CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

MEMORANDUM

TO: The Honorable, the City Council

FROM: Robert W. Healy, City Manager

SUBJECT: Calendar Item #3 dated 1/9/95 RE: FEASIBILITY OF INSTITUTING A TAX ADVANTAGE TO PROPERTY OWNERS WHO AGREE TO MAINTAIN AFFORDABLE RENTAL HOUSING;

Calendar Item #5 dated 1/9/95 RE: FEASIBILITY OF OFFERING A TAX ABATEMENT TO LANDLORDS WHO AGREE TO VOLUNTARILY FOLLOW RENT CONTROL PROTECTIONS FOR ALL TENANTS; and

Council Order #33 dated 5/1/95 RE: FEASIBILITY OF OFFERING TAX ABATEMENTS TO PROPERTY OWNERS WHO AGREE TO SET ASIDE UNITS FOR AFFORDABLE HOUSING

DATE: July 31, 1995

In response to the above-referenced items, please be advised of the following:

Pursuant to M.G.L. Ch. 59, relative to the assessment of local taxes, real property must be taxed at its fair cash value; all real property is subject to such taxation unless expressly exempt. It is the state legislature's function to allow exemptions and, where they are granted, they are strictly construed by the courts. Thus, as a threshold prerequisite, state approval would be necessary to establish either a separate tax classification or tax abatement for affordable housing.

Under the state's current laws, it is not permissible to exempt a portion of the fair market value of multifamily residential property. However, the law of this Commonwealth currently recognizes that the fair market value of a property is limited by the legal restrictions on the property. Thus, where there is a binding restriction on the earning capacity of the property, then the fair market value of the property is constrained by that restriction. This is because the fair market value of the property is its highest and best use. The highest and best use is both the legal use and the use which will produce the highest income.

The Cambridge Assessors currently factor in the effect of restrictions on such properties as subsidized housing and limited equity ownership projects when determining the particular property's fair market value. As you know, without such restrictions on the property's earning capacity, the assessors must determine the fair market value based on attainable market rents.

While it is potentially feasible to acquire the necessary state approval for either the classification or abatement, this approach does not appear to represent the most practical method of achieving the desired goal: to encourage owners to provide affordable rental housing. As noted above, there is already a mechanism for factoring the effect of a restriction on real estate on its fair market value.

The use of tax policy to encourage affordable housing set-asides may not, by itself, provide sufficient financial incentives to owners. The effect of taxes on rent levels is relatively small. Based on current FY 95 information, the average fair market value of multifamily residential property is $36,000 per unit. Estimates of full market value of decontrolled rental units differ, but $70,000 provides a reasonable example. Such a value increase would result in an increase in the monthly tax bill per unit from $43 to $83, a net increase of $40 per unit per month. This may be an insufficient incentive, by itself, to induce property owners to forego possibly hundreds of dollars per month in rent increases.

Cambridge Neighborhood Apartment Housing Services, Inc. (CNAHS), with funding provided by the Community Development Department, works with private owners of multifamily rental housing to secure voluntary commitments of affordable housing set-asides. CNAHS offers financial incentives, including below-market rate and deferred financing, and technical assistance to encourage private sector participation in the provision of affordable housing. In conjunction with the Affordable Housing Trust, CNAHS is currently designing a program for the post-rent control market to assist property owners in packaging the necessary financial resources to rehabilitate their properties while maintaining affordable rent levels.

Such financial incentives, in conjunction with the tax treatment discussed above and already utilized by the Assessors, are necessary to induce the private sector to voluntarily reduce rents and provide affordable housing opportunities to low- and moderate-income Cambridge residents.

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July 31, 1995

To The Honorable, The City Council:

In response to Awaiting Report Item No. 9 and 33 as well as Calendar Item #5 of January 9, 1995, which relate to the feasibility of instituting tax incentives to property owners who maintain affordable housing, Assistant City Manager for Community Development Susan B. Schlesinger reports the following:

Pursuant to M.G.L. Chapter 59, relative to the assessment of local taxes, real property must be taxed at its fair cash value; all real property is subject to such taxation unless expressly exempt. It is the state legislature's function to allow exemptions and, where they are granted, they are strictly construed by the courts. Thus, as a threshold prerequisite, state approval would be necessary to establish either a separate tax classification or tax abatement for affordable housing.

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Such financial incentives, in conjunction with the tax treatment discussed above and already utilized by the Assessors, are necessary to induce the private sector to voluntarily reduce rents and provide affordable housing opportunities to low- and moderate-income Cambridge residents.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec

Consent Agenda # 22

8/245

Response to Awaiting Report Item Numbers Nine and Thirty-Three as well as Calendar Item Number Five of January 9, 1995 regarding the feasibility of instituting tax incentives to property owners who maintain affordable housing.

#9- ~~Rep~~ for original see 1995 City Manager Requests # 3.

#33- for original see 1995 City Manager Requests # 187.

Cal#5- for original see 1995 City Mgr Requests # 2.

In City Council,

July 31, 1995

Placed on file