

## Using Limited Tax Exemption To Encourage Moderate/Middle Income Housing

Limited Tax Exemption  
Work Group  
October 25, 2010

## Emerging National Livability/Planning Principles

- Increasing equitable access to jobs, housing, and transportation options for all community members
- Improving economic competitiveness through:
  - Workers' access to employment centers, educational opportunities, services, and other basic needs
  - Businesses' access to markets
- Preserving & enhancing unique characteristics of all communities
- Coordinating policies & leveraging Investment
- Protecting the environment

## Jobs-Housing Location Mismatch

- Urban Centers becoming areas of low-income and high-income housing - Moderate /middle income workers forced to live further away from jobs, spend more time and money commuting
- Low/Moderate income workers paying >45-50% of income for combined Housing + Transportation cost
- Business experiences higher cost to recruit, train and retain employees
- Transportation and housing account for more than 43% of the nation's carbon emissions

## Moderate/Middle Income Housing Defined

Housing affordable to households that do not qualify for publicly subsidized housing, yet cannot afford appropriate (Location & Energy Efficient) market-rate housing:

*Affordable to working households close to transit, shopping, services, and employment, in safe neighborhoods and in locations with quality schools*

## Target Population

- Address *Jobs-Housing Mismatch* by increasing moderate/middle income housing located close to public transportation & major employers as :
  - Teachers, police officers, firefighters, and others integral to the community, but who cannot afford to live in the community
  - Young professionals, office workers, construction and value-added manufacturing workers, service workers, and creative class who are vital to Portland's economy

## Moderate Income Housing – Target Workforce

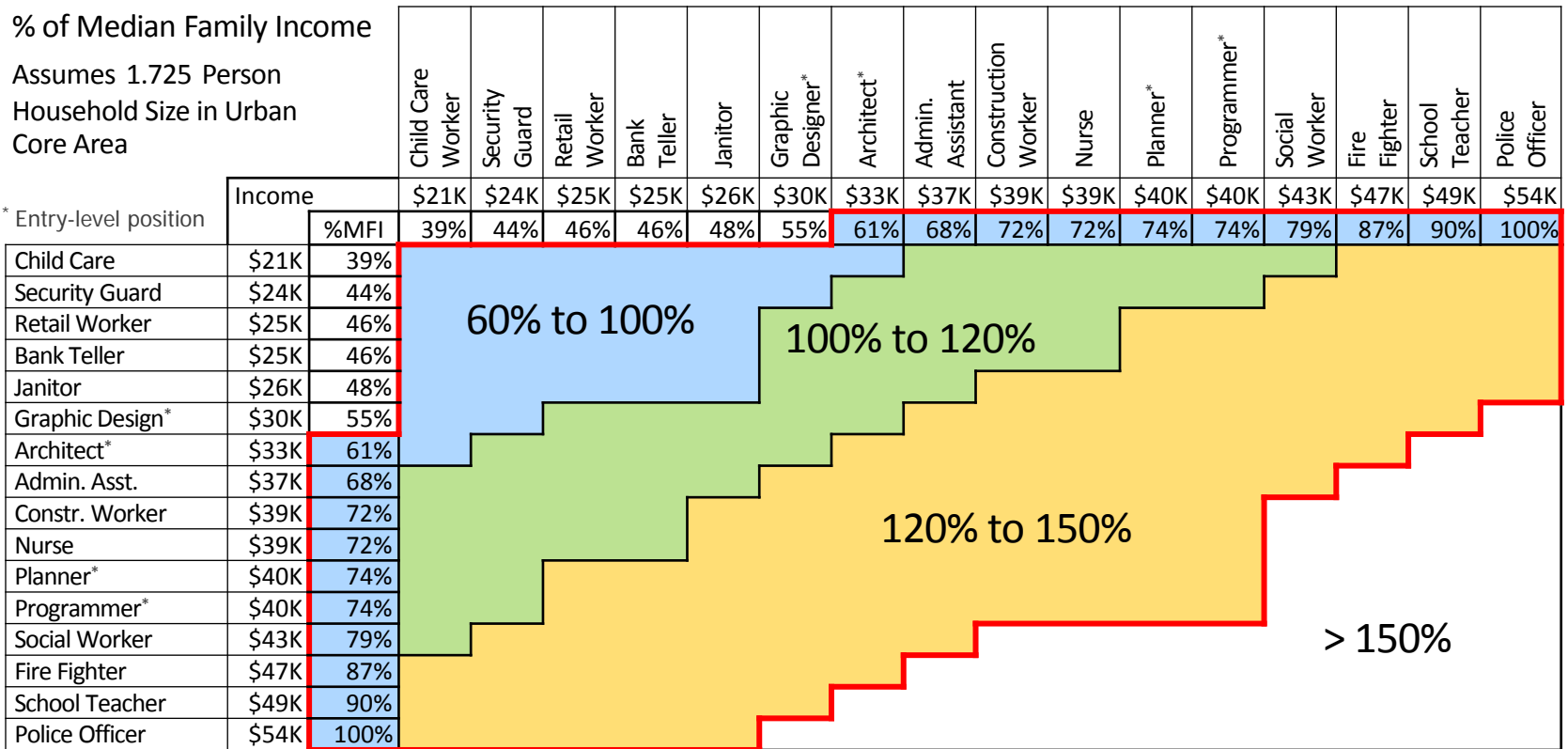
Central City median sales prices average in Sept. 2010: \$343,000  
 Compares to \$249,000 in NE Portland and \$210,000 in SE Portland

Employees integral to the community, cannot afford to live here

% of Median Family Income

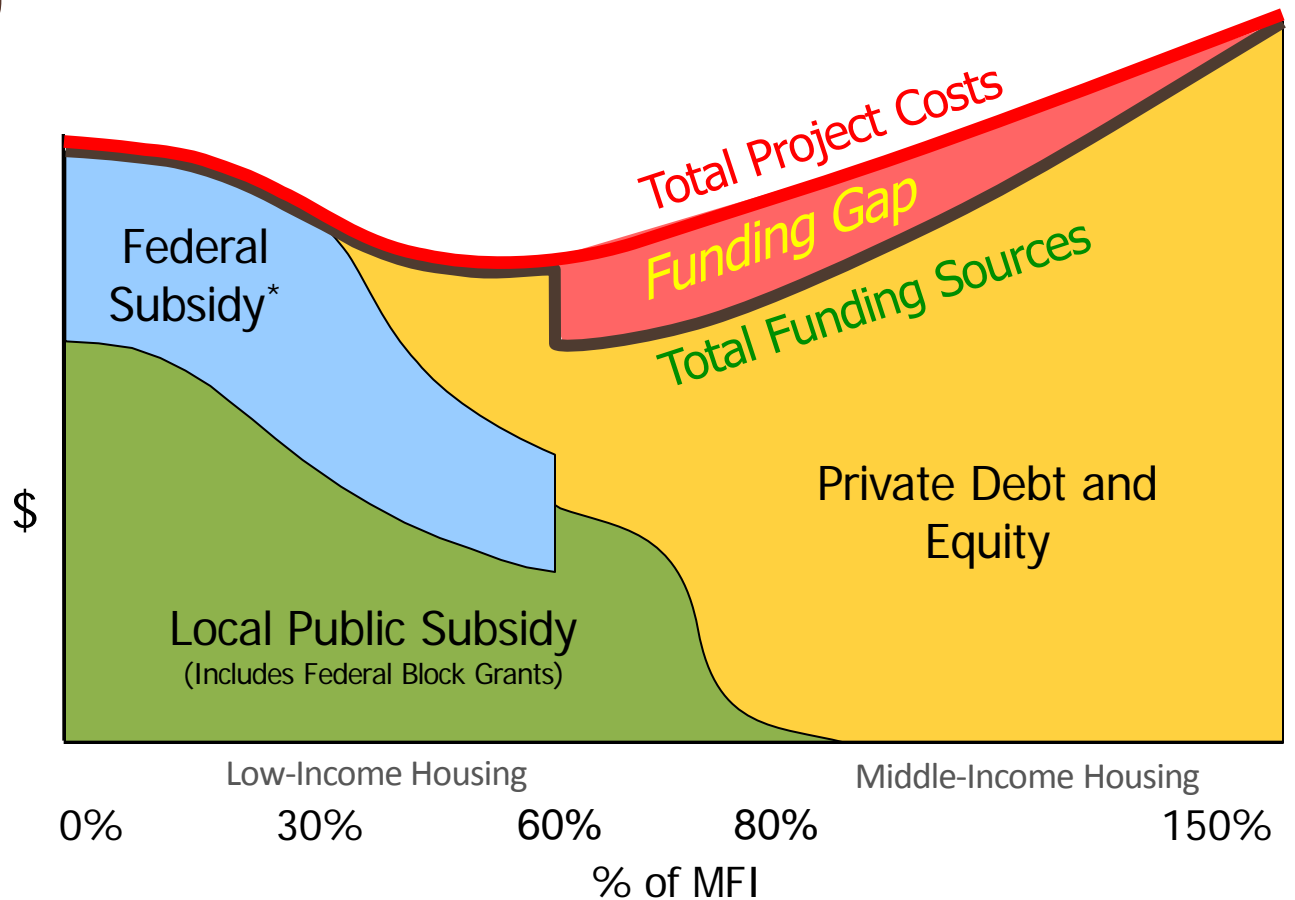
Assumes 1.725 Person Household Size in Urban Core Area

\* Entry-level position



## Funding Gap for Moderate/Middle Income Housing

Housing subsidies fall away before private investment makes up the funding gap for moderate-income housing



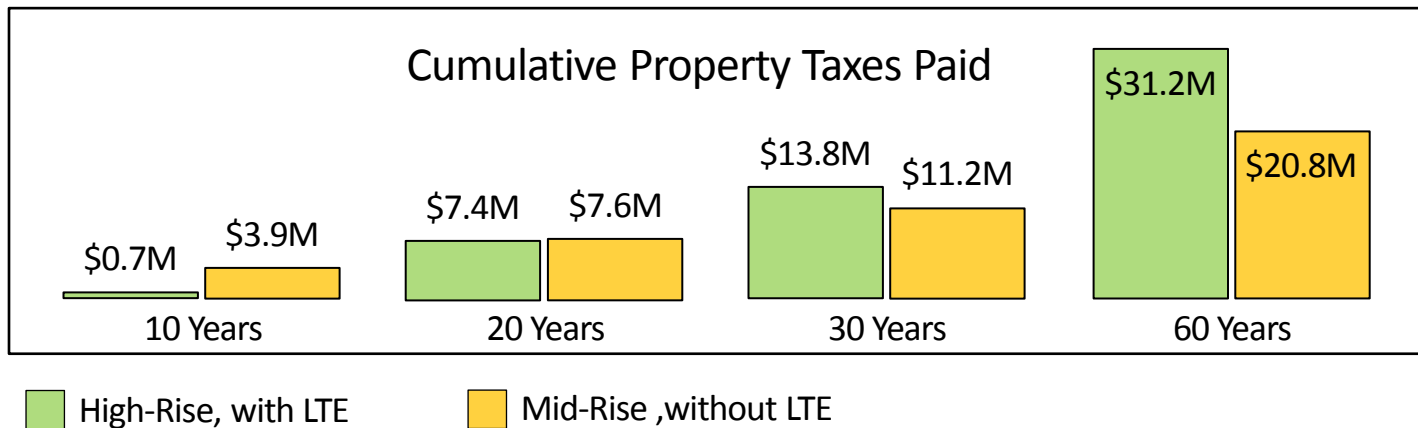
\* Federal Low Income Housing Tax Credits

# Limited Tax Exemption – Increases Property Tax Revenue

Promotes higher density development and provides long-term increase in property tax revenue for local jurisdictions

High-rise project with LTE compared to mid-rise project without LTE:

- Produces 35% more units
- Using 50% less land
- Pays 50% more property tax over long-term (inflation adjusted)





# Limited Tax Exemption – Increase Affordability, Not Profit

Properly structured LTE, with:

- Robust compliance monitoring
- Recapture of property taxes, if project performance exceeds underwriting benchmarks

Yields results:

- Increased affordability for middle-income residents
- Without affecting project financial feasibility or developer profit

| Construction Type       | Mid-Rise | High-Rise |
|-------------------------|----------|-----------|
| Required Rent (Average) |          |           |
| With Property Taxes     | \$1,560  | \$1,995   |
| With LTA                | \$1,405  | \$1,790   |
| Rent Reduction          | -\$155   | -\$205    |
| % Rent Reduction        | -10%     | -10%      |

## Recap

- Limited tax exemption is an investment that:
  - Makes moderate/middle income rental housing financially feasible and affordable
  - Provides long-term increase in property tax revenue
  - May require other tools
- Without the limited tax exemption:
  - Moderate/middle income rental housing projects not feasible - won't get built
  - “Foregone” taxes would never have been owed and paid, in the first place