

insights

TYPES NOT MAPPED YET November 07, 2023 | TTR not mapped yet | Talar A. Berberian, Meghan L. Murphy

Chicago's Increased Transfer Tax Wins Key City Vote

The Chicago City Council has approved a [resolution](#) (O2023-0004166) that will ask city voters to decide on whether to increase the city's transfer tax in a referendum in March 2024. At its October 31 meeting, the City Council's Committee on Committees and Rules voted to recommend approval of the ordinance. A discussion of the details of the proposed resolution is available [here](#).

Since Mayor Brandon Johnson's reaffirmation of his support of an increased real estate transfer tax for combatting homelessness in the city of Chicago, local real estate industry groups have worked to articulate and quantify the serious negative economic impacts such an increase would have on the real estate market. Such groups have also shed light on potential unintended consequences to those the tax aims to help. Opposition by groups like the Neighborhood Building Owners Alliance (NBOA), Building Owners and Managers Association (BOMA) and various Realtors' organizations has become more pronounced in the last few months as the possibility of the tax moves closer to reality.

On the other hand, proponents of the increased transfer tax see the measure as a way to increase revenue for the city without raising property taxes, and in its new iteration, while lowering real estate transfer taxes for portions of property sales below \$1,000,000.

In its current form, the tax would be imposed as follows:

- Any portion of a sale up to \$1 million will be taxed at 0.6%
- Any sale between \$1 million and \$1.5 million will be taxed at 2% on the amount over \$1 million; and
- For sales greater than \$1.5 million, any amount over \$1.5 million will also be taxed at 3% for the amount above \$1.5 million.

As a result, any property transfer greater than \$1,120,000, which is subject to Chicago transfer taxes, will result in a higher transfer tax than under the current taxing scheme.

As the proposal has progressed through the legislative process, various arguments have been made for and against the proposal. Some of these are discussed below.

Language of the proposed transfer tax revision

Opponents of the current proposal to revised taxes have criticized it because it is unclear how revenues will be allocated to various anti-homelessness efforts. At the October 31, 2023, Committee on Committees and Rules meeting, Alderman Bennett Lawson asked for the specific ways the revenue raised from the tax would be spent. He indicated that if the resolution is not revised to provide more clarity, future administrations may take advantage of the vague language in the resolution as currently written.

In response, ordinance co-sponsor Alderwoman Maria Hadden stated that if the resolution is approved by voters, the City Council will have to draft and approve legislation that will specify the process and set forth how revenue from the tax will be spent.

Reduced property taxes for the first \$1 million

Industry groups have expressed skepticism regarding the projected revenue from the increased transfer tax, which proponents claim is over \$100 million annually ([Real Estate Transfer Taxes Would Drop For Most Under Johnson-](#)

[Backed Homelessness Prevention Proposal \(blockclubchicago.org\)](https://blockclubchicago.org)). Considering the current iteration of the proposed resolution, which would decrease transfer taxes on the first \$1 million on property sales, critics say this amount is overstated, as reduced transfer taxes on lower-priced properties will eat into that figure.

Proponents of the increased transfer tax see it as a way to increase raise for fighting homelessness without increasing property taxes. Because passage of the new tax will lower transfer taxes for most residential property transfers, supporters claim it will also help lower barriers to homeownership. According to Alderman Carlos Ramirez-Rosa, a co-sponsor of the ordinance, this will affect almost 96% of the properties in Chicago, valued at less than \$1 million ([Real Estate Transfer Taxes Would Drop For Most Under Johnson-Backed Homelessness Prevention Proposal \(blockclubchicago.org\)](https://blockclubchicago.org)).

Potential to increase rents city-wide

Further critiques point out that transfer tax increases will be passed on to real estate purchasers, at least in part, which will decrease demand and further hamper real estate development in the city. When transfers do occur, higher costs for landlords will translate into higher rents for tenants, which housing insecure renters may not be able to absorb. In turn, this may further exacerbate the homelessness crisis - the very problem the increased transfer tax revenue is intended to address.

Supporters contend that owners of property worth over \$1 million should contribute to the city's fight to end homelessness and will be able to absorb the additional burden. During the Committee on Committees and Rules, the Mayor's Chief of Policy S. Mayumi Grigsby argued that industry groups' suggestion that rents will increase as a result of the transfer tax is overstated based on the administration's research.

Effect on downtown property values

Another criticism is that increased transfer taxes based on the cost of property will have an outsized impact on larger, and accordingly, more costly downtown commercial buildings. Properties like these continue to face devaluation due to, among other things, decreased demand for office space post-Covid, high interest rates and unpredictable property taxes. Critics say that investors and developers, who are already hesitant about investing in Chicago as a result, will see the increased transfer taxes as yet another reason not to invest in Chicago.

Accordingly, the imposition of higher transfer taxes will further reduce the value of downtown property without reducing the cost to acquire it. While lower values may bring assessments for such properties down, lower tax revenue from downtown properties will have to be recovered elsewhere, and neighborhood properties will likely see higher property taxes as a result. Since one of the Johnson administration's goals for the increased transfer tax was to prevent raising property taxes, critics claim the proposal is counterproductive. During the October 31 meeting of the Committee on Committees and Rules, BOMA Chicago Executive Director Farzin Parang suggested that the collective effect of these factors would reduce downtown commercial property values by 40% to 80% and subsequently result in a 10% to 20% increase in property values.

Parang also stated that whereas the proponents of the increased transfer tax continue to assert that owners of properties worth \$1 million or more will be able to absorb the additional costs, the largest effect will be to the bottom line of office buildings. When these office buildings suffer, so too will the union workers they employ. Construction workers, building engineers, custodial staff and other unionized workers will all see an impact on the availability of jobs as a result of the declining downtown.

As echoed by ordinance co-sponsor Alderwoman Maria Hadden at the October 31 meeting of the Committee on Committees and Rules, proponents of the tax believe that while downtown property values may be going down, the proposed property tax will not have a significant impact on exacerbating this problem. Rather, declining property values are the result of unrelated market conditions and any property tax increases to residential property due to lower commercial property values would occur with or without higher transfer taxes.

City residents will vote on the resolution on March 19, 2024.

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