December 15, 2016

**Fund Affordable Housing with a Windfall Profits Tax on Rising Rents**

Cities around the Bay Area desperately need money for affordable housing and there is a potential funding source right in front of them. Bay Area rents are among the highest in the country and are likely to keep going up for the foreseeable future, creating an affordability crisis for tenants. The only way off the treadmill is to build or buy housing that will be owned by non-profit organizations, land trusts and limited-equity cooperatives. And that takes money, a lot of money. So let’s tax the rising rents that increase the need for affordable housing in the first place.

**Increase the Business Tax on the Gross Receipts from Residential Rental Property**

It can be done in any city in the Bay Area. On November 8, 2016 the voters of Berkeley and East Palo Alto approved increases in their business license tax of 1.8% and 1.4% of the gross receipts from residential rental property, with an exemption for owners of less than five units. Berkeley’s tax will bring in about $4 million annually and East Palo Alto’s will bring in about $600,000. A 1% tax increase in San Francisco would bring in around $30 million, and in Oakland would bring in around $10 million annually.

The tax requires a simple majority vote of the people, 50 percent plus one. The tax measure in Berkeley directed a committee made up of people with expertise in affordable housing and in homelessness prevention to advise the City on how to spend the money. That’s one way to ensure the money will go for its intended purposes without making the tax increase a “special tax” requiring a two-thirds vote.

**The Tax Will Be Paid from Excess Profits, Not Passed on to Tenants**

Landlords might claim they will raise the rent if the tax increase passes, but the reality is that they will raise the rent just as much with no tax increase. The excessive rents in the Bay Area are driven by a shortage of rental housing and prospective tenants’ ability to pay, not by operating costs.

In cities with rent stabilization the tax it is not legal to pass the tax increase through to current tenants.

**This Tax Will Recapture Part of the Value We Create As a Community**

Adam Smith, in *The Wealth of Nations*, the classic work that is the foundation of market economics, recognized that “the rent of houses” has two parts. First, there is the “building rent”, which is the minimum amount actually necessary to profitably operate and maintain the building. The amount over the necessary minimum is the “ground rent” which is paid for the value of the location. This unearned income in “ground rent”, he suggested, should be taxed for the benefit of the community that created the value of that location.

The residents of the Bay Area, tenants and home-owners alike, made this a desirable place to live. We created a diverse, open and creative culture supported by transit systems, schools and universities, parks, support for the arts, and more. And this made the area attractive to entrepreneurs and businesses whose workers want that creative culture, quality services and natural beauty. Then landlords get to charge tenants an “admission fee” for the privilege of living here in the Bay Area, over and above the amount actually needed to profitably operate and maintain the buildings their tenants live in. They get to take the value we all have created for their own private profit.

This inequity results in a massive transfer of wealth, taking hundreds of millions of dollars of income away from people who do not own real estate and giving it to those who do own real estate. Nothing could be fairer than to recapture some of this unearned, windfall profit and return it to the community through a tax on the landlords who are raising the rents.