Tax incentives for the maintenance and rehabilitation of unsubsidized affordable rental properties

Overview

Privately-owned, non-subsidized rental properties are a critical source of affordable housing in many cities, towns, and counties. Some of the owners of these properties may lack sufficient rental income to cover the costs of day-to-day maintenance and operation, let alone the costs necessary to bring the property up to code or replace or upgrade such building systems as electrical, plumbing, roofs, etc. Local jurisdictions can assist these owners by offering property tax incentives that hold the taxable assessed value of the property at pre-improvement levels for a set period of time, or otherwise reduce or limit the amount of taxes owed.

Even in cases where market rents are rising, owners may be reluctant to raise rents (or unable to do so without upgrading the property). Property tax relief can provide an option for the owner to maintain affordability while strengthening the building’s bottom line. Moreover, property tax relief can prevent owners from being deterred from making improvements by shielding them from higher property taxes based on the cost incurred in improving the property. Eligibility for the incentive may be contingent on an agreement to maintain affordable rents for a specified period of time or to put the property under rent regulation that slows escalation of rent levels.

By allowing owners of older unsubsidized affordable rentals to operate profitably, these policies may slow the rate of growth in rents of properties located in strong rental markets by reducing the likelihood that the properties are substantially rehabilitated and repositioned to rent at much higher levels (or demolished to make way for luxury multifamily units). However, these policies alone will not stop owners from raising rents when the market conditions would allow them do so. In markets where rents are rapidly becoming less affordable or are likely to do so in the future, the locality may want to preserve these units as dedicated affordable housing, either by working with the current owner or by facilitating the transfer of the property to a mission-driven owner. In this case, see the array of tools for creating and preserving dedicated affordable housing.