March 22, 2019

SUBJECT: Graduated Real Estate Excise Tax

Honorable Members Washington State Senate
Honorable Members Washington State House of Representatives

We are writing to express our collective opposition to modifying the Real Estate Excise Tax (REET) structure to a graduated REET as proposed in House Bill 1921 and SB 5991, or other bills that may propose a graduated REET. Some of these proposals more than double the tax due on larger transactions, many of which involve multifamily housing projects in urban areas — ultimately adding cost to a product that many local jurisdictions are struggling to make more affordable. We respectfully urge the Washington State Legislature to reject these bills.

The magnitude of the tax increase under consideration is likely to suppress the number of transactions, which would in turn negatively impact the amount of revenue the State of Washington expects to generate from REET. Toronto experienced a similar phenomenon with their Land Transfer Tax. Washington’s commercial real estate industry competes for investment on a national level. This level of tax will put our state’s commercial real estate market at a significant disadvantage to other West Coast markets, such as Los Angeles, the Bay Area, Portland, Denver and Salt Lake City.

HB 1921 and SB 5991, the graduated REET proposals under consideration represents a significant shift in tax burden from single-family homeowners to renters. 80% of all new expected REET revenues will come from multifamily, commercial and industrial transactions, disproportionately impacting multifamily residential. These costs are always passed to the end-user, which in the case of multifamily residential are renters/tenants. This is counterproductive to various efforts at the state and local levels to address Growth Management Act goals and issues of housing affordability in urban communities — many focusing on mitigating the effects of increasing rents.

In addition, the proposals seen to date increases the cost for some of the state’s largest landowners, forest landowners, to remain in forestry. Sustainable forestry requires a balance of age classes across the land, which often requires the buying and selling of land. These transactions are a standard element of sustainable forestry and each trigger the REET. The addition of cost to stay in sustainable forestry has the unintentional result of reducing the state’s base of working lands.

Given the economics of land in Washington State, by disproportionately impacting multifamily, commercial and industrial properties, the
geographic burden of a graduated REET in Washington is primarily on Pierce, Snohomish and King Counties.

Attached to this letter is analysis conducted by ECONorthwest describing in greater detail the impacts of such a significant tax increase on commercial transactions and multifamily real estate.

Again, we urge you to consider the unintended consequences of these graduated REET proposals and maintain a fair, reasonable and uniform rate for real estate excise taxes.

We are available to discuss our concerns in more detail. Thank you for your consideration of these issues.

Sincerely,

Gary Chandler, Vice President, Government Affairs
Association of Washington Business

Greg Lane, Executive Vice President
Building Industry Association of Washington

Rod Kauffman, President
BOMA Seattle King County

Sandip Soli, Government Relations Chairman, Washington International Council of Shopping Centers

Scott Matthews, President
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Kyle Woodring, Lobbyist
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Washington Forest Protection Association

Patrick Reilly, President
Washington Self Storage Association