Property Tax Incentive for Affordable Rental Homes

To counter disinvestment and displacement, The Preservation Compact, Enterprise Community Partners, Metropolitan Planning Council, Housing Action Illinois, and other partners are advocating for a new property tax incentive to provide property tax relief to a broad range of rental properties with six or more units in different markets to encourage investment in buildings, and the creation and preservation of affordable units. Proposed state legislation creating the incentive would make implementation mandatory in Cook County and optional in other counties.

Why do we need this incentive?

The Chicago region has seen a substantial loss in affordable rental units since 2012. In lower cost markets, property owners struggle to maintain their buildings in good condition, and affordable rental housing is lost when buildings fall into disrepair. In higher cost markets, soaring rents have swept into more neighborhoods, shrinking the affordable supply and making it more challenging for low-income families to remain. Across all markets in the region, owners grapple with growing costs for property taxes. Property taxes are often a large and unpredictable expense, which can make it even more challenging for owners to keep their properties affordable and in good condition.

In the past, the Cook County Class 9 incentive program played an important role in keeping property taxes predictable and consistent for buildings with affordable rental units. However, changes to Cook County’s assessment structure reduced the transparency and value of the program. As a result, since the program’s height in 2015, the number of participating properties has fallen from 1,792 to only 389 in 2017.

What does the incentive do?

The incentive provides property tax relief of 10 years or more for owners of multifamily properties who:

- Undertake qualifying 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)

The incentive 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

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

How can I learn more about this incentive?

Contact Bob Palmer, Policy Director at Housing Action Illinois, at bob@housingactionil.org or (312) 939-6075 for case studies and additional information.
Frequently Asked Questions About The 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 the Chicago metro area, the shortage is 148,918, and 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.

What impact will the legislation have on property tax revenue?

Because it requires rehabilitation or new construction, this incentive will increase equalized assessed values for any property participating in the incentive program. The property tax relief will be applied to the higher, post-rehab equalized assessed value. Importantly, particularly in lower cost markets, equalized assessed value in a taxing district will increase as a result of this incentive when property owners decide to make an improvement to their property they would not otherwise have made due to the availability of this property tax incentive.

The overall change in equalized 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, the assessed value taken off the table 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 zero, the impact is likely to be much smaller.

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 equalized assessed value, which offsets the amount of relief.

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 legislation with incentives 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 encourages 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.
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 for relief under this incentive. 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 of a relief an owner is eligible to receive.

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 relief 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 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% relief tier, or
- At least $12.50 per square foot to qualify for the 35% relief tier

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; and energy conservation upgrades and improvements.

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.