

Support HB 2168: Property Tax Incentive for Affordable Rental Homes (Feigenholtz-Zalewski-Turner-Williams-Evans)

- Establishes a new property tax incentive to encourage investment in multi-family apartment buildings, and the creation and preservation of affordable rental homes.
- Creates and preserves affordable rental homes in both higher cost and lower cost markets.
- Enacts the incentive in Cook County and allows other counties to implement the incentive after approval by the county board.

Why do we need this incentive?

In lower cost markets, property owners struggle to maintain their buildings in good condition. Affordable rental housing is lost when buildings fall into disrepair. In higher cost markets, soaring rents are making it impossible for low-income families to remain.

In the past, the Cook County Class 9 Program worked much like our proposed incentive. However, changes to Cook County's assessment structure reduced the program's transparency and value. The number of Class 9 properties has fallen from 1,792 in 2015 to only 389 in 2017.

What does the incentive do?

Provides a property tax incentive for 10 years or more for buildings with seven or more residential rental units that:

- Are new construction or undertake qualifying rehabilitation to improve health and safety, energy efficiency, accessibility and/or other physical conditions, and
- Keep a portion of units affordable to households at or below 60% of Area Median Income (AMI)

The incentive establishes two tiers of affordability and property tax incentives:

- 35% or more affordable units results in a 35% reduction in assessed value
- 15% or more affordability results in a 25% decrease in assessed value

Historically, property tax incentives for affordable housing have been attractive to owners in lower cost markets, but less popular with owners in higher cost markets, since the affordability requirements were too high to be financially feasible. Providing a second tier for a lower threshold of affordability allows the incentive to have an impact in markets with higher prices.

Supporters: Housing Action Illinois, Enterprise Community Partners, Access Living, Chicagoland Apartment Association, City of Chicago, Communities United, Illinois Housing Council, Illinois REALTORS, Illinois Rental Property Owners Association, Metropolitan Planning Council, National Multiple Sclerosis Society, Neighborhood Builders Owners Alliance, Northwest Side Housing Center and others.

How can I learn more?

Contact Bob Palmer, Policy Director, Housing Action Illinois, at bob@housingactionil.org or (312) 939-6075 for case studies and additional information.

FAQ: Property Tax Incentive for Affordable Rental Homes

Why do we need to create more housing for households earning at or below 60% of area median income?

Overall, in Illinois there is the shortage of 161,162 affordable and available rental homes for households with incomes at or below 60% of area median income (AMI). In Cook County, the shortage is 105,936. For every 100 renter households with incomes at or below 60% of AMI in Illinois, there are 82 affordable and available rental units; in the Chicago metro area, there are only 75 affordable and available rental units for every 100 renter households with incomes at or below 60% AMI.

How much will it cost to create or preserve an affordable rental unit through the proposed incentive compared to other means of doings so?

Our analysis indicates that it would cost approximately \$2,000 to \$4,000 per unit per year to create or preserve a unit of affordable rental housing through offering a property tax incentive, depending on unit size, location and other factors. The cost to use traditional public financing to create an affordable rental unit depends on a great deal of factors, but based on a recent federal government report can range anywhere between \$110,000 and more than \$300,000 per unit in upfront, one-time costs. Moreover, the required rehab will increase the assessed value, which offsets the amount of the reduction in assessed value.

What impact will the legislation have in higher cost markets?

In higher cost markets, the properties that will benefit from this incentive are properties that will be, or have already been, targeted by investors for rehabilitation and rent increases. Without our proposed incentive to create affordable units, any existing affordable rental housing in these buildings is likely to be entirely lost.

What impact will the legislation have in lower cost markets?

The incentive will encourage owners to invest more than they otherwise would in their properties. Most market rents are already affordable to households at or below 60% AMI in these markets. However, lean margins and lower rents make it hard for owners of properties in need of rehabilitation to invest in rehab/new construction. When maintenance is deferred over a long period, the values of surrounding properties may decline and affordable rental housing is lost to deterioration and poor housing conditions.

What impact will the legislation have on property tax revenue?

Because it requires rehabilitation or new construction, this incentive will increase assessed values for any participating property. The property tax relief will be applied to the higher, post-rehab assessed value.

The overall change in assessed value from this property tax incentive is unlikely to lead to any significant burden shift between assessment classes. This incentive is based on the Cook County Class 9 program, and per an analysis of Civic Federation data,¹ the assessed value ultimately shifted onto other classes by the Class 9 program at its height represented only 0.06% of total assessed value across all classes. As this incentive will start from a much smaller number of properties, the impact is likely to be much more limited.

Who would determine the maximum rents that could be charged and what households would qualify? How often would these be recalculated?

Maximum rents would be based on the Illinois Housing Development Authority's rent and income standards for households at 60% AMI. IHDA calculates and releases these figures annually. In the Chicago metropolitan area, based on IHDA data a family of four earning no more than 60% of AMI in 2018 has a maximum income of \$50,760. In 2018, the maximum monthly rent for a two bedroom unit in the Chicago metropolitan area would be \$1,143.

When would the incentive go into effect? Would owners of buildings who completed new construction or substantial rehabilitation projects before the incentive goes into effect be eligible to apply?

The incentive would come into effect on January 1 following the legislation's passage. Owners of buildings that were placed into service after January 1, 2015 would be eligible to apply. The years between the date the property was placed into service and the date an owner applied for the incentive would count against the number of years an owner is eligible to receive the incentive.

For example, if a property was placed into service in 2016 and applied for this incentive in 2020, it would be eligible for 6 years of reduction in assessed value rather than the full 10 years.

How would property owners apply for and document they are eligible for the benefit? Is there an application fee? What sort of oversight of the incentive program is there?

Owners would complete an application form developed by the chief county assessment officer for the county in which the property is located. The chief county assessment officer may charge a reasonable application fee. Chief county assessment officers will also require owners to

¹ 1 The Cook County Property Assessment Process, The Civic Federation, April 5, 2010. Available at https://www.civicfed.org/sites/default/files/100405_CookCountyAssessmentPrimer.pdf

submit evidence and annual affidavits certifying that they are in compliance with the income, rent, and habitability requirements of the incentive program.

What types of rehabilitation projects make an owner eligible for the benefit?

To be eligible for this incentive, an owner must replace or renovate a minimum of two major building systems and spend:

- At least \$8 per square foot to qualify for the 25% reduction in assessed value, or
- At least \$12.50 per square foot to qualify for the 35% reduction in assessed value

The qualifying major building systems under this incentive program are: the electrical system; heating system; plumbing system; the roof; floors, walls, and ceilings; exterior walls, elevators, health and safety systems; energy conservation upgrades and improvements; and accessibility improvements to enhance the independence of people with disabilities.

How long can owners receive the incentive for?

Owners can receive the incentive for 10 years. After the initial 10 year period, if the property continues to meet the qualifying criteria, an owner may apply for up to 2 additional 10 year periods.

How does this incentive relate to Cook County's Class 9 Program?

An owner must choose to participate either in this incentive or the Cook County Class 9 program. Owners currently participating in the Cook County Class 9 program may elect to participate in this incentive rather than Class 9.

Can people with Housing Choice Vouchers and other types of rental subsidies benefit?

Yes. A unit occupied by a household with a Housing Choice Voucher qualifies as an affordable unit under this legislation, as do units with Project-Based Vouchers.