AN ANALYSIS OF

MEASURE ULA

A BALLOT MEASURE TO REFORM REAL ESTATE TRANSFER TAXES IN THE CITY OF LOS ANGELES

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INTRODUCTION

By almost any measure, Los Angeles has one of the most serious housing crises of any major American city. Polls repeatedly show that the public ranks housing and homelessness as Los Angeles' most serious problems. For years, advocacy groups, elected officials, and candidates for public office have proposed ways to address these problems, such as changing zoning laws, streamlining bureaucratic approvals of new housing construction, implementing tenant protections, and creating new funding programs to subsidize housing production. However, the crisis persists.

The most recent proposal, which will appear on the November 2022 ballot in Los Angeles, is called Measure ULA. It involves an increase in the real estate transfer tax for properties that sell for over $5 million. The measure's proponents estimate that the program would raise approximately $923 million per year, which would be dedicated to constructing new affordable housing, preserving existing lower-cost housing, providing rent relief for households facing eviction, offering income support to low-income, rent-burdened seniors, providing legal counsel for tenants facing eviction, and educating landlords and tenants about their rights and responsibilities under the law. Proponents also estimate that the tax will only impact four percent of real estate transactions — the most expensive sales — in a given year.

This report provides an overview of Los Angeles' housing conditions, summarizes the key components of the Measure ULA ballot measure, and evaluates its potential impact.

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EXECUTIVE SUMMARY

Measure ULA is a ballot measure which proposes to increase transfer tax rates in the City of Los Angeles on real estate sales valued $5 million or more. The new fees will be levied at the time of sale at a rate of 4% for properties between $5 million and $10 million, and 5.5% for those $10 million or above. The money raised by this measure would be set aside for the production and acquisition of affordable housing, as well as homelessness prevention measures in the form of rent relief, income support for rent-burdened seniors, and legal counsel for tenants facing eviction. The tax will affect approximately 4% of Los Angeles' real estate transactions in a given year.

If the tax was in place in fiscal year 2021-22, it would have raised roughly $923 million. The coalition of affordable housing developers, homeless service providers, labor unions, hospitality workers, and community-based organizations pushing the measure estimate that over the next ten years this money could create 26,000 affordable housing units and 43,000 new construction jobs. Annually, the measure is also expected to provide emergency rental assistance to 5,100 households, income support to 13,000 households with seniors or disable people, and legal counsel for 23,000 households facing eviction. The measure would also create an oversight committee made up of 15 seats, each with their own experience requirements, including: expertise in affordable housing development, housing finance, labor, or community land trusts, as well as seats set aside for those with experience in tenant organizing, or experience with living in low-income housing or homelessness.

By providing funding for new housing and homelessness prevention, Measure ULA represents a holistic approach to the city's housing affordability and homelessness crises. We find that the magnitude of Measure ULA's potential revenue, coupled with the program's design and oversight, make this proposal likely to have a strong positive impact on homelessness reduction and housing affordability in Los Angeles.

KEY FINDINGS

- According to County Assessor data from fiscal year 2021-2022, Measure ULA could raise over $900 million annually. Currently, the City of Los Angeles raises an average of only $207 million per year from transfer taxes (based on pre-COVID-19 fiscal years 2016-2019), and the revenues are added to the General Fund, not earmarked for housing.

- Measure ULA's tax would affect approximately 4% of real estate transactions in a given year and 72% of its revenue would come from properties sold for over $10 million. Under 3% of single-family homes or condos sold in a given year would be affected.

- There is no evidence that the tax would impact rents for commercial or residential tenants. In most cases, transfer taxes are paid by the seller, who will have no legal avenues to pass on costs to tenants in a building which they no longer own. Additionally, this report cites multiple studies which show that rents are determined by the market, not taxes and fees. Landlords already charge the most they can without losing tenants and facing vacant apartments/retail spaces — this will not change because of new transaction fees.

- We found very limited evidence that the tax would impact some for-profit new construction projects, but developers are able to adjust their business models to minimize the impact of the transfer tax, and revenues from Measure ULA will fund the construction of a much larger number of deed-restricted affordable homes. Real estate investors who buy to quickly resell — the harmful practice of "flipping" — may be more impacted, which we view as a bonus.

I. CURRENT HOUSING CONDITIONS IN LOS ANGELES

The Housing Crisis Domino Effect

Housing and homelessness are serious problems across the country, but Los Angeles' crisis is among the worst nationwide. The high price of housing — both ownership and rental — is a serious concern for Los Angeles' residents. The wide gap between incomes and housing prices means that many families spend too much of their budgets just to keep a roof over their heads. This also leaves less income to meet other basic needs like food, utilities, and healthcare.

This basic problem causes a great domino effect for the city's economy as well as its environment. As high housing costs push lower-paid workers out of the city's core, Los Angeles' businesses struggle to recruit and retain employees. Those that do continue to work in Los Angeles must often live in more affordable places far away from their jobs, forcing them to commute long distances on crowded and toxic highways. This issue has come to a serious tipping point, with many people leaving California altogether, exiting in particularly large numbers from the most unaffordable cities of Los Angeles and San Francisco. According to one report from the Federal Reserve Bank of Chicago, San Francisco and Los Angeles ranked first and second, respectively, for outbound moves nationwide between April 2020 and January of 2022.[1]

Los Angeles' cost of living also impacts residents' ability to gain access to an important vehicle for wealth accrual: home ownership. Nationwide, 47% of households can afford to purchase a home priced at the national median: $368,200 in the first quarter of 2022.[2] However, only 24% of residents in the LA metropolitan area can afford a home priced at this region's median of $736,000.[3] At current interest rates, acquiring a home in the LA metropolitan area at this price would require a minimum annual household income of $146,000.

The numbers are even more dire for the City of Los Angeles, where only 20% of households can afford to buy the $792,470 median-priced home, which requires an annual household income of $157,200.[4] As home prices continue to escalate faster than incomes, Los Angeles' homeownership rate declines and the percentage of households that rent increases. More than one-third (37%) of the city's households own their own home, slightly less than half the nationwide figure, 65.4%.[5]

The Crisis of Affordable Housing Production

Housing costs have also been exacerbated by decades of under-production in the Los Angeles metropolitan area, leading to fierce competition over a scarce supply of housing. Every eight years, the Southern California Association of Governments (SCAG) conducts a Regional Housing Needs Assessment (RHNA), examining the pace of new housing construction compared with the need in the City of Los Angeles and the greater region.

The figures in the table on the following page show that from 2014 to 2021, the City of Los Angeles needed to add 82,002 new housing units to keep pace with population growth and housing need.[6] By 2020, the City had permitted 103,973 new units. However, almost all of these new units – 92,407 – are for households "above moderate income," or at market rate. When it comes to adding new affordable housing, the City fell far behind its RHNA goals, permitting just 34% of its targeted units for very-low income, 30% of those needed for low income, and only 6% of its moderate-income goal. This becomes even more distressing when looking at projected future needs, which require four-figure percentage increases in production rates for all three of those income levels. Like other California cities, Los Angeles currently lacks the resources to meet these goals.

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[1] Summer Lin, "California Exodus Continues, with L.A., San Francisco Leading the Way," *Los Angeles Times,* July 29, 2022.

[2] Anna Bahney, "Homes Got Even Pricier and Harder to Afford in Most US Cities," *CNN,* May 3, 2022.

[3] California Association of Realtors, "2021 Housing Affordability Index," 2021.

[4] California Association of Realtors, "2021 Housing Affordability Index," 2021.

[5] U.S. Census Bureau, "Quick Facts: Los Angeles City, California," July 1, 2021; City of Los Angeles, "2021-2029 Housing Element, Chapter 1: Housing Needs Assessment," 2022, 62; U.S. Census Bureau, "Current Population Survey/Housing Vacancy Survey," April 27, 2022.

[6] City of Los Angeles 2021-2029 Housing Needs Assessment, 98.

RHNA Targets and Progress for 5th and 6th Housing Element Cycles

Income Level	2014-2021 RHNA Goal*	2014-2020 Total Units Permitted	2014-2020 Average Units Permitted	2021-2029 Draft Allocation	Units/Year Needed to Meet 21-29 RHNA	Annual Percentage Increase Needed
Very Low Income	20,427	7,012	1,002	115,978	14,497	1347%
Low Income	12,435	3,727	532	68,743	8,593	1514%
Moderate Income	13,728	827	118	74,091	9,261	7739%
Above Moderate Income	35,412	92,407	13,201	196,831	24,604	86%
Total	**82,002**	**103,973**	**17,329**	**456,643**	**57,080**	**229**

Source: *Permit Data Department of City Planning*
** The RHNA goal is the period between January 1, 2014 to October 1 2021*

Building more market-rate units will not solve the housing and homelessness crises by itself. It is essential that the region also creates more housing affordable for people at lower income levels, including workers in childcare, hospitality, and retail, as well as teachers, nurses, and other vital professionals of Los Angeles.

Unfortunately, the under-production of affordable housing — a supply-side solution — is worsened by scarce public subsidies for demand-side solutions like housing vouchers. Limited federal funding means that only one-quarter of the low-income households eligible for these programs receive any assistance.The result is that in 2019, 7.8 million renter households in the United States did not receive rental assistance, even though they paid more than half their income for housing, lived in substandard housing, or both.[7] In the City of Los Angeles, there are approximately 51,000 households supported by vouchers and 69,000 subsidized housing units. Together, these subsidies only provide assistance to approximately 20% of the City's low-income renter population of 558,000 households.[8] In short, housing assistance is a lottery, not an entitlement.

Because housing voucher funding is limited, there are long waitlists for these programs throughout the country, particularly in high-rent cities like Los Angeles.[9] In October 2017, the Housing Authority of the City of Los Angeles (HACLA) opened up its waitlist for federally funded housing vouchers and received 188,000 applications. A lottery narrowed this list to 20,000 households. Almost five years later, there are still 3,095 households on the waitlist. HACLA expects to clear this list by spring of 2023, after which they will repeat the process – this time to receive another 200,000 new applications, narrowed once more to 25,000 through a lottery.[10]

Over-subscription for new affordable housing developments also demonstrates an incredible level of demand. When Decro Corporation completed a new development in Echo Park this year, they received 3,847 applications for that project's 18 affordable units. Similarly, Abode Communities received 3,500 applications for 138 affordable units at Rolland Curtis Gardens in Exposition Park. Berendo Sage, a project in Pico-Union opened in May 2022 by West Hollywood Community Corporation, received 7,288 applications for 20 units.

[7] "Policy Basics: Federal Rental Assistance," Center on Budget and Policy Priorities, January 11, 2022.
[8] Voucher info from: HUD's HCV Data Dashboard; low-income renter data from: HUD CHAS.
[9] Sonya Acosta and Erik Gartland, "Families Wait Years for Housing Vouchers Due to Inadequate Funding," Center on Budget and Policy Priorities, July 22, 2021.
[10] HACLA staff provided this data to authors.

The Affordability Crisis for Renters

These problems are felt most acutely by Los Angeles' renters. The scarcity of rental housing and assistance means that the vast majority of tenants are at the mercy of the private housing market, where rents are growing at a far faster rate than wages.

To make matters worse, the supply of rental housing remains scarce due not only to under-production, but demolition and conversion. The supply of older, more affordable rental housing has diminished over time, due in part to the state's Ellis Act, which allows landlords of rent-regulated apartments to remove their properties from the rental market. Since 2001, more than 28,000 rent-stabilized units in Los Angeles have been demolished, converted to other uses, or otherwise removed from the rental stock via the Ellis Act, according to the Anti-Eviction Mapping Project and the Coalition for Economic Survival.[11]

The lack of new housing supply and demolition or conversion of older buildings has caused the vacancy rate for rental housing in Los Angeles County to decline from 6% in 2020 to 3.5% last year, the lowest since 2001.[12] Not surprisingly, this situation has led to dramatic rent increases, with the fair market rent in the LA metro area increasing to $2,044 per month in fiscal year 2022 for a two-bedroom apartment, a 25% jump from fiscal year 2018.[13]

Rents have increased to such an extent that a resident of Los Angeles County must now earn $39.31 per hour ($81,760 per year) in order to afford a two-bedroom apartment. However, Los Angeles' renters only earn an estimated $27.41 per hour on average, nearly $12 per hour short of what the housing market requires.[14] This situation is not expected to improve, as the occupations that are projected to add the most jobs in Los Angeles County through 2028 all earn an average of less than $31,250 annually. As the city's own Housing Element states, for personal care aides, food preparation and serving workers, cashiers, retail salespersons, and waiters and waitresses, "wages are not keeping up with the cost of living in Los Angeles."[15]

The large gap between incomes and housing prices makes housing costs oppressive. When households pay more than 30% of their income on housing, they are considered "cost burdened." Those that pay more than 50% are "severely cost burdened." In the City of Los Angeles, 59.2% of renter households are cost burdened — more than any other major American city – and 27% are severely cost burdened.[16] Nationwide, 46% of renter households are cost burdened and 24% are severely cost burdened.[17] Not surprisingly, the situation worsens in Los Angeles for extremely low-income renters (defined as a family of four with an income below $35,450): 82% are cost burdened and 69% are severely cost burdened.[18] The numbers remain bleak for senior renters as well, with about 65% paying more than 30% of their income on rent, a higher rate of rent burden than any other age group, except those between age 18 and 24.[19]

The cumulative effects of all this can be hard to grasp. But one 2020 study from UCLA humanizes these numbers, arguing that this crisis for renters was felt most acutely during the beginning of the COVID-19 pandemic, when loss of income placed as many as 365,000 renter households in Los Angeles County at risk of displacement and possible homelessness. At that time, the study estimated that 558,000 children lived in households that were very unlikely to be able to pay rent.[20] In short, Los Angeles' renters of all backgrounds are faced with a true crisis of affordability.

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[11] Anti-Eviction Mapping Project and the Coalition for Economic Survival, "The Destruction of Los Angeles Affordable Housing Due to the Ellis Act," 2022.

[12] Andrew Khouri and Jack Flemming, "Finding a Place to Rent in Los Angeles Has Become a Competitive Sport," *Los Angeles Times*, May 17, 2022.

[13] "Fiscal Year 2022 Fair Market Rent Documentation System," Department of Housing and Urban Development, 2022.

[14] National Low Income Housing Coalition, "2022 Housing Out of Reach Report," CA-48.

[15] Los Angeles 2021-2029 Housing Needs Assessment, 55.

[16] Los Angeles 2021-2029 Housing Needs Assessment, 87-88.

[17] Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing, 2022, 6.

[18] Los Angeles 2021-2029 Housing Needs Assessment, 88-89.

[19] Los Angeles 2021-2029 Housing Needs Assessment, 66.

[20] Gary Blasi, "UD Day: Impending Evictions and Homelessness in Los Angeles," UCLA Luskin Institute on Inequality and Democracy, May 28, 2022, 5-9.

The Crisis of Homelessness

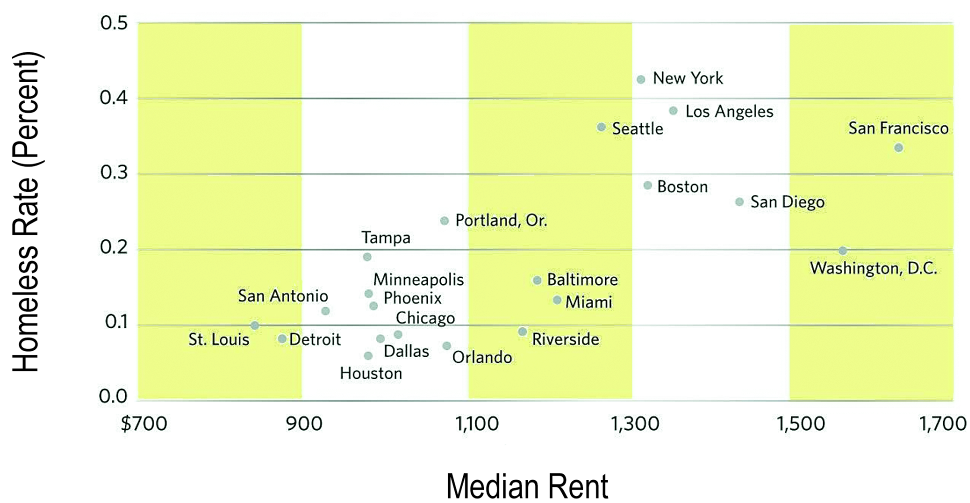
The most serious consequence of high housing costs is homelessness. In 2020, there were 66,436 people experiencing homelessness in Los Angeles County.[21] 41,290 were in the City of Los Angeles, representing a 60% increase since 2015.[22] More than 70% of people experiencing homelessness in the City and the County are unsheltered, living outdoors (including tents and encampments) or in a vehicle.[23]

Due to the crisis of affordability described above, the inflow of individuals into homelessness has become worse than ever. Although the City and County of Los Angeles are placing more individuals into housing than ever before, people are losing their homes at such an alarming rate that the overall homeless population continues to increase. On an average daily basis in 2019, 207 people exited homelessness in the County of Los Angeles, while 227 entered it – meaning the total number of unhoused people ultimately increased by 7,500 from 2019 to 2020.[24] These numbers become even more frustrating when one is reminded that an average of nearly five people experiencing homelessness die in Los Angeles County per day.[25]

It is important to note that America's homeless crisis is primarily a housing problem, not one of mental illness, drug addiction, or alcoholism. The primary determinant of the rate of homelessness in a city or metro area is the cost of housing, particularly rent levels. In a new book, *Homelessness is a Housing Problem,* Professor Gregg Colburn and data scientist Clayton Aldern investigated the multiple factors that are associated with higher or lower levels of homelessness in different parts of the country. They found that rent levels and rental vacancy rates were by far the biggest factor in explaining differences in homelessness rates in different metropolitan areas, arguing that it is "easier to access housing in Detroit or St. Louis, where median rents are between $600 and $700 per month, than in San Francisco and Santa Clara County, where costs are three to four times higher."[26] Many other common explanations — drug use, mental illness, even poverty — fail to account for regional differences in homelessness rates.

A 2017 Harvard University report, *The State of the Nation's Housing,* also found a direct correlation between median rents and the size of an area's homeless population, tabulated below.[27]

Homelessness is Especially High in More Expensive Rental Markets



The clear relationship between high rents and homelessness discredits the idea that losing one's home is a result of individual choices. Rather, the data shows that without serious interventions in expensive housing markets, high rates of homelessness become virtually inevitable.

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[21] "2020 Greater Los Angeles Homeless Count," Los Angeles Homeless Services Authority, 2020, 4.

[22] Los Angeles 2021-2029 Housing Needs Assessment, 75.

[23] LAHSA Homelessness Count, 8.

[24] LAHSA Homelessness Count, 7.

[25] "Mortality among People Experiencing Homelessness in LA County: One Year Before and After the Start of the COVID-19 Pandemic," LA County Department of Public Health, April 2022, 6.

[26] Greg Colburn and Clayton Page Aldern, *Homelessness Is a Housing Problem: How Structural Factors Explain U.S. Patterns*, Berkeley: University of California Press, 2022, 130. A summary of their findings and data can be viewed here: Homelessness is a Housing Problem.

[27] Joint Center for Housing Studies of Harvard University, "America's Rental Housing, 2017."

II. KEY COMPONENTS OF THE MEASURE ULA BALLOT MEASURE[28]

The issues detailed above make clear that housing and homelessness are the most pressing issues in Los Angeles. A 2019 voter poll sponsored by the *Los Angeles Times* and Los Angeles Business Council confirms this with emphatic results: 95% of voters called homelessness a serious or very serious problem for Los Angeles and a third of voters say they have experienced homelessness or know someone who has. That number increased to 54% among Black voters.[29] These results represent a clear shift from a poll conducted by *The Times* in 2005, in which just 2% of voters stated that homelessness was the city's most pressing political issue, ranking far behind education, crime, and even traffic congestion.[30]

Despite this pressure, the City still lacks the permanent and robust policy solutions needed to address a crisis of this magnitude. Since the passage of HHH in 2016, the City has allocated $1 billion and, combined with County, state, and federal funding, is on track to construct more than the 10,000 units of affordable and supportive housing by 2026.[31] However, as mentioned above, the in-flow of Angelenos into homelessness has grown rapidly, and programs helping families and individuals back into housing are struggling to keep up. Moreover, the revenues created by Measure HHH have almost been fully committed, with no new sources of funding established to continue this level of permanent supportive housing construction, and few other programs that can help reduce and prevent homelessness.

A coalition of affordable housing developers, community-based organizations, labor unions, and faith-based groups throughout the City has proposed a new ballot measure which attacks this problem from multiple sides. Measure ULA would create a new stream of permanent funding, totaling an estimated $923 million annually, which would be allocated for affordable housing construction and preservation, as well as homelessness prevention in the form of emergency rental assistance, income support for rent-burdened seniors, eviction defense/prevention, and tenant outreach and education. Through this comprehensive approach, the proposed measure would tackle this crisis at its root and stem — an approach which has not been taken by any previous affordable housing program in Los Angeles.

The measure proposes to increase real estate transfer taxes in the City of Los Angeles, which are levied when a property is sold, and usually paid by the seller. Currently, the City of Los Angeles taxes all real estate transactions at 0.45%, raising only about $207 million per year.[32] The revenues from the current transfer tax go into the City's general fund and are not targeted for housing.

Measure ULA proposes a new progressive structure for the transfer tax, which would tax transactions valued between $5 million and $10 million at 4%, and those valued at $10 million and above at 5.5%. The rate for sales of properties valued below $5 million will remain unchanged. Analysis of sales data from the County Assessor indicates that the new transfer tax will affect about 4% of transactions in a given year. Measure ULA's tax thresholds are also fully indexed to inflation based on the consumer price index, meaning that if a property is valued at less than $5 million today, its owner will likely not have to pay the tax in the future.

San Francisco and Culver City recently passed similar measures with strong voter support. San Francisco now taxes transactions with the following structure: 0.6% for properties between $250,000 and $1 million; 0.75% between $1 million and $5 million; 2.25% between $5 million and $10 million; 5.5% between $10 million and $25 million; and 6% for those over $25 million.[33] Similarly, Culver City's new system taxes 0.45% on transactions under $1.5 million; 1.5% between $1.5 million and $3 million; 3% between $3 million and $10 million; and 4% for those $10 million and over.[34] However, unlike Measure ULA, no transfer tax program in the state of California sets aside its funds for affordable housing construction and eviction prevention.

[28] Measure ULA's full measure text can be viewed here.

[29] Benjamin Oreskes, Doug Smith, and David Lauter, "95% of voters say homelessness is L.A.'s biggest problem, Times poll finds. 'You can't escape it'", *Los Angeles Times,* November 14, 2019.

[30] Oreskes, Smith, and Lauter.

[31] Los Angeles Housing Department, "Prop. HHH Progress Report," July 5, 2022.

[32] This figure is based on the average of pre-COVID-19 fiscal years of 2016-2019. City of Los Angeles, "FY 2020-21 Revenue Outlook," Mayor's Office, April 2020, 62
Shane Phillips, "A Call for Real Estate Transfer Tax Reform," July 2020, UCLA Lewis Center for Regional Policy Studies, 8.

[33] Office of Assessor-Recorder, City & County of San Francisco, "Transfer Tax," 2022.

[34] Culver City, "Real Property Transfer Tax," 2022.

Of the estimated $923 million raised annually, the Measure ULA program will dedicate 70% to affordable housing production and 30% to its homelessness prevention program. The 70% is broken out as follows: 22.5% for traditional multifamily affordable housing using Low Income Housing Tax Credits; 22.5% for alternative models for permanent affordable housing (e.g. city being sole funder, or other new, innovative approaches to financing construction); 10% for acquisition and rehab of existing subsidized or unsubsidized housing; 10% for supporting homeownership opportunities; and 5% for program stabilization in the event of revenue shortfall. The 30% for homelessness prevention uses the following allocation structure: 5% for short-term emergency assistance for tenants at risk of losing their housing; 10% for rent-burdened seniors and people with disabilities; 10% for eviction defense/prevention; 2% for tenant outreach and education; and 3% for protections from tenant harassment.

Using data from 2021, the coalition estimates that over the next 10 years the funding would assist in the creation of over 26,000 affordable units, serving over 69,000 lower income Angelenos and creating over 43,000 construction jobs. These estimates accounted for multiple variables, including availability of public subsidy, costs of construction/land, and expected interest rates.

Annually, the measure is also expected to provide 5,100 households with emergency rental assistance, income support for nearly 13,000 households with seniors or disabled persons, and 23,000 households with legal counsel and eviction defense. Each year, the program's funds would also provide outreach and education to 135,000 tenants on their legal rights and responsibilities as renters. Overall, this represents a scale of investment in housing production and tenant stability that Los Angeles has never seen.

Lastly, the measure has several oversight provisions to guide the use of its funds. A Citizen Oversight Committee will monitor and audit the program and create guidelines for allocating funding. Committee members will be appointed by the Mayor and approved by City Council. Each seat has prerequisite requirements, which mandate that appointees have experience in one of the following: affordable housing development, management, and finance; labor; community development; transit-oriented development; tenant organizing or legal advocacy; or lived experience in lower income households or with homelessness.

Every three years, the committee will contract a third-party evaluator to conduct a needs assessment "with respect to homelessness, housing affordability, tenant protections, and the housing needs of vulnerable populations" in the city. The Committee is designed to promote transparency and efficiency around the administration of the program, and ensure that Measure ULA's funding is allocated in a way that Affirmatively Furthers Fair Housing, in accordance with federal law.

III. POTENTIAL IMPACTS OF MEASURE ULA

In this section we respond to common questions and concerns regarding the proposed Measure ULA ballot measure.

Who will end up paying the new real estate transfer tax?

If Measure ULA passes this Fall, the vast majority of property owners will remain unaffected. There are 798,254 legal parcels in Los Angeles City. According to County Assessor data, in fiscal year 2021-22, approximately 35,000 of those parcels were sold. Of those sales, only 1,433 property transactions were over $5 million, of which only 475 sold for over $10 million. This represents 4% and 1.3%, respectively, of the year's sales. To focus on how the tax will affect distinct, individual sales, bundled sales of multiple properties were removed for the following analysis, leaving 1,250 sales. Below is a summary of these transactions broken down by real estate type.[35]

Single-Family Residences and Condos

There are approximately 601,705 single-family homes and condominiums in Los Angeles. In FY 2021-22, 28,378 of those properties were sold. Only 727 sold for $5 million or more, representing 2.6% of single-family and condo sales. Of those, 170 were sold for over $10 million — 0.6% of sales for this real estate type.

[35] Excludes sales that involved multiple properties.

Multi-Family Apartment Buildings

In the same year, there were 4,502 transactions involving multi-family properties. Just 271 of these transactions were valued over $5 million, of which 96 were sold for over $10 million, or 6% and 2.1% of the total apartment buildings sold that year, respectively.[36] Based on sales data from fiscal year 2021-22, **75% of the revenue raised from multi-family properties would come from buildings sold for over $10 million,** and approximately 40% of the projected revenue from this property type would come from buildings with more than 100 units. Furthermore, **70% of the sellers of properties valued at $5 million or more were corporations**. This indicates that Measure ULA will primarily impact large real estate companies.

Commercial (office buildings, retail, etc.)

There were 1,356 transactions involving commercial properties in FY 2021-22. 155 of these transactions were valued over $5 million, of which 68 were sold for over $10 million, or 11.4% and 5% respectively.

Industrial

For properties on industrially zoned land, there were 447 transactions. 84 of those were over $5 million, of which 40 were over $10 million, or 18.8% and 9%, respectively.

Other (vacant land, utilities, etc)

For all other land uses, there were 689 transactions. 13 of those sales were over $5 million, of which 5 were over $10 million, or 1.9% and 0.7% respectively.

As mentioned above, the $923 million potentially raised by Measure ULA comes only from properties sold for over $5 million. For the 2021-2022 fiscal year this amounted to 4% of properties sold in Los Angeles. Properties sold for over $10 million, which would be taxed at a slightly higher rate, amount to 1.3% of all sales. However, sales data from the County Assessor shows that in fiscal year 2021-22, **72% of the $923 million raised by Measure ULA would come from this 1.3% of sales valued over $10 million**. This shows that because the program's thresholds are set at such a high level, **only a very small percentage of people and corporations – those who sell the most expensive properties – would contribute the bulk of revenues from the higher transfer tax.**

Most property owners will remain unaffected by the new transfer tax. The above data indicates that this tax will not disrupt the typical Los Angeles homeowner's life, or a household's ability to create intergenerational wealth.

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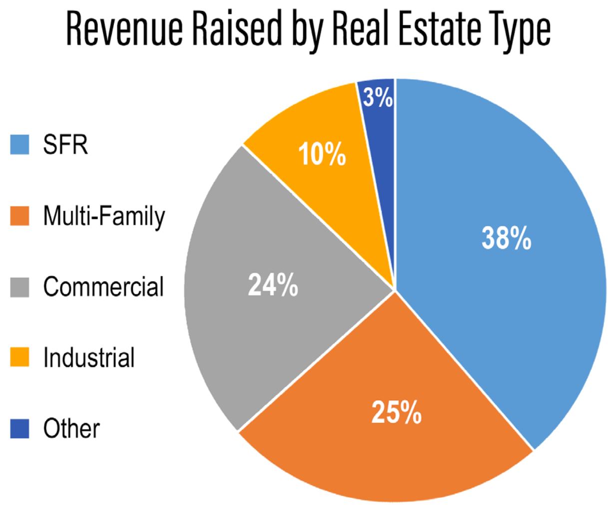
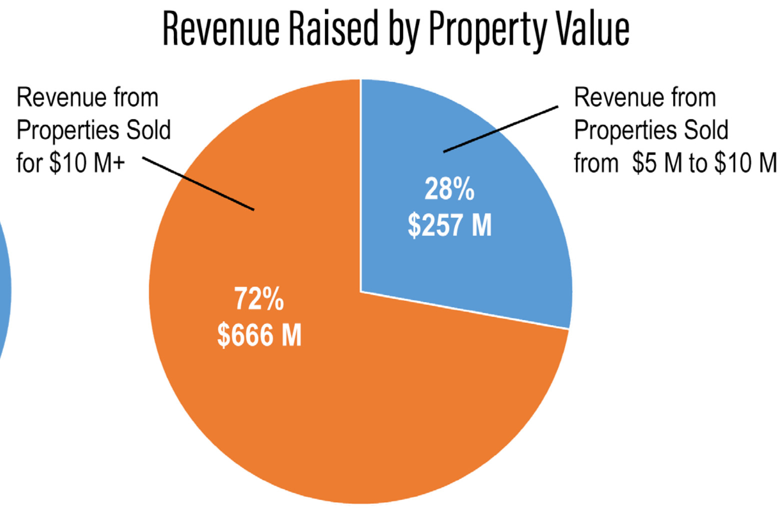
[36] Excludes sales that involved multiple properties.





What labor standards does Measure ULA have?

In addition to creating 43,000 jobs, all new construction projects financed by Measure ULA will be required to have project labor agreements (PLA). PLAs are pre-hire, collective bargaining agreements between developers and contractors, which can contain beneficial requirements including hiring locally, providing health and retirement benefits, or the hiring of veterans or disadvantaged workers. PLAs also typically require that a percentage of jobs go to workers who have completed apprenticeship programs and have deep knowledge of their trades. Many public agencies in Los Angeles successfully rely on the PLA model for construction projects, including the Los Angeles Unified School District, Los Angeles Community College District, the Los Angeles Metropolitan Transportation Authority, and Los Angeles World Airports.

The measure also requires that all workers – including roofers, painters, drywallers, and laborers – be paid prevailing wages, which is a common requirement attached to state and federal funds dedicated to affordable housing. Unfortunately, this is not asked of market-rate developers, who often pay these workers low wages without benefits.

All new construction of housing, whether market rate or affordable, must deal with high costs driven by bank financing, architecture/engineering, land, and building materials. But, as the previous sections show, market-rate developers are not able to face these costs while providing housing that is affordable to most Los Angeles residents. While paying uniform wages and benefits increases some costs, this is a sound public investment, which has benefits that reach far beyond any individual project. Prevailing wages allow workers to spend their money in their communities, uplift their families, and gain better access to education, healthcare, and housing.

The private, unsubsidized housing market is clearly unable to meet the needs of many Angelenos. Addressing the crisis also requires the investment of government subsidies, and Measure ULA ensures that they are invested in projects that will treat workers ethically.

How does Measure ULA differ from Measure HHH? Was that program a waste of money?

In 2016, Los Angeles voters approved Measure HHH, a ten-year $1.2 billion bond measure to address the homelessness crisis by building 10,000 new affordable and permanent supportive housing units. Although the program has received some negative press, HHH is actually on pace to exceed its goal before it sunsets in 2026: In the six years since the program's inception, developers have leveraged HHH funds with County, state, and federal dollars to create a pipeline of 10,510 permanent supportive and affordable housing units.

Under HHH investments, the City's production of supportive housing – affordable housing for formerly unhoused people which provides services on site – increased from 300 units per year to over 1,250 units annually. Over the next two years, the Housing Department plans to allocate the program's remaining funds to support the conversion of motels and hotels into more permanent supportive housing under the Project Homekey program, which will bring another 900 units online.

Affordable housing development is complex. Between land, building materials, strong wages, and bank financing, the average HHH project costs around $585,000 per unit to construct. These high costs are an important reminder of the need for complementary reforms like zoning liberalizing and approval streamlining for affordable projects. Still, because developers pull loans from multiple parties, including the state and federal governments, the City of Los Angeles commits far less than the total per unit costs: an average of only $132,000 per unit for HHH projects. While some have chosen to uplift only the high total price tag of developments, this data shows that the City of Los Angeles is actually constructing quality supportive housing at a favorable rate, making an investment that will last for generations.

These successes aside, Measure ULA promises higher levels of funding, invested in innovative ways. The Measure ULA plan will provide more holistic subsidies than Measure HHH, in perpetuity. In just one year, this program is estimated to raise $923 million, nearly the equivalent level of investment promised by Measure HHH over ten years. It is an ongoing revenue source unless terminated by voters, and it provides for not only new construction of affordable and supportive housing, but homelessness prevention – a need that Measure HHH left unaddressed. With Measure ULA, affordable housing developers and the City will have a substantial and reliable source of funding to create new housing and slow down the in-flow into homelessness by keeping tenants stably housed. In this way, Measure ULA is truly a program of its own.

Will Measure ULA affect residential rents?

Transfer taxes are assessed when a property is sold, and are typically paid by the seller. This means that in most cases, sellers will have no legal options to pass costs onto tenants, because the property will no longer belong to them.

Additionally, it is important to note that rents, which are a key factor in determining a property's sale price, are not determined by sellers and buyers, but instead by what markets can bear. New transaction fees will not suddenly make buyers willing to pay more for the same properties based on the existing rental incomes. Because the property's market value will remain unaffected and the transfer tax will be absorbed at sale, this leaves no avenues for costs to be passed on to tenants after an ownership change.

Similarly, landlords already set rents at the highest price they can without losing tenants in market-rate apartments. If landlords chose to raise rents above market rate, they would be faced with vacant apartments. It is challenging to imagine a situation in which a buyer – who in most cases will not pay the transfer tax – would willingly risk higher vacancy and loss of rental income to cover increased transaction costs at the time of purchase. This would most likely backfire and result in reduced rental revenues.

As argued by Chris Benner and Gabriela Giusta at UC Santa Cruz, rents are "largely shaped . . . by the level of demand for the particular supply and location of the product being offered," not by the costs of production or fees and taxes associated with sale.[37] In short, because markets determine sales prices and rents, there is no reason to believe that a new transfer tax could be passed on to tenants after an ownership change.

Los Angeles' Rent Stabilization Ordinance also provides additional protections, if this were somehow a risk. In Los Angeles, there are about 1,070,800 rental units, across both single- and multi-family properties.[38] 650,000 units citywide are rent stabilized.[39] For these units – 60% of the city's rental stock – property owners can only raise rents annually by a fixed percentage based on the Consumer Price Index, typically 3%.[40] While the Housing Department provides some options for rent increases if a property owner incurs costs due to improvements or seismic retrofits, there are no legal avenues for a landlord to pass through additional taxes to their tenants.[41]

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[37] Chris Benner & Gabriela Giusta, "Market Value: How Fair Assessment of California's Commercial Property Values Would LIkely Affect Land Use, Urban Development and the Economy," June 2018, University of Santa Cruz, 8.

[38] Alexander Ferrer, "Beyond Wall Street Landlords: How Private Equity in the Rental Market Makes Housing Unaffordable, Unstable, and Unhealthy," *Strategic Actions for a Just Economy,* March 2021, 20.

[39] Liam Dillon, "Even in a Hot Market, L.A. Won't Allow Rent Hikes for Most Tenants Until 2021," *Los Angeles Times,* January 3, 2022.

[40] Los Angeles Housing Department, "Rent Stabilization Bulletin: Allowable Rent Increases," December 2021.

[41] Los Angeles Housing Department, "RSO Overview," 2022.

Will Measure ULA affect commercial rents?

As with residential properties, in most instances the seller pays transfer taxes when commercial buildings are sold, and has no ability to pass this cost down to tenants in a property they no longer own.

Moreover, a rational buyer will pay what the property is worth, which in the case of commercial properties is based on the market and potential rents from commercial tenants. In their 2018 report calling for Proposition 13 tax reform, Benner and Guista argue that several studies have found "no relationship between differential commercial property tax rates and gross rents." [42] Just as with residential rents, supply and demand determine what buyers and tenants are willing to pay for properties, not taxes or fees. Additionally, just as with residential rental units, a commercial landlord that raises rents and/or tenant expenses beyond what the market can bear will face empty commercial space, and thus no rent at all.

It should also be noted that owners of commercial office properties are currently struggling to retain tenants, and are in no position to haphazardly raise rents. A 2022 report from Marcus & Millichap analyzing the Los Angeles Metropolitan area's office market indicates that the vacancy rate for such properties has increased for three years straight, landing at 18.3% this year.[43] In short, even if new costs from Measure ULA somehow impacted buyers, there is no evidence that this could affect commercial rents.

Will Measure ULA discourage investment in real estate?

Those who invest in real estate for medium- to long-term (7 to 10 years or more) returns will see limited impact from the transfer tax. In Los Angeles' market, annual income from commercial properties as well as profit made from a property's sale price will far outstrip the percentage taken by the Measure ULA transfer tax. However, the tax will have a more significant impact on those with a short-term investment horizon who routinely "flip" properties – a practice which inflates housing prices and can cause evictions.[44] If a side effect of this tax plan is to discourage flipping and speculation, that is a bonus.

Will Measure ULA discourage new construction?

Some worry that increasing the transfer tax on property sales over $5 million may render some housing developments financially infeasible. For single-family construction, this will not be a concern because very few new condos and spec-built single-family units sell for more than $5 million. For multi-family and commercial properties, developers who build and hold their assets will be only minimally impacted, as the property value will appreciate substantially more than the new transfer tax.

There is a concern that if developers plan to build new housing, lease the units, and sell the property to another investor within a few years of completing construction, the expectation of a higher transfer tax may require them to bid less for land, and consequently some underutilized properties may go unsold and undeveloped. To understand if this is valid, we refer to a forthcoming report by Shane Phillips and Maya Ofek of the UCLA Lewis Center for Regional Policy Studies, which analyzes multifamily housing developments completed between 2013 and 2016 in the City of Los Angeles. Because transfer taxes will only impact buildings that sell, they investigate the share of units in buildings with eight or more units that have sold by mid-2022.

Among these projects, only those built in "moderate density" zones, such as R3 and CM, are assumed to be at risk due to reduced land bids.[45] Projects in higher-density zones such as R4 and C2 have considerably higher land values compared to their existing, pre-development uses, which means a higher transfer tax is unlikely to make such sites less attractive for redevelopment.

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[42] Benner & Giusta, 8. See also: John Clapp, "The Intrametropolitan Location of Office Activities," *Journal of Regional Science* 20 (3), 1980; William Wheaton, "The Incidence of Inter-Jurisdictional Differences in Commercial Property Taxes," *National Tax Journal,* 37 (4), 1984.

[43] Marcus & Millichap, "Tides Shift Positively in Silicon Beach, Yet Outlook for Los Angeles' Office Sector Remains Foggy," 2022.

[44] Alexander Ferrer, Terra Graziani, Jacob Woocher, Zachery Frederick, "The Vacancy Report: How Los Angeles Leaves Homes Empty and People Unhoused," ACCE Institute, 2020, 3

[45] In Los Angeles, R3 zones allow multiple dwellings at a minimum of 800 sq. ft. per dwelling. R4 allows multiple dwellings at adenser ratio of 400 sq. ft. per dwelling. CM is a zoning designation for commercial/manufacturing, which allows limited R3 uses.

They find that only 2-5% of all units completed between 2013 and 2016 meet these standards — projects that were built in moderate density zones and had sold by 2022. This equates to roughly 235 units per year, only a small share of which are affordable units reserved for low-income households. Moreover, while these approximately 235 units may be at risk depending on parcel-specific circumstances, this does not necessarily make them infeasible. For example, a 14-unit development that replaces a surface parking lot or dilapidated house — a common redevelopment scenario in LA — would most likely still proceed, and developers may adjust their business models to minimize the impacts of the transfer tax (e.g., by holding their properties for longer before selling to another investor).

And while Measure ULA's potential impacts to new construction are very limited, speculative, and context-sensitive, the benefits of the transfer tax revenues are not. With 70% of the program funds being dedicated to affordable housing production, the campaign estimates approximately 2,600 units of affordable housing will be created annually through both new construction and acquisition/rehab. This means that even if some small percentage of new projects are affected, the overall net impact of the initiative would be an increase in housing production, and a particularly sharp gain in desperately needed affordable housing construction.

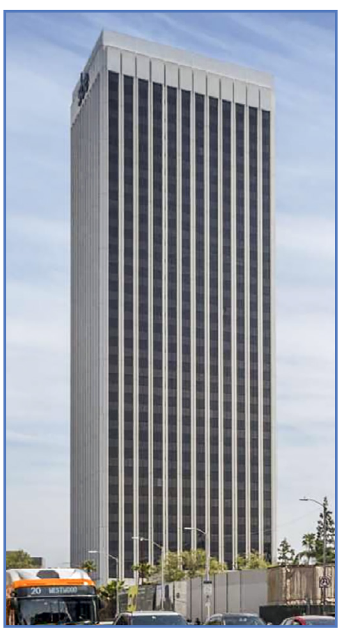
What Kinds of Properties will Pay This Tax?

As mentioned above, Measure ULA will only impact properties valued above $5 million at the time they are sold, and the majority of the program's revenue will come from properties valued over $10 million. All other properties will be unaffected. Some examples of recent property sales that would be impacted are described below.

Commercial Office Properties

US BANK TOWER,
Sold September 2020 for $430 Million

In 2013, OUE Ltd., a Singapore-based real estate company, purchased the US Bank Tower in Downtown Los Angeles for $367 million. Seven years later, OUE sold the 1.4-million-square-foot office building for $430 million to Silverstein Properties, a New York-based developer which manages over 40 million square feet of commercial, residential, retail, and hotel space across the United States.[46]



In just seven years, the US Bank Tower appreciated by $63 million. If the Measure ULA plan had been in place in 2020, this transaction would have generated $23 million for affordable housing investment and renter support in Los Angeles.

5900 WILSHIRE,
Sold February 2020 for $303.4 Million

In 2005, developer Wayne Ratkovich acquired the 500,000-square-foot office tower at 5900 Wilshire Boulevard on Los Angeles' Miracle Mile for $105 million.[47] In February 2020, Ratkovich and his partners sold the building for $303.4 million to Rockpoint Group, a Boston-based real estate company.[48] In just 15 years the property nearly tripled in value, increasing by almost $200 million. If the Measure ULA plan were in effect in 2020, the sale would have generated $16 million in transfer taxes, a small fraction of the appreciation value alone.

[46] Silverstein Properties, "Silverstein Properties Acquires U.S. Bank Tower," September 16, 2020.
[47] *Los Angeles Business Journal*, "Miracle Mile Skyscraper Under Contract for $105 Million," October 23, 2005*;*
Los Angeles Times, "3 Miracle Mile Buildings Bought for $102.5 Million," December 16, 2005.
[48] Rich Bockmann, "Rockpoint closes on $303 M Deal for Miracle Mile Office Tower," *The Real Deal*, February 28, 2020

Multi-Family Buildings

SOFIA LOS ANGELES,
Sold October 2019 for $272.5 million

In 2017, Holland Partner Group developed The Sofia Los Angeles, now known as BE DTLA, a massive 648-unit apartment complex in Westlake. It is located at 1120 W. 6th Street and rents studio apartments for $1,900 per month and 2 bed/2 bath units for $3,724 per month.[49] In October of 2019, the Carlyle Group acquired the property for $272.5 million.[50] If Measure ULA were in place at the time, this sale would have raised $14.9 million.

Holland Partner Group, a west-coast based real estate company with four offices managing nearly 17,000 rental units, made the sale in collaboration with Seikisui House, a Japan-based developer with offices throughout Asia, the UK, Australia, and the United States.[51] Holland Partner Groups is associated with numerous other high-rise residential developments throughout Los Angeles, including a pair of 24-story towers on Spring Street and a 28-story building in South Park.[52]

WAKABA APARTMENTS,
Sold February 2020 for $115.8 Million

In 2016, the Sares-Regis Group developed the Wakaba Apartments, located at 232 E. 2nd Street in Little Tokyo. The 240-unit complex includes 16,000 square feet of commercial space and a 470-space subterranean parking garage. Studio apartments rent for approximately $2,300 per month, while two-bedroom units rent for between $3,600 and $4,100 per month.[53] In February 2020, Sares-Regis Group sold Wakaba Apartments to J.P. Morgan Investment Management Inc. for $116 million.[54] If Measure ULA were in effect at the time, this sale would have raised $6.3 million for affordable housing in Los Angeles.

Single-Family Residences

1369 LONDONDERRY PLACE,
Sold for $26 million in 2021

In 2014, the 14,000 square feet mansion at 1369 Londonderry Place sold for $6 million. In 2021, it sold again for $26 million.[55] In just seven years, this 6 bed/10 bath home located in the Hollywood Hills increased in value by $20 million. If Measure ULA had been in place last year, this sale would have generated $1.4 million toward affordable housing and rental assistance in Los Angeles, just 7% of the property's appreciation value gained during that period.

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[49] Be DTLA, "Floorplans," 2022.
[50] Dennis Lynch, "Carlyle Group Pays $273 M for Big Apartment Complex in Westlake," *The Real Deal,* October 7, 2019.
[51] Sekisui House, "Global Site," 2022.
[52] Steven Sharp, "Sofia Apartments Debut in City West," *Urbanize Los Angeles*, July 28, 2017.
[53] Wakaba LA, "Floorplans," 2022.
[54] Ali Imran Naqvi, "Sares-Regis Sells Wakaba LA Apartment Complex for $116 M," S&P Global Market Intelligence," February 26,2020.
[55] Zillow, "1369 Londonderrry Place," 2022

330 S. MAPLETON DRIVE,
Sold for $47 million in 2021

In 2014, the 31,000-square-foot estate located at 330 S. Mapleton Drive sold for $19 million. In 2021, it sold again for $47 million.[56] Again, in just seven years, this 6 bed/11 bath property located in the Holmby Hills neighborhood increased in value by $28 million. If Measure ULA were in effect then, this sale would have produced $2.6 million in transfer taxes, less than 10% of the property's appreciation during that seven-year period.

2188 MANDEVILLE CANYON ROAD
Sold for $65 million in 2021

In 2015, this 19,000-square-foot mansion at 2188 Mandeville Canyon Road sold for $11 million. In 2021, it sold for $65 million.[57] In six years, this house in Brentwood Heights increased in value by $54 million. If Measure ULA had been in place last year, this sale would have generated $3.5 million in transfer taxes, just 6% of the property's appreciation between 2015 and 2021.

CONCLUSION

Measure ULA is a well-crafted measure which will benefit the average Angeleno, in particular renters, people who are homeless, seniors and people with disabilities, and low-income households in need of affordable housing. It promises to raise significant funds in perpetuity to make Los Angeles a more affordable place to live for everyday people, and protect those at-risk tenants who call the city home. This will be accomplished through a progressive tax that will only affect owners of very high value real estate that has appreciated considerably in recent years. No other proposal has promised to invest as much, or as holistically, to address the city's housing and homelessness crises.

[56] Zillow, "330 S. Mapleton Drive," 2022.

[57] Zillow, "2188 Mandeville Canyon Road," 2022.

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