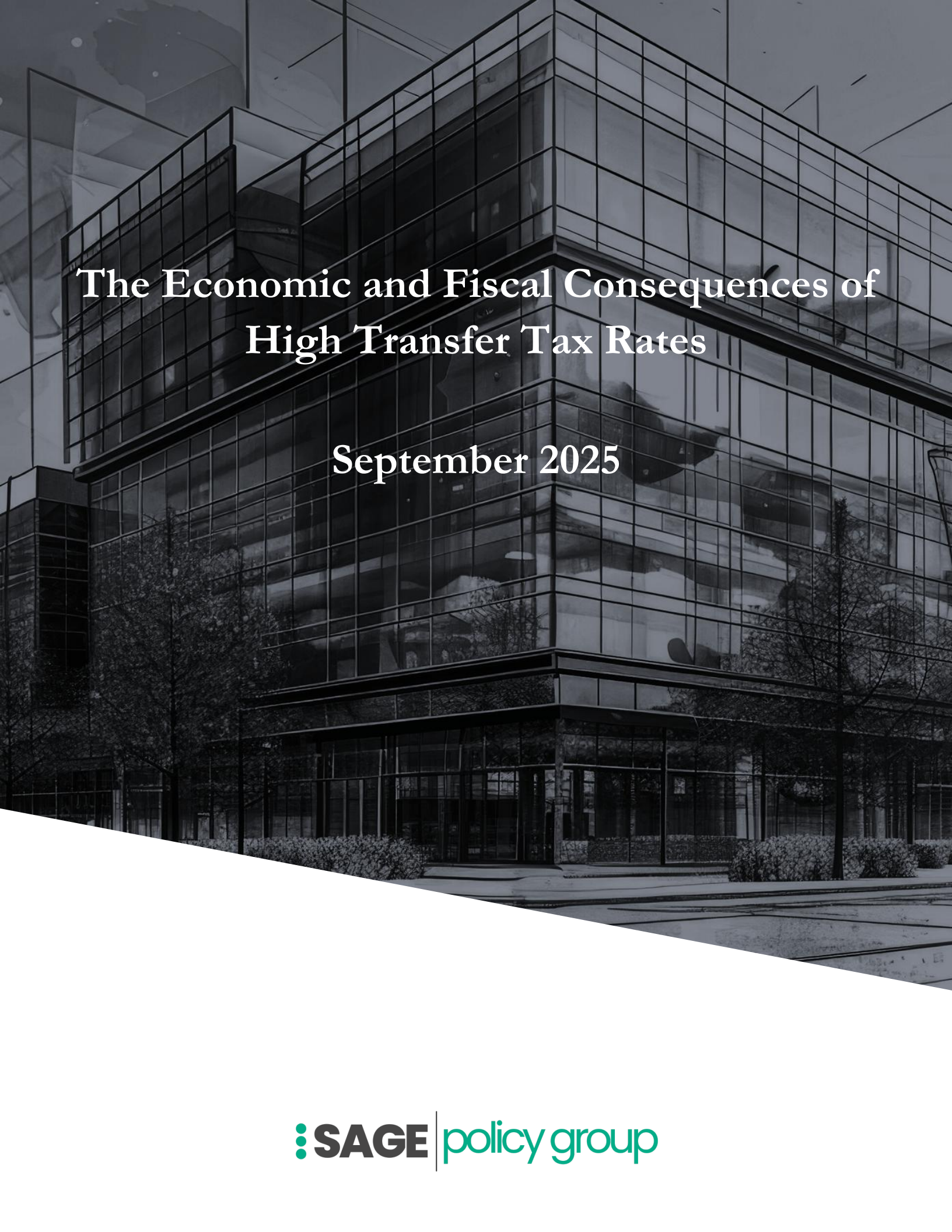




The Economic and Fiscal Consequences of High Transfer Tax Rates

September 2025

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Executive Summary

Real estate transfer taxes are one-time levies imposed on the sale of property, typically assessed as a percentage of the transaction value. While often viewed as a politically appealing way to generate revenues, these taxes produce unintended consequences that undermine economic growth, housing mobility, and fiscal stability.

TRANSFER TAXES CREATE FRICTION IN THE REAL ESTATE MARKET

Transfer taxes impose a financial penalty on property transactions, discouraging both residential and commercial sales. Research consistently shows that this “lock-in” effect traps families in homes that no longer meet their needs and keeps underused buildings in their current, often inefficient, use. The result is a less flexible housing market, less productive property use, and reduced economic activity.

Even modest transfer taxes have been shown to significantly reduce mobility and transaction volumes. These effects are particularly damaging in the current market environment, where families already face significant barriers in the form of high home prices and elevated borrowing costs.

LOWER-INCOME HOUSEHOLDS ARE HIT HARDEST

Transfer taxes, even those with graduated rates, tend to be structurally regressive. Because homes make up a disproportionately large share of total wealth for low-income households, taxing property transfers places a significantly greater burden on them. For some, the tax becomes an insurmountable obstacle to moving, worsening inequities in access to housing, school, and employment opportunities.

These same dynamics affect rental housing as well. Transfer taxes raise costs for developers, reducing the construction of multifamily housing and conversions of underused office buildings. In Los Angeles, for example, multifamily production fell by nearly 2,000 units per year following a recent transfer tax increase—an 18 percent decline.

COMMERCIAL REAL ESTATE PARTICULARLY SUSCEPTIBLE TO TRANSFER TAXES

Transfer taxes are especially disruptive to the commercial real estate market, where sale prices are higher, investment models are more sensitive to cost, and the reuse of space is essential to urban recovery. When transaction costs rise, fewer distressed assets are acquired, repositioned, or converted to other uses. This is particularly damaging in today’s office market, where high vacancy rates and falling values demand creative reuse.

In cities like Los Angeles, Philadelphia, and Pittsburgh, rising transfer tax rates coincided with sharper-than-average declines in CRE transaction values, reducing the odds that underutilized properties would be revitalized and brought back onto the tax rolls in more productive form.

THE PROMISE OF REVENUE OFTEN FALLS SHORT

While transfer taxes are pitched as a reliable revenue source, they often deliver less than projected and at the cost of weakening other, more stable tax bases. For example, Los Angeles’ “Measure ULA” was expected to raise \$900 million annually, but actual collections have fallen 63 percent short of that target.

Because property sales trigger updates in assessed value, fewer transactions at lower prices also slow the growth of the property tax base. And by concentrating collections among a small number of high-value properties, transfer tax revenue becomes increasingly volatile, making it more difficult for governments to plan.

A CAUTIONARY NOTE FOR POLICYMAKERS

While transfer taxes can provide short-term fiscal relief, they come with significant long-term tradeoffs. They reduce construction activity, suppress investment, and cause housing market dysfunction by discouraging mobility—consequences that directly conflict with housing affordability, economic competitiveness, and sound public finance.

Key Analytical Findings

- **Transfer taxes reduce transaction volumes**, suppressing the sale of both residential and commercial properties. This creates market inefficiencies and slows the reallocation of underutilized real estate.
- **The “lock-in” effect disproportionately harms younger and lower-income households**, limiting their ability to move, upsize, or relocate for work and education. Transfer taxes act as a mobility penalty.
- **Transfer taxes are regressive**, imposing higher effective burdens on lower-income households whose home values represent a greater share of their net worth.
- **Multifamily housing production declines in the presence of higher transfer taxes.** In Los Angeles, for instance, multifamily development dropped by 18 percent after the passage of a higher-tiered tax.
- **Office-to-residential conversions are especially vulnerable** to transfer tax friction. High transaction costs can render conversions financially infeasible, undermining housing supply and downtown revitalization efforts.
- **Commercial real estate markets are acutely sensitive to notched or graduated tax structures.** In Los Angeles, transactions exceeding the \$10 million threshold fell by 50 percent after a higher top rate was implemented.
- **Higher transfer taxes weaken the broader tax base**, slowing growth in property tax assessments, reducing construction-related tax revenues, and increasing fiscal volatility.
- **Transfer tax revenues consistently fall short of projections.** In Los Angeles, for instance, actual collections were 63 percent below estimates during the first two years of the “Measure ULA” transfer tax.

INTRODUCTION

Real estate transfer taxes are a one-time fee charged by state or local governments on the sale of real property. These taxes, which vary greatly by jurisdiction and can apply to both residential and commercial properties, are usually calculated as a percentage of the transaction value, either at a flat rate or with a graduated structure.

Many jurisdictions have aggressively increased transfer tax rates over the past decade, and this trend has accelerated in the aftermath of the Covid-19 pandemic due to widespread fiscal challenges; well over half of Americans currently reside in states facing either short-term, long-term, or structural budget deficits.

While higher taxes on property transactions may appear to be a politically appealing way to address these budgetary gaps, transfer taxes come with trade-offs that are not immediately apparent, are regressive and inequitable, and can exacerbate the budgetary issues they were designed to address.

AN ABRIDGED HISTORY OF RECENT TRANSFER TAX INCREASES

There are over 3,000 counties and 35,000 municipalities across the U.S., virtually all of which have the power to implement a transfer tax. While this analysis disproportionately focuses on efforts by states or large local governments to implement higher transfer taxes—it would be nearly impossible to provide a comprehensive accounting of transfer tax policy across tens of thousands of jurisdictions—these policies have similar economic and fiscal consequences in Santa Fe as they do in Los Angeles, despite the latter having approximately 43 times more residents.

California has seen dozens of ballot initiatives to raise transfer taxes over the past two decades, and recent increases in San Francisco and Los Angeles serve as particularly illustrative examples due to their size and the extensive research regarding the economic and fiscal effects of the tax increases there.

Of course, California is far from alone in these efforts. Many cities in Pennsylvania, for instance, have recently raised transfer taxes, including Philadelphia (2017) and Pittsburgh (2018, then again in 2020). Notably, city-level transfer tax increases are compounded by state and county level transfer taxes, which typically add another 2 percent in Pennsylvania.

Several other states have increased their transfer tax rates in recent years, including Connecticut, Delaware, New York, Vermont, and Washington State. Others, like Maryland and Rhode Island, have seen speculative or proposed increases that have not yet passed but remain firmly in play. As of 2025 a majority of states—37 of them, including the District of Columbia—impose a tax on real property transfers.

HOUSING & TRANSFER TAXES

Transfer taxes lock families into homes that no longer fit their needs, reduce the number of residential property transactions, disproportionately harm low income and younger households, and reduce multifamily construction while raising multifamily rents.

LOCKED IN & LOCKED OUT

A primary and well-documented consequence of real estate transfer taxes is the creation of a powerful “lock-in” effect. By acting as a direct financial penalty on moving, these taxes discourage transactions, leading to an inefficient allocation of housing stock, constrained labor mobility, and a suppression of overall market activity. This transactional friction fundamentally damages the dynamism and health of the residential real estate market.

Research consistently shows that even modest increases in transaction costs deter mobility. A 1 percentage point increase in home-buying costs can reduce the likelihood of families moving by at least 8 percent,¹ and a 1.1 percent transfer tax has been found to cause a 15 percent decline in home sales.² When Finland increased transfer taxes on apartments by just half a percentage point—while leaving single-family taxes unchanged—apartment dwellers became 7.2 percent less likely to move.³

The lock-in effect tends to suppress upsizing more than downsizing, disproportionately affecting younger families seeking more space or proximity to better schools and job centers. This dynamic is especially damaging during earlier stages of homeownership when mobility is most important.

Moreover, the effect is not confined to the jurisdiction that imposes the tax. Households outside the taxed area also experience reduced mobility due to regional housing market interconnections. Ignoring these spillover effects can lead to a 20 percent underestimation of the overall impact on residential mobility.⁴

Of course, the lock-in effect is particularly relevant to today’s housing market, as persistently high home prices and elevated borrowing costs have already made many families feel stuck in their current home. Transfer taxes compound these pressures, further limiting household flexibility.

¹ Jos Van Ommeren and Michiel Van Leuvensteijn, New Evidence of the Effect of Transaction Costs on Residential Mobility (Journal of Regional Science, 2005), 681–702.

² Benjamin Dachis, 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, 2012), 12(2): 327–354.

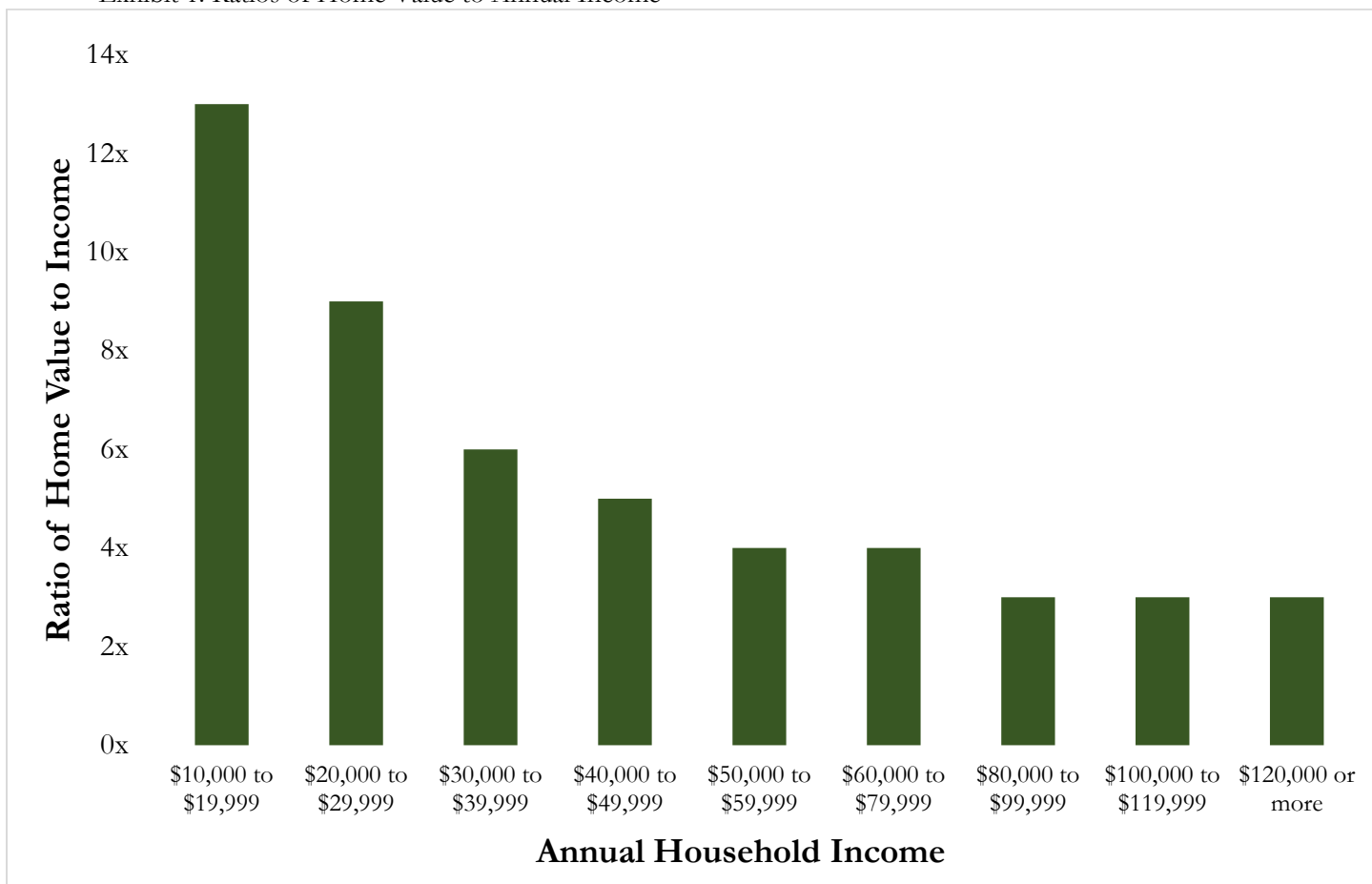
³ Essi Eerola, Oskari Harjunen, Teemu Lyytikäinen, and Tuukka Saarimaa, *Revisiting the Effects of Housing Transfer Taxes* (Journal of Urban Economics, 2021), vol. 124: Article 103367

⁴ Ibid., 3.

DISPROPORTIONATE IMPACTS ON LOW-INCOME HOUSEHOLDS

Transfer taxes are inherently regressive. They impose a disproportionate burden on lower-income households, who typically own homes with higher values relative to their income. According to the American Housing Survey, the average homeowner earning between \$10,000 and \$19,999 annually lives in a home worth more than 12 times their income. For households earning over \$80,000, the average home value is less than four times their annual earnings.

Exhibit 1: Ratios of Home Value to Annual Income



Source: American Housing Survey

This disparity means that a uniform transfer tax rate results in vastly different—and regressive—effective tax burdens. A one percent transfer tax would amount to 12 percent of annual income for the lowest-earning households compared to just over 2 percent for the highest earners.

As a result, lower-income households face far greater financial stress when selling a home. For some households, the tax can serve as an insurmountable obstacle to moving, deepening the lock-in effect and exacerbating inequality in access to housing, schools, and employment opportunities.

HIGHER MULTIFAMILY RENTS, FEWER MULTIFAMILY UNITS

Transfer taxes further restrict mobility and housing access by reducing the pace of multifamily development. A recent analysis of Los Angeles’ transfer tax increase found a clear causal link between the higher tax rate and a sharp decline in housing development. Multifamily production dropped by over 1,900 units annually in the years immediately following the increase, an 18 percent decrease compared to the previous three-year average. Most of these lost units were part of mixed-income projects, resulting in approximately 170 fewer affordable units each year.⁵

Transfer taxes also inhibit the conversion of distressed office space into multifamily buildings, a trend that has accelerated significantly in recent years due to declining demand for office space. Since 2018, office-to-multifamily conversions have delivered over 28,500 housing units, with another 43,500 in the pipeline.⁶

The office buildings most conducive to these conversions have diminished valuations, with many selling for significantly below prior market value. In Houston, for instance, an office tower which was intended to be converted into an apartment building sold for \$25 million in 2023—50 percent below the 2013 sale price of \$50 million.⁷ Had that sale been subject to a 4 percent transfer tax (equivalent to Culver City’s and lower than in Los Angeles, San Francisco, and Santa Monica), it would have added \$1 million in transaction costs to the seller, a potentially prohibitive sum. Notably, Houston does not levy a transfer tax.

These transactional costs constrain the supply of multifamily units which, all else equal, puts upward pressure on multifamily rents. Importantly, this is not the only way in which transfer taxes put upward pressure on rental prices. Some would-be home buyers are priced out on the margin by the transfer tax rate, bolstering demand for multifamily units and therefore raising rents.

For example, following Toronto’s imposition of a 1.1 percent transfer tax in 2008, rental leasing increased 23 percent relative to home sales, bolstering rental prices by 4 percent relative to sale prices.⁸ This renders rental housing less affordable, disproportionately harming the lower-income households who lack the financial security to buy while also diminishing tax revenues via lower home values (a subject discussed at length on page 15 of this report).

⁵ Jason Ward and Shane Phillips, *Taxing Tomorrow: Measure ULA’s Impact on Multifamily Housing Production and Potential Reforms* (UCLA Lewis Center for Regional Policy Studies, 2025).

⁶ CBRE Research, *Conversions & Demolitions Reducing U.S. Office Supply* (CBRE, 2025).

⁷ Janet Miranda, *Chevron Offloads Former Noble Energy Building at a Discount*, (Houston Chronicle, February 6, 2025).

⁸ Lu Han, L. Rachel Ngai, and Kevin D. Sheedy, *To Own or to Rent? The Effects of Transaction Taxes on Housing Markets* (CEPR Discussion Paper 17520, revised November 2024, Centre for Economic Policy Research, London).

COMMERCIAL REAL ESTATE & TRANSFER TAXES

Transfer taxes are particularly harmful to commercial real estate because of their larger and more volatile valuations, buyers' use of sophisticated financial models, and the diverse potential uses of commercial properties.

This is especially true of transfer taxes with graduated rates that only apply to high-value properties. These notched rates, often referred to as a “mansion tax,” ironically have the most significant and deleterious effects on the sale of high-value commercial properties. The additional transaction costs reduce sales volumes, lower property values, and reduce the probability that distressed properties are revitalized in a way that expands the tax base and better serves the community.

THE TRANSFER TAX AS TRANSACTIONAL FRICTION

Transfer taxes create a financial disincentive to sell large commercial properties, especially at prices above a threshold that triggers the highest tax rate. This results in fewer sales, suppressed property valuations, and diminished tax revenues.

Los Angeles' recent transfer tax increase, for instance, which increased the top rate to 5.5 percent, led to a 30 to 50 percent decrease in the number of commercial, industrial, and multifamily transactions. And the transactions that did occur were 50 percent less likely to exceed the \$10 million sale price that triggers the highest transfer tax rate.⁹

MARKET INEFFICIENCIES

High transfer taxes create a significant barrier to the adaptive reuse of commercial properties, a process crucial for urban economic health, especially in an era of high office vacancy.¹⁰ These taxes impose a large, upfront cost on any transaction, which can render redevelopment projects financially infeasible for potential buyers.

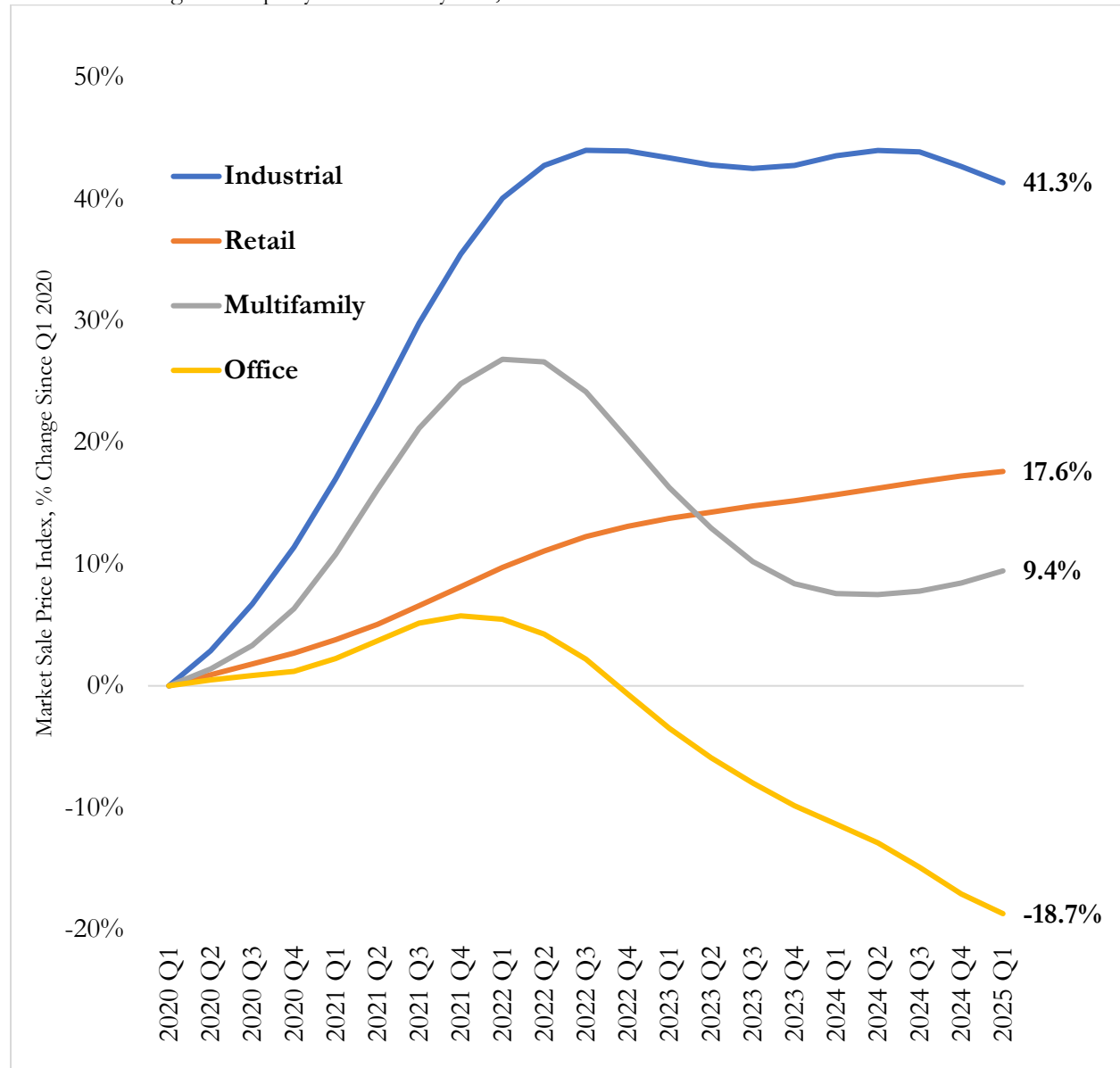
When a developer considers purchasing an underutilized office building to convert it into apartments or another more productive use, the transfer tax is factored into the total cost. If this tax pushes the project's return on investment below an acceptable threshold, the deal is often abandoned. The resulting lock-in effect causes obsolete buildings to remain in their unproductive state, preventing the capital investment needed for revitalization.

⁹ Michael Manville and Mott Smith, *The Unintended Consequences of Measure ULA* (UCLA Lewis Center for Regional Policy Studies, April 2025, Community Tax Coalition).

¹⁰ The relevance of current office market dynamics is discussed at length in the following section of this report.

This is especially relevant given recent trends in commercial real estate valuations by use. The sale price of office properties has fallen approximately 19 percent since the start of the pandemic, while industrial, retail, and multifamily market prices have appreciated considerably over that same span.

Exhibit 2: Change in Property Sale Price by Use, 2020-2025



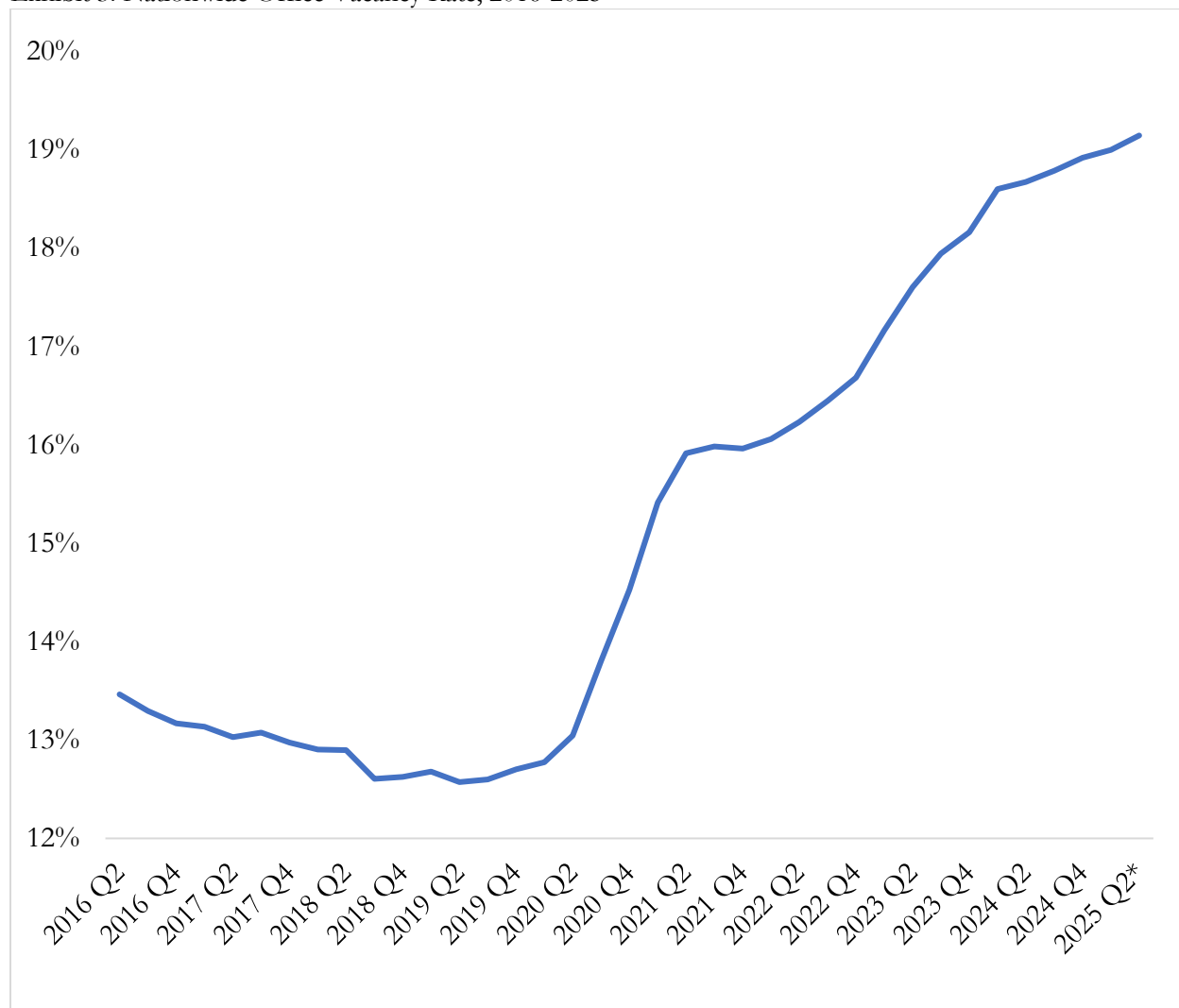
Source: MacKenzie Commercial Real Estate

Because of this dynamic, the conversion of an office building into apartments or retail space will generate a considerable increase in the assessable base and construction activity. The reduction in transactional volume that occurs due to higher transfer taxes therefore reduces social welfare and economic productivity while also diminishing fiscal health.

OFFICE MARKET DYSFUNCTION & THE TRANSFER TAX

As discussed above, the pandemic and the resulting increase in the prevalence of remote work has significantly diminished the demand for office space. Nationwide office vacancy rates have risen steadily over the past five years and are approaching an unprecedented 20 percent.^{11,12}

Exhibit 3: Nationwide Office Vacancy Rate, 2016-2025



Source: MacKenzie Commercial Real Estate

*Note: Quarter to Date

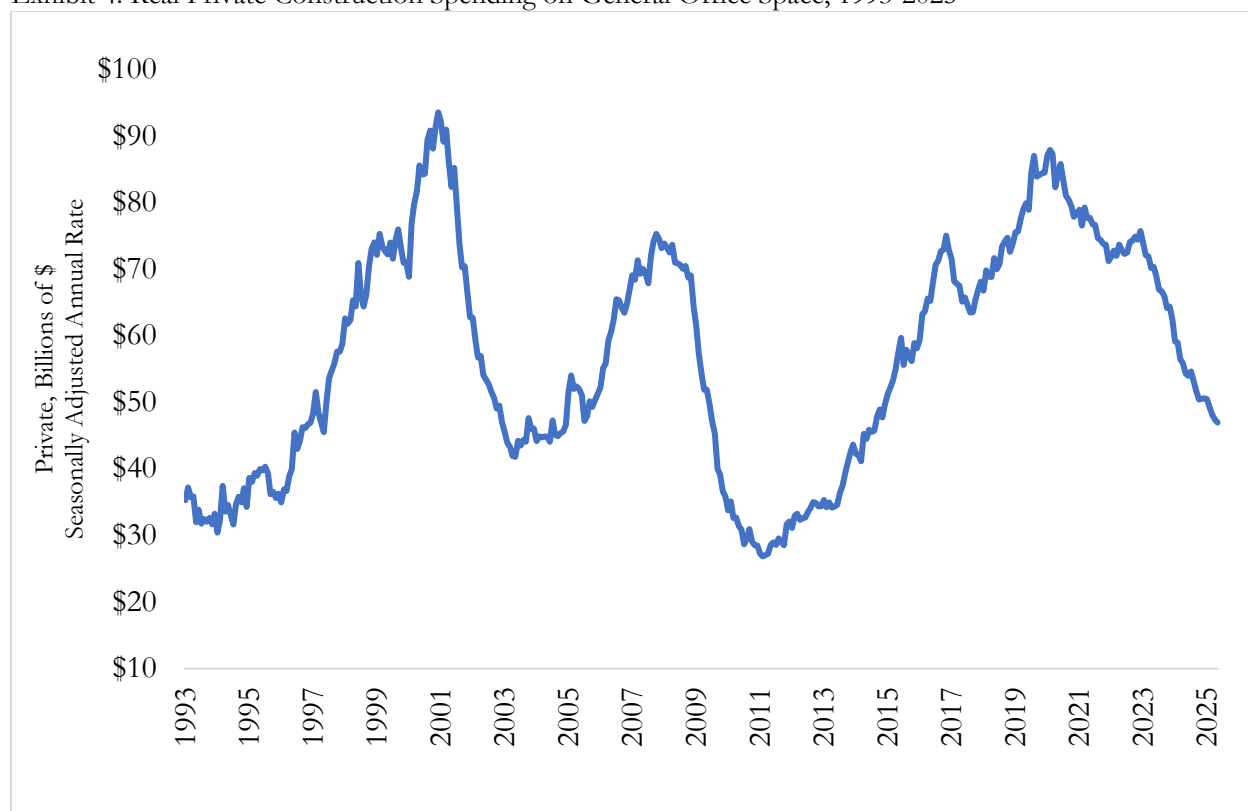
This lack of demand has diminished the assessed value of office properties; the value of all U.S. office space has fallen by nearly 20 percent over the past five years, and that's in nominal terms. Accounting for inflation, the decline is closer to 36 percent.

¹¹ CBRE Group, Inc., *Q1 2025 U.S. Office Figures* (CBRE, April 30, 2025).

¹² Commercial real estate statistics in this report are provided by MacKenzie Commercial Real Estate unless otherwise cited.

With the market oversupplied and valuations falling, development activity has ground to a virtual halt. As of May 2025, real construction spending on office buildings was down 55 percent from February 2020 levels and is approaching levels not seen since the Great Recession in 2008. The decline in new office development has been even sharper, with construction starts by square foot plunging 83 percent from the first quarter of 2020 to the second quarter of 2025.

Exhibit 4: Real Private Construction Spending on General Office Space, 1993-2025



Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis

Office markets have been particularly dysfunctional in jurisdictions which recently increased their transfer tax rates. In Los Angeles, for instance, the value of office space sold fell 54 percent from the first quarter of 2023 (just before the higher transfer tax rate was enacted) to the first quarter of 2025.

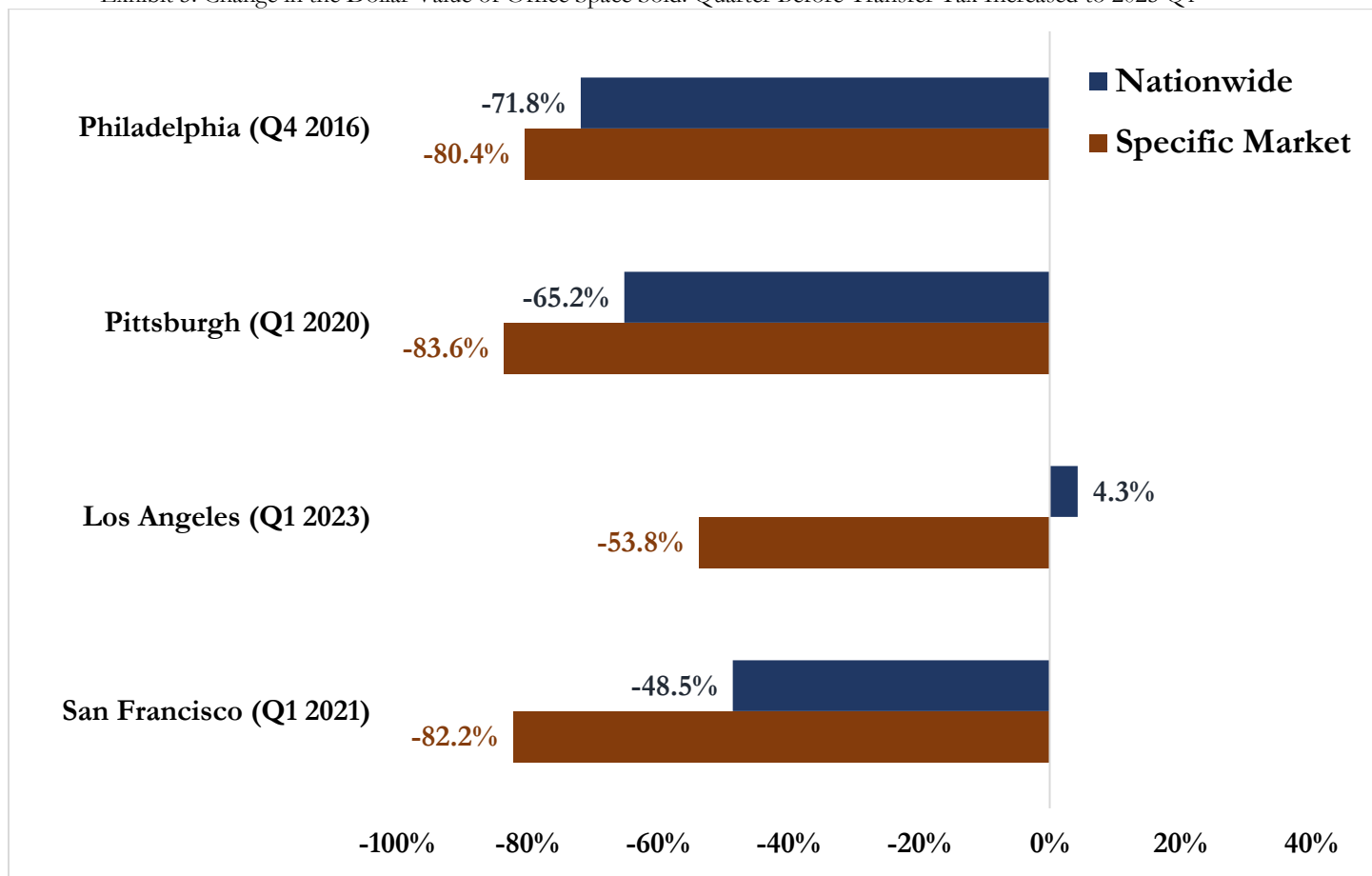
While Los Angeles' office market performance has been impacted by other macroeconomic dynamics, the quarterly value of nationwide office space sold has risen 4 percent over that same span. Had Los Angeles kept up with the national average, an additional \$599 million of office space would have been sold during the first three months of 2025.

Los Angeles is not unique in this regard. Since Pittsburgh raised its transfer tax at the start of 2020, quarterly office space sales have declined about 84 percent, while the sale price per square foot of office space has plunged nearly 70 percent over that same span. While that partially reflects broader commercial real estate dynamics, Pittsburgh’s decline was over twice as large as that experienced across the nation.

Even prior to the recent deterioration of office market dynamics, jurisdictions that implemented higher transfer taxes experienced market dysfunction. When Philadelphia raised its transfer tax at the start of 2017, the value of office space sold declined at twice the national rate during the ensuing year and was down 81 percent by the first quarter of 2025.

The following chart shows the change in the total value of office property sold in the quarter before a market increased their transfer tax rate versus the first quarter of 2025, comparing each specific market to the nationwide change over that respective span. Put simply, sales declined at a faster-than-average pace following an increase in the transfer tax rate. This is especially true in Los Angeles and San Francisco, which enacted particularly elevated transfer taxes on the highest value transactions.

Exhibit 5: Change in the Dollar Value of Office Space Sold: Quarter Before Transfer Tax Increased to 2025 Q1



Source: MacKenzie Commercial Real Estate

TRANSFER TAXES REDUCE CONSTRUCTION ACTIVITY

Transfer taxes raise upfront costs for commercial development, making new projects less financially viable. When a developer buys land, the tax adds to the purchase price before construction even begins, which raises the required return on investment and can derail projects with tight margins.

Transfer taxes also reduce long-term investment returns. Because future buyers account for the tax in resale prices, it reduces a building's expected value and ultimately discourages new development. Combined with the lock-in effect, which slows land turnover, and other factors discussed earlier in this report, transfer taxes create widespread frictions that depress both new and renovation-related construction activity.

An analysis by the San Francisco Controller, for instance, estimated that doubling the city's transfer tax would lead to a \$193 million annual reduction in commercial investment and a \$300 million annual reduction in residential investment.¹³ If just half of that investment went toward new building or renovations, citywide construction spending would decrease by more than \$245 million each year.

As a result of that lost construction activity, San Francisco's construction industry would support an estimated 2,350 fewer jobs each year (1,284 direct construction industry positions).¹⁴ Those jobs would earn an estimated \$148 million in labor income each year and support roughly \$425 million in annual economic activity.

Of course, San Francisco is the most expensive city in the world for construction services, and other cities would see a significantly larger loss of jobs, labor income, and economic activity per each dollar not spent on construction due to higher transfer taxes.¹⁵ Based on nationwide averages, a \$245 million reduction in construction activity results in a loss of nearly 2,700 jobs, more than \$200 million in annual labor income, and \$615 million in annual economic activity.

Exhibit 6: Annual Economic Consequences of a \$245 Million Decline in Construction Activity

Type of Impact	Jobs	Labor Income (Millions \$2025)	Economic Output (Millions \$2025)
Nationwide Loss			
Direct Effects	1,201	\$89.0	\$246.5
Secondary Effects	1,486	\$111.4	\$369.2
Total	2,687	\$200.4	\$615.7

Source: Sage, IMPLAN

¹³ City & County of San Francisco, Office of Economic Analysis, *Increases to the Transfer Tax Rate for Properties Over \$10 Million* (Economic Impact Report, September 29, 2022, Office of the Controller).

¹⁴ Economic impact estimates were produced using a custom IMPLAN model generated by the Sage Policy Group study team.

¹⁵ Matthew Thibault, "San Francisco Ranked the World's Most Expensive City for Construction," *Construction Dive*, July 8, 2022.

PUBLIC REVENUE IMPLICATIONS

TRANSFER TAX REVENUES FALL SHORT OF EXPECTATIONS

Transfer tax revenues are typically smaller than expected due to reduced transactional volumes and lower transactional prices, dynamics discussed in earlier sections of this report. This was widely apparent following Los Angeles' recent transfer tax increase. A 2022 analysis estimated that the higher tax would generate over \$900 million in annual revenues.¹⁶ In actuality, however, transfer tax collections generated by the sale of properties at a price above \$5 million generated just \$725 million in revenues from April 2023 to June 2025.¹⁷ That equates to just \$335 million in annual transfer tax revenues, or about 63 percent less than expected.

That shortfall is compounded by several secondary factors, including slower assessable base growth, less productive property use, and reduced economic activity.

SLOWER ASSESSABLE BASE GROWTH

The assessed value of a property is updated—and usually increases—when properties are sold. A policy that leads to relatively fewer transactions at lower prices, like higher transfer tax rates, causes smaller and fewer assessable base increases, all else equal. The result is two distinct downward pressures on city finances: the new transfer tax underperforms, while the city's stable, broad-based property tax base is simultaneously weakened. This effect is exacerbated by the reduction in commercial property being transferred to buyers who intend to use it for different, more productive—and therefore valuable—uses.

In Los Angeles, transactions that occurred after the new transfer tax law passed were 50 percent less likely to exceed the highest threshold of \$10 million, and that decrease in sales volumes and prices led to an estimated \$25 million decline in property tax valuations.¹⁸ Another study estimated that Los Angeles' Measure ULA reduced the transaction rate by 38 percent, and that as a result, between 63 and 138 percent of the revenue raised by the transfer tax would be offset by lower future property-tax collections.¹⁹ This is in addition to the loss of assessable base that results from reduced construction activity.

¹⁶ Joan Ling, Shane Phillips, Peter Dreier, Scott Cummings, Manuel Pastor, Seva Rodnyansky, and Jackson Loop, *An Analysis of Measure ULA: A Ballot Measure to Reform Real Estate Transfer Taxes in the City of Los Angeles* (UCLA Lewis Center for Regional Policy Studies, September 2022)

¹⁷ Los Angeles Housing Department. n.d. *ULA Revenue*. City of Los Angeles Housing Department. Accessed July 12, 2025.

¹⁸ Ling et al., *An Analysis of Measure ULA*.

¹⁹ Green, Daniel and Jambulapati, Vikram and Liebersohn, Jack and Velayudhan, Tejaswi, "Fiscal Externalities of Transaction Taxes: Evidence from the Los Angeles Mansion Tax." *Available at SSRN 5273034* (2025).

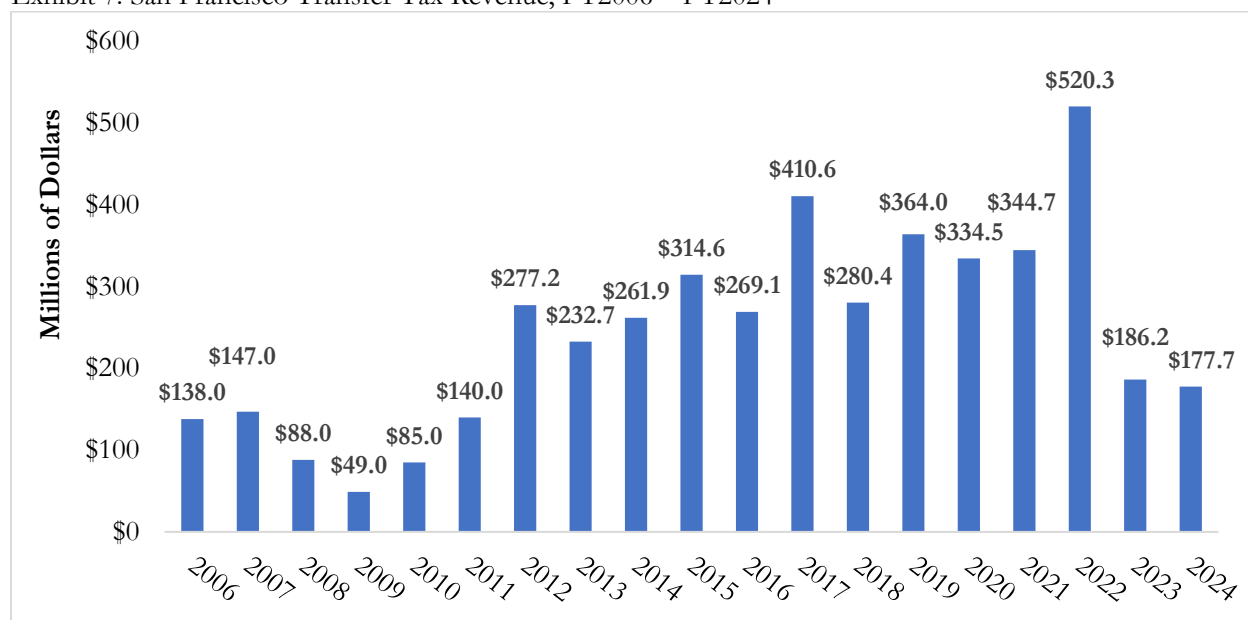
REDUCED CONSTRUCTION ACTIVITY MEANS REDUCED TAX REVENUES

Not only do construction projects increase the real property tax base, but they also bolster state and local sales taxes, income taxes, and other revenue streams. Based on nationwide averages, a \$100 million reduction in construction activity results in a \$5.9 million reduction in state level tax revenues and a \$4.1 million reduction in local tax revenues.²⁰

REVENUE INSTABILITY

The inherent volatility of transfer tax revenues presents a significant challenge for local governments. San Francisco’s experience over the past two decades illustrates this instability, with transfer tax revenues fluctuating dramatically from year to year. Consider that the city collected more in transfer taxes in FY 2019 than in FY 2023 and FY 2024 *combined*. Transfer tax collections were so minute over those two fiscal years that they collectively fell 43 percent short of FY 2022 collections, a gap of more than \$156 million.

Exhibit 7: San Francisco Transfer Tax Revenue, FY2006 – FY2024



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

Higher transfer tax rates exacerbate this problem by making higher-value properties account for a significantly larger share of overall transfer tax revenues. This concentration amplifies volatility because luxury real estate transactions are especially sensitive to economic downturns.

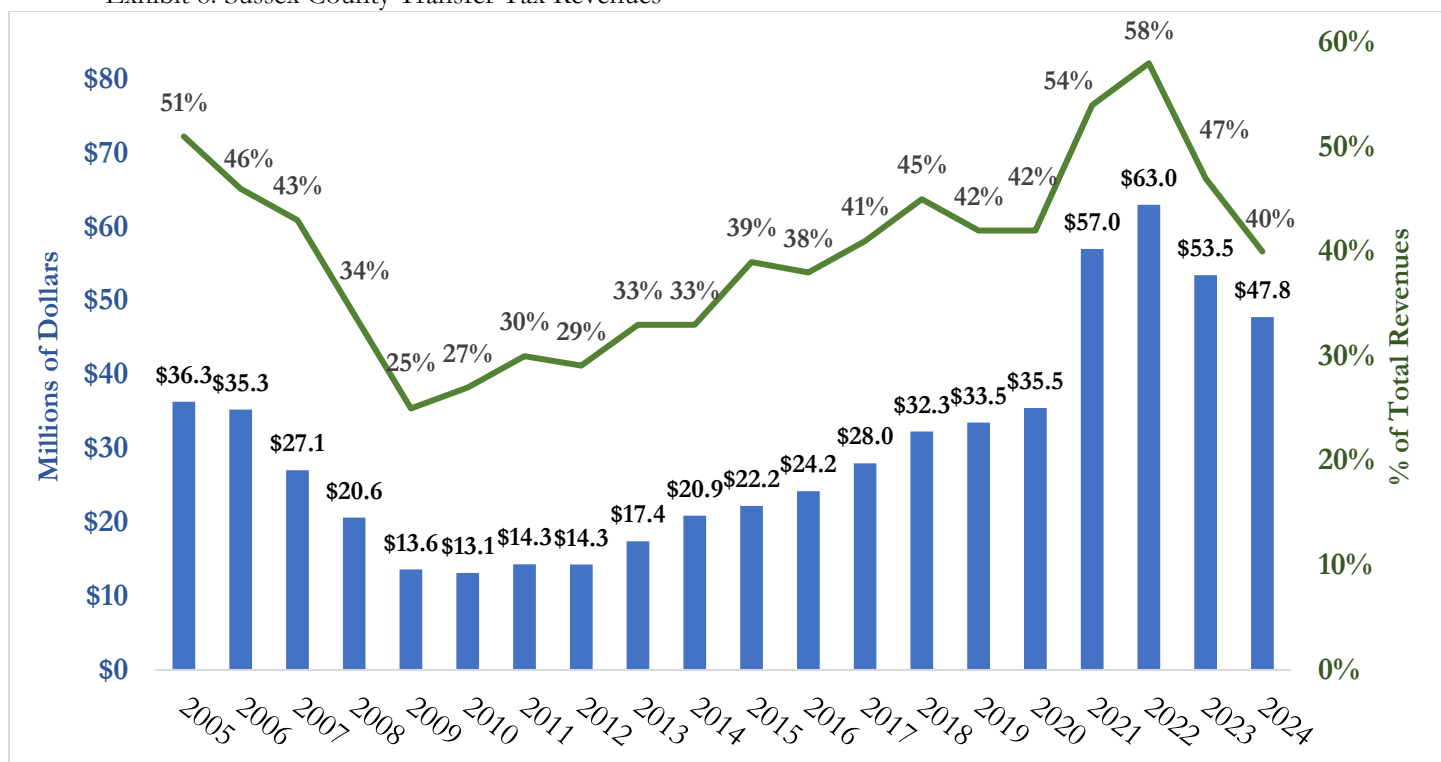
The volatile nature of transfer tax revenue is not unique to major metropolitan areas. Consider Sussex County, Delaware, a coastal jurisdiction with approximately 260,000 residents that has come to rely

²⁰ Based on an input-output model created using IMPLAN economic modeling software.

on transfer taxes for greater than 40 percent of its total revenues. Given the cyclical nature of real property transfers, this has led to extreme fiscal volatility.

During the Great Recession in FY 2009, the Sussex County's transfer tax revenues fell to \$13.6 million and represented just 25 percent of the County's total revenues. On the other extreme, Sussex County's transfer tax revenues surged to \$63 million in FY 2022, or 58 percent of total county revenues.

Exhibit 8: Sussex County Transfer Tax Revenues



Source: Sussex County Delaware Comprehensive Annual Financial Reports

The uncertainty that results from an overreliance on transfer taxes makes it exceedingly difficult for a jurisdiction to commit to recurring expenses, especially if those expenses relate to an expanded payroll.

BROADBASED REVENUE CONSIDERATIONS

Higher transfer tax rates can, in some circumstances, lead to a net decrease in total tax revenues. A 2025 analysis from Tufts University compared a static estimate of transfer tax impacts to a dynamic one (i.e., a model that accounts for secondary and indirect tax effects) for six major cities across the U.S.²¹ For a 3 percent transfer tax, the static revenue estimate was more than entirely offset by countervailing losses in all but one of the six markets in the analysis. With a 5.95 percent transfer tax rate, tax revenues more than entirely countervailed the gains in all six markets.

²¹ BOMA International and Center for State Policy Analysis, *The Hidden Costs of Transfer Taxes* (Advocacy Report, February 2025, BOMA International).

CONCLUSION

High real estate transfer taxes are often advanced as a politically palatable solution to local budgetary challenges and housing affordability concerns, yet mounting evidence suggests that these taxes frequently undermine the very goals they are intended to promote.

By discouraging transactions, transfer taxes restrict mobility in both residential and commercial markets, locking families into homes that no longer meet their needs and keeping underutilized commercial properties in unproductive use. The result is a misallocation of real estate assets, slower economic growth, and less urban revitalization.

These transactional frictions have especially pronounced effects on commercial real estate. Transfer taxes raise the cost of property turnover, reduce investment returns, and inhibit the conversion of obsolete buildings into higher value uses. This is particularly damaging in today's office market, where high vacancy rates and falling valuations present a critical need—and opportunity—for adaptive reuse. When developers or investors face steep upfront costs tied to a property's sale price, many otherwise feasible projects are shelved, stalling redevelopment, reducing construction activity, and ultimately shrinking the assessable base that funds core public services.

Moreover, while transfer taxes can yield short-term revenues, they are volatile, prone to underperformance, and can weaken more stable revenue streams. Jurisdictions that rely too heavily on these levies face budget unpredictability and risk impairing long-term economic competitiveness. Policymakers and real estate stakeholders alike should approach transfer tax proposals with caution, recognizing that such policies often have broad and lasting impacts on housing affordability, economic vitality, and fiscal stability.

Appendix A: Market Specific Examples & Impacts

BOSTON

Boston does not currently have a local real estate transfer tax, though Mayor Michelle Wu has filed multiple home rule petitions since 2022 to establish one.²² Her most recent proposal would allow the Boston City Council to impose a tax of up to 2 percent on commercial and residential property sales over \$2 million, but this still requires state legislative approval.

However, the statewide Affordable Homes Act, signed into law by Governor Maura Healey in August 2024, now gives Massachusetts municipalities the authority to adopt a transfer fee of 0.5 percent to 2.0 percent on the portion of a property's sale price above \$1 million (or the county median sale price, if higher).²³ Boston could potentially implement a transfer tax under this new state law without requiring additional home rule petition approval.

A 2024 analysis found that a transfer tax with a \$2 million exemption would have affected just 8.7 percent of property sales in 2023, while a \$1 million exemption would have impacted nearly 30 percent of sales.²⁴ Under a \$1 million exemption, commercial properties would have accounted for just 6.4 percent of affected sales but would have generated nearly 33 percent of the revenue. Because the transfer tax would only affect a small minority of transactions, the revenues collected by that tax would be highly susceptible to marginal behaviors, therefore creating outsized market distortions.

Notably, these proposals come as Boston's commercial real estate market faces significant challenges, including declining office demand and rising vacancies. Boston's downtown office vacancy rate rose to 18.8 percent in the second quarter of 2025, up approximately 10 percentage points from five years earlier, while asking rents have fallen considerably since the start of 2022.²⁵

²² City of Boston. "Mayor Wu Signs Transfer Fee Home Rule Petition to Fund Affordable Housing and Provide Tax Relief for Seniors." Boston.gov, March 4, 2022. <https://www.boston.gov/news/mayor-wu-signs-transfer-fee-home-rule-petition-fund-affordable-housing-and-provide-tax-relief>

²³ An Act to Provide for a Capital Outlay Program to Rehabilitate, Produce and Modernize State-Aided Public Housing Developments, Acts of 2024, Chapter 150 (Mass. 2024), <https://malegislature.gov/Laws/SessionLaws/Acts/2024/Chapter150>

²⁴ Boston Municipal Research Bureau. *Proposed Real Estate Transfer Fee Policies Explained: What Does Each Mean for Boston?* Research Update. April 2024. <https://www.bmrb.org/wp-content/uploads/2024/04/RU42624transferfee.pdf>

²⁵ CBRE Research. *Q2 2025 Downtown Boston Office MarketView*. Q2 2025. Boston: CBRE Research, 2025. https://mktgdocs.cbre.com/2299/e5c1ee5f-e39e-4653-908d-630658d7402c-Q2_2025_Downtown_Boston_Office.pdf

CHICAGO

Chicago currently imposes a real estate transfer tax (RETT) with a total rate of 1.05 percent on all property sales, which equates to \$5.25 per \$500 of the sale price. This consists of a \$3.75 per \$500 portion paid by buyers (0.75%) and a \$1.50 per \$500 portion paid by sellers (0.3%).

In March 2024, a significant ballot measure known as “Bring Chicago Home” sought to change the buyer’s portion from a flat tax to a tiered, marginal structure. While the referendum was defeated by voters, the proposal would have:

- Decreased the buyer’s tax to 0.6 percent for properties sold for under \$1 million.
- Increased the buyer’s tax to 2.0 percent on the value of sales between \$1 million and \$1.5 million.
- Increased the buyer’s tax to 3.0 percent on the value of sales above \$1.5 million.

A 2024 analysis found that the proposed structure would have shifted a significant share of the transfer tax burden onto Chicago’s commercial properties, with their share of total transfer tax revenues generated rising from 20 percent to 36 percent.²⁶ This would have had significant and deleterious effects on the city’s already-beleaguered commercial real estate market. Downtown office properties, for instance, have seen direct vacancy rise from less than 10 percent in 2016 to more than 25 percent as of the second quarter of 2025.²⁷

²⁶ Civic Federation, “Graduated Real Estate Transfer Tax and Bring Chicago Home Proposal: Data and Policy Analysis,” March 13, 2024, <https://civicfed.org/bringchicagohome>

²⁷ CBRE Research. *Chicago Downtown Office Figures Q2 2025*. Q2 2025. Chicago: CBRE Research, 2025. https://mktgdocs.cbre.com/2299/889bbff-8fae-4555-9122-8d3ec2393f0e-996604347/Chicago_Downtown_Office_Figure.pdf

LOS ANGELES

Los Angeles levies both a base documentary transfer tax and, since April 1, 2023, an additional “Homelessness and Housing Solutions Tax” (Measure ULA). The City’s base tax remains \$2.25 per \$500 of value (i.e., \$4.50 per \$1,000), in addition to Los Angeles County’s documentary transfer tax of \$1.10 per \$1,000. Measure ULA applies a levy of 4.0 percent to conveyances above a CPI-indexed threshold currently set at \$5.3 million and 5.5 percent above \$10.6 million (effective for closings after June 30, 2025). These ULA thresholds (and only the ULA thresholds) adjust annually; the base documentary taxes do not.

Projected as a major new funding source for affordable housing and homelessness programs, ULA’s receipts have been markedly volatile and significantly below early expectations. The City’s public dashboard tracks monthly collections beginning April 2023, and independent analysis indicates that conveyances over \$5 million generated roughly \$725 million from April 2023 through June 2025. That equates to about \$335 million on an annualized basis and is roughly 63 percent below widely cited projection figures of \$900 million per year.²⁸ This shortfall has coincided with softer transaction volumes at high price points, amplifying revenue cyclicalities.

Academic work points to pronounced behavioral responses around Measure ULA’s “notches.” UCLA/USC researchers found that after implementation of the tax, Los Angeles saw a 30 to 50 percent decline in commercial, industrial, and multifamily transactions and that the odds of a sale clearing the \$5 million threshold fell by as much as half, a pattern consistent with price engineering and deferred or alternative deal structures.²⁹ Related analyses note that transactions at or above the higher threshold became far less common, concentrating tax risk in a narrower slice of the market.³⁰

These dynamics have unfolded against a challenging office backdrop. Greater Los Angeles ended the second quarter of 2025 with an overall office vacancy rate near 24 percent and continued negative net absorption—conditions that complicate recapitalizations, conversions, and other adaptive-reuse strategies that depend on property transfers.³¹ In high-performing submarkets like West LA, Class A vacancy remains materially lower but still elevated relative to pre-pandemic norms; in this environment, additional transfer-time friction can render otherwise possible conversions economically unfeasible.

On the housing side, elevated transfer costs have coincided with fewer multifamily starts and reduced throughput for mixed-income projects. A recent analysis of Los Angeles’ transfer tax increase found

²⁸ Los Angeles Housing Department. n.d. *ULA Revenue*. City of Los Angeles Housing Department. Accessed July 12, 2025.

²⁹ UCLA Lewis Center for Regional Policy Studies, “Los Angeles’s Mansion Tax Has Raised Less Money for Affordable Housing Than Expected—Lewis Center Researchers Explain Why,” *UCLA Lewis Center for Regional Policy Studies* (May 14, 2025).

³⁰ Michael Manville and Mott Smith, *The Unintended Consequences of Measure ULA* (UCLA Lewis Center for Regional Policy Studies, April 2025, Community Tax Coalition).

³¹ Commercial real estate statistics in this report are provided by MacKenzie Commercial Real Estate unless otherwise cited.

a clear causal link between the higher tax rate and a sharp decline in housing development, attributing an average decline of roughly 1,900 multifamily units per year in the years following enactment of Measure ULA (a decline of approximately 18 percent), including an estimated 170 fewer affordable units annually.³² While ULA exempts specific nonprofit and community-land-trust transactions, those carve-outs have not offset broader market-wide frictions that reduce production and complicate office-to-residential conversions.

The upshot is that Los Angeles now layers a high-rate, CPI-indexed transfer levy atop existing city and county documentary taxes, concentrating collections in a small minority of high-value deals. That design heightens sensitivity to marginal behaviors (e.g., pricing just below thresholds, restructuring) and macro conditions, contributing to revenue volatility and—via fewer transactions at lower values—slower growth of the broader property-tax base.

³² Jason Ward and Shane Phillips, *Taxing Tomorrow: Measure ULA's Impact on Multifamily Housing Production and Potential Reforms* (UCLA Lewis Center for Regional Policy Studies, 2025)

NEW YORK CITY

New York City layers a local Real Property Transfer Tax on top of New York State levies. For residential 1–3 unit family homes, individual condo units, and co-op apartments, the City’s transfer tax is 1.0 percent up to \$500,000 and 1.425 percent above that; for all other property types (e.g., commercial and most multifamily), the City rate is 1.425 percent up to \$500,000 and 2.625 percent above that. New York also imposes a 0.4 percent state-level transfer tax that—since 2019—rises to 0.65 percent only on New York City transactions with consideration above \$3 million for residential properties and \$2 million for all other property types. Separately, the State’s “mansion tax” on residential sales applies a 1.0 percent tax for deals at and above \$1 million, and scales up on a graduated schedule to 3.9 percent at \$25 million-plus.

At the top end of the residential market, these layers of taxes produce one of the highest combined transfer-tax burdens in the U.S. As an illustration, a \$25 million New York City condo sale faces a city-level transfer tax of 1.425 percent, a state-level transfer tax of 0.65 percent, and a 3.9 percent State mansion tax. That sums to approximately 5.975 percent. Such stacking intensifies threshold sensitivity (pricing properties just under brackets, deferrals, or restructurings) that is well-documented in the transfer-tax literature and mirrored in other tiered systems.

These dynamics interact with New York City’s evolving investment climate. While the city’s inventory levels and vacancy rates have improved in recent quarters, recapitalizations and adaptive-reuse deals still hinge on tight proformas where additional transfer tax-related frictions can render a project infeasible.

Ultimately, New York City’s model is less about a single “mansion tax” than a stacked system that concentrates burdens on a small share of high-value transactions while still imposing meaningfully high flat rates on everyday deals. Consistent with the broader findings on the effects of transfer taxes, this structure adds transactional friction, encourages threshold-driven behaviors, and can contribute to revenue volatility and slower assessable-base growth when sales volumes weaken.

PHILADELPHIA

Philadelphia's realty transfer tax was raised in July 2025 from 3.278 percent to 3.578 percent, bringing the combined rate (with Pennsylvania's 1.0% statewide tax) to 4.578 percent.

Because Philadelphia's rate was high even before this hike, the increase amplifies the degree of transactional friction in its property market. Historically, the city has seen significant volatility in realty transfer tax collections. For example, in recent years revenues have fallen 25 to 60 percent during market downturns as transaction volume shrinks.³³ The Economy League reports that by early 2024, transfer tax revenue was about 26 percent below projections, costing the city roughly \$110 million in that fiscal year. Moreover, Philadelphia's own observers acknowledge that forecasting the transfer tax is far more error-prone than for more stable streams like wage or property taxes.³⁴

From a structural standpoint, this makes the tax a double-edged sword: while the recent tax rate hike is intended to fund Mayor Parker's H.O.M.E. (Housing Opportunities Made Easy) initiative and support affordable housing efforts, it also increases the risk of transactional avoidance, deal compression, and mobility disincentives for households. In combination with the city's reliance on volatile revenue sources, the increased levy heightens budget sensitivity to real estate cycles, reinforcing a pattern of boom-bust fiscal exposure documented in other high-transfer-tax jurisdictions.

³³ Economy League of Greater Philadelphia, "Ebb and Flow: Realty Transfer Tax Revenue in Philadelphia, 2010–2024," *Economy League of Greater Philadelphia* (June 2024).

³⁴ PICA, "Precision in Projections: Evaluating Philadelphia's Tax Revenue Forecasts and Volatility," *PICA Publications* (2024).

RHODE ISLAND

Rhode Island imposes a statewide real estate conveyance tax that applies to deeds and transfers of interests in acquired real estate companies when consideration exceeds \$100. Effective October 1, 2025, the state moved to a two-tier structure. Tier 1 is \$3.75 per \$500 (0.75%) on the full consideration for all properties; Tier 2 adds \$3.75 per \$500 (an additional 0.75%) only on the portion of residential consideration above \$800,000. Beginning January 1, 2026, the \$800,000 threshold is indexed annually to inflation. The change also revised the distribution of receipts: from each \$500 of Tier 1 tax, cities/towns receive \$1.80, the state \$0.95, and \$0.50 each goes to Distressed Community Relief and the Housing Resource & Homelessness funds; Tier 2 receipts are directed to the Housing Production Fund (\$2.50 per \$500) and Housing Resource & Homelessness (\$1.25 per \$500).

This tiered structure builds on Rhode Island’s earlier decision (effective 2022) to dedicate high-end conveyance proceeds to the Housing Production Fund, and it arrives amid continued price pressure and elevated activity at the top of the market. In May to June 2025, statewide single-family median prices moved near or above \$500,000, and luxury sales remain disproportionately influenced by out-of-state buyers (roughly 42% of \$1 million-plus transactions in 2024). Those dynamics suggest the Tier 2 base is a minority of transactions but a meaningful share of value, concentrating revenue in higher-cost coastal submarkets.

Market context is mixed. In Providence’s office market, vacancy stood at 13.4 percent in the second quarter of 2025 with negative year-to-date absorption (~-254,000 SF), while asking rents held around \$21.92 PSF. In such conditions, transfer-time frictions, even at modest rates, can complicate recapitalizations and adaptive-reuse activities that depend on transactions penciling out.³⁵

Ultimately, Rhode Island’s transfer tax concentrates collections in a narrow slice of the market, heightening revenue volatility and encouraging threshold-sensitive behaviors. These patterns are consistent with broader evidence: transfer taxes create transactional friction and “lock-in” effects, and jurisdictions reliant on them tend to experience boom-bust revenue swings that complicate the process of funding recurring programs.

³⁵ Cushman & Wakefield, Providence Q2 2025 Office MarketBeat.

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. Sage has created 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, brokerage houses, major medical systems, trade organizations, and law firms, among others.

The company is especially well known for its analytical capabilities in economic and fiscal impact estimation, economic development, forecasting, legislative analyses, litigation support, environmental economics, and industry outlooks.

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, the Maryland Bankers Association, 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.

Dr. Basu's lectures in economics are delivered to audiences across the U.S. and abroad. He has lectured at Johns Hopkins University and is presently the Distinguished Economist in Residence at Goucher College, where he teaches History of Economic Thought.