

## **Support HB 5865 (Feigenholtz): Property Tax Incentive for Affordable Housing Cost Effective Solution to Create and Preserve Affordable Rental Homes**

- New property tax incentive program will encourage investment and create and preserve affordable rental homes in both strong and weak markets.
- Property owners that commit to providing affordable rents for a minimum period of ten years will receive the benefit of a reduction in the increased equalized assessed value of their property that results from new construction or substantial rehabilitation.

### **Why do we need this legislation?**

In all parts of the state, there is extreme shortage of affordable rental housing.

- In 2017, the Fair Market Rent (FMR) for a two-bedroom apartment in Illinois was \$1,085. In order to afford this level of rent and utilities—without paying more than 30% of income on housing—a household must earn \$43,406 annually. Assuming a 40-hour work week, 52 weeks per year, this level of income translates into an hourly Housing Wage of \$20.87. The Housing Wage is even higher in the Chicago metropolitan area, where it's \$23.69.
- In weaker markets, property owners struggle to maintain their buildings in good condition and affordable rental housing is lost when buildings fall into disrepair. In these communities, this property tax incentive will improve the financial feasibility of rehabilitation projects that struggle to qualify for private investment.
- In stronger markets, soaring rents are shrinking the affordable housing supply and making it more challenging for low-income families to remain. In these communities, this property tax incentive will encourage owners to charge rents lower than they otherwise could.

### **What does the legislation do?**

- In Cook County, it would be mandatory for the assessor to implement this program. In other counties, whether to implement program would be at the discretion of the local assessor.
- The legislation proposes property tax relief of 10 years or more for owners of buildings with 6 or more units who:
  - Undertake substantial rehabilitation or new construction
  - Agree to hold rents in a percentage of their units at a level affordable to households at or below 60% of Area Median Income (AMI), which varies by household size and geographic region. As of 2017, in the Chicago metropolitan area rents would have to be affordable to a family of four earning no more than \$47,400.
- The legislation establishes two tiers of affordability and property tax relief:
  - Buildings with 35% or more affordability would receive a 35% decrease in equalized assessed value
  - Buildings with 15% or more affordability would receive a 25% decrease in equalized assessed value

**Supporters;** The Preservation Compact, Enterprise Community Partners, Metropolitan Planning Council, Housing Action Illinois and others.

**For more information** Contact Bob Palmer, Policy Director for Housing Action Illinois at 312-939-6075 or [bob@housingactionil.org](mailto:bob@housingactionil.org).

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## FREQUENTLY ASKED QUESTIONS

### What impact will the legislation have on property tax revenue?

This proposal will not reduce property tax revenue. Through incentivizing substantial rehabilitation and new construction, this program will increase equalized assessed values. The property tax relief will only reduce a portion of the new, higher equalized assessed value. This means that property tax revenues will not decrease. Revenue may in fact increase as a result of this proposal if property owners who would not otherwise have made an investment chose to purchase or improve a property.

### 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 housing through this program, compared to at least \$300,000 to construct one new unit of affordable rental housing. Moreover, because a qualifying rehab will cause the equalized assessed value of the property will increase, the \$2,000 to \$4,000 represents a reduction in the total increase in equalized assessed value, rather than an actual loss in property tax revenue.

### Why is the incentive structured with two different affordability thresholds to qualify?

Historically, property tax incentives for affordable housing have been attractive to owners in weak markets, but were less popular with owners in strong markets because the affordability requirements were too high. The tiered relief structure is a central innovation of the proposal, allowing it to have impact in both strong and weak markets:

35% affordability / 35% relief	15% affordability / 25% relief
<ul style="list-style-type: none"> <li>• Primarily attractive to owners in <b>weak markets</b>.</li> <li>• Most market rents are already affordable to households at or below 60% AMI.</li> <li>• Lean margins and lower rents make it hard for owners of properties in need of rehabilitation to invest in rehab/new construction.</li> <li>• When maintenance is deferred over a long period affordable rental housing is lost to deterioration, poor housing conditions.</li> <li>• The high threshold for substantial rehab encourages owners to invest more than they otherwise might spend, which will encourage owner investments in weaker neighborhoods.</li> <li>• The historical success of the Cook County Class 9 program demonstrates the effectiveness of such incentives.</li> </ul>	<ul style="list-style-type: none"> <li>• Primarily attractive to owners in <b>strong markets</b>.</li> <li>• Market rents are not affordable to households at or below 60% AMI, except in buildings in poor condition or in need of substantial rehabilitation.</li> <li>• Surrounding high market rents mean owners who rehab can raise rents.</li> <li>• As a result, buyers and owners in these markets purchase properties with plans for rehab and increased rents.</li> <li>• By providing property tax relief, owners can be encouraged to keep rents in some of their units affordable. This reduces displacement of low- and very-low income households.</li> <li>• Analysis of data from real properties shows that such a property tax relief would offset the difference between affordable and market rents in a number of stronger markets.</li> </ul>

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### **What impact will the legislation have on displacement in strong markets?**

This proposal will not increase displacement. In strong markets, the properties that will benefit from this program are properties that will be, or have already been, targeted by investors for rehabilitation and rent increases. Without our proposed legislation with incentives to create affordable units, any existing affordable rental housing in these buildings is likely to be entirely lost.

### **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 would property owners apply for and document they are eligible for the benefit? Is there an application fee? What sort of oversight of the 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 submit annual affidavits certifying that they are in compliance with the income, rent, and habitability requirements of the program.

To qualify, an owner must submit:

- Written evidence of the new construction/qualifying rehabilitation, including, but not limited to copies of building permits, a notarized contractor's sworn affidavit, and photographs of the interior and exterior of the building after new construction/rehabilitation completed;
- Written evidence that the residential real property meets local building codes;
- A list identifying the affordable units in residential real property, the rents for the affordable units, and a written statement that the affordable units are comparable to the market rate units; and
- A written statement identifying the household income for every household occupying an affordable unit and certifying the household income does not exceed the maximum income limits allowable

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

To be eligible for this program, 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% relief tier, or
- At least \$12.50 per square foot to qualify for the 35% relief tier

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The qualifying major building systems under this program are: the electrical system; heating system; plumbing system; the roof; floors, walls, and ceilings; exterior walls, elevators, health and safety systems; and energy conservation upgrades and improvements.

### **How does this program relate to Cook County's Class 9 Program?**

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

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

The program would come into effect on January 1, 2019. Owners of buildings that were placed into service after January 1, 2015 would be eligible to apply for relief under this program. The years between the date the property was placed into service and the date an owner applied for a program would count against the number of years of a relief an owner is eligible to receive. For example, if a property was placed into service in 2016 and applied for this program in 2019, it would be eligible for 7 years of relief rather than the full 10 years.

### **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.

### **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.

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