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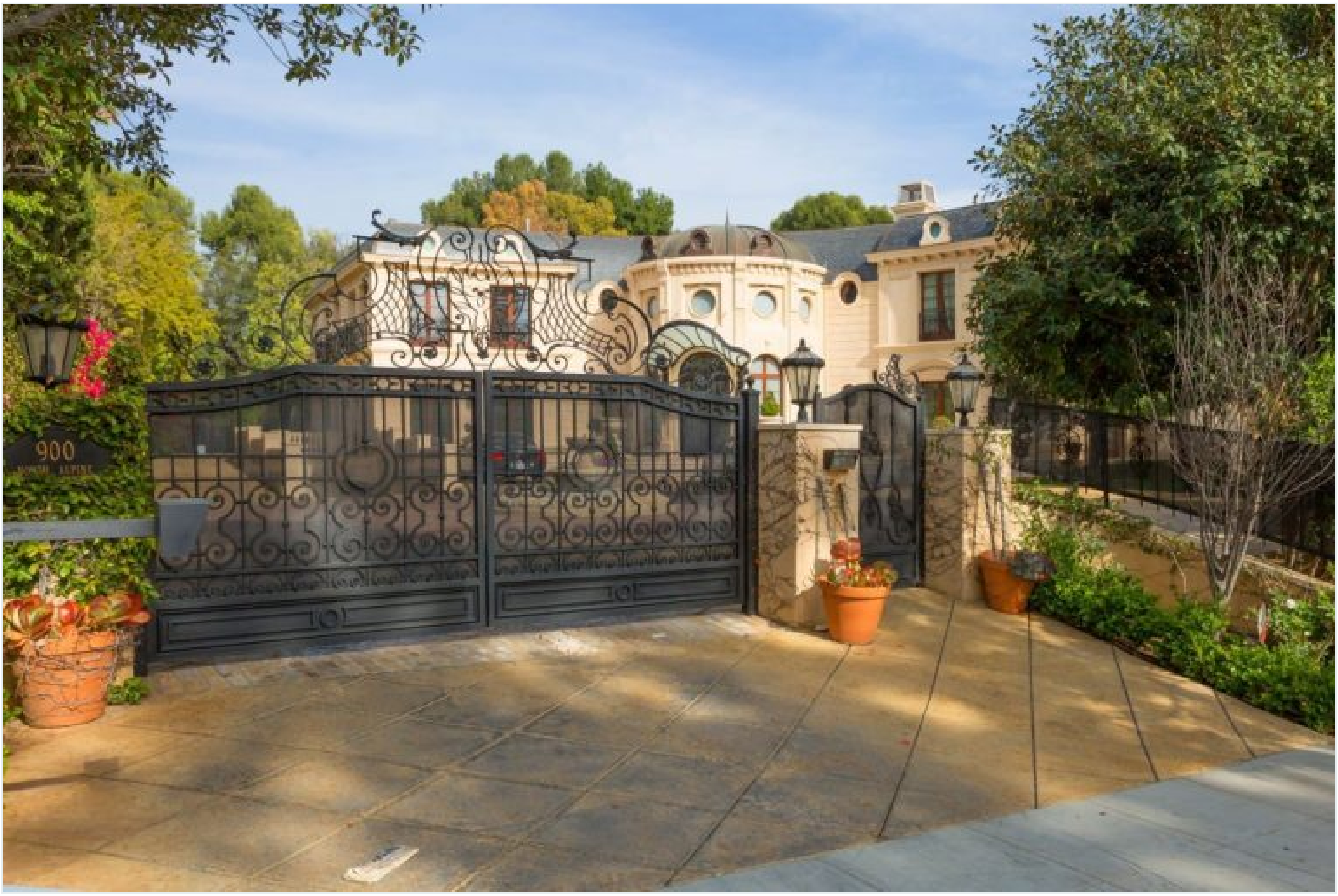
Angeles housing market.

Dec. 15, 2022



By Jack Flemming, Los Angeles Times (TNS)

Death and taxes are life's two certainties—but not if the rich can help it.

Just weeks after Los Angeles voters backed a new measure that puts a one-time transfer tax on property sales above $5 million to generate money for affordable housing and homelessness prevention, the city's affluent homeowners are exploring potential ways of avoiding the tax.

Known as Measure ULA—for "United to House LA"—the ordinance marketed as a

Agents say homeowners and developers are already rushing to sell before the deadline.

"For owners who were on the fence about selling, this will speed up the process," said Compass agent Bret Parsons.

He said he had one client who was planning to slowly downsize and sell sometime in the next six months, but called Parsons right after the measure passed saying he'd clean the place up immediately so they could list it in the next few weeks. The new tax would take a chunk out of his retirement fund, and he needs to sell before April.

Others are getting a bit more creative. Since the tax only affects sales above $5 million, some homeowners are looking into splitting up their properties into smaller parcels with different ownership entities so they can avoid the tax altogether.

For example, if a homeowner is selling a mansion for $15 million, they'd be slapped with a $825,000 tax bill. But if they split up the property into three parts owned by three different entities and sold all three pieces for $4.999 million each, they would hypothetically elude the tax since it only kicks in at $5 million.

The measure hasn't gone into effect yet, so the legality of such a move remains unclear, and the city would likely take measures to stop such maneuvers. But homeowners are exploring every avenue.

"Rich people are very clever. They know how to manage cash, and they have time to look for loopholes," Parsons said.

Another strategy might be to hatch deals off the books to keep a sale under $5 million. For example, if a seller wanted $7 million for their house, they could reach a deal with a buyer to sell it for $4.999 million, thus avoiding the tax, but then sell the

"It's going to push developers out of L.A.," he said. "A 4% or 5.5% tax equates to 20-30% of developer profits. So those developers will choose to develop in other luxury communities where they won't have to pay the tax, such as Beverly Hills, West Hollywood or Newport Beach."

The measure may also cause some interesting wrinkles in sale prices. For example, there probably won't be any more sales in the $5 million-$5.2 million range or the $10 million-$10.55 million range, since the seller would net less money than if they sold at $4.999 million or $9.999 million, respectively.

"It creates market inefficiencies and breeds that type of behavior," Oppenheim said.

Housing analysts say the measure's success at the polls was partly due to its branding as a "mansion tax," since the majority of voters don't own mansions and wouldn't be directly affected by it.

An analysis published by UCLA's Lewis Center for Regional Policy Studies supports that notion, claiming that the tax will affect only about 4% of overall real estate transactions in a given year, including commercial, and less than 3% of single-family home and condo sales. But it's a small percentage with a big impact; if the tax were to have been placed on sales in the city from June 2021 to June 2022, it would've raised over $900 million—a massive increase from the $207 million that existing transfer taxes currently raise annually at the rate of 0.45%.

Data from the Multiple Listing Service suggests that single-family home sales would be affected about five times as much as condo sales. Of the 5,498 single-family homes that have traded hands in L.A. so far this year, 229 have sold for $5 million or more—about 4.17%. Of the 2,526 condo sales in L.A. so far this year, only 22 have sold for $5 million or more—about 0.87%.

There's plenty of precedent for transfer taxes, which have been used for years to

Shane Phillips, the Housing Initiative Project Manager for UCLA's Lewis Center, wrote a report that helped inspire Culver City's transfer tax. He also co-authored two reports studying the potential impact of Measure ULA.

He said the tax is a good way for property owners who have done well financially to contribute to solving city problems that come from the appreciation of their property values, but the overall impact may come down to one key factor: exemptions.

As of now, everyone is on the hook for the tax: residential homeowners, commercial property owners, developers, etc. For most sellers, he said, the transfer tax shouldn't be that big of a deal. Over the last decade, property values have risen significantly, so a one-time tax isn't that big of a burden.

But given L.A.'s housing shortage, he thinks developers building new, mixed-income multifamily construction should be exempt from the tax, or else they might be discouraged from building such housing. As it stands, developers who buy land for less than $5 million and then construct multifamily housing on it, likely pushing its value above $5 million, would owe the transfer tax whenever they sell the property.

"If potential profits go down, landowners might be incentivized to sit on their land instead of developing it or selling it to a developer," said Phillips. "I'm not concerned for the welfare of landowners, but we have to acknowledge the economic reality that these people have choices. And we've made the choice to develop less compelling in some cases."

He added that the measure includes language that would allow city leaders to amend the rules if it furthers the purpose of the initiative. If it were up to him, Phillips would exempt multifamily housing developers from the tax given L.A.'s dependence on for-profit development.

"L.A. has very ambitious housing production goals going forward, and we shouldn't

"There's a domino effect. Even though the tax is on higher price points, those funds have to come from somewhere," Praw said.

He gave an example of building apartment units on a piece of vacant land valued at less than $5 million. But once the units are built, the land could be worth $12 million and would then trigger the transfer tax. To cover the tax and still manage a profit, a developer might charge higher rent.

Praw added that the tax will affect commercial investors more than homeowners, since a greater percentage of commercial properties trade above the thresholds of $5 million and $10 million compared to the typical home.

"The city's in a tough spot. You have to raise funds to combat the lack of affordable housing, but you're doing it on the backs of the real estate community that is now dealing with higher taxes and higher interest rates," he said.

Peter Dreier, a professor at Occidental College who co-authored the UCLA report and worked with the people who drafted Measure ULA, said he isn't worried about the tax's effect on the private sector since the private sector has failed to build efficient affordable housing.

"Any housing that a janitor or nurse or teacher can afford already requires government subsidies," he said. "There's no affordable housing anywhere in L.A. without subsidies. The private sector hasn't been able to build it, which is partly why we're in this crisis."

He disagreed with the argument that the tax will raise rents, saying that landlords already charge as much rent as the market will allow. And as for the claim that the tax will discourage development, he said it will only really affect one type of developer: house flippers.

“The people who want to build property and flip it immediately, they’ll be the ones

Taxes