Last year, a portion of the gleaming new Park Tower office building at 250 Howard St. — home to the San Francisco office that Facebook leases — sold in a deal that valued the building at $1.1 billion. The buyers were Hines Interests and the Hong Kong Monetary Authority, a sovereign wealth fund. Despite the massive wealth the deal created for its multinational owners, the city and county of San Francisco received a sum total of zero in revenue from the transaction.

In May, it was revealed that the Park Tower buyers exploited a tax loophole that allowed them to avoid paying a transfer tax if less than 50% of the ownership stake changed hands. Hines Interests and the Hong Kong Monetary Authority together purchased 49% of the building, thus exempting them from San Francisco’s 3% transfer tax on deals over $25 million. The city lost out on $16 million.

The loss of that one-time money would be bad enough. But based on the way this deal was structured, the property owners are also set to avoid paying
upwards of $6.6 million every year in property taxes because of this very same loophole — revenue that funds critical services that San Francisco desperately needs such as schools, mental health and addiction treatment services and affordable housing.

This type of byzantine dealmaking in San Francisco commercial real estate isn't unique. In just the past few years, it is estimated that $35 million has been underreported in such high-value sales — enough to close SFUSD’s unprecedented budget shortfall — and that doesn’t count the additional millions the city forgoes every single year because so many older, corporately owned properties aren’t assessed at their current market value. It's at the root of why, despite the fact that the region’s economy is booming, many residents don’t feel like the massive wealth is creating any opportunity for them.

The tech industry has caught much of the blame for the state and region’s issues, even though the choices we made decades ago — such as the decision to include corporate landowners like the Hong Kong Monetary Authority in the same property tax protections granted to homeowners — are the reason growth results in inequality instead of opportunity for all Californians.

Take the Park Tower building as an example. The $1.1 billion value of the building is derived from the fact that a company as wealthy as Facebook is the
anchor tenant, and Facebook is paying its landlords some of the highest office rents in the world. Facebook is creating an enormous amount of value in that piece of real estate — all of which is going into the pockets of global corporate elites and zero of which is going to the residents of San Francisco who are underwriting the ability of these multinationals to build wealth. This structural inequity, multiplied across the millions of square feet of office space that tech companies lease in San Francisco office towers, is a root cause of many of the social ills we see on our streets.

When people wonder: how can California have both the fifth-largest economy in the world and the highest poverty rate in the country? This is why.

Aside from watching their value creation flow to corporate landowners rather than into critical infrastructure investments, this corporate property tax loophole has other negative implications for future-facing businesses in California.

• The decades-long disinvestment in public education that resulted has made it harder to hire skilled workers right here in California.

• Since this corporate property tax loophole makes housing development more expensive by incentivizing cities to charge impact fees to developers, and by
increasing the cost of land, it drives up rents while limiting the supply of new housing.

• Corporate property tax loopholes have made it harder to fund the infrastructure projects, like public transportation expansion and modernization, that growing businesses need to thrive.

Leveling the playing field so that all companies are paying their fair share not only will spur innovation, it will fund the critical infrastructure we need to grow the companies that will be the backbone of California’s economy for decades to come.

Though tech companies may not have caused the affordability crisis plaguing many of our cities, they do have a unique opportunity — and responsibility — to help contribute to solutions. By joining us in supporting the Schools & Communities First initiative to close California’s corporate property tax loophole, tech companies can make a bold statement about how our state’s 21st century economy should look. This initiative would reclaim $12 billion every year for critical local services like affordable housing and schools, while protecting all residential property from tax increases.

We can live in a world where a booming tech economy is creating more opportunity — and wealth — for all Californians, whether they are software
developers or not. But it requires us to fix systemic issues, like the corporate property tax loophole, in order to get there.

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