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DATE	**Tuesday, February 11, 2020**
TO	**House Committee On Revenue**
FROM	**Randall Pozdena PhD CFA** <pozdena@quantecon.com>
SUBJECT	**My opinion on a statewide real estate transfer tax**
RE	**HJR 203 - "Transfer Tax"**

I am a PhD economist who has practiced in that field for nearly 50 years. I have done so at the highest levels of academia, the Federal Reserve System, private consultancy and government service.

I understand that the legislature is considering levying a Real Estate Transfer Tax (RETT) statewide under the HJR 203. The RETT is levied on the sales value of properties at the time of sale or transfer. It is my professional opinion that the RETT is one of the least desirable levies that one can imagine. It was popular in medieval times (as a "Stamp Tax") when the ability to levy more fair and efficient taxes was administratively impossible. In 2011, I measured the impact of a then-proposed RETT of 2%.[1] The results summarized here are from that report. This tax has almost certainly become less desirable in the meantime. **I strongly urge you to reject the HJR 203 "Transfer Tax Bill" currently before you in the 2020 Short Session.**

In general terms, the effects of the RETT are as follows:

- ✦ RETT reduces the number of homes sold thus aggravating the already short supply of housing for sale.
- ✦ It reduces mobility by imposing a penalty on changing places of residence or business.
- ✦ It depresses home values by an amount equal to or greater than the average RETT levy.
- ✦ The value of this reduced mobility and depressed housing wealth is greater than the revenue produced by the tax.
- ✦ It is an unreliable source of revenue because of the pro-cyclical volatility of both home prices and property turnover.
- ✦ It may impair revenues enjoyed from other real estate-related levies, such as the property tax, and capital gains and income taxes.
- ✦ It fails all of the philosophical criteria of an efficient and fair tax by generating burdens greater than its benefits, and by its discriminatory application to a small number of citizens who desire or are compelled to move or sell their property.

Example of the Effects of a 2% RETT from 2011 study:

My 2011 study used data from all states with RETT as well as information on their respective housing values and housing stocks over a 21 year period. From this data, the effect of a statewide RETT in Oregon was simulated. Assuming a hypothetical RETT of 2 percent, the measured impacts are as follows:

- ✦ Annual home sales decline by 17,236 units per annum
- ✦ The turnover/mobility rate declines from 6.4% to 5.3%, depressing mobility 17%.
- ✦ Depresses property values by at least two percent. This, in turn, impairs the market value of unsold homes in the state by $7 to $19 billion, an amount that dwarfs the revenues of $381 to $394 million per annum.
- ✦ Loss in mobility benefits of $79 to $81 million per annum as the result of some homeowners being unable to move to the home or locale of their preference.
- ✦ The median Oregon home price declines by $4,820 to $12, 532 dollars per home. .
- ✦ The RETT per home sold is $4,569 to $4,774.
- ✦ Total RETT revenue increases from zero before the tax to $381 to $394 million per annum.

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[1] Pozdena, Randall **The Real Estate Transfer Tax - Does it Have a Role in Oregon?** June 28, 2011

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✦Oregon homeowners suffer an unrealized wealth loss of $7.53 to $19.57 billion as a result of the depression of market prices.

✦It should be noted that the analysis does not measure additional adverse effects of the RETT:

✦ The possibility that declines in the market value of homes impairs property tax collections. Although the Real Market Value (RMV) of Oregon real estate would likely remain above the MAV, the decline in RMV may cause rate compression in some jurisdictions.

✦ The possibility that declines in the market value of homes will impair capital gains tax collections.

✦ The likelihood that reduced mobility and depressed housing wealth will have adverse, macro-economic efficiency effects caused by labor's inability to migrate to better job opportunities and depressed, perceived spending capacity by home owners.

My prior study applied the RETT to all home sales. The proposed RETT limits its application to homes with values in excess of 500,000 dollars. Since this is approximately the current median price of homes in the Portland region, for example, the RETT nonetheless applies to two thirds or more of the value of the housing stock in the region. Thus, though higher price home values may fall, the price of lower cost homes will rise, thwarting the purpose of collecting the revenue since it makes those homes less affordable. This therefore aggravates our current affordability problem.

For all the reasons given above, I strongly advise against adopting any state-wide RETT .

Respectfully yours,

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