NBOA OPPOSES THE ‘BRING CHICAGO HOME’ TAX INCREASE

‘Bring Chicago Home’ is a proposal by Chicago Mayor Brandon Johnson and his City Council allies to increase the Real Estate Transfer Tax (RETT). The rate will increase from the current 0.75% to 2% on sales of properties valued from $1 million to $1.5 million (a 167% increase) and 3% on sales of properties valued over $1.5 million (a 300% increase). The proponents of this tax increase claim that it will generate $100 million in new revenue annually, to be used to combat homelessness in the City of Chicago. The Neighborhood Building Owners Alliance (NBOA) strongly opposes this tax increase for the following reasons:

1. **This tax increase hurts renters, small housing providers, small businesses, and local neighborhoods.** Approximately 32,000 properties in Chicago are worth more than $1 million and hence are subject to the transfer tax increase. These include small residential buildings with commercial units on the first floor, courtyard buildings, and even some 2- and 3-flats. When taken together, these provide most of the City’s naturally occurring affordable housing. In addition, grocery stores, health care facilities and other small businesses that provide the lifeblood for our neighborhood commercial corridors will be subject to the tax increase. A 167% to 300% increase in the cost of transacting property will inevitably be **passed down to tenants in the form of higher rents.** This tax increase takes tens of thousands of dollars from the pockets of small housing provider families trying to build generational wealth. This tax increase will also make it more difficult for grocery stores to open in food deserts, and keep other much-needed small businesses from locating in neighborhoods desperate for economic development.

2. **This huge tax increase will have a devastating impact on the downtown real estate market, further decreasing the value of downtown properties and the property tax revenue they generate.** Downtown office vacancies stand at 22.6% – **an all-time high.** Downtown retail vacancy stands at 28.4% – **also an all-time high.** These downtown properties provide the lion’s share of the property tax revenues that fund schools, public safety and social services. Imposing a significant additional tax burden on these properties at a historically vulnerable time will further decrease the value of downtown properties and the property tax revenue they generate – **forcing all other property taxpayers to pay more** to make up the difference.

3. **New reports** show that among the 50 largest markets, Chicago is the most under-supplied apartment market in the nation. This trend is only going to continue, as future deliveries are well below annual averages. Research shows that the most effective way to reduce homelessness is to lower the cost of housing, and
the best way to lower the cost of housing is to build more of it. Increasing the RETT will make it even more difficult to finance the construction of new housing. With high interest rates and inflation already putting a damper on new construction, the City should be incentivizing more construction, not making it more difficult. In addition to reduced new construction, this tax increase will mean fewer jobs for union tradespeople, fewer new buildings added to the tax rolls, and all around less economic activity in the city.

4. **Investment capital will reline Chicago.** On its surface, 3.0% may not seem like a huge number. However, most commercial real estate is acquired with 20% to 40% equity, and the balance with debt. Therefore, if the average investment is made with 30% equity, then the 3% transfer tax immediately evaporates the initial equity investment by 10% BOTH at the time of purchase and at sale. Our elected officials need to understand that this will repel, not attract investment capital.

5. **The proponents of the Bring Chicago Home Ordinance do not have a plan for use of the revenue from the increased tax.** They are asking City taxpayers to give them a blank check. The City has spent only $15 million of the $52 million that the federal government has allocated to the City for homeless prevention and this proposal calls for an additional $100 million a year without a plan, strategy, or set of goals for how this new money will be spent. Before city taxpayers are asked to shoulder yet another burdensome tax increase, the Johnson Administration should provide a detailed plan on how this new revenue will be used to reduce homelessness.

We all agree that combatting homelessness is important and necessary. However, there are other avenues Mayor Johnson can pursue that don’t decimate downtown property values and property tax revenue, raise property taxes on everyone else, increase rents and decimate new housing construction. The NBOA urges the City Council to reject this tax increase.

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Sources:

3. [https://www.realpage.com/analytics/markets-demand-tops-supply-2q/](https://www.realpage.com/analytics/markets-demand-tops-supply-2q/)
5. [https://www.zillow.com/research/homelessness-rent-affordability-22247/#_edn2](https://www.zillow.com/research/homelessness-rent-affordability-22247/#_edn2)