

SENATE BILL 539

By Stevens

AN ACT to amend Tennessee Code Annotated, Title 7;
Title 13; Title 48; Title 49; Title 67 and Title 68,
relative to low-income housing.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Title 67, Chapter 5, Part 6, is amended by
adding the following as a new section:

67-5-608.

(a) Notwithstanding another law to the contrary, multi-unit rental housing that is
subject to government restriction on use must be assessed in a manner that is
consistent with the following methods:

(1) Applying an annual net operating income approach to value that uses
actual income and stabilized operating expenses that are based on the actual
history of the property, when available, and a capitalization rate;

(2) Using a methodology to project income, expenses, and a
capitalization rate that is consistent with the Uniform Standards of Professional
Appraisal Practice;

(3) Adjusting the unrestricted market value of the multi-unit rental
housing, computed without regard to a government restriction on use applicable
to the multi-unit rental housing, based on the ratio of the average annual rent of
those units of the property that are subject to government restriction on use to
the average annual rent of comparable multi-unit rental housing that is not
subject to government restriction on use; and

(4) Excluding the amount of low-income housing tax credits received under Section 42 of the Internal Revenue Code of 1986 (26 U.S.C. § 42), or from a state or federal program in determining the value attributable to the multi-unit rental housing.

(b) The capitalization rate projected pursuant to subsection (a) must be:

(1) Based on the risks associated with multi-unit rental housing subject to government restriction on use, including diminished ownership control; income generating potential; liquidity; the condition of the property; the class of the property; and the property's location and size;

(2) Equal to or greater than the capitalization rate used for valuing multi-unit rental housing that is not subject to government restriction on use; and

(3) In the range of fifty (50) to one hundred fifty (150) basis points above the most recent quarterly survey of the national average capitalization rates of multifamily properties published by realtyrates.com or a successor organization as determined by the division of property assessments in consultation with the Tennessee housing development agency.

(c) Beginning with tax year 2026 and each tax year thereafter, the division of property assessments shall publish the capitalization rate range for property assessors to use for that tax year on its website as soon as practicable after the rates become available.

(d)

(1) The owner of multi-unit rental housing shall:

(A) Promptly notify the property assessor if:

(i) The property is subject to government restriction on use, and if so, whether the owner requests that the property be

classified as multi-unit rental housing subject to government restriction on use;

(ii) The property ceases to be subject to government restriction on use, and if so, whether the owner of the property requests that the property's classification as multi-unit rental housing subject to government restriction on use be withdrawn; or

(iii) A foreclosure action has been brought upon the property; and

(B) File with the property assessor, on a form prescribed by the state board of equalization, the information necessary for the multi-unit rental housing to be assessed based on the methods described in subsection (a).

(2) The notification required by subdivision (d)(1)(A) must be in writing and submitted to the property assessor on or before December 31 of the calendar year in which the applicable circumstance as listed in subdivisions (d)(1)(A)(i)-(iii) occurred.

(3) If the owner fails to submit the notification pursuant to subdivision (d)(1)(A), then the owner is liable for any delinquent property taxes, including interest and penalty, assessed on the property.

(e) As used in this section:

(1) "Government restriction on use" means a limitation on the use of a specified amount of the individual dwelling units of multi-unit rental housing that receive a federal, state, or local incentive based on low-income renter restrictions, including the following government incentives:

(A) A low-income housing tax credit under Section 42 of the Internal Revenue Code of 1986 (26 U.S.C. § 42);

(B) Financing derived from exempt facility bonds for qualified residential rental projects under Section 142 of the Internal Revenue Code of 1986 (26 U.S.C. § 142);

(C) A low-interest loan under Section 235 or 236 of the National Housing Act (42 U.S.C. § 3538) or Section 515 of the Housing Act of 1949 (42 U.S.C. § 1485);

(D) A rent subsidy;

(E) A guaranteed loan;

(F) A grant;

(G) A guarantee; or

(H) An agreement entered into for payments in lieu of ad valorem taxes;

(2) "Low-income" means earning at or below eighty percent (80%) of the area median income as defined by the United States department of housing and urban development for the location of the multi-unit rental housing; and

(3) "Multi-unit rental housing":

(A) Means residential property or a project consisting of four (4) or more individual dwelling units; and

(B) Does not include:

(i) Assisted living facilities; or

(ii) Duplexes or single-family units unless they are classified as commercial property or included as part of a larger property that is subject to government restriction on use.

SECTION 2. For purposes of publishing the capitalization rate range and promulgating application forms and rules, this act takes effect upon becoming a law, the public welfare requiring it. For all other purposes, this act takes effect January 1, 2026, the public welfare requiring it, and applies to residential property and projects developed on or after such date.