VIRGINIA HOUSING
ALLIANCE

HB 1446
(Delegate Coyner)

Tax Assessments of Affordable Housing

SUMMARY:

Affordable housing is in short supply in Virginia, and it's crucial to remove any obstacles to its development and management. One such obstacle is the undue tax burden on affordable housing providers based on inaccurate assessments. There is wide consensus that properties with affordability restrictions should not be valued in the same way as market rate housing. In fact, the nationally established appraisal standards and our current Virginia code both direct assessors to treat these properties differently. However, the code is easily misinterpreted or ignored and does not provide adequate enforcement and instruction. Many affordable housing providers across the state report that their assessor has inaccurately valued their properties as market rate housing. We propose a simple solution to this issue that would clearly outline rather than just refer to the generally accepted appraisal practices for assessing affordable properties. In other words, our amendments would explicitly require the income approach be used in the valuation of affordable housing and clearly identify the processes and information-gathering necessary to do so. This commonsense solution will hold assessors to the standards of their profession and ensure affordable housing providers only pay their fair share of property taxes.

THE PROBLEM:

Across the Commonwealth, communities are grappling with a shortage of affordable housing, estimated to be at least 200,000 units. This shortage is widely recognized as a primary driver of the rapidly escalating sale prices and rents over the last several decades, particularly the last three years. As a result, property tax assessments have also grown substantially each year, often in the double digit percentages.
Affordable housing providers, in particular, have seen unanticipated and considerable escalations in tax assessments, with some recent increases as high as 80% or 90%. In addition to the widespread rise in housing costs, affordable housing providers have to contend with inequitable and incorrect assessment practices that also inflate their tax burden. As a consequence, limited resources for affordable housing are diverted.

The disproportionate tax burden on affordable housing stems from the misinterpretation, ignorance, or disregard of Virginia Code §58.1-3295 when assessors use the cost approach, incorrectly use the income approach, or simply aren't aware that a property has affordability restrictions. In addition, inaccurate assessments occur when the operating expenses and expenditures are not fully considered, as stated in recent guidance from the Attorney General's Office. While there are many assessors correctly following this section of code, violations occur frequently and throughout the whole state. Many owners of affordable housing properties must request a review of every tax assessment they receive, a hassle that often means additional expenses and delays. Reductions are regularly granted in the review process, but they may not be sufficient. Unfortunately, it has become common to rely on appeals to address inaccuracy instead of addressing the cause of inaccuracy in the first place.

In the midst of an affordable housing crisis, it is critical for all Virginians that we address this problem. Excessive property tax increases greatly disincentivize the current provision and future production of affordable housing.

THE SOLUTION:

The proposed bill seeks to amend Virginia Code §58.1-3295. The amended language requires that assessors use the income approach, which values a property based on its income potential.* The proposed amendments effectively describe and mandate every step in this process in accordance with the Uniform Standards of Professional Appraisal Practice established by the Appraisal Foundation, leaving no room for misinterpretation. Therefore, this proposal holds assessors to the standards of their profession, requiring a level of competency and transparency that should already be integral to the practice, while also ensuring that affordable housing developers and providers only pay their fair share of property taxes.

*In the income approach, assessors calculate the Net Operating Income by subtracting operating expenses from the property's gross income. Subsequently, they apply a capitalization rate that reflects the expected rate of return for the property.

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