THE AFFORDABLE HOMES ACT FREQUENTLY ASKED QUSETIONS

1. Will The Affordable Homes Act increase rents and further burden those already struggling with housing costs?

When considering this question, the first thing to remember is that the new transfer tax is only applied on the sale of a property. If a property owner does not sell or transfer their property, they will not pay Real Estate Excise Tax (REET), nor the new Real Estate Transfer Tax (RETT). Another consideration is that the new RETT is calculated only on the value of the property above $3.025M, so not to the full value of a building being sold.

Another, potentially more significant, consideration is that rent costs are a reflection of the rental market. In units that are not held as affordable, landlords already charge a market rate of as high as they can without losing tenants. The rental market will not bear inflated rents that are simply being raised to cover a modest increase in a tax that an owner may one day have to pay when selling their multi-million dollar property.

Finally, there is already evidence that changes to transfer taxes do not impact rents. In September 2022, researchers from UCLA, USC, and Occidental College published a report that examined the impact of a voter approved measure in Los Angeles similar to the Affordable Homes Act. The measure enacted a 4% tax on properties selling from $5 million to $10 million, and a 5.5% tax on properties sold above $10 million. The study concluded the following:

"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." **Visit https://bit.ly/ULAReport to read the full study.*

2. But when a landlord sells their property, won't they charge a higher sale price to compensate for the new Real Estate Transfer Tax (RETT)? Won't that will lead to increased rents?

We've heard directly from realtors that properties list for what the market will bear, and owners aren't really able to list properties, even multi-million dollar properties, for beyond what they are worth due to a transfer tax on the sale of that high-value property.

In addition, it is most often the case that rents already increase every time a multi-family property sells, as new owners will charge as much as the rental market will allow. **An additional increase in rent to compensate for a transfer tax that is paid by the seller on the sale of a multi-million dollar property won't be sustained by the rental market.**

Also, if residential, multi-family rental properties see less turnover in property owners as a consequence of the new transfer tax, that's a benefit to tenants, not a consequence.

3. Won't The Affordable Homes Act discourage investment in real estate?

The ULA measure study (cited above), also considered this question. Their findings include the following:

"Those who invest in real estate for medium- to long-term returns will see limited impact from the transfer tax."
*The "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."**

*The ULA Measure imposed a significantly higher RETT than The Affordable Homes Act.

"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. If a side effect of this tax plan is to discourage flipping and speculation, that is a bonus."

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4. I've heard The Affordable Homes Act will make Washington have the highest Real Estate Excise Tax in the country. Is that true?

No, the Affordable Homes Act will not result in Washington's residents paying the highest REET rates in the country. In fact, Washington does not even fall in the top 5 states with the highest rates when you look at REET holistically.

Comparing state-only REET rates offers an incomplete picture of REET rates nationally, as more substantial REETs are often levied at the local level. Examining the full REET rates across states offers a more complete picture. In Washington, most localities level a REET of 0.25% to 0.5%. Most residents' state and local combined REET and RETT rate would be a maximum of 4.5%. Other states' maximum REET rates, when state and local REET rates are combined, well exceed Washington's maximum combined rate of 4.5% under this bill.

Moreover, many other states with graduated REET structures, like California, apply the qualifying rate to the entire value of the home. In Washington, rates are applied marginally. This results in Washington taxpayers paying less in overall transfer taxes compared to equally priced sales in other states.

5. The state modified the Real Estate Excise Tax (REET) in 2019 and current REET collections are down. Won't increasing real estate transfer taxes further impact collections?

In 2022, the state's chief economist commented that the graduated REET established in 2019, which adjusted tax rates to lower them on some properties, keep the rate the same for others, and increased tax rates on properties sold above $1 million, **had not led to a downturn in real estate activity.** Macro market conditions —interest rates, supply and demand, the unemployment rate, speculative investors, etc.—drive real estate activity.

With extremely high interest rates, the real estate market will be temporarily depressed. However, Washington state's population is growing at rates higher than the national average*, and there is evidence that real estate transactions are on the rise. A recent US News & World Report Housing Market Forecast** predicted increases in existing home sales, new homes sales, and housing starts.

**Visit https://bit.ly/WAPopulationGrowth to read a KUOW article citing November 2023 population statistics from OFM.*
***Visit https://bit.ly/USNWRHousingMarket to read the full forecast.*

6. If Washington state needs more housing, why are we taxing housing?

The Affordable Homes Act doesn't tax housing that's affordable. Instead, it places a Real Estate Transfer Tax (RETT) on high-value properties and reduces or does not change the share of taxes paid by lower- and middle-income families. This policy can not only ensure that Washington has a predictable, sustainable funding source to increase the supply of affordable housing, but it also ensures Washington's most wealthy share more equitably in the responsibility of funding this essential need in every community across our state.