Appendix D: Property Tax Abatement Programs for Housing in Oregon

Oregon has several property tax abatement programs that can be used support development of affordable housing or to leverage private housing development to provide benefits (e.g. a portion of units at reduced rents, or ground floor retail in key areas) that the market may not deliver on its own. Each program differs in the type of housing it incents, the geographic specificity, and other policy parameters. Cities can use one or more of the following programs to achieve different housing goals:

- **Vertical Housing Development Zones** (VHDZ): Incents multi-story mixed-use development by offering a partial property tax exemption for 10 years to developments that include housing as well as non-residential use (e.g. retail on the ground floor), with a larger tax exemption for higher density developments.
- **Multiple Unit Property Tax Exemption** (MUPTE, sometimes called MULTE): A flexible program that can be used to incent multifamily housing with particular features or at particular price points by offering qualifying developments a partial property tax exemption for 10 years.
- **Temporary exemption for newly rehabilitated or constructed multiunit rental housing:** Incents development or rehabilitation of multifamily rental housing with rents affordable to households with an annual income at or below 120% of the area median income (AMI) citywide through a full property tax abatement for no more than 10 years.
- **Nonprofit Low-Income Rental Housing Exemption:** Provides a simplified way for affordable housing owned and operated by a nonprofit to qualify for a property tax exemption.

Each tax abatement varies in its eligibility criteria, implementation processes, and abatement allowances. The following sections describe each program and its pros and cons. To facilitate comparison between programs, key features and differences of the programs are summarized in Exhibit 1 on page 9.

Vertical Housing Development Zones (VHDZ)

How it Works

This program incents mixed-use development and affordable housing by partially exempting property taxes for qualifying projects. The exemption varies in accordance with the number of residential floors in a mixed-use project; the maximum property tax exemption is 80 percent of the residential improvement value over 10 years. An additional property tax exemption on the land may be given if some or all of the housing is for low-income persons (80 percent of area median income or below). There is no tax exemption on the non-residential component.

Before a city or county can grant an exemption for an eligible development project, they must establish a VHDZ. Per state statute, jurisdictions must consider the potential for displacement[1] of households within a proposed vertical housing development zone before designating the zone. Once the VHDZ is established, the developer may apply for the city's Vertical Housing Tax Abatement Program.

Pros and Cons

Pros:

- Targeted tool to support mixed-use development in places with locational advantages.
- Overlapping taxing districts must take action to opt out, rather than having to take affirmative action to approve zone designations and project applications.
- Offers incentives for market rate, mixed income, and affordable housing, with greater incentives for affordable/mixed income housing.
- Incents higher density development as well as mixed-income development.

Cons:

- May provide insufficient incentive to lead to affordability unless paired with other tools.
- Requires retail space, which may not be viable or appropriate for all projects.
- Can't qualify until project is under construction—creates uncertainty for developer & lenders

[1] According to the relevant statute (ORS 307.841(2)): *"Displacement" means a situation in which a household is forced to move from its current residence due to conditions that affect the residence or the immediate surroundings of the residence and that: (a) A reasonable person would consider to be beyond the household's ability to prevent or control; (b) Occur despite the household's having met all previously imposed conditions of occupancy; and (c) Make continued occupancy of the residence by the household unaffordable, hazardous or impossible.*

In evaluating this issue for other communities, ECONorthwest has considered the potential for displacement because of redevelopment of existing housing with new development using the VHDZ program ("direct displacement"), and the potential that the presence of new development that uses the VHDZ program could encourage property owners to increase rents in existing housing to a degree that the households can no longer afford them ("indirect displacement").

- Reduces general fund revenues for all overlapping taxing districts (unless they opt out).

Best for:

Encouraging mixed use development in locations where ground floor commercial uses are essential to the vision and mixed use is not economically feasible yet.

Implementation Considerations

- Both ground-floor retail and multifamily rental housing must be allowed, appropriate, and potentially desirable to tenants for the program to be effective.
- The program works better for taller development (at least 4 stories tall) since the incentive is very limited for lower-scale development. It should be applied in places where this is allowed, desirable, and close to being feasible, given the higher cost of such development relative to 2- to 3-story housing or single-story retail.
- Expect market-rate development through this program, if any development occurs because of it—there is little or no history of it being used for affordable housing in Oregon. Also consider how affordability restrictions will be monitored and enforced.

Multiple Unit Property Tax Exemption (MUPTE)

How it Works

Through a multiple unit property tax exemption, a jurisdiction can encourage multifamily and attached housing in specific locations lacking in housing choices, or inclusion of units with below-market rents. The abatement applies to improvement value only and lasts for 10 years, except for affordable housing, which lasts as long as the affordability restriction lasts. Though the state enables the program, each City has an opportunity to shape the program to achieve its goals by controlling the geography of where the exemption is available, application process and fees, program requirements, criteria, and program cap.

Though the state enables the programs, each City has an opportunity to shape the program to achieve its goals by controlling the geography of where the exemption is available, application process and fees, program requirements, criteria, and program cap. The City can select projects on a case-by-case basis through a competitive process. Those applicants must show that the housing would not be feasible without the abatement.

To implement the exemption, the City would take the following steps:

(1) Determine desired eligibility criteria (percentage affordable or workforce housing or other public benefits, where the program applies, etc.).

(2) Seek agreement from taxing districts representing 51 percent or more of the combined levying authority on the property to include all of the taxing jurisdictions in the abatement. If the City is unable to get agreement from other taxing districts, the abatement will only apply to the City's portion of property taxes.

(3) Establish annual reporting procedures and administration.

Pros and Cons

Pros:

- City sets eligibility criteria and controls application process and project selection.
- Program is flexible to support various objectives related to encouraging housing.
- Tax abatements can contribute to the feasibility of both market-rate and regulated units. Saving on operational costs contributes to greater net operating income, which is important in determining project value and subsequently the development feasibility.
- The City can use the abatement program to incent private development to include some affordable units, or to incent higher density housing or other specific types of housing not being delivered by the market.
- Since applicants need to prove that the project would not be feasible without the exemption, the funding only goes to developments that would not have otherwise occurred.
- Property owner can apply by the February before first assessment year of requested exemption. Construction need not be complete.
- The City can set an annual cap on the total amount of tax exemptions in any given year for all projects.

Cons:

- May provide insufficient incentive to lead to affordability unless paired with other tools.
- Discretionary application process creates uncertainty during the development stage and more work for applicants. Some developers will be discouraged from applying.
- City must weigh the temporary (up to 10 years) loss of tax revenue against the potential attraction of new investment to targeted areas.
- Reduces general fund revenues for all overlapping taxing districts, which could make it harder to promote the tool to partner jurisdictions that do not perceive the same project benefits.
- Depending on the project criteria, can be a highly competitive process among development projects.
- Must get affirmative support from enough overlapping taxing districts to apply to their tax collections.

Best for:

Encouraging multifamily housing in strategic locations and with specific features (with or without ground floor commercial uses), or supporting development of housing affordable to moderate-income households (e.g. around 80% AMI where the rent discount relative to market rates is limited).

Implementation Considerations

There are multiple ways a City could implement this tool, which will require additional staff and stakeholder conversations to determine which application is most appropriate.

- The City could offer a citywide program for housing that is affordable to households making up to some specific income level (e.g., 80% or 100% of AMI). If the City were to require income certification of tenants, this would require a lot of paperwork for developers. If the affordability threshold is relatively close to current market rents, the City could limit the rent the developer could charge but not require income certification for tenants. This would be less burdensome for all involved but would not guarantee that the units would go to those that need them most, and would offer little discount relative to market-rate development. Also consider how affordability restrictions will be monitored and enforced—whether City staff has capacity for this, or whether there is an appropriate and willing partner to assist.
- The City could offer abatements for market rate apartments that meet public goals and are not being produced by the market today. This could include higher density development adjacent to transit or downtown, development that meets certain green building or sustainability goals, etc. In some markets, any multifamily rental housing development at scale is a challenge due to low market rents and difficult financing, and the program may be appropriate with minimal eligibility criteria.
- The abatement could be applied to certain middle housing types like duplexes, triplexes, cottage clusters on a common lot, etc. in neighborhoods close to transit or services. It will be most effective for rental properties, and should not be tied to affordability requirements without careful consideration of whether those will work for middle housing.
- Regardless of how the City chooses to apply the program, it could set a limit on the total amount of abatement granted per year or at any given time in order to limit fiscal impacts to the City and other taxing districts.

Nonprofit Low Income Rental Housing Exemption

How it Works

This tax exemption program would apply to rental housing for low income persons[2] that is owned, being purchased, and/or operated by a nonprofit. It would also apply to land held for affordable housing development. Land and improvements are exempt for as long as the property meets the criteria, but developers must reapply every year to show that they continue to meet the program criteria.

To enact this program, the City would need to adopt standards and guidelines for applications, and enforcement mechanisms. Rents within the eligible properties must reflect the full value of the property tax abatement.

This program would provide an opportunity to assist nonprofits providing affordable housing in the community by lowering operating costs. Affordable housing provided by a public agency is already exempt, and nonprofits have the option to apply for an exemption through the state; however, the state process is cumbersome and is not always successful. This tax exemption offers a streamlined path, and the ability to obtain a tax abatement on land held for future affordable housing.

Pros and Cons

Pros:

- The affordable housing tax abatement can be used for any non-profit affordable housing development.
- No requirement that construction be complete prior to application.
- Works well in tandem with other incentives, such as land banking.
- Reduces carrying costs before development occurs (tax exemption available for land being held for development of affordable units), and offsets operational costs once the development is complete.

Cons:

- Reduces general fund revenues for all overlapping taxing districts if properties that would not otherwise have received an exemption are approved through the program.
- Must get affirmative support from enough overlapping taxing districts to apply to their tax collections.
- Limited applicability / eligibility, since it does not apply to mixed-income housing or affordable housing built by for-profit developers.

[2] Incomes must be at or below 60% of area median income (AMI) to start, and up to 80% AMI in subsequent years.

- The requirement for the property owner to resubmit eligibility documentation every year may be burdensome.

Best for:

Reducing operating costs for regulated affordable housing developed by nonprofits and affordable at 60% AMI or below.

Implementation Considerations

- The non-profit developments eligible for this program may already be finding ways to achieve tax exempt status. If this is the case, the impact will primarily be a simpler path to tax exemption, rather than getting affordable housing that would not have otherwise occurred. This also means the additional property tax impact is likely to be limited.
- Little or no additional monitoring or enforcement is likely needed for this program, since eligibility is limited to non-profit affordable housing providers.

Temporary exemption for newly rehabilitated or constructed multiunit rental housing

How It Works

Provides a maximum 10-year tax abatement for newly rehabilitated or constructed multiunit rental housing that is affordable to households with an annual income at or below 120% of AMI. The tax abatement applies to the full property tax amount—land and improvements.

A city must establish a schedule that provides longer exemptions for projects with more qualifying units, with a maximum of 10 years. To establish this tax abatement, a City adopts an ordinance or resolution, the city must establish definitions of affordability and duration of exemption, and overlapping taxing districts must agree. Specifically, the city must:

(1) Create an ordinance to adopt a schedule establishing the length and percentage of the exemption based on the number of affordable units.

(2) Define the terms "area median income" and "affordable" for families of varying sizes.

(3) Seek agreement from taxing districts representing 51 percent or more of the combined levying authority on the property. If the City is unable to get agreement from other taxing districts, the abatement cannot take effect.

Pros

- Properties must re-apply every year, which provides a built-in enforcement mechanism. This is not overly burdensome since they only need to show that they continue to meet the criteria, which are non-discretionary.
- All properties that meet eligibility criteria must be granted the exemption, reducing uncertainty for developers.

Cons

- Little ability to tailor the program to offer greater benefits to projects that are more desirable, and all eligible projects get the exemption.
- With market rents even for new construction generally already affordable at or below 120% of AMI, this would offer as much of an incentive for market-rate development as for affordable housing development.

Best for:

Incenting market rate / moderate-income multifamily housing development city-wide.

Implementation Considerations

- The City may run into more concerns among local tax jurisdictions with this program due to the temporary loss of tax revenue (because land value is exempted in addition to improvement value) and because there are so few limits on the program.
- In markets where any multifamily rental housing is needed, and market rents are already affordable at or below 120% of AMI, this program may make sense as a developer-friendly and streamlined alternative to MUPTE. The sliding scale for number of years of abatement for the percent of units affordable at or below 120% AMI will be irrelevant in this case.
- In markets where typical rents for new construction are well above 120% of AMI, this program could potentially make sense as a way to incent lower rents for market-rate housing or inclusion of some below-market units, but without income qualification (which the program does not require), there is no guarantee they would go to those that need them most.
- While income qualification is not required, consider whether staff has capacity to review annual submittals detailing rents for compliance with program requirements.

Exhibit 1. Housing Tax Exemption Program Comparison

Program	Vertical Housing Development Zones (VHDZs)	Multiple-Unit Property Tax Exemption (MUPTE)	Nonprofit Low Income Rental Housing Exemption[i]	Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing
Authorizing Statute	ORS 307.841 to 307.867	ORS 307.600 to 307.637	ORS 307.515 to 307.523 / ORS 307.540 to 307.548	House Bill 2377 / chapter 624, Oregon Laws 2017[ii]
Adoption / Designation Process	City designates via ordinance or resolution. Notice to overlapping taxing districts required. Must consider potential for displacement of households in the zone.	City designates via ordinance or resolution. Public hearing required to determine whether qualifying housing would or would not be built without the benefit of the program. City must establish standards and guidelines with requirements for eligibility.	City adopts standards and guidelines for applications and enforcement mechanisms.	City adopts an ordinance or resolution. City must establish definitions of affordability and duration of exemption. Overlapping taxing districts must agree (see below).
Eligible Areas	Within designated areas. City may designate any area it chooses.[iii]	Within designated areas such as core areas,[iv] light rail station areas, transit-oriented areas (within a quarter-mile of fixed-route transit service per a local transportation plan), or Urban Renewal Areas. Alternatively, the city can designate the entire City and limit the program to affordable housing.	Anywhere in a city	Anywhere in a city
Eligible Projects / Properties	Must include at least one “equalized floor” of residential; at least 50% of the street-facing ground floor area must be committed to non-residential use. Can be new construction or rehabilitation. City can add other criteria.	Housing subject to a housing assistance contract with a public agency (must show that the exemption is necessary to preserve or establish the low-income units, but the statute does not define an income threshold); OR housing that meets City-established criteria for design elements benefitting the general public and number of units. If transit-oriented, must support the transit system. May be new construction, addition of units, or conversion of an existing building to residential use.	New rental housing exclusively for low-income households (at or below 60% AMI); rental housing for low-income persons (at or below 60% AMI) that is owned, being purchased, and/or operated by a nonprofit; [v] or land held for affordable housing development. Rents must reflect the full value of the property tax abatement. City can add other criteria.	Newly rehabilitated or constructed multiunit rental housing. Rental units affordable to households with an annual income at or below 120% of AMI.

Program	Vertical Housing Development Zones (VHDZs)	Multiple-Unit Property Tax Exemption (MUPTE)	Nonprofit Low Income Rental Housing Exemption[i]	Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing
Extent of Tax Exemption / Abatement	Improvements exempt based on number of "equalized floors" of residential use: 20% for 1 floor, 40% for 2 floors, 60% for 3 floors, 80% for 4 floors. Land partially exempt for low-income housing (up to 80% AMI) – same % per floor as above.	Improvements exempt. Exemption does not apply to commercial components unless required as a public benefit element.	Land and improvements exempt.	Full property tax levy of all taxing districts.
Duration of Tax Exemption / Abatement	Exemption is for 10 years (this is set in statute, not by the City).	Exemption is for up to 10 years (this is set by statute, not by the City), except that for low-income housing, exemption can be extended for as long as the housing is subject to the public assistance contract.	For the low-income rental housing program, exemption lasts 20 years. For the nonprofit corporation low-income housing program, the exemption must be applied for every year, but can continue as long as the property meets the criteria.	City must establish a schedule that provides longer exemptions for projects with more qualifying units, with a maximum of 10 years.
Participation by Other Taxing Districts	Can elect not to participate within 30 days from City notice	None, unless districts representing at least 51% of combined levy agree by board resolution to participate, in which case all districts are included.	None, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included.	Exemption cannot take effect unless governing bodies representing at least 51% of the total combined tax rate (when combined with the City's tax rate) agree to grant the exemption.
Where in use[vi]	**Program Established and Tax Abatements Granted:** Tigard, Hillsboro, Beaverton, Milwaukie, Gresham	Portland, Eugene, Salem, Newport	Bend, Newport, Beaverton, Portland, Eugene, Tigard, Forest Grove, Cornelius	None identified to date

Program	Vertical Housing Development Zones (VHDZs)	Multiple-Unit Property Tax Exemption (MUPTE)	Nonprofit Low Income Rental Housing Exemption[i]	Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing
	Program Adopted: Oregon City, Wood Village, Forest Grove, Stayton, Springfield, Cottage Grove, Monmouth, La Grande, The Dalles, Canby, Central Point, Klamath Falls, Roseburg, Grants Pass, Medford, Eugene			

[i] There are two separate tax exemptions available under the statute, but they are quite similar, and are grouped together with notes about any important differences. While it may seem strange that a local government would need to adopt a program to exempt a non-profit from paying property taxes on low-income housing that it owns and operates, the process for non-profits to qualify for a statutory exemption under ORS 310.130 is apparently fairly challenging and uncertain. Review and decisions are handled by the county tax assessor based on Department of Revenue administrative rules, which have unclear criteria for affordable housing. These programs offer an option for local government elected officials to bypass this process and affirmatively grant a property tax exemption for qualifying affordable housing. They also offer the potential to add local criteria as long as those criteria do not conflict with those in statute.

[ii] The text is included following ORS 307.867 in the online version of ORS Chapter 307, but is not numbered to match the rest of the statute.

[iii] The prior statutes governing the VHDZ program specified certain types of areas where VHDZs could be designated. The current version of the statute leaves this decision entirely up to the City. However, logically, the zoning would need to allow both residential and non-residential uses in order to allow development that could be eligible for VHDZ tax abatement.

[iv] "Core areas" is not defined in the statute. The legislative findings in ORS 307.600 suggest that the intent is for areas around a downtown, but there seems to be discretion for the City to interpret this broadly if desired.

[v] For the nonprofit corporation low-income housing program, eligibility is housing owned by a nonprofit that is occupied by low-income persons (at or below 60% AMI to start, and up to 80% AMI in subsequent years).

[vi] This list is based on the best information currently available in February 2019, but it may not be exhaustive.