

Middle Income Programs & Tax Abatements within the Midwest Region

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A. Middle Income

Many Paths to Middle Income

- State programs, which can include Middle Income Housing Tax Credits (CO)
- Local Programs
- Incentives will can vary:
 - Density bonus
 - Height bonus in exchange for Affordability/Middle Income LURA
 - Fee waivers
 - Full or partial abatement or PILOT
 - Loan guaranties
- Requirements will vary:
 - ❖ 80% to 120% AMI
 - ❖ 60% to 130% AMI
 - ❖ Within targeted areas
 - ❖ Mixed use projects

B. HUD Requirements & Case Study

Middle Income Housing

ML 2026-01 – Case Study

Lowertown Lofts, 092-35891

Rochester, MN

ML 2026-01

- Fully supersedes previously issued ML 2025-2
- Enhances the economic feasibility of more projects
- Clarified Eligibility Standards

ML 2026-01 - Continued

Expanded eligibility to include:

- Military's Rental Partnership Program &
- Federal land initiatives transactions

ML 2026-01 - Continued

Middle Income Housing (50% of Units Targeted for Tenant Income Levels Up To 120% AMI)	Criteria 3 (Loan to Value/Loan to Cost)		Criteria 5 (Debt Service Coverage)		
	<u>Market Rate LTC¹</u>	<u>Middle Income LTC</u>	<u>Market Rate DSCR¹</u>	<u>Middle Income DSCR</u>	<u>Vacancy Factor</u>
221(d)(4) NC/SR	87%	90%	1.15	1.11	7%

Lowertown Lofts - Project Summary

- Jonathan Barany, Walker & Dunlop & Ken Doesky, HUD
- 221d4 New Construction - \$33,096,400
- 133 units
- Located in Rochester, MN
- Opportunity Zone and included OZ investment

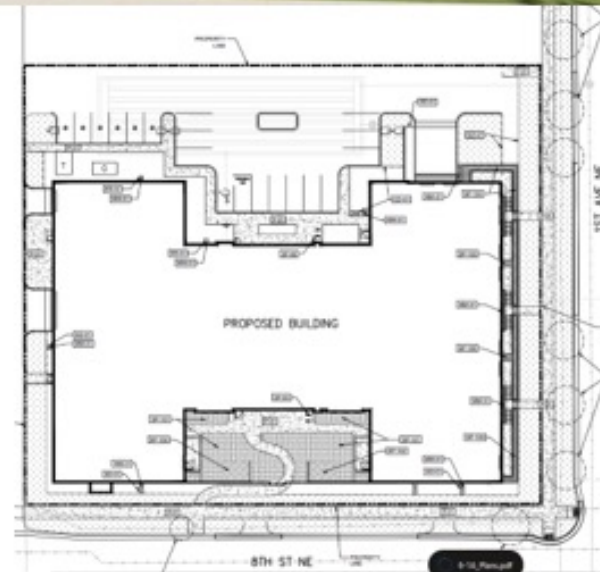
Lowertown Lofts - Project Summary - Continued

- Middle Income – 50% of units restricted to 120% AMI via TIF
- 1.11 DSC
 - Reduced cash requirement by approximately \$1 million
- Pre-Application – 42 days
- Firm Application – 41 days – rushed due to potential shutdown

Location Map:



Elevation & Site Plan:



Middle Income

- 66 out of 133 were income restricted for the TIF
 - Not exactly 50% (49.62%), but the ML provides for flexibility
- No rent discount to market
 - Per the ML, a rent advantage analysis is not required
- There is a 20-year recorded use restriction monitored by the local government

Conclusion

- Initial Endorsement: 3/17/2026
- The project is under construction

Another Success!

C. Other State & Local Programs

1.a Michigan PILOT Statute

MCL 125.1415a establishes the legal framework for tax exemptions, recently expanded to incentivize **missing-middle development**.



Core Mechanism

Replaces ad valorem taxes with a fixed annual municipal service charge.



Workforce Expansion

Explicitly covers un-subsidized housing for households earning up to 120% AMI.



Duration Limits

50-year maximum for subsidized projects. 15-year maximum for standard workforce housing.

1.b Michigan PILOT

Framework and Local Ordinances

Michigan PILOT Statute (MCL 125.1415a)

The Michigan state statute provides the legal basis for Service Charge in Lieu of Taxes (PILOT) exemptions for certain housing developments.

☒ Requires a local municipal opt-in ordinance to take effect.



State law was explicitly expanded to cover "workforce housing" initiatives.



Qualifying projects can serve households with incomes up to 120% of the Area Median Income (AMI).



2. Michigan Brownfield TIF



Act 381 of 1996

Reimburses developers for clean-up and revitalization of contaminated, blighted, and obsolete sites.



Program Guidelines

Visit the **Michigan Strategic Fund** website to learn about program goals, applicant criteria, and project considerations.



Specialized Programs

Recently expanded to support workforce housing and large-scale mixed-use investments (Transformational Brownfield TIF).

3.a Detroit Fast-Track PILOT

Provides a fast-tracked, automatic property tax reduction by replacing ad valorem taxes with a rental-revenue service charge.



Speed: Administrative approval process cuts the typical timeline from up to a year down to under 60 days.



Eligibility: "Good Standing" with the city, and BSEED code compliance.



Investment: Minimum renovation spending varies based on Standard Rehab or Long-Term Vacant Rehab.



Duration: Fast-track lasts 15 years (renewable); government-aided PILOTs match funding duration (up to 45 years).



3.b Detroit PILOT Rates

The rate decreases for projects providing deeper income targeting or taking on the heavy lift of rehabbing long-term vacant structures.

Average Affordability	Standard PILOT Rate	Long-Term Vacant Rehab Rate
81–120% AMI	<i>Requires Council Approval</i>	3.5%
61–80% AMI	4.0%	2.0%
≤ 60% AMI	1.0%	0.5%

4. Grand Rapids PILOT Programs

Low-Income PILOT

- 1 Targets subsidized LIHTC or HOME projects ($\leq 80\%$ AMI) for up to 50 years.
- 2 4% standard service charge. Reducible to 1% with local Housing Fund contribution.

Workforce Housing PILOT

- 1 Targets un-subsidized rental or owner-occupied units ($\leq 120\%$ AMI) for 15 years.
- 2 Strict prohibition against stacking with OPRA, TIF, or other tax exemptions.

5. Ohio Ground Lease Sequence

ORC 5739.02 and the mechanics of capital lease tax exemptions



6. Ohio Housing Authority Tax Exemption

Fee ownership and statutory basis

1 Fee Ownership

The Housing Authority retains fee-simple ownership and leases the land and improvements to the related Mortgagor entity.

2 Statutory Mission

ORC 3735.31 authorizes a metropolitan housing authority to acquire, own, manage, and lease mixed-use or mixed-income developments.

3 Tax Treatment

Under ORC 3735.34, Housing Authority property used to exercise its statutory powers is public property used exclusively for a public purpose and is exempt from taxation.

ORC 3735.34

“All property, both real and personal, acquired or owned by a metropolitan housing authority and used for the purposes of exercising the powers set forth in sections 3735.27 to 3735.50 of the Revised Code ... shall be exempt from all taxation.”

Mixed-income development includes housing for persons or families of varying incomes. | ORC 3735.40(G)

7. Ohio Property Tax Abatement

CRA and the School Board Factor

Community Reinvestment Area (CRA)

- 1 Most widely utilized abatement for real estate development. Exempts the incremental increase in assessed value.
- 2 **Residential:** Percentage, term, eligibility, and approval requirements are established by the applicable local CRA legislation (up to 15 years/100%).
- 3 **Commercial/Industrial:** Negotiated case-by-case; maximum term of 15 years.

The School Board Factor

- 1 **75% Threshold:** Municipalities can grant up to 75% without school board approval.
- 2 **Exceeding the Cap:** 100% commercial abatements generally require formal local school board approval.
- 3 **Compensation Agreements:** Often required to exceed 75%; model as a fixed operating expense



8.A The Illinois Affordable Housing Omnibus of 2021 and Chicago ARO

1) HB2621 (Illinois Affordable Housing Omnibus of 2021) created three property-tax incentive tiers for eligible new construction and rehabilitation residential buildings with **7+ units** that provide affordable housing.

2) Tiers – Incentive tiers require 15%, 20%, or 35% of units to be affordable at 60% of Area Median Income (AMI). See subsequent slide.

3) Chicago Affordable Requirements Ordinance (ARO) – ARO separately requires certain multifamily new-construction and rehabilitation projects to provide affordable units; requirements vary by location and whether the project is governed by the 2015 ARO, ARO Pilot, or 2021 ARO.

4) Double Requirements – Projects seeking both ARO compliance and HB2621 incentives must independently satisfy all requirements of both programs.

8.b The Illinois Affordable Housing Omnibus of 2021 and Chicago ARO

5) Outside Downtown – A project may qualify for the 15% HB2621 tier by providing at least 15% on-site affordable units and using an in-lieu fee for the balance of the ARO obligation.

6) Downtown – Projects may pursue either the 15% tier using a similar in-lieu-fee approach or the 20% tier by placing all 20% required affordable units on-site. (Black and red boundaries.)

7) Important Constraints – Off-site ARO units do not count toward HB2621. Units above 60% AMI generally do not qualify, although certain CHA Project-Based Voucher and Chicago Low Income Housing Trust Fund units may count as 60% AMI units.



Downtown Expansion Areas

Map Key

- Downtown Expansion Areas
- Boundary of Existing Downtown
- Zoning

8.c HB2621 Property-Tax Incentive Tiers

Row	Program Feature	15% Tier	35% Tier	20% Tier
1	Required affordability	15% of units	35% of units	20% of units
2	Affordability level	60% AMI	60% AMI	60% AMI
3	Tax incentive	25% of assessed value	35% of assessed value	Graduated abatement of the assessed-value increase: 100% in Years 1–3; 80% in Years 4–6; 60% in Years 7–9; 40% in Years 10–12; 20% in Years 13–30
4	Qualifying activity	New construction or rehab costing at least \$8/sf, plus improvements to 2 primary building systems	New construction or rehab costing at least \$12.50/sf, plus improvements to 2 primary building systems	New construction or rehab costing at least \$60/sf, plus improvements to 5 primary building systems
5	Minimum building size	7 units	7 units	7 units
6	Duration	10 years, plus two renewable 10-year periods; 30 years total	10 years, plus two renewable 10-year periods; 30 years total	30 years

D. Middle Income Best Practices

Middle Income Best Practice for Narrative



The project will be Middle Income.



= HUD reviewer



Middle Income - The property qualifies for HUD's Middle Income program per ML 26-01 thusly:

- **Existing Program:** Yes; Rochester TIF Program
- **Set Aside:** Yes. 50% at 120% AMI
- **5-Year Term:** Yes. Program is for 20 years
- **Monitoring:** Yes.
- **Recorded LURA:** Yes.



Middle Income Best Practice for Narrative (cont'd)

Example of one lender's Middle Income Checklist.

See Terry Wellman for copy.

Middle Income Checklist Per Mortgage Letter 2026-01 Your Awesome Property		
Requirement 1	Existing Program	An existing program is broadly available, well defined, and not jut a one-off agreement with a single developer.
	Subject Meets Requirement? (Yes or No)	SELECT See guidance to the right.
	Provide Details	
Requirement 2	AMI % Unit Targeting	At least 50% of units reserved for tenants ≤ 120% AMI
	Subject Meets Requirement? (Yes or No)	SELECT
	Provide Details	
Requirement 3	Use Restriction Recorded	All targeted units must be secured by a recorded use restriction.
	Subject Meets Requirement? (Yes or No)	SELECT See guidance to the right.
	Provide Details	
Requirement 4	Surviving Use Restriction	The recorded use restriction must survive a transfer of ownership and/or a Transfer of Physical Assets ("TPA") of the loan.
	Subject Meets Requirement? (Yes or No)	SELECT See guidance to the right.
	Provide Details	
Requirement 5	Annual Monitoring by Public Entity	Compliance with the use restriction must be monitored by a state or local government entity annually.
	Subject Meets Requirement? (Yes or No)	SELECT
	Provide Details	
Requirement 6	Minimum Term of 10 Years for Use Rest.	A minimum use restriction period of 10
	Subject Meets Requirement? (Yes or No)	SELECT
	Provide Details	
Requirement 7	HUD Rider /Amendment to Covenants	HUD shall require the use of the HUD Rider/Amendment to Restrictive Covenants. (see MAP Guide Chapter 19 for a sample).
	Subject Meets Requirement? (Yes or No)	SELECT See guidance to the right.
	Provide Details	

E. Tax Abatements in General

Four Types of Tax Abatements

Local and state governments will use a variety of real estate tax-based tools to foster the development/preservation of affordable properties or development/redevelopment of other type properties.

1

Long Term Abatement

A 100% abatement of real estate taxes for the entire term of the HUD loan, primarily for affordable housing. Often requires non-profit or public entity involvement. Examples include CA, TX, SC, WA, FL.

2

Short Term Abatement

Temporary tax abatements designed to stimulate development or redevelopment. Programs vary by location and can sometimes be negotiated directly with local jurisdictions.

3

Payment-in-Lieu-of-Taxes (PILOT)

A predetermined, lower payment made instead of full real estate taxes, typically for a short term (e.g., 10 years). Also known as Fee-in-Lieu-of-Taxes (FILOT).

4

Tax Increment Financing (TIF)

Uses projected increases in real estate tax revenue above a base amount to subsidize developers for projects in specific geographic areas or on particular properties.

Underwriting Considerations

See Chapter 7.16 of MAP Guide

1

Long Term Abatement

If fixed and runs the entire term of the loan, abatement can be reflected in Criterion 5/DSCR and Criterion 3/Loan to Value. See Chapter 7.16.2.

2

Short Term Abatement

Full taxes must be reflected in Criterion 5. Savings from abatement may be used to support a B tranche to the loan. B tranche will hyper-amortize over the term of the abatement rather than the term of the A tranche (35 years or 40 years.) See Chapter 7.16.3.

3

Payment-in-Lieu-of-Taxes (PILOT)

Will mostly likely not be for the full term of the loan. Treat as either short-term fixed or short-term variable depending on structure for sizing a B tranche.

4

Tax Increment Financing (TIF)

Benefits of the TIF can monetized in two ways – (1) equity or (2) sizing a B tranche.

If sizing B tranche, treat as short-term variable or fixed, depending on structure.

What makes an abatement program “problematic?”



Variable Tax Savings

Savings are tied to multiple 'tests' such as percentage of EGI, tax phase-in, minimum amounts, and annual increases.



Fluctuating Savings Over Time

Tax savings increase annually or vary throughout the abatement term.



Opt Out Provisions

Specific clauses or conditions that allow for opting in or out.



Ownership-Based Abatement

The abatement is based on the type of ownership, not on the property itself.



State Law Dependency

Abatement is subject to state laws that may change over time.

F. Tax Abatement Best Practices



Lee Oller says:

*“Details are like
money – the
more the better.”*

Tax Abatement Best Practice for Lender Narrative



There is a short-term tax abatement and a B piece.



= HUD reviewer



Tax Abatement - The property qualifies for a variable short-term tax abatement under the State's Affordable Housing Program (State Code 12.345.67) that requires at least 50% of the units to be set as for tenants earning no more than 50% AMI.

The tax abatement is for 15 years with the following steps downs: 100% abatement for years 1 - 5, 50% for years 6 - 10, and 25% for years 11 - 15.

Therefore, we have sized a 15-yearm variable abatement, as shown below. (Show your work.)



(Terry's car is in on the left. Sean's on the right.)

Underwriting and Narrative Best Practices



Qualification Basis

Explain how the project qualifies for the abatement or PILOT (e.g., state law, local law, PILOTs).



Term and Amount

Conclude with a statement classifying the abatement as long-term, short-term, variable, or fixed, referencing MAP Guide Chapter 7.16.



Pending Approvals

If the abatement or PILOT is pending approval, state that final approval is a condition of the Firm Commitment.



Approval Status

Provide details on the approval process and requirements, such as **affordable project status**, public entity involvement, ground lease, or specific local approvals.



Inclusion in Underwriting

Describe how the abatement or PILOT is incorporated into the project's underwriting.



B Piece Details

If a B piece is used specify: (1) term, (2) savings, and (3) P&I payment for A + B.

For the HUD Single Underwriter, it is **imperative** to include the above in the Lender's Narrative.

Underwriting and Narrative Best Practices (cont'd)



TIF Concerns

- (1) Is TIF reimbursement timely?
- (2) History of revocation?
- (3) Debt Service Escrow set up and sized properly?



Recertification

Does the property have to reapply or recertify to maintain the abatement?



Survivability

- (1) Does the abatement survive foreclosure?
- (2) Is it transferable?

For the HUD Single Underwriter, it is **imperative** to include the above in the Lender's Narrative.