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Housing the Middle

A national survey of programs to encourage middle-income housing development

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The findings and recommendations of this report are SPUR's alone. Any errors are SPUR's alone.

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Executive Summary

A national survey of government programs aimed at the production of rentals and for-sale homes affordable to middle-income households speaks to the market's failure to meet the needs of these households. SPUR's research (see our database at spur.org/housingthemiddle) reveals over 40 programs in the United States that encourage development of properties (mostly rental properties) that formally restrict housing to households at 80% to 120% of area median income, or the midpoint at which half of households earn more income and half earn less in a given geography. The programs — at city, county, and state levels — are diverse in terms of the types of the housing they incentivize and the mechanisms they employ. These mechanisms include property tax abatements and exemptions, tax credits, and financing in the form of loans and grants.

The national survey and three case studies of middle-income housing production programs (New York State, Oregon, and Colorado) provide five takeaways.

First, many middle-income housing programs are relatively new, pointing to an increasing need for middle-income housing across the country.

Second, middle-income housing programs encourage housing of a variety of types in a variety of locations, which speaks to the need across geographies. Middle-income housing programs are operating not just on the coasts or in urban areas — the places most closely associated with the housing crisis — but also in states as diverse as South Dakota, Minnesota, and West Virginia.

Third, property tax exemptions and abatements may represent effective tools for stimulating middle-income housing production. A now-expired property tax exemption in New York proved highly effective in encouraging middle-income housing development for four decades. Local jurisdictions are shaping the particulars of a newly adopted property tax exemption directed at middle-income housing in Oregon. California has a nearly 80-year-old welfare property tax exemption, but a constitutional amendment would be required to expand it to include properties intended for middle-income housing.

Fourth, jurisdictions can employ a variety of tools to produce new middle-income homes. However, a fractured programmatic landscape can complicate the ability of developers (and capital providers) to gain expertise in a particular area, and therefore it might be more impactful to operate a few effective programs at scale instead.

Fifth, it's not always clear how effective middle-income housing programs are. How much of the middle-income housing development spurred by middle-income housing programs would have occurred even without the programs' incentives? Subsidies like property tax exemptions can be a powerful tool to incentivize development, but jurisdictions must consider their impact on overall tax revenue, particularly in the short term, to ensure that long-term gains outweigh short-term losses and that the overall public benefit outweighs the forgone tax revenue. Broader property tax reform, if politically feasible, may address the root issues of the high cost of housing in a more sustainable way. Finally, jurisdictions must also consider the opportunity cost of focusing resources on developing middle-income housing rather than on increasing the production of low-income housing, given high rates of homelessness and the severe rent burdens on low-income households.

Across the country, states, counties, and cities are developing innovative programs to encourage middle-income housing production. California can, and should, look to these programs for models to inform future policy efforts to address the state's housing challenges.

A Middle-Income Housing Crisis

California, like many states across the country, is experiencing an immense housing crisis. Even with the state's declining population, California needs to build 180,000 new units of housing each year to keep up with demand, yet the state is only building half that number. This housing shortage manifests in high housing costs and the highest rate of homelessness in the country, 13.2%.[1]

Restrictive zoning practices, high construction costs, and high property taxes make it difficult to build the housing necessary to address California's chronic housing shortage. High-income households outcompete low- and middle-income households for available housing, and households spend an increasingly large share of their income on rent. Although the burden of high housing costs falls most heavily on low- and very low-income households, it also affects middle-income people and families.

As the Terner Center for Housing Innovation details in The Landscape of Middle-Income Housing Affordability in California, there are many ways to define "middle-income."[2] For the purpose of this report, we use the Terner Center's definition: middle-income households are those earning between 80% and 120% of area median income (AMI), or the midpoint at which half of households earn more income and half earn less in a given geography.

Several federal and state-level programs support the development of housing for low-income and very low-income households, such as federal housing choice vouchers, the federal Low-Income Housing Tax Credit (LIHTC), and California's tax-exempt bond debt program administered by the California Debt Limit Allocation Committee. These programs support housing accessibility for households earning less than 60% of AMI and, in some cases, households earning up to 80% of AMI. However, fewer programs exist to support middle-income households, which are sometimes ineligible for federal housing assistance (with the important exception of the mortgage interest deduction program) but which are unable to afford market-rate housing.

In 2016 and 2018, Senator Ron Wyden (D-OR) introduced the Middle-Income Housing Tax Credit Act, but the act did not gain traction.[3] Some critiqued the proposed tax credit as an ineffective use of resources that could instead be used to ensure that the lowest-income people are housed.

[1] Dan Walters, "California Housing Shortage Triggers Cycle of Despair," *CalMatters*, January 23, 2023, calmatters.org/commentary/2023/01/california-housing-shortage-triggers-cycle-of-despair/.

[2] David Garcia, Shazia Manji, Quinn Underriner, and Carolina Reid, *The Landscape of Middle-Income Housing Affordability in California*, Terner Center for Housing Innovation, 2022, https://ternercenter.berkeley.edu/blog/middle-income-housing-affordability-california/.

[3] "Wyden Introduces Middle-Income Housing Tax Credit Bill," *Housing Finance*, August 27, 2018, www.housingfinance.com/policy-legislation/wyden-introduces-middle-income-housing-tax-credit-bill_o.

Addressing the Housing Challenges of Middle-Income Households

SPUR and the Terner Center for Housing Innovation at the University of California, Berkeley, have documented the middle-income housing crisis, its impacts, and potential policy solutions.

SPUR's *Losing Ground: What the Bay Area's Housing Crisis Means for Middle-Income Households and Racial Inequality* addresses the questions of what it means to be a middle-income Bay Area resident, how the region's affordability challenges have changed who can live in the region, and what policymakers can do to create more housing options affordable to middle-income households in the Bay Area.[1]

The research resulted in eight key findings:

Over the past 20 years, household incomes across the Bay Area have increased, particularly for higher-income wage earners.
Median incomes for Black and Latinx households remain lower than median incomes for white and Asian households.
Many occupations that were formerly middle-income occupations have become relatively low-income occupations.
The region's housing shortage makes it difficult for low- and middle-income households to compete with high-income households for housing.
While rents have increased over the past two decades, median incomes have increased even faster.
Black and Latinx households face a disproportionate housing cost burden.
Homeownership is beyond reach for all but the wealthiest households.
Households are increasingly fitting more people into homes, paying a larger scare of their income on rent, or commuting longer and longer distances.

The report highlights two key policy recommendations: (1) Build more housing of all types and at a variety of price points, and (2) develop policies to serve not just low-income households (60% to 80% of AMI) but also middle-income households (80% to 120% of AMI).

The Terner Center's *The Landscape of Middle-Income Housing Affordability in California* discusses the rising challenge of affordability for middle-income households across the state. The report's four case studies reflect approaches and barriers to expanding the supply of lower-cost housing. Among the key findings are that (1) insufficient housing supply, particularly supply of housing affordable to very low-income and low-income households, is a key driver of declining affordability, and (2) California's land use practices, which privilege single-family homes, limit the production of smaller, multifamily, and lower-cost units.[2]

The Terner Center report recommends policy changes to encourage the creation of housing affordable to middle-income households and reporting changes to accurately represent the production of middle-income housing.

[1] Sarah Karlinsky, *Losing Ground: What the Bay Area's Housing Crisis Means for Middle-Income Households and Racial Inequality*, SPUR, 2023, https://www.spur.org/publications/research/2023-03-07/losing-ground.

[2] David Garcia, Shazia Manji, Quinn Underriner, and Carolina Reid, *The Landscape of Middle-Income Housing Affordability in California*, Terner Center for Housing Innovation, 2022, https://ternercenter.berkeley.edu/blog/middle-income-housing-affordability-california/.

Middle-Income Housing Programs

SPUR's research revealed 40 programs in the United States (and two in British Columbia, Canada) that encourage the development of properties (mostly rental properties) that formally restrict housing to households earning 80% to 120% of AMI. The programs — at city, county, and state levels — are diverse in terms of the types of the housing they incentivize and the mechanisms they employ, such as property tax abatements and exemptions, tax credits, and financing in the form of loans and grants.

Exhibit 1. Mechanisms for Incentivizing Development of Middle-Income Housing

Programs encouraging the development of housing for households earning 80% to 120% of AMI typically use one or more of four mechanisms.

Mechanism	Definition
Property tax abatement	Reduction or elimination of the total amount of property tax owed
Property tax exemption	Adjustments on the value of the property (usually for a limited period of time), which are then used to calculate the total amount of property tax owed
Tax credit	An amount of money that taxpayers, in this case property owners, can subtract from the taxes they owe
Financing	Process of providing funds for a purchase or enterprise

Source: SPUR

The internet search found 24 programs that provide financing for middle-income housing, generally in the form of grants or loans, 11 programs that provide partial or full property tax exemptions, two programs that provide tax credits, and six programs designed to encourage homeownership. A few programs provide some combination of the aforementioned development incentives. Two programs are housing authorities that own and operate middle-income rental housing stock: California's joint powers authority and Colorado's Middle Income Housing Authority.[4]

Programs to incentivize middle-income housing production are located everywhere from New York City to rural Kentucky, from Miami-Dade County in Florida to Tillamook County in Oregon. These programs are tailored to respond to the specific middle-income housing needs of the localities. Some, such as Iowa's Workforce Housing Tax Credit, Kansas's Moderate Income Housing Program and Minnesota's Workforce Housing Development Program, target small to midsize cities and counties; other programs target rural areas or segments of the workforce.

Though the research focused largely on programs to encourage rental development, a few programs that prioritize homeownership for middle-income households have been included.[5]

[4] Ben Metcalf, Sarah Karlinsky, and David Garcia, *The ABCs of JPAs: California's New Tool for Creating Middle-Income Housing*, SPUR and the Terner Center for Housing Innovation, 2022, https://www.spur.org/publications/white-paper/2022-06-27/abcs-jpas; and Colorado Office of Economic Development and International Trade, "Middle Income Housing Authority," https://oedit.colorado.gov/middle-income-housing-authority.

[5] The full list of middle-income housing programs, categorized by location and program type, can be found at https://docs.google.com/spreadsheets/d/1iWIkEI4C0r8K_GEIUg8lvvVx7LFy5-L-IwGhs0AuueU/edit#gid=761894848.

Case Studies

The following case studies illustrate the use of property tax exemptions and financing to encourage middle-income housing production in New York State, Oregon, and Colorado. The case studies reflect internet research and qualitative interviews with more than a dozen middle-income housing program managers and housing policy experts across the United States.

New York State

New York State has historically been a national pioneer in developing affordable low-income and middle-income housing. It is the site of the nation's first tenement laws, first comprehensive zoning ordinance, and first public housing project. The state has administered a wide variety of affordable housing programs for several decades and is home to a proactive political community advocating for affordable housing.[6] The New York State Housing Finance Agency (HFA) was the largest issuer of housing bonds in the United States during the 2022 fiscal year and was one of the top three issuers during the three previous years.[7]

New York is home to a number of varied and complementary programs designed to encourage middle-income housing.[8]

Mitchell-Lama Program

The Mitchell-Lama program, created by the Limited-Profit Housing Companies Act (Article II) in 1955, is one of the earliest programs in the United States to encourage the development of moderate- and middle-income housing.[9]

From 1955 to 1981, the Mitchell-Lama program subsidized the construction of 269 developments with 105,000 apartments for middle-income households across the state of New York, including subsidized rental apartments and co-op apartments.[10] However, the actual definition of middle-income units has changed considerably since the Mitchell-Lama program began. In 1964, middle-income incomes were $6,000 to $10,000 for a family of four, which would be equivalent to $58,000 to $97,000 today and would translate to rents of roughly $1,450 to $2,250. In 2023, the Mitchell-Lama program would be considered a low-income or even a very low-income program.

Under the Mitchell-Lama program, local jurisdictions acquired property by eminent domain (the power of the government to take private property and convert it into public use). They provided it to developers, who then received tax abatements and low-interest mortgage loans. Additionally, developers were guaranteed a 6% or 7.5% annual return on investment. City and state housing agencies continue to supervise the buildings, reviewing rent increases. Developments are eligible to withdraw or buy out from the program after 20 years, upon prepayment of the mortgage, or, in the case of developments aided by loans prior to May 1, 1959, after 35 years. In 2017, as part of a larger initiative to increase the creation and preservation of affordable housing, former Mayor Bill de Blasio

[6] Furman Center for Real Estate and Urban Policy, *Housing Policy in New York City: A Brief History*, 2006, https://furmancenter.org/research/publication/housing-policy-in-new-york-city-a-brief-history.

[7] NYS Housing Finance Agency, *NYS Housing Finance Agency (HFA) Fiscal Year 2022 Financial Statements/Program Summary*, May 16, 2023, https://hcr.ny.gov/system/files/documents/2023/06/2023-report-on-operations-and-accomplishments.pdf.

[8] Furman Center for Real Estate and Urban Policy, "Middle Income Housing Program," furmancenter.org/coredata/directory/entry/middle-income-housing-program.

[9] NYC Housing Preservation and Development, "Mitchell-Lama," https://www.nyc.gov/site/hpd/services-and-information/mitchell-lama-program.page; Furman Center for Real Estate and Urban Policy, "Mitchell-Lama," furmancenter.org/coredata/directory/entry/mitchell-lama.

[10] Tom Waters and Victor Bach, *Reinventing the Mitchell-Lama Housing Program*, Community Service Society, 2015, https://www.cssny.org/publications/entry/reinventing-the-mitchell-lama-housing-program.

announced a new Mitchell-Lama Reinvestment Program targeting 15,000 Mitchell-Lama units where affordability is at risk.[11]

Due to a lack of funding, there has been no new construction under the Mitchell-Lama program since 1981. Although the program is no longer active, existing Mitchell-Lama properties continue to serve households across New York. The Mitchell-Lama program points to the effectiveness of a mixed-subsidy model combining land, capital, and operating subsidies.

However, it has its limitations. The Mitchell-Lama program's vulnerability to market conversions has led to a significant reduction in its rental stock. A substantial percentage of the co-op apartments have also been bought out. Nearly half of the units have now exited the program, largely because rising property values have made market-rate rents or sales prices more appealing than the program's tax breaks. When owners buy out, their properties are no longer subject to the program's affordability requirements.[12]

Middle Income Housing Program

New York State's Middle Income Housing Program (MIHP), administered by NYS Homes and Community Renewal (NYS HCR), began during the 2015–2016 fiscal year and is still active today.[13] MIHP projects seek to serve three key goals: expansion of housing opportunity in areas with high economic growth, revitalization of economically challenged areas, and stabilization of neighborhoods that lie between economically vibrant and economically challenged communities. MIHP provides gap financing to developments with units affordable to households earning between 90% and 130% of AMI (units that are not eligible for state and federal housing credits aimed at lower-income housing development). The program targets Qualified Census Tracts, census tracts with poverty rates of at least 25% or in which 50% of the households have incomes below 60% of AMI.[14] Outside of Qualified Census Tracts, MIHP is restricted to projects that must be affordable to households with incomes of up to 80% of AMI.

In New York City, Westchester, Nassau, and Suffolk Counties, projects serving those with a household income between 60% and 130% of AMI can receive up to $140,000 per unit in low-interest loans. In the rest of New York State, projects can receive up to $95,000 per unit in low-interest loans for the same income range. MIHP can also be combined with a 9% LIHTC project as long as the MIHP units are for those earning above 80% of AMI. Both nonprofit and for-profit developers are eligible to apply.

The only program of its kind at the state level in New York, MIHP was already oversubscribed in its first year. Over 10,000 units have benefited from the program to date.

Small Building Participation Loan Program

The Small Building Participation Loan Program, also overseen by NYS HCR, provides gap financing for qualified housing developers for projects with units affordable to households with incomes up to 120% of AMI, where the average target rent affordability does not surpass 80% of AMI.[15] This gap financing is specifically for acquisition

[11] "Mayor de Blasio Announces New Program to Save City's Remaining Affordable Mitchell-Lama Developments," October 26, 2017, www.nyc.gov/office-of-the-mayor/news/688-17/mayor-de-blasio-new-program-save-city-s-remaining-affordable-mitchell-lama-developments.

[12] New York State Association for Affordable Housing, *NYSAFAH Testimony Before the Joint Legislative Budget Committee*, February 17, 2017.

[13] Supportive Housing Network of NY, "NYS HCR Middle Income Housing Program (MIHP)," shnny.org/fundingguide/middle-income-housing-program-mihp/.

[14] HUD User, Office of Policy Development and Research, "Qualified Census Tracts and Difficult Development Areas," www.huduser.gov/portal/datasets/qct.html.

[15] NYS Homes and Community Renewal, *Small Building Participation Loan Program*, https://hcr.ny.gov/system/files/documents/2022/10/small-buildings-plp-oct-2022-term-sheet.pdf.

costs, capital costs, and soft costs related to preserving, improving, or constructing rental properties with five to 50 units. The properties must be located outside of New York City. In particular, the program targets small buildings in medium-density neighborhoods with affordable rents and aims to make strategic investments in rural communities.

To be eligible for the subsidy, projects must have a commitment for a 30-year, fixed-rate loan with required mortgage insurance from a participating lender. The subsidy can then be combined with bank financing from a private institutional lender. Subsidy amounts range from $75,000 to $115,000 per unit, depending on the level of affordability and whether the unit is new or rehabilitated.

The existence of the Small Building Participation Loan Program reflects statewide efforts to develop programs to respond to specific housing needs, in this case affordable small buildings in rural communities. The program remains active.

New York City

High construction and operating costs make it extremely expensive to build in New York City. As a result, the financial feasibility of nearly all new multifamily rental development necessitates some form of subsidy.

421-a Property Tax Exemption

New York City's now-expired 421-a Property Tax Exemption Program provided an exemption to encourage the production of multifamily residential housing buildings.[16] In place from 1971 to 2022, the 421-a tax exemption was originally created to catalyze development during a period in which the city was experiencing declining investment. Over the past decade alone, roughly 3,000 properties (approximately 117,000 units) have benefited from the 421-a exemption. The exemption was used for nearly 70% of all completed new housing in buildings with four or more units in New York City between 2010 and 2020.[17]

The eligibility requirements for the 421-a tax exemption evolved over time. While the earliest version did not include affordability requirements, since 1971 affordability requirements have been added and modified. The most recent iteration of 421-a(16), Affordable New York, which passed in 2017 and sunsetted in June 2022, required all 421-a projects to include affordable units, increased the share of affordable units in new 421-a rental projects, and limited the use of the program for homeownership. It is important to note, though, that while all of the rental projects might have included income-restricted units, units for households with incomes up to 130% of AMI sometimes went for above-market-rate rents. Rents affordable to households at 130% of AMI are well above the highest end of Mitchell-Lama rents, for example.

While the 421-a tax exemption proved to be effective in catalyzing the building of new units, it also received significant criticism. In particular, more recent iterations of 421-a have been critiqued for requiring too small a share of affordable units and because the units serve middle-income households earning up to 130% of AMI, rather than being targeted to lower-income households.[18] Some have argued that policymakers should instead focus on funding programs that prioritize lower-income households or on reforming New York City's property tax system. Others have

[16] NYC Department of Finance, "421a Exemption," https://www.nyc.gov/site/finance/benefits/benefits-421a.page.

[17] Hayley Raetz and Matthew Murphy, *The Role of 421-a During a Decade of Market Rate and Affordable Housing Development*, Furman Center for Real Estate and Urban Policy, 2022, https://furmancenter.org/research/publication/the-role-of-421-a-during-a-decade-of-market-rate-and-affordable-housing-development.

[18] Hayley Raetz, "Comparing the Current 421-a Exemption to Governor Hochul's Proposed Reforms," Furman Center for Real Estate and Urban Policy, March 7, 2022, furmancenter.org/thestoop/entry/comparing-the-current-421-a-exemption-to-governor-hochuls-proposed-reforms.

contended that 421-a didn't do enough to cap the use of middle-income housing in neighborhoods where low-income housing was needed, representing a missed opportunity.[19]

The 421-a Property Tax Exemption Program was allowed to expire in 2022. It is now available only to properties that began construction before June 15, 2022, and that will be completed on or before June 15, 2026. One year later, there has been no movement on property tax reform, and housing construction has slowed considerably.

New York City Mixed-Income Programs

New York City has a number of programs designed to catalyze the production of mixed-income housing. These programs include the 50/30/20 Mixed-Income Program, the Mixed Income Program: Mix & Match, and the Mixed Middle Income Program. While these programs are similar in their structure, their differing affordability requirements provide increased flexibility for developers. All programs leverage a combination of LIHTCs, property tax exemptions through either 421-a or Article XI (a tax exemption for new construction owned by a Housing Development Fund Corporation or rehabilitation of affordable housing), and inclusionary zoning bonuses.

Inclusionary zoning, middle-income homeownership programs, LIHTC developments, and most other forms of subsidized housing remain very popular. However, publicly subsidizing above-market-rate rental units has grown increasingly unpalatable politically. Consequently, New York City must grapple with the question of whether middle-income housing is a genuine need and, if so, what an intentional and well-designed middle-income housing program would look like.

50/30/20 Mixed-Income Program

Offered by the NYC Housing Development Corporation (HDC) since 2002, the 50/30/20 Mixed-Income Program combines a first mortgage (funded by the sale of tax-exempt bonds) with a second mortgage (funded with HDC corporate reserves) to finance multifamily rental housing.[20]

To be eligible, projects must ensure that 20% of the units are affordable to households earning up to 50% of AMI (at least 15% of which are affordable to households earning up to 40% of AMI). Furthermore, at least 30% of units must be affordable to middle-income households earning up to 120% of AMI. The remaining 50% of units can be rented at market rates.

This mixed-income program includes a mix of market-rate units and designated affordable low-income units. What sets the program apart is the allocation of 30% of the units for middle-income households, in contrast to the more common focus exclusively on affordable low-income and market-rate units.

The 50/30/20 Mixed-Income Program is a small-scale program with fewer than 1,000 units produced to date.

Mixed Income Program: Mix & Match

The Mixed Income Program: Mix & Match, offered by NYC Housing Preservation & Development (HPD), also combines two mortgages to fund the new construction of mixed-income multifamily rental projects.[21] The first

[19] Sean Campion, *Amend It, Don't End It: Improve 421-a to Spur Rental and Affordable Housing Development*, Citizens Budget Commission, 2022, https://cbcny.org/sites/default/files/media/files/CBCREPORT_421a_03152022_0.pdf.

[20] Furman Center for Real Estate and Urban Policy, "50/30/20 Mixed-Income Program," furmancenter.org/coredata/directory/entry/50-30-20-mixed-income-program#:~:text=The%2050%2F30%2F20%20Mixed.

[21] Furman Center for Real Estate and Urban Policy, "Mixed Income Program: Mix & Match," furmancenter.org/coredata/directory/entry/hpd-mixed-income-program-mix-and-match.

mortgage is funded with proceeds from the sale of tax-exempt bonds and the second mortgage with HPD corporate reserves.

To be eligible for the program, half of a project's units must be affordable to households earning up to 60% of AMI, and the remaining half must be affordable to households earning up to 130% of AMI. The borrower must be a Housing Development Fund Corporation (HDFC) either alone or in partnership with another entity.

The Mixed Income Program: Mix & Match is a medium-scale program with between 1,000 and 5,000 units produced to date.

Mixed Middle Income (M2) Program

NYC HPD's Mixed Middle Income (M2) Program relies on the same financing mechanisms as the two previous programs. It differs, though, in its affordability requirements.[22] For a project to be eligible, 20% of units must be reserved for households earning less than 50% of AMI (and at least 15% of these low-income units must be set aside for households earning less than 40% of AMI). At least 30% of units must be reserved for households earning 80% to 100% of AMI, and the remaining 50% must be set aside for middle-income households earning between 130% and 165% of AMI.

Started in 2014, the M2 Program is the most recent of these New York City programs and has produced fewer than 1,000 units to date.

Oregon

Affordable housing has been a top priority in Oregon for the last several years. In 2019, Oregon became the first state to effectively ban single-family housing through HB 2001.[23] HB 2001 permits multifamily developments in cities with more than 25,000 residents on lots previously allotted for single-family homes. That same year, the legislature passed HB 2003, which required the Department of Land Conservation and Development (DLCD) and Oregon Housing and Community Services (OHCS) to develop the Oregon Housing Needs Analysis to estimate the number of housing units needed across the state. Last November, a housing needs analysis fundamentally changed the way cities in Oregon plan for housing, putting a greater emphasis on achieving housing outcomes.[24]

In 2023, the Oregon Legislature passed a bill, also entitled HB 2001, that provides important new protections for renters to prevent displacement. It also passed SB 919, which authorizes cities or counties to adopt a five-year property tax exemption for newly constructed accessory dwelling units or newly converted duplexes, triplexes, or quadplexes that serve as the occupant's primary residence.[25]

Like New York, Oregon has used property tax exemptions, among other approaches, as an innovative way to encourage the production of middle-income housing. In particular, Tillamook County and the City of Bend have

[22] Furman Center for Real Estate and Urban Policy, "Mixed Middle Income Program," furmancenter.org/coredata/directory/entry/hpd-mixed-middle-income.

[23] Oregon State Legislature, "HB 2001: Relating to Housing; and Declaring an Emergency," August 2019, https://olis.oregonlegislature.gov/liz/2019R1/Measures/Overview/HB2001.

[24] Department of Land Conservation and Development and Oregon Housing and Community Services, *Oregon Housing Needs Analysis Legislative Recommendations Report: Leading with Production*, 2022.

[25] Oregon State Legislature, "SB 919: Relating to Housing; and Prescribing an Effective Date," April 2023, https://olis.oregonlegislature.gov/liz/2023R1/Measures/Overview/SB919.

stood out for their focus on middle-income housing. In contrast to New York's programs, Oregon's programs are younger, and their full impact has yet to be seen.

Oregon's Multi-Unit Property Tax Exemption (MUPTE), a state-enabled housing incentive program, was designed to encourage the development of residential properties in city centers and along transit corridors. MUPTE provides a property tax exemption on the value of new residential construction for up to 10 years for new multifamily properties with four or more units. While the terms of the exemption differ from one local jurisdiction to another, each project is required to provide a certain number of public benefits. Some jurisdictions, such as the City of Bend, group these public benefits into priority benefits and additional benefits and require a certain number of each type. Others, such as the City of Eugene, require all projects to include all listed public benefits to be eligible for the tax exemption. Public benefits may include affordability requirements, density requirements, green building features, and a local economic impact plan.

Although not explicitly designed to encourage middle-income housing production, MUPTE does include the building of moderate- or middle-income units among the eligible public benefits. It is unclear, though, how frequently this particular benefit is chosen. MUPTE provides significant flexibility for both local jurisdictions and developers to ensure that the exemption meets their community's needs.

Tillamook County, Oregon

Tillamook County has proven to be a leader within Oregon in the middle-income housing space, an example of the value of both community engagement and a multipronged approach. In 2019, the county held a local housing summit in which participants vetted varied strategies to encourage the development of middle-income housing. They ultimately decided on three key strategies — a Workforce House Property Tax Exemption, a Short-Term Rental Operator License Fee, and accessory dwelling unit ordinances — and they laid the groundwork through conversations with a diverse group of stakeholders. All three strategies have been adopted.

Workforce Housing Property Tax Exemption

Adopted in December 2022 and enabled by HB 2377 in 2017, Tillamook County's Workforce Housing Property Tax Exemption Ordinance provides a property tax exemption for multi-unit rental housing in which a certain percentage of units are affordable to households with incomes up to 120% of AMI.[26] The percentage of units that claim the exemption determines the length of an exemption, with a maximum exemption duration of 10 years. For example, if 50% of units are eligible for the exemption, the exemption length will be five years. Tillamook County is one of only a few counties in Oregon to take advantage of the property tax exemption enabled by HB 2377.

Oregon law requires that 51% of taxing districts (such as school districts, rural fire districts, and lighting districts) agree to the property tax exemption before its implementation. Although Tillamook County did initially encounter some pushback on the exemption, officials ultimately quelled concerns about a perceived loss of tax revenue. The exemption may represent a loss of tax revenue for taxing districts in the short term, but it could represent a significant gain in the medium term, when the exemption expires.

The Workforce Housing Property Tax Exemption sunsets in 2028.

[26] Oregon State Legislature, "HB 2377: Relating to Tax Incentives for Affordable Housing; and Prescribing an Effective Date," January 2017, https://olis.oregonlegislature.gov/liz/2017R1/Measures/Overview/HB2377; Tillamook County's Workforce Housing Property Tax Exemption Ordinance, https://www.co.tillamook.or.us/sites/default/files/fileattachments/ordinance/23253/ordinance_85_amendment1.pdf.

Short-Term Rental Operator License Fee

Under a 2022 ordinance, Tillamook County implemented a Short-Term Rental Operator License Fee that applies to every owner of a short-term rental within unincorporated Tillamook County.[27] The collected fees are funneled to housing and public safety initiatives, with 75% of the fees dedicated to housing initiatives and the remaining 25% to public safety initiatives. The fees are then moved to a special revenue fund and made part of the county's annual budget process. More specifically, the fees dedicated to housing initiatives are allocated for the development and promotion of workforce housing within the county.

The funds collected from the Short-Term Rental Operator License Fee have been combined with American Rescue Plan Act (ARPA) funds to total $750,000 for workforce housing projects that serve households earning 80% to 120% of AMI. To date, this fee has led to the funding of 100 units in six workforce housing projects and has supported diverse aspects of development ranging from geotechnical evaluations to gap financing for multifamily projects. The projects range in size from four to 30 units.

Bend, Oregon

Multi-Unit Property Tax Exemption (MUPTE)

Bend, the fastest-growing metro area in Oregon, has historically supported dense development and seeks to be a pioneer in the multifamily and mixed-use housing space. In 2022, the Bend City Council adopted a local MUPTE program to support city development and redevelopment goals.[28] Eligible locations for projects include the entire core tax increment finance (TIF) area, the central business district, some high-density residential zoning adjacent to the TIF area, and urban dwelling sites.

For its MUPTE program, the city chose to include middle-income housing as one of the eligible priority public benefits. Specifically, the program requires that 30% of new units be provided as middle-income housing (for households making no more than 120% of AMI) for the duration of the 10-year exemption. Additionally, 10% of units must be deed-restricted as affordable housing available to households making no more than 60% of AMI for a rental and no more than 80% of AMI for a for-sale unit. Other priority public benefits included are child care facilities, publicly accessible open space, a high standard of energy efficiency, and green building features.

Bend's MUPTE program is still young, and it has received only three applications to date, but it has significant potential to increase the amount of middle-income housing across the city.

The City of Eugene similarly includes moderate-income housing — defined as units affordable to households earning 100% of AMI — as one of its MUPTE requirements.[29] To meet this requirement, the property owner must either pay a fee that will be dedicated to moderate-income housing or ensure that at least 30% of total units are moderate-income housing units.

27 Tillamook County, "Short-Term Rental Operator License Fee Program," https://www.co.tillamook.or.us/commdev/page/short-term-rental-operator-license-fee-program.

28 City of Bend, "Multiple Unit Property Tax Exemption Program (MUPTE)," www.bendoregon.gov/government/departments/economic-development/multiple-unit-property-tax-exemption.

29 City of Eugene Community Development Division, *Multi-Unit Property Tax Exemption (MUPTE) Program Guide*, https://www.eugene-or.gov/DocumentCenter/View/25258/MUPTE-Program-Guide-2021?bidId=.

Middle-Income Property Tax Exemption

In 2023, Oregon passed HB 2705, which authorized cities and counties to provide property tax exemptions for multi-unit rental housing that provides a certain percentage of units affordable to households earning up to 120% of AMI.[30] It is available only for newly constructed or rehabilitated rental housing, and the length of exemption is tied to a formula created by the local government.

Bend is currently vetting a local middle-income property tax exemption that would provide up to a 100% property tax exemption for middle-income housing projects if at least 51% of taxing districts in the city sign a letter of commitment and support. There are several key differences between MUPTE and the middle-income property tax exemption. Under the latter, the percentage of the exemption would be proportional to the percentage of qualifying units. Additionally, land value, rather than just the structural residential improvements under MUPTE, could be exempted. Finally, Bend anticipates no geographic limits on the program.

Colorado

Affordable housing has been a top priority in Colorado. In November 2022, voters in Colorado passed Proposition 123, which created new affordable housing programs funded with income tax revenue. Prop. 123 sets aside all state revenue on 0.1% of federal taxable income, or nearly $300 million in the next fiscal year, for affordable housing. The first transfer of funds was completed in July 2023.

Last year, the Colorado General Assembly passed HB 22-1304: State Grants Investments Local Affordable Housing, which created two state grant programs: the Local Investments in Transformational Affordable Housing Grant Program and the Infrastructure and Strong Communities Grant Program.[31] The Local Investments in Transformational Affordable Housing Grant Program received an initial transfer of $138 million, and the Infrastructure and Strong Communities Grant Program received an initial transfer of $40 million, both from the affordable housing and home ownership cash fund, which originated from the federal Coronavirus State Fiscal Recovery Fund.

Colorado's Middle-Income Access Program and its new Middle Income Housing Authority focus particularly on the challenges facing middle-income households.

Middle-Income Access Program

The Colorado Housing and Finance Authority (CHFA) began the Middle-Income Access Program (MIAP) in 2018 to encourage the development of housing for those with incomes too high for housing credit units but who are burdened by market rates, specifically renters whose income is between 80% and 120% of AMI.[32]

The Middle-Income Access Program provides loans for acquisition, new construction, and rehabilitation. Program benefits include construction gap financing (at a discounted rate relative to typical commercial debt) for up to 24 months, non-recourse permanent debt financing for up to 15 years, and subordinate debt.

To date, MIAP has issued eight loans totaling more than $32 million. An additional 10 loans totaling more than $35 million are in the pipeline.

[30] Oregon State Legislature, "HB 2705: Relating to Property Tax Exemption for Affordable Multiunit Housing," March 2023, https://olis.oregonlegislature.gov/liz/2023R1/Measures/Overview/HB2705.

[31] Colorado General Assembly, "HB22-1304: State Grant Investments Affordable Housing Program," June 2022, https://leg.colorado.gov/bills/hb22-1304.

[32] Colorado Housing and Finance Authority, "Middle-Income Access Program," https://www.chfainfo.com/rental-housing/multifamily-lending/partnership-middle.

In 2022, the Colorado General Assembly passed SB 22-146, which appropriates an additional $25 million from the affordable housing and home ownership cash fund to the Department of Local Affairs for an expansion of MIAP.[33] MIAP receives additional funding from CHFA's General Fund.

Middle Income Housing Authority (MIHA)

Even more recently, Colorado established the Middle Income Housing Authority (MIHA), an agency independent of the CHFA.[34] MIHA was created by SB 22-232 in 2022.[35] Its objective is to promote, build, own, and operate affordable rental housing for middle-income households throughout Colorado. The authority is governed by a board of directors made up of appointees by the governor with the state Senate's consent. Project benefits include financing opportunities such as access to tax-exempt bonds and property and sales tax exemptions.

MIHA differs from many middle-income housing programs, with the notable exception of joint powers authorities in California, in that it owns and operates the housing developed, rather than just financing it. In addition, MIHA combines traditional financing with property and sales tax exemptions. It can issue tax-free bonds, giving it an advantage over private developers. However, because the state has never owned and operated affordable housing, MIHA staff are developing their expertise in this area. It's hoped that MIHA's centralized nature will make it easier to ensure public benefits are delivered and to assess the program's efficacy in the long term.

California's joint powers authorities use a similar model of selling tax-exempt bonds to encourage middle-income housing production. The joint powers authority model has been used in California to purchase and rehabilitate existing units. By contrast, 80% of MIHA units must be new units.

In 2023, six MIHA projects were approved. If these projects come to fruition, they will result in the development of 400 to 500 new residential units.

[33] Colorado General Assembly, "SB 22-146: Middle-Income Access Program Expansion," 2022, https://leg.colorado.gov/bills/sb22-146.

[34] Colorado Middle Income Housing Authority, "Middle Income Housing Authority (MIHA)," https://coloradomiha.com/.

[35] Colorado General Assembly, "SB 22-232: Creation of Colorado Workforce Housing Trust Authority," 2022, https://leg.colorado.gov/bills/sb22-232.

Research Findings

This examination of dozens of middle-income housing programs nationwide yields five takeaways.

Many middle-income housing programs are relatively new, pointing to an increasing need for middle-income housing across the country.

With notable exceptions, such as New York's historic Mitchell-Lama program and its now-expired 421-a Property Tax Exemption, the vast majority of the middle-income housing programs began in the last decade. This finding may indicate that the need for middle-income housing is rising, and that middle-income housing development represents a gap in existing incentive programs, which tend to focus on the production of housing affordable to low-income and extremely low-income households. It also suggests that policymakers want to shift some of the new market-rate housing that would otherwise be built to instead serve middle-income households, a slightly different population.

Middle-income housing programs encourage housing of a variety of types in a variety of locations, which speaks to the need across geographies.

Middle-income housing programs are operating not just on the coasts or in urban areas, the places most closely associated with the housing crisis, but also in states as diverse as South Dakota, Minnesota, and West Virginia. Programs serve small to midsize cities, rural areas, first-time homeowners, and specific swaths of the workforce. This finding points to the need for increased middle-income housing development in many different geographies. That need takes diverse forms depending on the particular characteristics of a given region.

Property tax exemptions and abatements may represent effective tools for stimulating middle-income housing production.

The states of New York and Oregon and the localities within those states are using property tax exemptions to incentivize the production of middle-income housing. While New York's 421-a property tax exemption was allowed to expire last June (largely for political reasons), it did prove to be highly effective in encouraging middle-income housing development for four decades. Oregon has recently adopted property tax exemptions directed at middle-income housing, and local jurisdictions are playing a leading role in designing the particulars of the exemption. These nascent programs have the potential to drive significant increases in middle-income housing across the state.

In 1944, California adopted a Welfare Property Tax Exemption for properties of organizations "formed and operated exclusively for qualifying purposes (charitable, hospital, religious, or scientific)…that use their property exclusively for those qualifying purposes, and…have a current tax exempt letter from the Internal Revenue Service or the Franchise Tax Board."[36] A constitutional amendment would be required to expand the Welfare Property Tax Exemption to include properties intended for middle-income housing.[37] As noted in the SPUR and Terner Center report *The ABCs of JPAs: California's New Tool for Creating Middle-Income Housing*, joint powers authorities can utilize a governmental property tax exemption to support middle-income housing creation in California.[38]

[36] California State Board of Equalization, *Property Tax Welfare Exemption*, December 2018, https://www.boe.ca.gov/proptaxes/pdf/pub149.pdf.

[37] Ibid.

[38] Ben Metcalf, Sarah Karlinsky, and David Garcia, *The ABCs of JPAs: California's New Tool for Creating Middle-Income Housing*, SPUR and the Terner Center for Housing Innovation, 2022, https://www.spur.org/publications/white-paper/2022-06-27/abcs-jpas.

Jurisdictions can employ a variety of tools to produce new middle-income homes.

States such as New York and Colorado reflect the potential value of employing a variety of tools to stimulate middle-income housing development. In addition to the now-expired 421-a property tax exemption, New York provides gap financing to developers through the statewide Middle Income Housing Program as well as the Small Building Participation Loan Program, which targets small buildings in rural parts of the state. Furthermore, New York City offers a number of mixed-income programs that combine a first mortgage funded by proceeds from the sale of variable- or fixed-rate tax-exempt bonds with a second mortgage funded by Housing Development Corporation corporate reserves.

Colorado similarly employs varied tools in the form of the Middle-Income Access Program and the new Middle Income Housing Authority. The latter is a young agency, and its long-term impact remains to be seen, but it may indicate how California could make the California Housing Finance Agency (CalHFA)more effective.

However, there are also challenges to offering diverse programs. A fractured programmatic landscape can complicate the ability of developers (and capital providers) to gain expertise in a particular area. A few effective programs operated at scale can be more impactful than a wide variety of programs.

It's not always clear how effective middle-income housing programs are.

It can be difficult to determine how much of the middle-income housing development spurred by middle-income housing programs would have occurred even without the programs' incentives. Additionally, because many of the programs described above are relatively young, it can be challenging to determine their long-term efficacy.

Property tax exemptions can be a powerful tool to incentivize development, but states, counties, and cities must consider their impact on overall tax revenue, particularly in the short term, to ensure that long-term gains outweigh short-term losses and that the overall public benefit outweighs the forgone tax revenue. In many cases, these subsidies arise as a response to unreasonably high property taxes for multifamily housing. Broader property tax reform, if politically feasible, may more sustainably address the root issues of the high cost of housing.

Finally, jurisdictions must also consider the opportunity cost of focusing resources on developing middle-income housing rather than on increasing the production of low-income housing, given high rates of homelessness and the severe rent burden on low- and extremely low-income households.

Across the country, states, counties, and cities are developing innovative programs to encourage middle-income housing production. California can, and should, look to these programs for models that can inform future policy efforts to address the state's housing challenges.

Access the database at spur.org/housingthemiddle

Appendix: Interviewees

Citizens Budget Commission
Sean Campion, Director of Housing and Economic Development Studies
Ana Champeny, Vice President for Research

City of Bend, Oregon
Lynne McConnell, Housing Director
Allison Platt, Core Area Project Manager

City of Vancouver, British Columbia
Bryan Monroe, Associate Planner

Colorado Housing and Finance Authority
Lynn Archuleta, Commercial Loan Officer II

Colorado Middle Income Housing Authority
Patrick Meyers, Chair

Common Group
Michelle Nie, Program Manager
George Vinton, CEO

Furman Center for Real Estate and Urban Policy, New York University
Matthew Murphy, Executive Director
Hayley Raetz, Director of Data and Policy

Housing and Neighborhood Planning at the Regional Plan Association
Moses Gates, Vice President

Kentucky Housing Corporation
Bridgette Wash-Quarles, Multifamily Programs Project Specialist
Anthony Wright, Assistant Director of Multifamily Programs

Michigan State Housing Development Authority
Kathryn Evans, Missing Middle Housing Program Manager

Montgomery County, Maryland
Somer Cross, Affordable Housing Programs Manager

New York State Division of Housing and Community Renewal
Leonard Skrill, Assistant Commissioner

Oregon Department of Land Conservation and Development
Ethan Stuckmayer, Housing Division Manager

Tillamook County, Oregon
Sarah Absher, Director of Community Development

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