

**Testimony of Dianah Shaw
before the
District of Columbia Tax Revision Commission**

**Anthony Williams, Chairperson
June 24, 2013**

Chairman Williams and Commissioners, my name is Dianah Shaw and I am a Ward 4 resident and Principal Broker of Power Consulting & Real Estate. While I am here on behalf of myself, I serve on the DC Association of REALTORS® Board of Directors and the Public Policy Committee, which I Chaired in 2012. I am also a former Commissioner, ANC4-D5, an active member of the DC Federation of Democratic Women and Metropolitan Women's Democratic Club. I have worked in local real estate for more than 13 years representing *countless* buyers and sellers in commercial and residential property sales and property management, as well as rentals in neighborhoods throughout the City.

Today I would like to discuss the detrimental effects of the District's real property deed recordation and transfer taxes, which:

- *Reduce the likelihood properties will be transferred to growing families by increasing down payments;*
- *Shrink growth in tax revenue and property value assessments as fewer new owners invest in communities;*
- *Negatively impact DC's small businesses by driving up commercial real estate costs; and*
- *Push would-be purchasers into neighboring jurisdictions.*

First, why \$1000 or \$2000 can make a legitimate difference at closing: *recordation and transfer taxes have NEVER been financed in the loan amount in my 13 plus years of work; they are always paid in cash UP FRONT.* The District government must receive these payments AS SOON AS a property is transferred, not over a monthly installment payment. Professor Green's report alleging it costs homebuyers about \$40/month is a misrepresentation of real life practices.

Further, current recordation and transfer tax rates delay transactions because the majority of buyers don't have savings to come to table with more cash for taxes. Their savings are depleted before hearing from lenders that they need months of reserves in their banks accounts. This is when most borrow money from family or further tap their 401ks to scrape together the necessary costs for closing. Just because a deal EVENTUALLY closes, does not mean the transaction was not significantly impeded by high recordation and transfer taxes.

Regarding what income lenders typically see for purchases in the \$400,000 to \$700,000 home price range—some of it depends on the type of mortgage and the other depends on the amount of a down payment and closing costs cash purchasers are working with. Please keep in mind that just because a family makes \$100,000 doesn't mean they will have a lot of cash for closing.

For example, a family of four with two young children may be looking to move from a starter condo to single family home in Petworth. One parent makes \$38,000 as a social worker and the other \$54,000 at a non-profit. Their ideal home in Petworth, a secure investment for schools and transportation, is \$520,000—approximately the median price for homes in the District—while their condo could sell for around \$310,000.

An FHA¹ loan currently requires 20% down to avoid mortgage insurance premiums, which can amount to **HUNDREDS** of dollars a month. Such a 20% down payment would push the family back nearly \$104,000 at closing, an amount of liquid capital nearly *impossible* to access. A traditional loan with much more stringent financial standards requires 10% down to avoid mortgage insurance premiums, which would **STILL** be \$52,000.

Even if the family has some equity from their condo², they would have the full incidence of recordation and transfer taxes from the sale of the condo and the purchase of their home³ adding

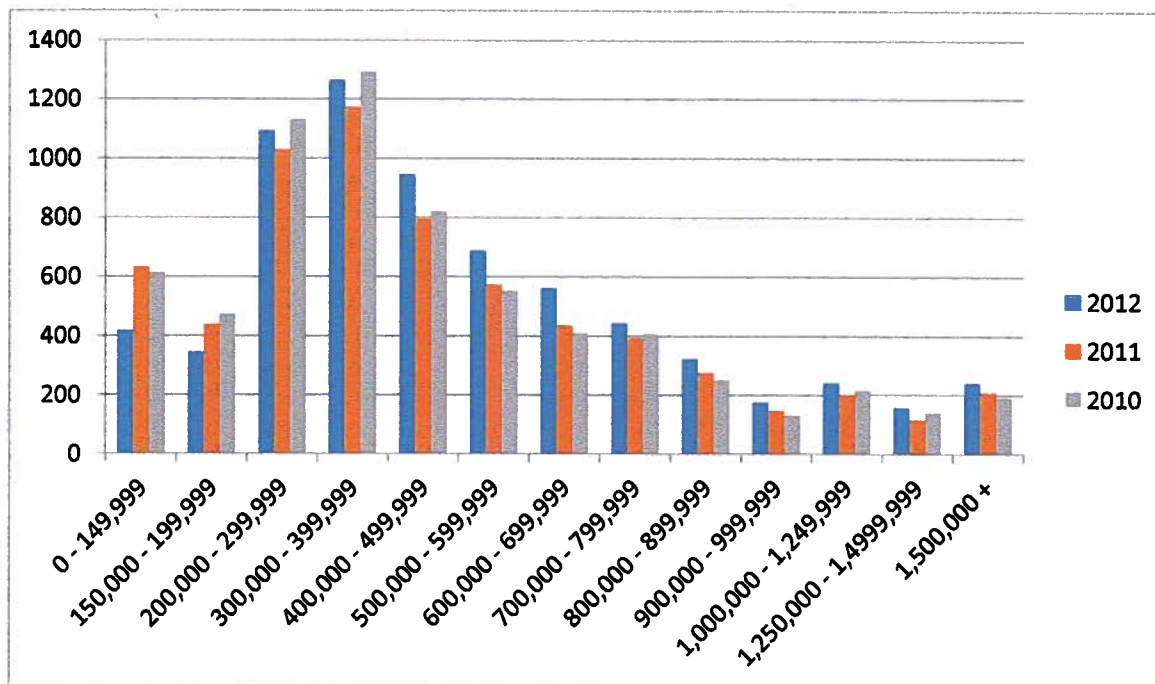
¹ Federal Housing Administration loan information at <http://portal.hud.gov/hudportal/HUD?src=/buying/loans>.

² A total of \$40,000 equity from the starter condo would be a LIBERAL estimate. This example assumes the couple was able to put 10% down when they first purchased their condo. If they bought it 3 years ago at \$270,000 when prices were lower, they would have equity of around \$27,000 plus any amount of their monthly mortgage that went towards principal.

³ This example actually assumes a CONSERVATIVE estimate of real property deed recordation and transfer costs because it does not have the couple pay the full incidence of recordation and transfer on the more expensive new single family \$520,000 home in Petworth. Instead, the example has the couple pay a 1.45% transfer tax on the only

approximately \$11,000 to the 10% down payment of \$52,000—totaling around \$63,000. *The \$11,000 alone could take years even with more generous salaries!*

GCAAR DC Housing Report: Single Family & Condo Coop Aggregate (2010-2012)



As economists, you know that increasing the cost of recordation and transfer taxes may even remove some people from the buying process all together. In turn, rents increase because the rental market is flooded with people who actually wanted to buy. The recent high costs of renting in DC have been a serious problem for years and locking more residents out of homeownership would only exacerbate it.

Recordation and transfer taxes could also affect buyers using the District’s various affordable housing programs. Many of these programs are based on paying closing costs such as *DC Opens Doors*⁴. This means it will cost more money to support these programs at higher closing costs.

on the \$520,000 home and a 1.1% recordation transfer tax on the \$310,000 condo, totaling approximately \$11,000. This number would actually be much higher if it assumes what Professor Green does in his report of the buyer paying the full incidence, which actually does NOT occur in real life practices. The buyer and seller generally SHARE these costs.

⁴ *DC Opens Doors* is a program from the District of Columbia Department of Housing and Community Development with full information on the program available at <http://www.dchfa.org/DCHFHome/Homebuyers/DownPaymentAssistance/tabid/276/Default.aspx>.

Although in some programs buyers may receive abatements based on certain qualifications, this is still an expenditure because of lost revenue.

Next, regarding the negative impact on sellers, the concern is not everyone who owns a home has made tons of money on it. *We are now seeing sellers having to come to settlement with cash because their property values have decreased or worse they are still underwater.* Any extra cash for recordation and transfer taxes will also have to come out of their own pockets, which some simply may not have. This can unnecessarily tie up housing stock and prevent potentially affordable housing units from coming into the market

Bottom line, the higher the closing costs, the less District residents who can afford to purchase a home. In a market where lending is still extremely stringent, a jurisdiction Alexandria become extremely attractive when potential homeowners can purchase the same amount of home for less and reap the city living benefits a few metro stops away. Or Maryland, which historically attracts residents away from DC for their schools, stands to gain even more first time homebuyers by waiving transfer taxes for the buyer and significantly reducing them for sellers.

While I am not an expert in multi-million dollar office buildings, I have assisted more than a few small businesses owners. High closing costs turn new smaller businesses away from DC because the costs of relocating employees are higher and because, in general, it is more difficult to attract employees to jurisdictions which are perceived to have the highest taxes in the region. Because recordation taxes are charged on a refinance of commercial properties, DC businesses will lose more of their commercial property equity when they refinance. This could cause a hardship yet again for smaller struggling businesses since they may not have enough equity to finance the added expense.

For these reasons, I respectfully urge the Tax Revision Commission to decrease the current real property recordation and transfer taxes and consider the substantial negative impacts any increase could have on the economic development in the District and the ability to provide ample housing choices for citizens of all income levels. Thank you.