chicagotribune.com

Tax hike burdens buyers

A 40% increase in the city's real estate transfer tax may force some to delay closing their deals, adding more pain to a glutted market

By Mary Umberger

Tribune reporter

February 10, 2008

The cost of Mario Greco's new home just went up by $7,000.

That's his estimate of how much additional cash he'll have to bring to the closing table when his family's Northwest Side house is completed in November, now that Chicago aldermen have bumped up the city's real-estate transfer tax 40 percent.

The change, voted last Wednesday, raises the tax paid by most buyers from $7.50 per $1,000 of a home's sale price to $10.50. The higher tax applies to buyers whose transactions close on or after April 1, unless the council passes a proposal to shift some of the cost to sellers. It will be one of the highest such taxes in the country.

The Chicago Association of Realtors expects the law, as it stands, to add $825 to an average condominium and $732 to an average single-family home. People 65 or older who buy homes for $250,000 or less and agree to live there for at least a year will get cash refunds equal to the tax increase.

The tax increase is aimed at stanching the fiscal bleeding at the Chicago Transit Authority by putting the extra revenue into its employee pension fund, a move brokered by state legislators last month. While the tax hike may be a lifeline for transit, what it does to the city's ailing real estate market may be another matter.

"The home buyer has a new burden," said David Hanna, president-elect of the Realtors' group in Chicago, which campaigned against the change. "This isn't something you can finance. You need 100 percent of these dollars, and you have to have them at closing."

But Hanna admits that with the housing marketplace sagging under broader economic factors, the precise effect of the tax hike will be hard to measure.

Because the health of the marketplace is suspect, it would not be fair to blame the tax for what is expected to be a less than robust resale market in the coming months, he said.

Nonetheless, it will add pain to a glutted market, he and others agree.

The city had an 11-month supply of single-family homes for sale Jan. 1, according to market data compiled by Headrick-Wagner Consulting Group. Appraisal consultants consider a "balanced" supply to be closer to five months.

New buyers face pain

The pinch of the higher tax will affect key buyers, some agents say.

"First-time buyers, it's going to hurt them," Hanna said. "If they don't buy, the whole market doesn't get moving" because there will be no chain reaction of move-up sales.

And those buyers are already feeling new financial pressures.

"There was a time, not long ago, when we had a lot of lenders giving up to 100 percent financing," though many of those loans have evaporated since the credit crunch began last year, said Chicago agent Marki Lemons. "Now they have to come up with a down payment, saving 3 to 10 percent or more, in addition to this increase.

"Are they cutting it close? Yes," she said. "Even if it's $300 more, it's not a small amount for them. They'll have to go back and save additional money, and it's going to delay the process."

Consider Alicia Marie, who has been renting in Naperville for several years and saw falling home prices as her chance to buy. In December she began looking for a condo in Chicago priced between $200,000 and $250,000, she said.

"I've been watching the prices change, which was nice," said Marie, who works in business-to-business debt collection. "Things that were unaffordable are now in my price range."

But last week Lemons told Marie that she would have to figure the tax change into her budget, and the prospect of having to produce $600 to $750 more at closing will slow her down, Marie said. She is hoping to find an eager seller who will help make up the difference.

"There is no uninjured party," said Hanna. "You're going to start seeing language written into the contract that the buyer and seller are going to share equally in this tax -- that it will be a negotiated term. Or they will offer the agent less money."

Earlier closings urged

On the other hand, a short-term plus could be a flurry of contracts written in the coming weeks by buyers who hope to close before the tax hike takes effect, agents say.

"It shifted my timetable up," said Trey Keifer, who rents a downtown apartment and has been condo-hunting in Ravenswood and Uptown. "My lease ends in mid-April, and if I do find something, I have to make it close before the tax goes into effect."

Buyers who have contracts will push up their closings to save money.

Greco, who is a Chicago real estate agent, said, "On Wednesday night I sent out e-mail to five of my buyers who are going to close on or about April 1, telling them, 'Let's close by March 28,'" -- and save $1,200 to $4,000.

One buyer, Greco said, is making the purchase with the now relatively rare 100 percent financing, and the tax might kill the deal.

"That buyer is absolutely cash-poor, and with the $1,200 it's going to cost them, they might not be able to come up with it unless they close before April 1," he said.

Greco said that for now he is resigned to the additional $7,000 he expects to be billed.

"Hopefully, by November, when I close, they will have figured out that sellers should also contribute -- but I am a seller, too, so I am going to get hurt either way," he said.

Ald. Patrick O'Connor (40th), who voted for the tax change and whose wife is a realty agent, has introduced an ordinance to split the tax between buyers and sellers.

"We need to analyze the [proposed] ordinance, along with what the state enabled us to do," he said.

If it's possible, O'Connor would like to split the whole $10.50 per $1,000 between the buyer and seller. If not, he plans to seek to shift the additional $3 to the seller "so that the buyer wouldn't experience any increase."

O'Connor said he has support in the council for revising the tax.

"And the mayor did say they were willing to look at this [revision] and entertain it as a possibility," he said. "He did recognize there was a bit of a fairness issue. I know we will get a good hearing."

Real estate agent Laura Freeman said that as the tax stands, it may cut deeply for buyers who are moving into the city because many suburbs tax sellers, not buyers.

"Here in Beverly, we often see people moving from Evergreen Park, where the taxes are $5 per $1,000 of the sales price," she said.

"Say you're selling something that's $300,000 in Evergreen Park and buying at $400,000 in Chicago," she said. "That would be $1,500 [in transfer taxes] in Evergreen Park and about $4,200 in Chicago. You're looking at an expense of $5,700.

"Now, tell me, how do you think that's going to affect the real estate market?"

Ald. Bernard Stone (50th), who was one of six City Council members to vote against the measure, said he didn't expect the tax to immediately affect home sales because the market is so slow.

"This isn't going to help the market, and it's not going to destroy it, of course, but it makes things that much harder," he said. "I told this to the CTA, I told it to our budget director and I told it to our intergovernmental people, but nobody paid any attention."

- - -

Upping the ante on April 1

The City Council on Wednesday approved a real-estate transfer tax increase that will help fund the CTA.

$7.50

The transfer tax per $1,000 of sale price

$10.50

The transfer tax per $1,000 of sale price beginning April 1 $900

The resulting difference a buyer faces for a $300,000 home

People 65 and older who buy a home priced at $250,000 or less and attest that they will live in it for at least a year can get a refund of the increase, but they must apply to get it.

----

mumberger@tribune.com