable to very low-income households. But a bid of $1.3 million or less may not have been enough to secure the property.

Five months before 570 N. Normandie Ave. sold for $1.55 million, a property several blocks to the north east, located at 930 N. Edgemont St., sold for $1.26 million. The parcel on Edgemont Street is roughly 30% smaller than the one on Normandie Avenue, as is the house itself, and the land is zoned RD2 — a very low density — making redevelopment unlikely. This indicates that the purchase price of the Edgemont Street property was based on its current use, not its redevelopment potential. Because 930 N. Edgemont St. was smaller and sold before 570 N. Normandie Ave., it's likely that the value of the Normandie Avenue property *as a house* — the value to a buyer who wished to maintain the existing use rather than redevelop it — was at least $1.3 million at the time it was sold.

Several blocks to the south of the Normandie property is 112 S. Kingsley Drive, a 2,400-square-foot home on a 7,500-square-foot lot, which sold for $1.38 million. This property is zoned R1, an even more restrictive zoning category than the Edgemont Street parcel. This sale took place in December 2020, nine months before the sale of 570 N. Normandie Ave., and housing prices rose considerably throughout 2021. If the developer could not afford to bid more than $1.3 million for the Normandie Avenue property, these nearby sales make a very strong case that they would not have acquired the property and the 16-unit project would not have been proposed.

Data and Methods

To estimate how often increased transfer taxes might thwart the development of dense, relatively affordable infill housing, we must know at least two things:

1. What share of new units are built on moderate-density parcels where the value of the existing use and the value of the land — the value to a developer — are more likely to be similar? In these cases, an increased tax might tilt the scales against redevelopment.
2. What share of new units built on these parcels are sold within five to eight years of completion? Developers who buy land, build their project, and sell shortly thereafter will be subject to the increased transfer tax after completing their projects (if the project is sold for $5 million or more), but those who hold their properties indefinitely after completion will not — or they will pay it at a much later date that is less likely to affect their decision to build. The transfer tax is unlikely to discourage the activities of developers who buy, build, then hold.[3]

To answer these questions, we draw on several data sources. First, we use parcel roll data from the Los Angeles County Assessor to identify projects completed between 2013 and 2016 that are at least eight units in size. Few developments of seven units or less would be valued at $5 million or more, and projects valued at less than $5 million are exempt from the increased tax. This is the first step in a filtering process that minimizes the laborious exercise of determining the sale status for individual projects, which comes later.

Next, we identify projects in the subsample that were zoned for moderate densities, such that the value of the prior use and the value of the land to a developer may have been similar at the time the land was sold. For these projects, a relatively small tax (e.g., $200,000 on a $5 million sale) could plausibly reduce the odds of redevelopment by reducing the developer's residual land value, and thus the amount they can bid for land: A $200,000 tax on a $5 million property reduces sales proceeds by only 4%, but it might reduce the developer's residual land value by 15% to 20% or more. To identify the parcel zoning for each project, we used the listed zoning data on the County Assessor's portal. We establish four zoning categories based on residential density: low-, moderate-, and high-density, and non-residential. The moderate-density zones are R3, RAS3, CM, and C1. A full list of zones for each category is provided in **Table 1**.

3 It's not uncommon for developers to sell their interest in a project to their investment partners after the project is fully leased, or "stabilized." If the investment partners hold onto the project then it is not sold and not subject to the transfer tax. Throughout this report, when we refer to "developers" who either hold or sell their stabilized projects, we mean the larger ownership entity, including investment partners. A property is not considered "sold" if a developer sells their interest or share in the project but the larger ownership entity does not sell the property.

Table 1. Zoning Categories based on Residential Density

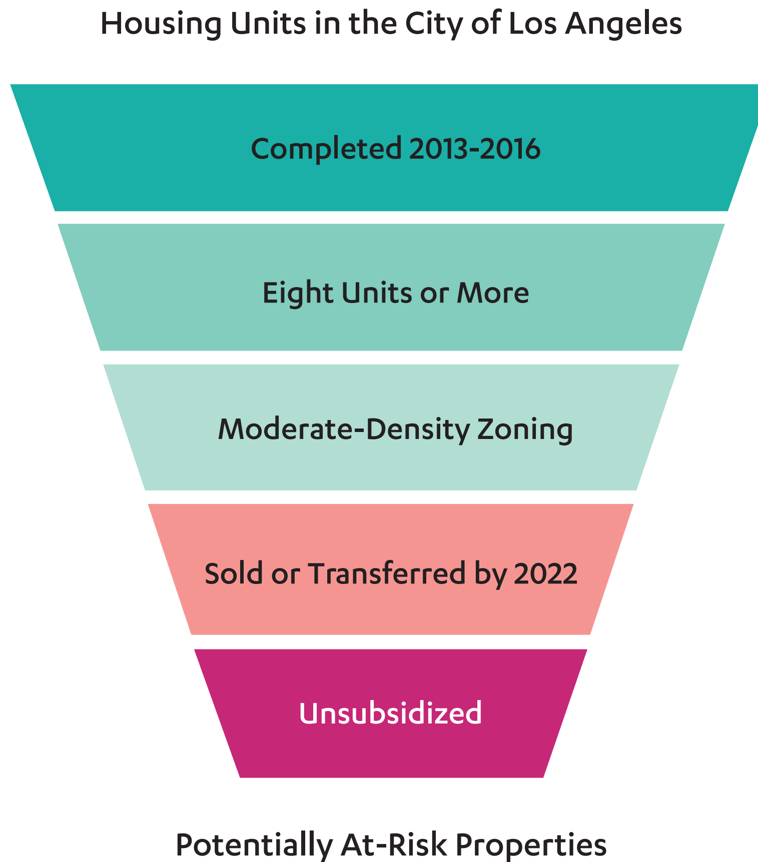
Zoning Category	Zones
Low-Density	R1, RA, RS, R2, RD1.5, RD2, RD3
Moderate-Density	R3, RAS3, CM, C1
High-Density	R4, RAS4, R5, CR, C1.5, C2, C4, C5, CW, LASED, M1, MR1, M2, MR2
Non-Residential	MR3, PF (public facilities), P (parking)

Only projects that are eventually sold will be subject to the increased transfer tax, so we must determine the share of units in our subsample that sell within a set number of years after completion. We use the assessor's online parcel lookup tool to find projects in our filtered dataset that have a "T" reason code (representing a transfer of ownership, including sales) listed in the year the project was completed or later. This suggests that the building was sold after construction. Because we limit the analysis to residential developments completed between 2013–2016 and verified projects' sales status in August 2022, we allow for at least five years after a project's completion before its first sale. To confirm that T reason codes represent actual sales, we search the address on websites including Zillow and Redfin, as well as the city's Zone Information and Map Access System (ZIMAS), locating the sale history and available public records for each address. Projects sold as individual condominium units are excluded from the analysis as these would very rarely exceed the $5 million threshold for the higher tax.

Finally, we identify subsidized low-income developments, such as those funded by the Low Income Housing Tax Credit program, built during the study period. These projects are generally exempt from the increased tax. We also identified 65 units built in 2015 and 31 units built in 2016 that reported T reason codes but did not appear to have been sold; these were omitted from the final count of sold units.

Projects that remain in our sample after this filtering process (illustrated in **Figure 2**) are considered potentially at risk. To summarize, projects built between 2013 and 2016 are considered potentially at risk if they include eight or more units, were built on land zoned for moderate densities, were sold to another party by 2022, are apartments rather than condos, and are not subsidized developments reserved primarily or exclusively for low-income households. We emphasize here that these projects are only *potentially* at risk; in the final section we discuss several strategies developers may use to avoid taxation or reduce its impact.

Figure 2. Visual representation of filtering process used to identify potentially at-risk projects



Analysis and Results

This section is broken down into two subsections. In the first, we estimate the annual number of market-rate and below-market housing units potentially at risk if Measure ULA passes in November. In the second subsection, we compare this estimate to the approximate number of deed-restricted below-market housing units the initiative could subsidize each year, and the number that could be subsidized only from taxes collected on the sale of new multifamily buildings.

Housing units potentially at risk due to an increased transfer tax

In **Table 2**, we report City of Los Angeles residential development activity by zoning category from 2013 to 2016. This data comes from the Los Angeles County Assessor's 2021 parcel roll. Over this

four-year period, the fewest units were built in 2013: a total of 6,561 units were completed, of which 5,317 were in projects with eight units or more. The most new units were built in 2016: nearly 11,600 units opened, of which 8,983 were in buildings of eight units or more. In all years, 54% to 67% of units in projects with eight or more units were built in high-density zones. Between 10% and 18% of units in these projects were built in moderate-density zones.

Table 2. Development activity by residential zoning density for housing projects completed 2013-2016

	2013	2014	2015	2016
Total units completed	6,561	8,568	6,988	11,576
Units in projects with eight or more units	5,317	6,365	4,843	8,983
↳ in low-density zones	12	148	172	341
↳ in moderate-density zones	929	1,549	666	1,530
↳ in high-density zones	4,376	4,668	3,990	6,748
↳ in non-residential zones	0	0	15	284

Table 3 shows housing data for each step of the filtering process used to identify potentially at-risk projects. Only a small share of units sold by 2022 were in unsubsidized developments built on parcels zoned for moderate density, ranging from 1.8% of all units completed in 2016 to 4.1% in 2013. We identify an average of roughly 200 units per year as potentially at risk.

Table 3. Potentially at-risk units, filtered from a sample of all projects with eight or more units completed 2013-2016

	2013	2014	2015	2016
Total units completed	6,561	8,568	6,988	11,576
Units in projects with eight or more units	5,317	6,365	4,843	8,983
↳ in moderate-density zones	929	1,549	666	1,530
↳ sold by 2022	327	220	173	254
↳ unsubsidized	271	181	150	205
↳ as a share of all units	4.1%	2.1%	2.1%	1.8%

The lower rate of units sold for projects completed in later years is likely due in part to the shorter time frame between completion and the date of this analysis in August 2022 — projects built in 2013 have had three more years to sell than those built in 2016. Projects completed during later years may eventually have sale rates similar to those built in 2013. Extrapolating to projects completed after 2016, we estimate that 4% of units built in a given year will meet our requirements for being considered potentially at risk.

The Los Angeles County parcel roll shows an average of roughly 11,000 units were completed annually in the city from 2016–2019. If this trend holds, approximately 440 new privately funded housing units could be potentially at risk each year. Because most multifamily developments in Los Angeles are required to set aside some units for lower-income households, approximately 50 below-market units — 10% to 12% of total units — could be at risk, in addition to roughly 390 market-rate units.

We can estimate the cost of replacing these potentially at-risk units in two ways. In the first, we only count the replacement cost of below-market units, since these are the only units that require public subsidies. **The "Below-market Only" replacement measure is equal to 50 replacement units.**

The second approach is to count the potentially at-risk market-rate units as some fraction of below-market units, reflecting their relative effectiveness at improving affordability or reducing displacement. As discussed in the introduction, we estimate that market-rate units are approximately half as effective at these goals as below-market units; one market-rate unit is equivalent to roughly 0.5 below-market units. **The "Below-market Equivalent" replacement measure is equal to 245 replacement units** (50 below-market + 390 market-rate * 0.5 bm/mr). As a fuller accounting of the costs of reduced housing production, we believe the Below-market Equivalent measure is more appropriate for comparison to the revenues generated by the increased transfer tax.

Measuring the cost of potentially at-risk units

Although Measure ULA may negatively impact the feasibility of some privately funded housing developments, it would also raise substantial tax revenues, a large share of which are dedicated to subsidizing below-market housing developments for low-income and formerly unhoused residents. Therefore, the potential negative consequences of the increased transfer tax should be weighed against these anticipated benefits.

Measure ULA's proponents estimate that the transfer tax would generate approximately $900 million in annual revenue, of which 45%, or about $405 million, is reserved for below-market

housing development. Assuming these funds are leveraged with state and federal sources with a local contribution of $200,000 per unit, this is enough to subsidize approximately 2,000 units per year at current development costs.

It's important to acknowledge the benefits of Measure ULA measure as a whole, but we also wish to know how the number of units potentially at risk compares to the transfer tax revenues generated by the sale of *recently completed* housing developments. According to our analysis, the increased tax is anticipated to affect the feasibility of only a small share of units, but even a small number of at-risk units may be too high a price to pay if taxing new developments raises very little revenue. In that case, taxing the sale of new developments could still result in a net loss of housing for the city compared to a counterfactual in which new developments were exempt from the increased tax. To make this comparison, we use County Assessor sales list data to estimate the city's tax revenues for all 2019 residential property sales if the Measure ULA tax rates had been in place at the time.[4] We find that without an exemption, the tax would have raised an estimated $473 million from the sale of residential properties (in addition to $382 million from non-residential property sales). Exempting multifamily buildings completed 2015 or later (i.e., within the previous five years) lowers estimated revenues to $447 million, a reduction of $26 million.

Of the $26 million raised from the sale of recently completed multifamily buildings, $11.7 million would be reserved for below-market development. By leveraging state and federal funding sources, these funds could produce approximately 60 below-market units.[5] This is enough to offset the cost of potentially at-risk units under the Below-market Only replacement measure, but not for the Below-market Equivalent replacement measure. In the latter case, the revenues required to subsidize an equivalent number of below-market units exceed the revenues raised from new multifamily developments by roughly two-fold ($26 million vs. $49 million) and revenues reserved for below-market construction by more than four-fold ($11.7 million vs. $49 million), as shown in **Table 4**.

4 This is the same sales list data used in the July 2020 report, "A Call For Transfer Tax Reform." Our projections of total revenues generated by the increased transfer tax differ from those of Measure ULA proponents by less than 10%.

5 That is, $26 million raised from new multifamily sales, multiplied by 45% of transfer tax revenues dedicated to below-market construction, divided by $200,000 per unit in local subsidy costs, or ($26,000,000 * 0.45 / $200,000), equals 58.5.

Table 4. Cost of replacement units under Below-market Only and Below-market Equivalent replacement measures of value of potentially at-risk units

	Below-market Only	Below-market Equivalent
Replacement units required	50	245
City share of replacement unit cost	$10 million	$49 million
Revenues generated for new construction by taxing recent housing developments	$11.7 million	
Ratio: Cost of replacement units to revenues generated	0.85	4.19

Discussion

If designed poorly, and depending on various contextual factors, imposing additional taxes on development can reduce the number of homes built and thereby make housing less affordable for renters and homebuyers, most of whom live in privately owned, unsubsidized and non-rent-restricted housing. In the worst scenarios, development taxes could cost communities more in impacts from unbuilt housing, including below-market housing, than can be purchased with revenues generated by the tax. In the case of the Measure ULA transfer tax proposal, we find that the overall impact of the tax is likely to be positive with respect to housing production, but that the costs of imposing the tax on new multifamily building sales may exceed the revenues generated from these sales.

Our estimates of the impacts of Measure ULA can be viewed from multiple angles. On the one hand, we find that the revenue gained from taxing new multifamily housing sales is limited, and may only be enough to offset the number of privately financed below-market units that are potentially at risk due to the increased tax. By not exempting new multifamily housing, approximately 50 fewer below-market units may be built by for-profit, unsubsidized developers each year, and roughly 60 could be subsidized in their place. An additional 390 market-rate units could also be put at risk annually, assuming housing production levels do not change, and previous research indicates this would marginally increase prices and displacement in the affected communities.

If housing production increases, as state guidance and the city's housing element now call for, then the number of at-risk units could increase proportionately. It's also likely that some projects which do not meet this report's definition of "potentially at risk" could still be affected. For example, the higher tax may not cause densely-zoned land to be sold to buyers who don't intend to redevelop it, but it may cause some sales to be delayed — and in the near to medium term, housing delayed is housing denied.

On the other hand, our estimates of potentially at-risk developments represent less than 5% of annual housing production, and moreover, they are speculative. Many projects that we identify as at risk may still proceed, for many reasons: some developers may change their business model to hold properties longer before selling; some properties may have an existing use that is of lower value to "maintainers" than developers, even after the additional tax is accounted for; some projects could be built as condos rather than apartments — condos sell individually, and very few for $5 million or more. Also, some developers may already purchase land for considerably less than their residual land value (which will differ for every developer), in which case an additional tax may affect their bids less than anticipated.

For the purposes of this analysis, we argue that the most appropriate comparison is between 1) potentially at-risk, privately funded housing units, and 2) revenues collected from the sale of new multifamily developments — but we caution against taking this narrow perspective too far. This comparison illustrates how an exemption may pay for itself — or put another way, how failing to provide an exemption may impose more costs on the public than it generates in additional revenues — but it tells us little about the value of Measure ULA as a whole.

Opposing the tax measure on the grounds that it doesn't exempt new multifamily construction means opposing not only the $26 million collected from new apartment building sales, but the full $900 million or more in total revenues it is estimated to generate each year. In this broader sense, the tax proposal represents a positive step, however imperfect, toward a more just housing market, and will result in a substantial transfer of resources from the city's wealthiest households to many of its poorest. Although transfer taxes lack the consistency and breadth of property taxes, this measure nonetheless asks a large share of those who have benefited most from Los Angeles's housing market — property owners — to share their good fortune with those who have benefited least: lower-income renters and the unhoused. In addition, concerns that Measure ULA is merely an "apartment tax" appear overblown: Only about one-quarter of estimated revenues are expected to come from the sale of multifamily housing (Dreier et al., 2022).

It is worth re-emphasizing that the estimated cost of exempting new multifamily buildings is low — surprisingly so, at just $26 million per year. If this estimate is accurate, it could justify the intervention of City Council to exempt multifamily projects sold within three to five years after completion — or to tailor a narrower exemption that applies only to housing built in moderate-density zones or that meets other requirements. Per Section 22.618.8 of the initiative, City Council is empowered to amend the law so long as its revisions "further or facilitate" the purposes stated in the initiative. These purposes include "increasing the supply of affordable housing served by transit," which an exemption could achieve.

Another reform that could mitigate the potential negative impact of an increased transfer tax on housing production is broad upzoning (Phillips, 2022). If land zoned for moderate-density housing is abundant, such that developers can pay less than their residual land value to acquire land, the additional cost of a transfer tax has less salience. This is a reform that can be made independent of Measure ULA, and would benefit city residents whether transfer taxes are increased or not.

This report is a preliminary assessment of the possible consequences of an increased transfer tax, but more research is needed. If Measure ULA is approved by voters in November, we encourage City Council, departmental staff, and the Citizen Oversight Committee to engage with the development community to understand which projects are most likely to be jeopardized by a higher tax. They should also be alert to shifts in project entitlement and permitting trends — these may inform future amendments, and offer lessons to other cities considering transfer tax reform.

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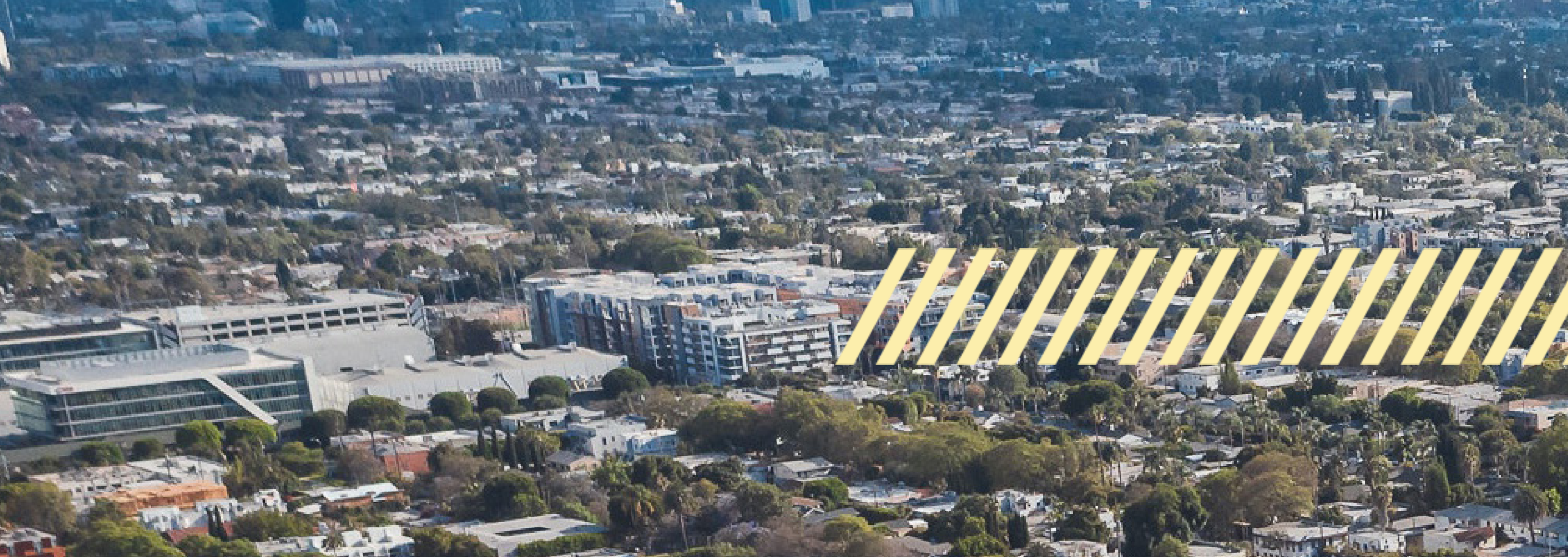

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