

Removing the Foreclosure Exemption to the Transfer Tax: Economic Impact Report



Office of the Controller
Office of Economic Analysis

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Introduction

- Proposition J on San Francisco's November 2026 ballot is an amendment to the City's Real Property Transfer Tax ("Transfer Tax").
- The measure would remove an existing exemption in the tax, for the unpaid debt of distressed properties that are transferred as the result of a foreclosure, or in lieu of a foreclosure.
- The amendment would not apply to *qualified residential properties*, defined in the measure.
- The Transfer Tax is a General Tax, and additional revenue generated by measure could be expended by the City on any governmental purpose.
- The Office of Economic Analysis (OEA) has prepared this report because the proposed tax might have a material impact on the city's economy.

Background

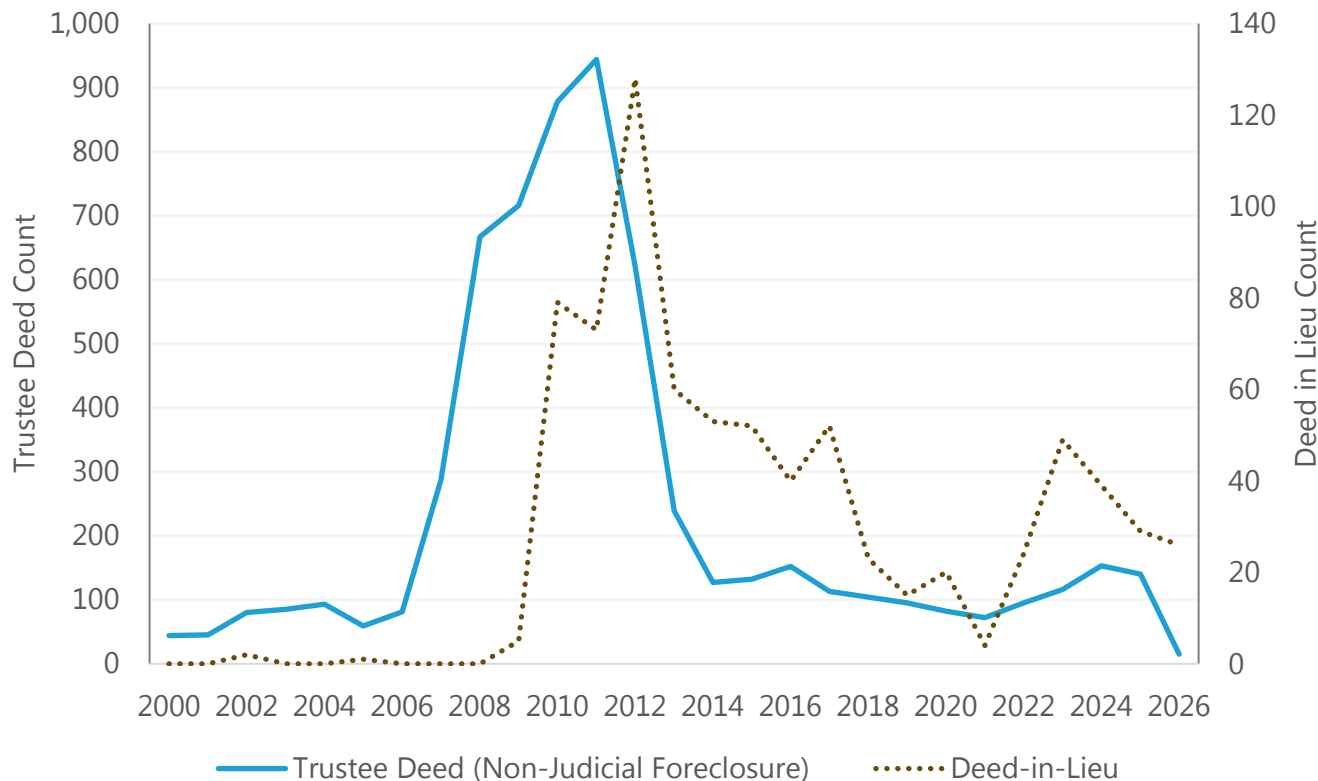
- The Transfer Tax is an excise tax on the transfer of real property in the city. In 2020, its rates for transfers of properties with consideration or value of \$25 million or higher were raised to 6%.
- A foreclosure is a property transfer to a lender that can occur when a borrower defaults on a loan that is secured by the property.
- To avoid the complexities of a formal foreclosure, which is a legal process, parties may arrange a deed in lieu of foreclosure (or “deed in lieu”) transfer. In this case, the lender takes title of the property, and the borrower’s debt is extinguished.
- In these distressed transfers, under current law, the unpaid debt is exempt from Transfer Tax. If a person acquires a property by foreclosing on a distressed property, the tax on that transfer is therefore significantly lower than if that person had acquired that same property through a traditional purchase of the property.

Qualified Residential Properties

- The proposed change would not apply to qualified residential properties, meaning lenders of those properties taking possession via foreclosure, or deed in lieu of foreclosure, would continue with the current practice of not paying tax on the unpaid debt on the property.
- A qualified residential property includes:
 - A single-family residence.
 - A condominium or cooperative unit.
 - A multifamily property with fewer than 5 residential units.
 - A mixed-use property with fewer than 5 residential units and only a single floor of non-residential space.
- A qualified residential property does not include a property with a unit or units designed for occupancy primarily by travelers, vacationers, or other transient occupants.

Prevalence of Foreclosure and Deed-in-Lieu Transfers

Annual Trustee Deed and Deed-in-Lieu of Foreclosure Records in San Francisco, 2000-2026



Non-Judicial foreclosures and Deeds in Lieu can be tracked with data from the Office of the Assessor-Recorder, since each is associated with a particular type of official document. The chart to the left shows the number of Deeds in Lieu and Trustee Deeds (indicative of a non-judicial foreclosure*) in the city since 2000.

The spike in the late 2000s was associated with the global financial crisis, and indicates how sensitive these transfers are to distress in property markets.

The smaller uptick in Deed in Lieu since 2020 is likely due to the higher number of distressed commercial properties in the city, and possibly due to increases in the Transfer Tax rate in 2020.

Source: Office of the Assessor-Recorder.

* A Non-Judicial foreclosure is a type of foreclosure that concludes with a property sale at auction, and results in a Trustee's Deed. Other, non-distressed transactions can also result in a Trustee's Deed.

Economic Impact Factors

- The proposed measure is likely to have both positive and negative impacts on San Francisco's economy.
- On the positive side, the additional Transfer Tax revenue will lead to increased City spending on services, contractors, and supplies. This spending will generate positive multiplier effects throughout the local economy.
- On the negative side, the removal of the exemption would increase the effective cost to lenders of taking possession of distressed property in the city (other than qualified residential properties).
- This will reduce the value of existing debt, and lead lenders to require higher interest rates on affected properties in the future. This would not affect lending costs for purchasers of qualified residential properties, including condos and single-family homes.
- Higher lending costs will, on the margin, reduce the value of these properties over time. To the extent that debt is required for investment in these properties, such as for renovation, higher costs can reduce the level of this investment.

Estimated Revenue

- The Controller's Office has estimated that the proposed measure will generate \$100 million to \$150 million annually over the first five years.
- The estimate acknowledges the volatility of the revenue stream, and its dependence in the near term on the large number of commercial properties in the city that are currently distressed.
- The Controller's Statement for the November ballot also notes that the proposed measure would have generated anywhere from \$3 million to \$232 million during different years in the 2020s, again highlighting the extreme volatility of the revenue.
- For the 20-year time horizon of this economic impact analysis, we assume an average revenue gain of \$50 million per year, from 2027 to 2046.

Economic Impact Assessment and Conclusions

- To reconcile the economic costs and benefits of raising Transfer Taxes by \$50 million, the OEA used its REMI model of the San Francisco economy.
- Specifically, we modeled the following economic changes:
 - \$50 million in increased local government spending, representing the tax's revenue.
 - \$50 million in increased capital costs for the Real Estate sector, representing the tax's cost to real estate lenders.
- The net economic impact would be mildly positive. San Francisco's GDP would be \$33 million larger, on average over the next 20 years, if the measure were adopted. Total employment in the city would be increased by 189 jobs, virtually all within the public sector.
- These precise results are sensitive to assumptions about the amount of revenue that the tax will generate, which is highly uncertain. However, the general findings of a slightly positive economic impact, with job creation largely in the public sector, are likely to hold regardless of the exact revenue.

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