

Local Tools for Affordable Housing

It is not uncommon for an affordable housing project, whether new construction or preservation, to rely on private market financing from Fannie Mae and public support from a state or local jurisdiction, and in many cases, federal programs. When a project leverages each of these resources, the project becomes more complicated. Fannie Mae's Multifamily affordable program was designed with that complexity in mind and with flexible features such as Special Public Purpose that are able to support each community's specific priorities. "Local Tools for Affordable Housing" presents a handful of examples of how States and Localities are addressing affordable housing issues and incorporating economic diversity and workforce housing into those programs.

Case Study

California: Property Tax Welfare Exemption

Adopted by voters as a constitutional amendment in 1944, California's Welfare Exemption grants the California Legislature the authority to exempt eligible properties from property taxes. In a market like California, this can save nearly half a million dollars per year on a single property – a substantial amount that can make or break a property's success.

Among the property types eligible for this exemption is housing for low-income households. In instances where the property is owned and operated by a nonprofit organization, a property is eligible under the following circumstances:

- The property use is restricted to low-income housing by a regulatory agreement, recorded deed restriction, or other legal document.
- The funds that would have been necessary to pay property taxes are used to maintain the affordability of the housing or to reduce the rents for the units occupied by lower income households, defined by HUD as households earning below 80% of the Area Median Income (AMI).¹
- And, the property receives either state or federal low-income housing tax credits or government financing, or 90 percent or more of the tenants are qualified low-income tenants within the prescribed rent levels.



Sara's Apartments, Long Beach, CA utilizes the California Welfare Exemption.

In instances where the property is owned by a limited partnership with a nonprofit corporation or eligible limited liability company as managing general partner, the property is eligible under these circumstances:

- The property use is restricted to low-income housing by a regulatory agreement or recorded deed restriction.
- The funds that would have been necessary to pay property taxes are used to maintain the affordability of the housing or to reduce the rents for the units occupied by lower income households.
- The property receives either state or federal low-income housing tax credits or government financing.

¹ <http://www.hcd.ca.gov/grants-funding/income-limits/index.shtml>



- And, the limited partnership agreement provides the claimant with sufficient management authority and duties in the partnership operations to qualify the property for exemption.

A similar tool exists in several other states, including Oregon, where any property owned by a 501(c)3 is given an exemption from property taxes. Though this exemption does not target affordable or workforce housing specifically, it can help create affordability by nonprofit developers. Nor does either tool specifically target RED areas, though developers who have accessed the tools confirm that the tax abatement is especially valuable in areas of high opportunity.

Sara's Apartments in Long Beach, CA is one of the most recent examples of a California Welfare Exemption property, refinanced in the fall of 2019 through Fannie Mae's Multifamily Affordable Housing program. A 29-unit property, Sara's Apartments has a project-based voucher contract with the City of Long Beach and benefits from the California Welfare Tax Exemption by partnering with the Foundation for Affordable Housing ("FFAH"), a tax-exempt 501(c)3 public benefit nonprofit corporation. The property is walking distance from many employment and recreation destinations. The Pacific Avenue Station for the Metro Blue Line is located two blocks south of Sara's along Pacific Avenue which provides light rail access throughout the region and terminates in Downtown Los Angeles.