UCLA Lewis Center for Regional Policy Studies

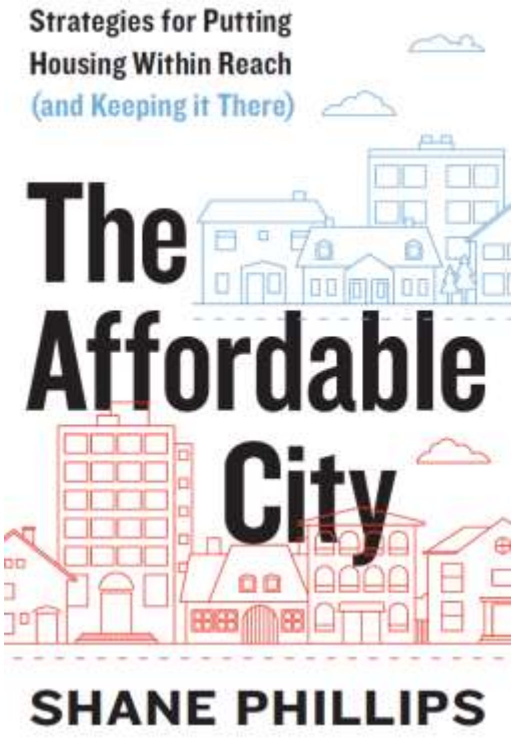
Taxing Tomorrow:
Measure ULA's Impact on Multifamily Housing Production and Potential Reforms

Presentation to ULI–LA on research findings
April 10, 2025

Shane Phillips, UCLA Lewis Center

Listen to our podcast to learn more:

- Eight-part series on homelessness (causes, demographics, solutions)
- Construction costs
- Rents and migration
- Wildfires and housing
- Social housing in Vienna
- Upzoning in New Zealand
- Inclusionary housing, minimum lot size reform, the Fair Housing Act, de-valuation of homes in Black neighborhoods, su-urbanization in Mexico, Singapore's public housing, bundled parking, transit-induced displacement, homelessness interventions, vacant housing, real estate transfer taxes, public housing and tenant power, rent control, immigration and housing precarity, ADUs, homeownership…



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Presentation Outline

Shane’s transfer tax journey

2020	A call for tax reform
2021	The call is heeded?
2022	Maybe it’ll be okay?
2023	…It’s not okay
2024	But is ULA to blame? And how bad is it?
2025	What now?

A Call for Transfer Tax Reform

2020 report on revenue potential
and policy design

Arguments for progressive transfer tax reform

- The city was facing a major budget shortfall
- Property tax reform was off the table, sales taxes are regressive
- LA’s transfer tax was low and could raise a lot of revenue
- A higher, broad, progressive transfer tax could shrink the massive, widening gap between property owners and renters
- It could also be designed to minimize distortions in the housing market

Recommendations for tax policy design

A reformed tax should be:

- Broad
- Progressive
- Graduated
- Marginal
- Targeted (somewhat)
    - Exempt first sales of multifamily and commercial development
    - Higher rates for owners who benefited most from Prop 13

Estimates of revenue potential

Table 4.

Three real estate transfer tax reform scenarios with estimated revenue potential for the City of Los Angeles

Portion of property sale price subject to tax rate	Limited	Moderate	Optimal
Less than $500,000	0.65%	1.0%	1.25%
$500,000 to $999,999	1.0%	1.25%	1.5%
$1 million to $1,999,999	1.25%	1.75%	2.0%
$2 million to $4,999,999	1.5%	2.5%	3.0%
$5 million to $24,999,999	2.5%	3.25%	4.0%
$25 million and above	3.0%	4.0%	5.0%
Revenue from residential sales	$383 million	$544 million	$659 million
Revenue from commercial sales	$182 million	$248 million	$306 million
Total annual revenue	$565 million	$792 million	$965 million
Revenue without exemption on new development	$593 million	$828 million	$1,010 million

The Call is Heeded?

An imperfect initiative, Measure ULA, is proposed

Measure ULA

- 4% tax on sales over $5M and under $10M
- 5.5% tax on sales $10M and over
- Annual inflation adjustment for thresholds
- Sales exempt from the tax when buyer is a non-profit
- Revenues allocated to support affordable housing and homelessness reduction
    - Up to 45% on affordable housing development

Measure ULA proposal vs. tax policy recommendations

- ~~Broad~~
- Progressive
- ~~Graduated~~
- ~~Marginal~~
- ~~Targeted (somewhat)~~
  - ~~Exempt first sales of multifamily and commercial development~~
  - ~~Higher for owners who benefited most from Prop 13~~

Maybe It’ll Be Okay?

2022 analysis suggests limited impact on multifamily production

Rationalizing ULA’s shortcomings

- A broader tax might not gain enough support to pass
- If a tax isn’t broad, there isn’t much room for stepping it up
- People are confused by marginal tax rates, and a flat/cliff tax raises more revenue for a given rate threshold
- Targeting long-time property owners for higher taxes probably a nonstarter

- **What about the impact on multifamily development?**

Why might Measure ULA depress housing production?

- If land is ~20% of TDC, a 4% or 5.5% tax adds about 1%
- If you sell after building your project, you pay another 4% or 5.5%
- This is certainly enough to shift some projects from “go” to “no go”

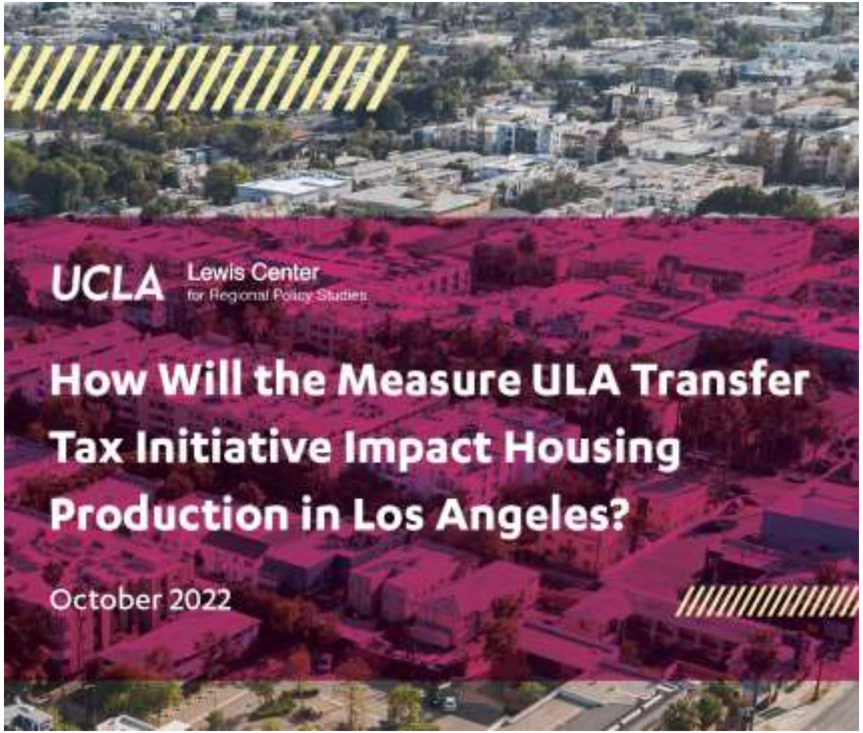
Can’t they just pay less for land?

- Developers can’t charge arbitrarily high rents to offset higher costs, but they can pay less for land
- But a 5.5% tax on completed projects reduces residual land value by *a lot*
- And land owners aren’t obligated to sell to developers
- If fewer parcels sell to developers, fewer homes get developed

Figure 1.
Illustration of How a 5.5% Transfer Tax Can Lower Residual Land Value by Over 35%

But what if developers don’t sell after construction?

- **Assumption:** If multifamily developers don’t intend to sell after construction and stabilization, they won’t pay the tax and, therefore, won’t be discouraged from building
- **Research Question:** How often do developers actually sell within ~10 years of development?



Results: Short/medium-term sales appear pretty rare

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

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

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

Bottom line from my 2022 analysis

- Every tax has unintended consequences, but I expected the costs of Measure ULA to be low
- Meanwhile, the revenues would do a whole lot of good

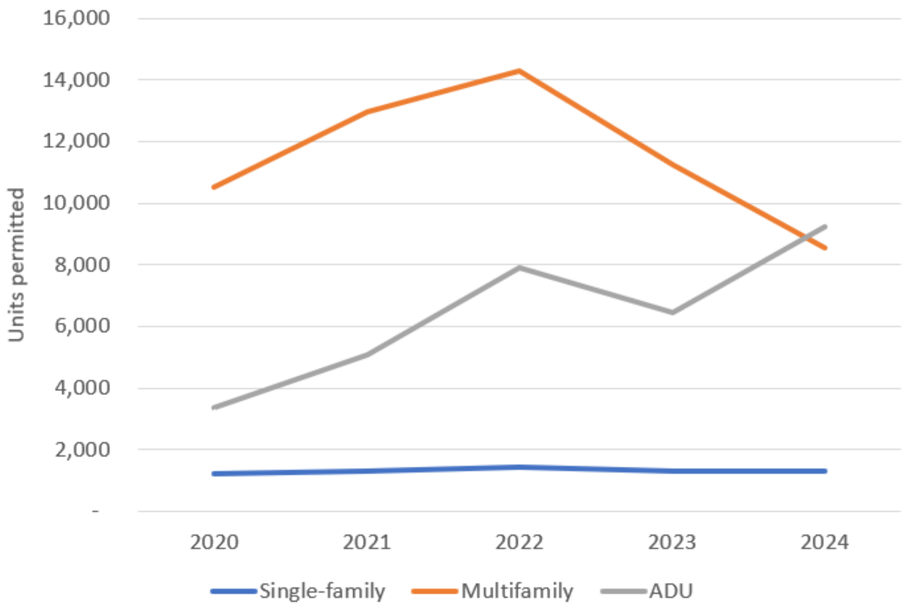
- **So maybe it would be okay?**

…It's Not Okay

Housing production takes a nose dive in L.A.

Permitting falls sharply in 2023 and again in 2024

- Measure ULA went into effect April 1, 2023
- Multifamily permitting peaked at 14,000 units the year before
- It fell below 9,000 by 2024 and was surpassed by ADUs for the first time
- Developers start explaining exactly *how* the tax is making it harder to build



Problems, in retrospect, with my analysis

- Limited to a small subset of multifamily projects on parcels with “moderate-density” zoning, like R3
- Assessor data quality is mixed, potentially leading to some missed sales

- **Most importantly: It may not matter whether the developer intends to sell!**
    - E.g., banks plan for the worst-case scenario when lending money. If they foreclose on the project, they’re going to sell it, and so you still need to budget for the tax.

Is ULA to Blame? And How Bad Is It?

Estimating ULA’s role in
declining multifamily production

How can we be sure Measure ULA is to blame?

Around the same time:

- Interest rates rose sharply
- Labor and materials costs increased
- Permitting fell all over the country, not just in LA

It’s also only two years since ULA was adopted and development is slow, so could we see the impacts this early?

How we show ULA is *causing* the slowdown

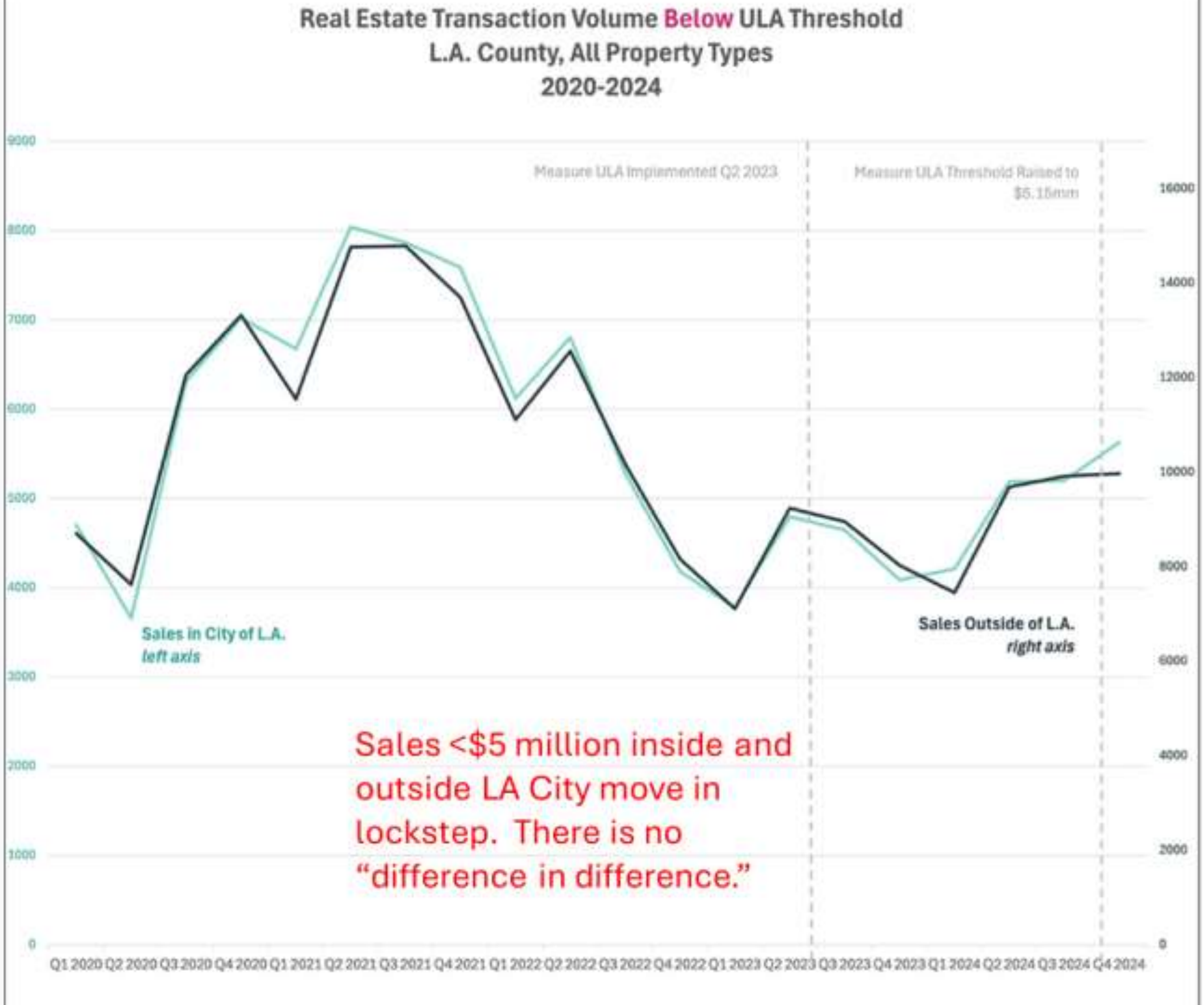
- Real estate sales and permitting are down everywhere, but if macroeconomic conditions are the cause then the whole region should be affected similarly
- If sales in the city of LA:
    - Were on the same trend as other LA County jurisdictions before April 2023, and
    - After April 2023, declined *more* than sales in jurisdictions that didn’t increase their transfer tax
- Then Measure ULA is the cause of the excess decline in sales

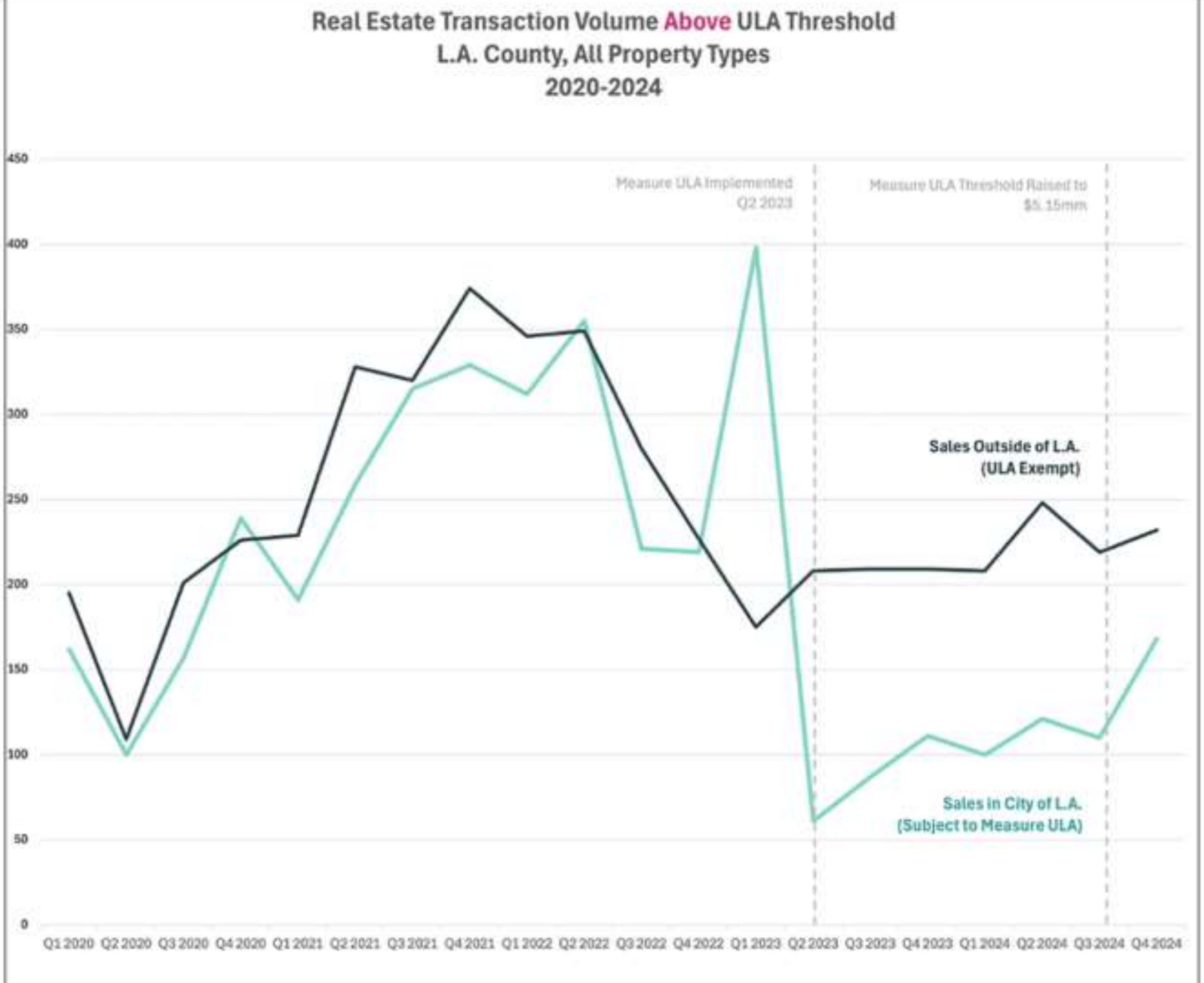
Data sources

- Real estate transaction data for January 2020–December 2024 from Commonwealth Land Title Insurance Company
    - Data originally sourced from LA County Assessor
- Parcel data (zoning, land use, building age, etc.) from LA County Assessor and Southern California Association of Governments
- Multifamily entitlement data from LA City Plannning
- Multifamily permit data from LA Dept of Building and Safety

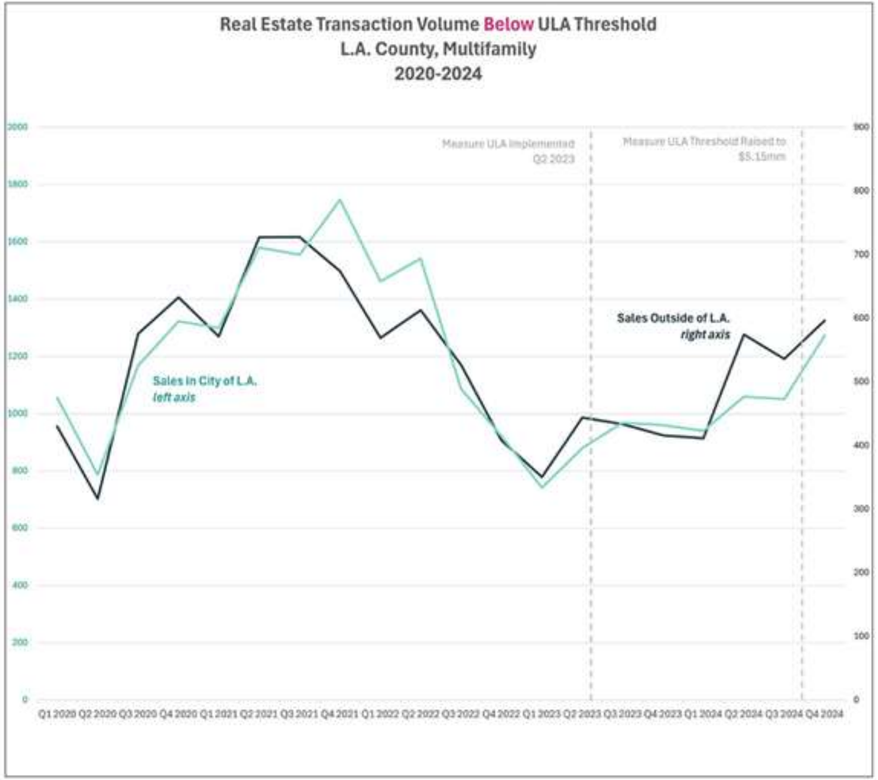
Mott Smith's

Real Estate Transaction Chart Interlude


Real Estate Transaction Volume Below ULA Threshold
L.A. County, All Property Types
2020-2024
Measure ULA Implemented Q2 2023
Measure ULA Threshold Raised to $5.15mm
Sales in City of L.A.
left axis
Sales Outside of L.A.
right axis
Sales <$5 million inside and outside LA City move in lockstep. There is no "difference in difference."
Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022 Q1 2023 Q2 2023 Q3 2023 Q4 2023 Q1 2024 Q2 2024 Q3 2024 Q4 2024



Real Estate Transaction Volume Above ULA Threshold
L.A. County, All Property Types
2020-2024
Measure ULA Implemented
Q2 2023
Measure ULA Threshold Raised to
$5.15mm
Sales Outside of L.A.
(ULA Exempt)
Sales in City of L.A.
(Subject to Measure ULA)
450
400
350
300
250
200
150
100
50
0
Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022 Q1 2023 Q2 2023 Q3 2023 Q4 2023 Q1 2024 Q2 2024 Q3 2024 Q4 2024


Real Estate Transaction Volume Below ULA Threshold
L.A. County, Multifamily
2020-2024
Measure ULA Implemented
Q2 2023
Measure ULA Threshold Raised to
$5.15mm
Sales Outside of L.A.
right axis
Sales in City of L.A.
left axis
2000
1800
1600
1400
1200
1000
800
600
400
200
0
900
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700
600
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100
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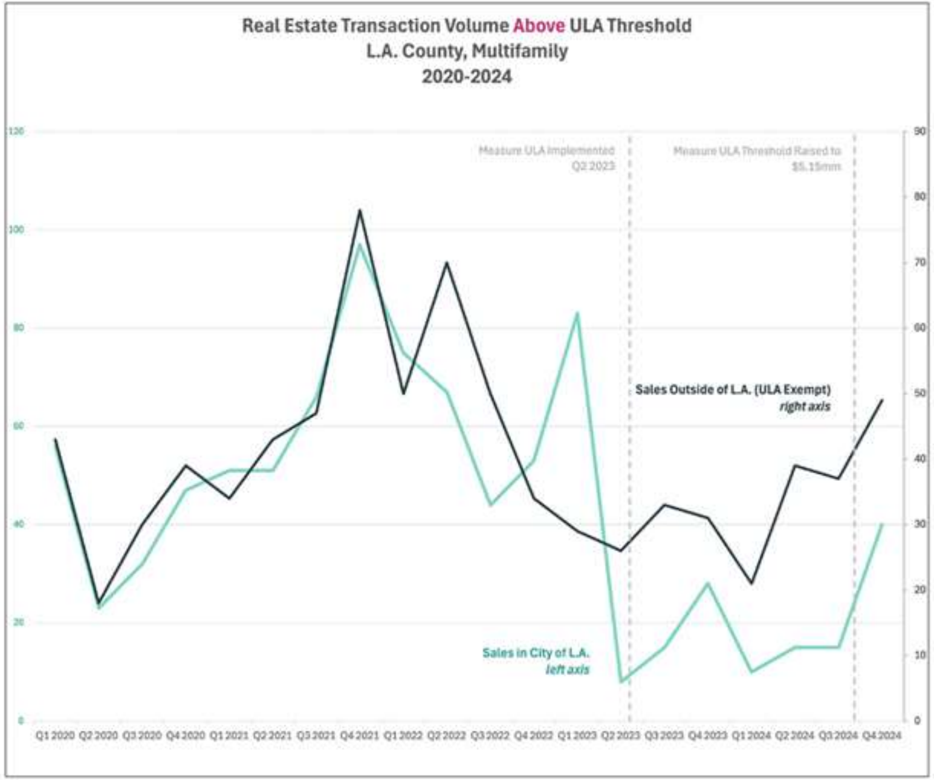
Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022 Q1 2023 Q2 2023 Q3 2023 Q4 2023 Q1 2024 Q2 2024 Q3 2024 Q4 2024


Real Estate Transaction Volume Above ULA Threshold
L.A. County, Multifamily
2020-2024
Measure ULA Implemented
Q2 2023
Measure ULA Threshold Raised to
$5.15mm
Sales Outside of L.A. (ULA Exempt)
right axis
Sales in City of L.A.
left axis
120
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80
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50
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20
10
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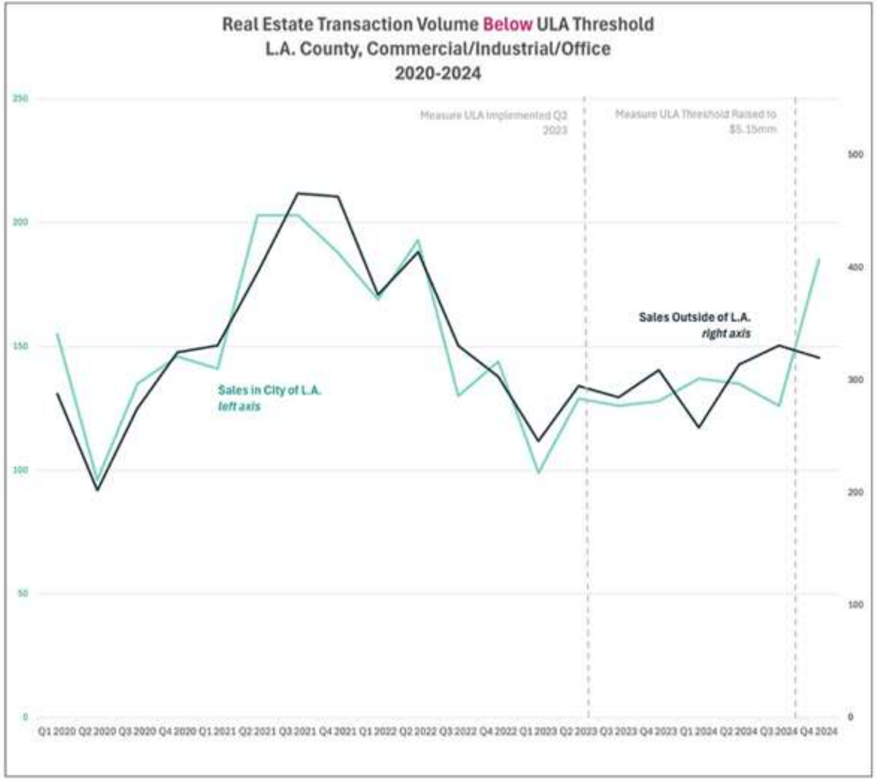
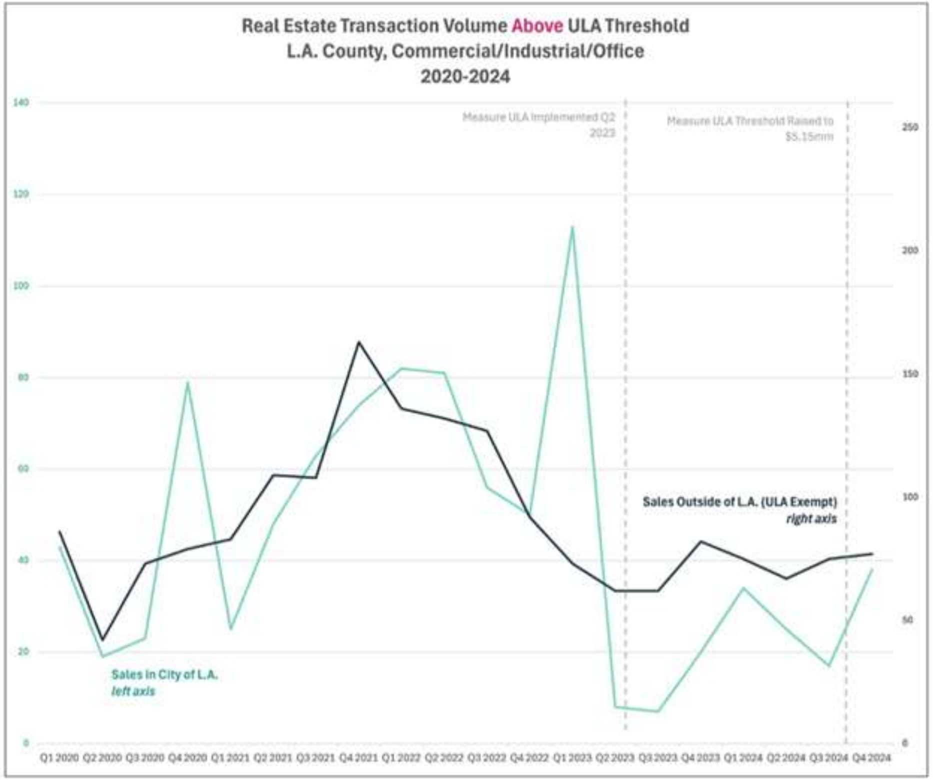
Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022 Q1 2023 Q2 2023 Q3 2023 Q4 2023 Q1 2024 Q2 2024 Q3 2024 Q4 2024


Real Estate Transaction Volume Below ULA Threshold
L.A. County, Commercial/Industrial/Office
2020-2024
Measure ULA Implemented Q2 2023
Measure ULA Threshold Raised to $5.15mm
Sales Outside of L.A.
right axis
Sales in City of L.A.
left axis
0
50
100
150
200
250
0
100
200
300
400
500
Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022 Q1 2023 Q2 2023 Q3 2023 Q4 2023 Q1 2024 Q2 2024 Q3 2024 Q4 2024


Real Estate Transaction Volume Above ULA Threshold
L.A. County, Commercial/Industrial/Office
2020-2024
Measure ULA Implemented Q2 2023
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Sales Outside of L.A. (ULA Exempt)
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Sales in City of L.A.
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0
20
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200
250
Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022 Q1 2023 Q2 2023 Q3 2023 Q4 2023 Q1 2024 Q2 2024 Q3 2024 Q4 2024

Back to Shane

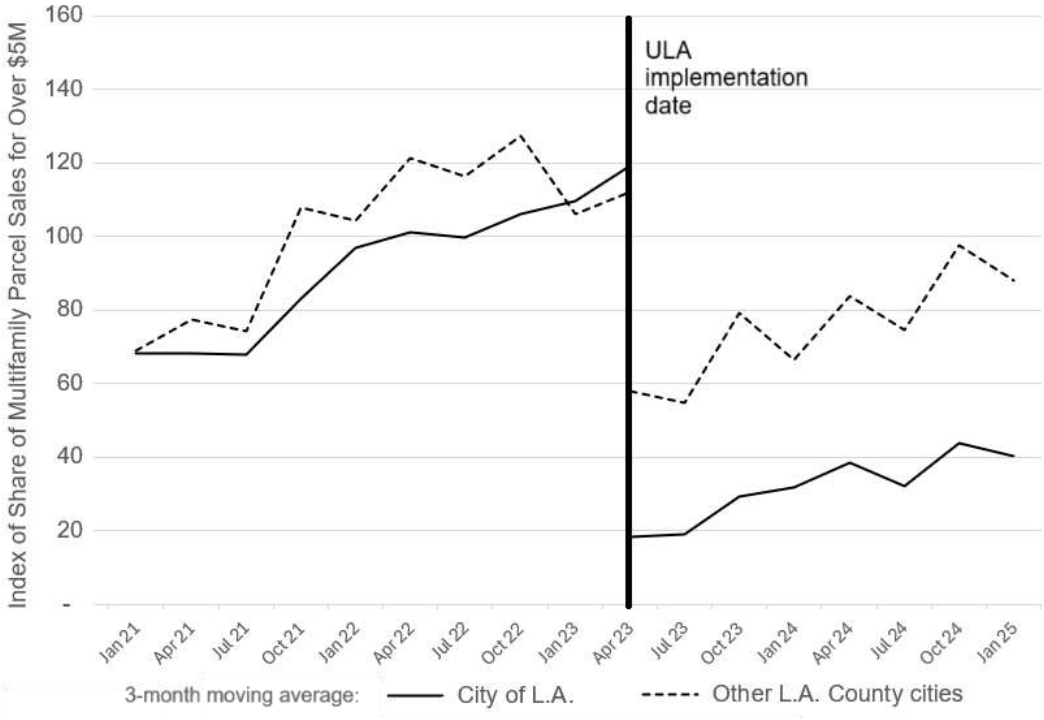
High-value parcel sales are down, but is development?

- It's not good if parcel sales are down, but it doesn't mean *sales of parcels that will become new housing* are down
- So we narrow our focus:
  - First, we identify parcels zoned for dense multifamily housing and heavily underdeveloped, and estimate ULA's effect on those sales
  - Next, using permit data, we estimate the number of units that will later be developed on the parcels that *do* sell
- If we can show that parcel sales are down *and* fewer homes are subsequently permitted on those parcels, then we can estimate ULA's effect on multifamily production

Sales of strong candidates for MF development are down

To perform regressions, we measure the *share* of candidate MF parcels that sell for over $5M each quarter

Moving average shows *much* sharper decline in the city of LA



Statistical analysis shows ULA caused ~50% decline in sales of parcels with redevelopment potential

- After ULA, the share of MF parcel sales over $5M fell by:

  10.7 p.p in LA
  -<u>1.7 p.p. outside LA</u>
  = 9.0 p.p. excess decline in LA

- **This is a 52% decline *above and beyond* what can be blamed on outside factors**

Regression analysis w/ controls and event study models show very similar results

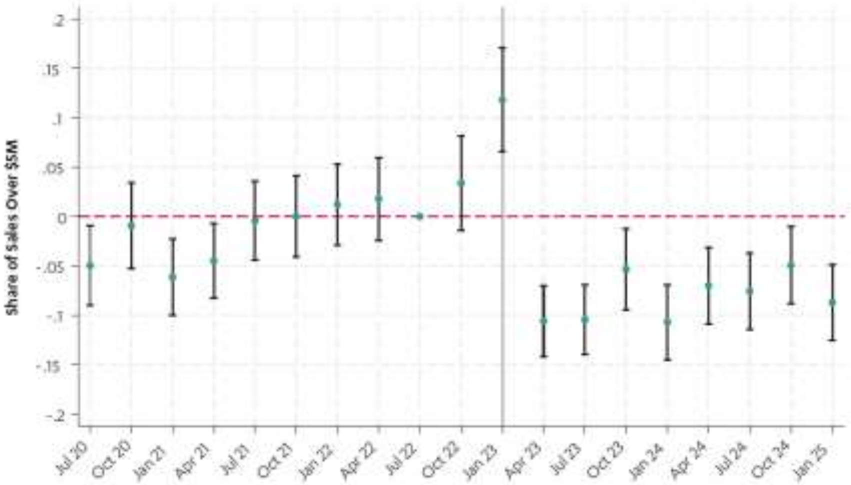
Table 2.

Difference-in-Differences Results for Multifamily-Zoned Parcel Transactions for Over $5 Million

	(1)	(2)
City of L.A.	0.075*** (0.010)	0.060*** (0.009)
Post-ULA	-0.015 (0.014)	-0.005 (0.013)
Post*City of L.A.	-0.077*** (0.016)	-0.074*** (0.014)
Constant	0.085*** (0.009)	0.098*** (0.010)
Controls	N	Y
N	9,044	9,044
Adj. R^2	0.018	0.173

Figure 5.

Event Study Results for Multifamily-Zoned Parcel Transactions for Over $5 Million



Correlation is not causation

But our analyses *do* show causation

Linking reduced parcel sales to declining production

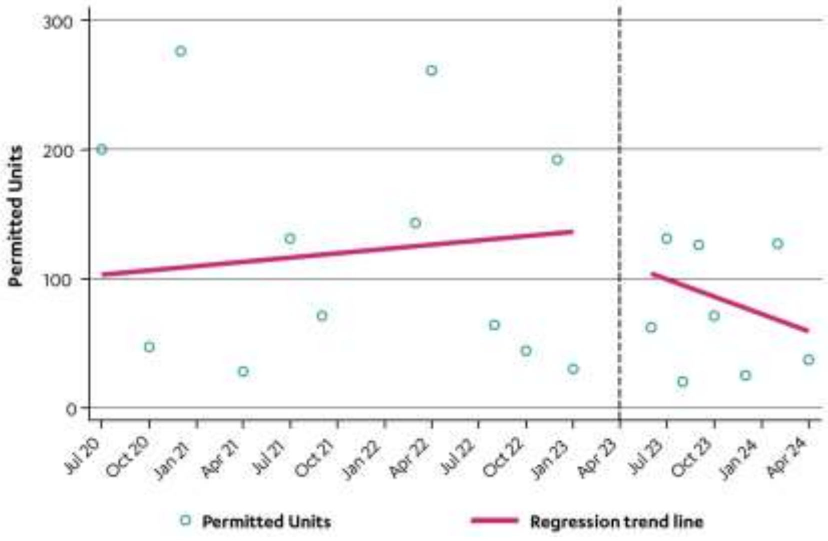
Parcels identified as development candidates were subsequently permitted for thousands of units in the years after being sold

Figure 8 shows permits issued on these parcels within one year of sale

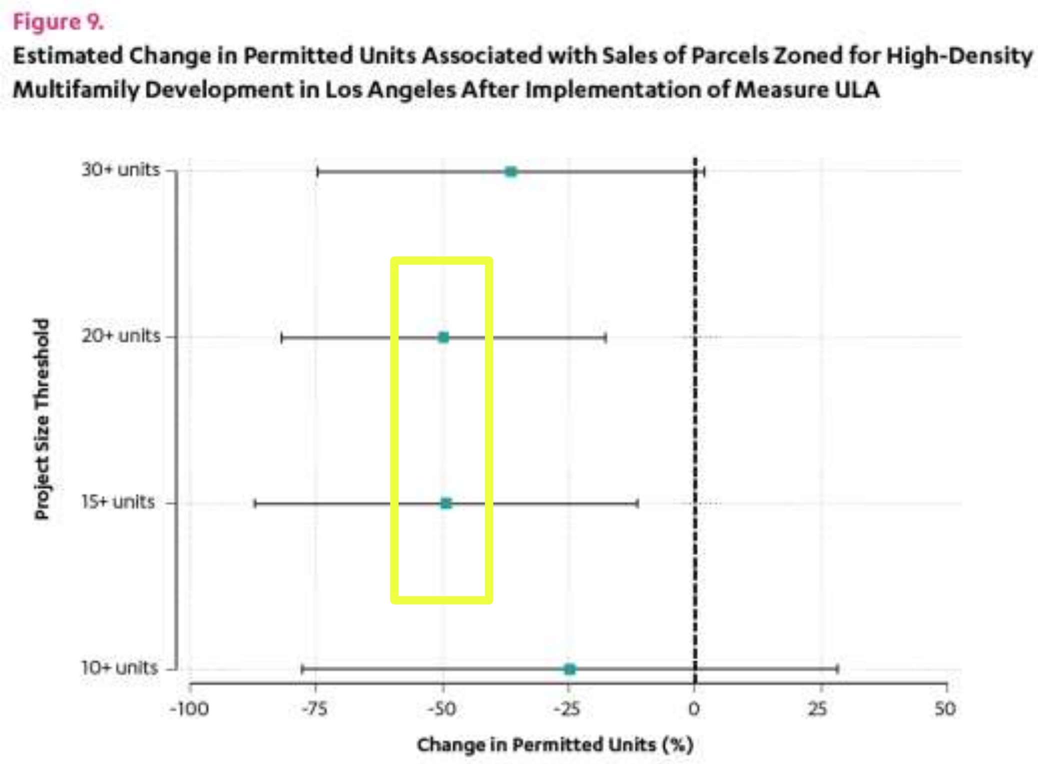
Notable decline post-ULA

Figure 8.

Permitted Units Associated with Sales of Parcels Zoned for High-Density Multifamily Development (20+ Units) in Los Angeles



Roughly 50% fewer units permitted on MF parcels



1,910 units

Estimated number of units per year that are not being built, by developers who don’t receive public subsidies, because of Measure ULA

168 units

Number of income-restricted units per year that are not being built, by developers who don't receive public subsidies, because of Measure ULA

(1,910 * 80% mixed-income * 11% income-restricted = 168)

Our estimates are conservative

- We do not capture any reduction in development by land owners who have owned their property for a long time, and are redeveloping without selling to someone else
    - Nor projects on parcels that sell but we do not identify as having high redevelopment potential
- We also may not capture reductions in development by for-profit affordable housing developers

Are the benefits of Measure ULA worth the cost?

- If we look at all the revenues raised by ULA (~$300M/year, likely to increase over time), then some could argue that it's worth the loss in market-rate and mixed-income production
- But the problem isn't ULA itself, as a whole — it's that ULA discourages multifamily development
- Applying the tax to recently built projects is what deters them

- **So, what is the benefit *of taxing recently built projects?***

Very few ULA revenues come from sales of recently built multifamily projects

- We linked sales data to building data to estimate the age of buildings at time of sale
- Since ULA went into effect, about 8% of revenues came from multifamily built within 15 years of sale
- 5% of revenues came from comm. and ind. <= 15 years old

Table 5.
Annualized Transfer Tax Revenue Estimates by Building Type and Age

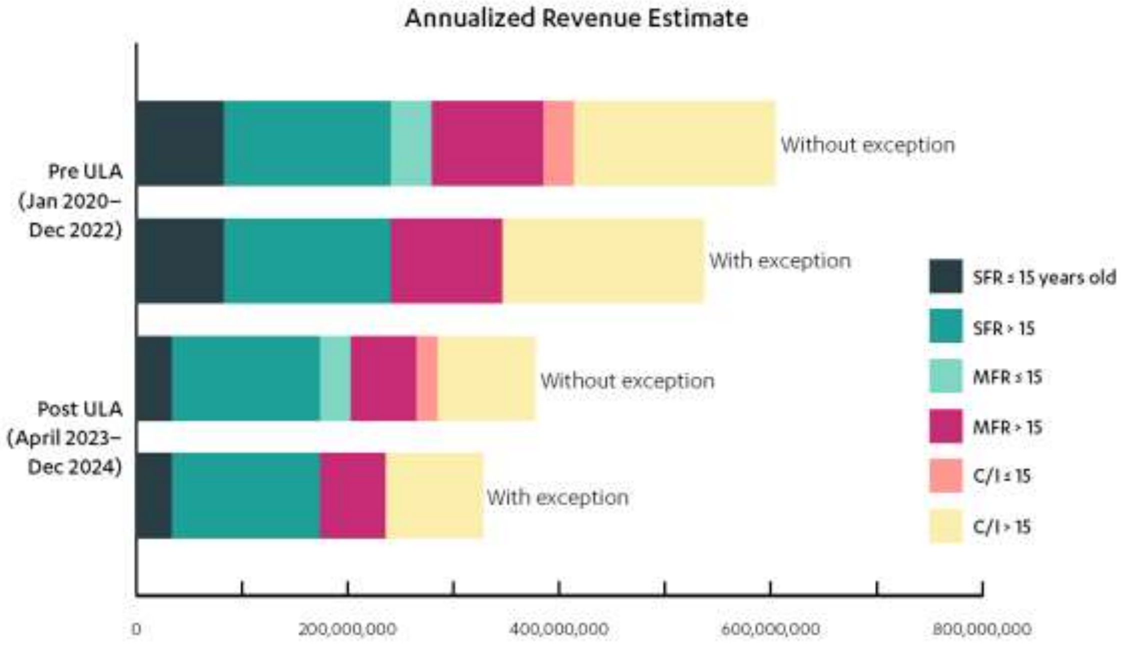
Building Type	Building age at sale	Pre-ULA	%	Post-ULA	%
Single-family	Over 15 years	158,494,282	26	140,640,302	37
	15 or fewer years	82,076,749	14	32,889,155	9
Multifamily	Over 15 years	105,093,365	17	62,090,372	16
	15 or fewer years	38,770,557	6	28,623,994	8
Commercial and Industrial	Over 15 years	191,202,507	32	92,489,347	25
	15 or fewer years	29,221,222	5	20,429,229	5
Total	**All**	**604,858,682**	**100**	**377,162,398**	**100**

NOTE: The pre-ULA period is January 2020 through December 2022 (excludes three months before Measure ULA implementation) and the post-ULA period is April 2023 through December 2024. The pre-ULA period shows estimated revenues if the Measure ULA tax had been in effect during this period and had not affected buyer and seller behavior. All estimates are annualized and in dollars.

ULA revenues

Figure 10.

Estimates of Annualized Transfer Tax Revenue by Building Type and Age, With and Without Exemption for Multifamily, Commercial, and Industrial Buildings Up to 15 Years Old



NOTE: SFR = single-family residential; MFR = multifamily residential; C/I = commercial/industrial. Each property type is separated into buildings up to 15 years old and over 15 years old at year of sale. The pre-ULA period shows estimated revenues if the Measure ULA tax had been in effect during this period and had not affected buyer and seller behavior.

Revenues from sales of newer multifamily can subsidize only about 70 additional units per year

- We assume an average cost of $672,000 per unit (Ward, 2025), with 60% paid with subsidies
- State and federal subsidies are fully subscribed and will not increase to match ULA funds

- **Taxing newer multifamily projects is therefore reducing income- restricted housing production by ~100 units per year**
  - There is still a deficit even if we cut ULA’s per-unit subsidy in half

Table 2. City of L.A. Tax Roll Changes by Year

			A	B	C = B/A
Roll Year	Total Parcels	# of Reassessments (Sales & New Const.)	Average Starting NTV of Parcels Prior to Reassessment	Average NTV of Newly Assessed Parcels	NTV Multiple from Reassessment
2006	757,735	43,524	486,384	1,216,973	2.50
2007	763,090	35,245	563,691	1,427,612	2.53
2008	768,794	30,770	668,957	1,258,562	1.88
2009	774,066	37,212	651,588	941,615	1.45
2010	774,831	36,246	615,838	825,274	1.34
2011	777,831	38,544	601,144	1,062,725	1.77
2012	778,597	39,763	592,525	935,906	1.58
2013	779,143	40,028	593,690	1,209,390	2.04
2014	779,361	37,302	$632,133	1,712,072	2.71
2015	780,044	38,512	685,396	1,537,589	2.24
2016	781,305	38,061	740,579	1,637,792	2.21
2017	782,729	39,219	770,661	1,592,254	2.07
2018	783,792	34,528	832,805	1,490,825	1.79
2019	785,465	34,171	877,099	1,625,121	1.85
2020	786,759	32,488	967,564	1,622,623	1.68
2021	787,413	43,887	994,254	1,524,101	1.53
2022	788,099	33,531	1,000,447	1,708,551	1.71
2023	789,193	27,585	948,242	1,709,701	1.80
10-year Average		**35,928**	**844,918**	**1,616,063**	**1.91**

Source: County of Los Angeles. (2023). Assessor Parcel Summary (Rolls 2006 – Present) [Data set]. Los Angeles County Data Portal. https://data.lacounty.govhttps://arcg.is/1ujCim0, Los Angeles County

Table 3. Growth in Aggregate Net Taxable Value (City of Los Angeles)

		A	B = MIN (A - 2%, 0)	C = MIN (A - 2% , 0)	D	E = D/C
Roll Year	Aggregate NTV	Total NTV Growth	Min. NTV Growth Attributable to Sales & New Construction (%)	Min. NTV Growth Attributable to Sales & New Construction ($)	Total NTV of Sales >=$5mm	% of NTV Growth from Sales >=$5 million
2021	$686,892,409,151	4.4%	2.4%	16,506,051,652	11,806,592,635	72%
2022	735,995,357,734	7.1%	5.1%	37,893,197,499	12,909,130,441	34%
2023	778,110,541,909	5.7%	3.7%	28,962,891,714	9,291,162,503	32%
	Average	**5.4%**	**3.8%**	**27,787,380,288**	**11,335,628,526**	**41%**

Percent of NTV Growth Attributable to Reassessment (B/A) 70%

Source: County of Los Angeles. (2023). Assessor Parcel Summary (Rolls 2006 – Present) [Data set]. Los Angeles County Data Portal. https://data.lacounty.gov

What now?

Options for reform

How to interpret our findings

What they don’t or can’t say

ULA is doing more harm than good

ULA is reducing the supply of affordable housing in the city

ULA can only be fixed by abolishing it or making it a true “mansion tax”

(Basically, anything about ULA writ large)

What they do say

ULA is reducing sales of parcels with strong multifamily redevelopment potential

This reduction is *caused by ULA* and *above and beyond* declines seen in other cities

The reduction in parcel sales is associated with a reduction in permitted units, including income-restricted units

Exempting sales of newer multifamily projects should increase overall production of market-rate *and* income-restricted units

Recommendations

- Sales of multifamily buildings should be exempt from the Measure ULA tax within 15 years of certificate of occupancy
- This exemption should extend to fully market-rate buildings, which contribute linkage fees and property taxes, improve affordability, and generate little ULA revenue
- The same applies to commercial and industrial projects, which support local job growth and already face severe headwinds
- Both LA City Council and the state legislature should engage in reform

LA City Council has limited authority to amend ULA

- Council can amend the ordinance to further its purposes, which include increasing the supply of affordable housing
- As we show, exempting buildings from the tax within 15 years of sale is likely to increase the affordable housing supply (among other benefits)
- There is also a case that exempting fully market-rate projects and commercial and industrial projects increases affordable housing supply and/or funding, but we have not investigated it

The state should also pass a law establishing transfer tax "guard rails"

We suggest this for several reasons:

- LA City Council may be unable to make reforms that best serve the city, either legally or politically
- Some cities (Santa Monica, San Francisco) have passed similarly flawed measures and may not be able or willing to reform them
- Other cities may adopt problematic transfer taxes in the future, either in good faith or intending to stymie development

Infill Builder's Suggested Transfer Tax Fixes

- Limiting Measure ULA to high-priced single-family homes — the "mansions" most voters believed they were taxing;
- Exempting properties that have been reassessed in the past 15–20 years, since these already pay closer to their fair share of property taxes;
- Exempting properties with a certificate of occupancy issued in the past 15–20 years, to avoid punishing new investment in housing and economic development; and
- Requiring that ULA be applied marginally, rather than through steep "cliffs" that distort transactions and penalize growth.
- Exempt properties in disaster areas

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shanephillips@ucla.edu

Our version of the chart of sales over $5M