

How To Implement A “Renter’s Homestead Exemption”

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The Problem:

Florida’s property tax problems have created higher taxes on non-homesteaded properties. In the case of rental properties (as with most others), the tax increases are passed through to the ultimate users of the property, the renters. These increases are considered to have become burdensome for low income Floridians.

The Basic Hypothesis:

A “renter’s homestead exemption” will result in lower rents, thereby helping provide more low-income housing to needy Floridians.

Discussion:

There isn’t much argument that the boom real estate market and boom government spending years of 2000-2006 have resulted in a crisis for Florida’s renter population. Property owners have received incredible increases in property taxes and, while some have endeavored to keep rents as low as possible, many have had no option but to “pass on” the property tax increase to their tenants in the form of increased rents.

Most rental property owners will tell you their *Holy Grail* consists of an optimum *mix* of the right rental fee structure that will not lower their occupancy rates. The basic hypothesis then, is that “rents will seek their highest point in order to maintain optimum occupancy rates.” Therefore, the dynamics of our *free-market economic system* should keep rents as low as possible in order to maintain high occupancy rates and predictable cash flows.

A “renter’s homestead exemption,” will lower fixed expenses (property taxes) and provide higher cash flows to property owners. It is, in essence, a free-market *competitive incentive* for rental property owners to lower rents as taxes are lowered, thereby maintaining a higher occupancy rate. In addition, there is a suggested way to monitor and document that the reduced rents do, in fact inure to the renter (see below).

Mechanics of implementation:

Instituting a renter’s homestead exemption probably requires a constitutional amendment. This could require documented evidence that the tax reduction resulting from the homesteaded rental property was passed on to the renters through reduced rents (see Qualifications below).

Qualification for rental homestead: There should be two parts to the qualification:

- (1) An application, filed with the county Property Appraiser's Office, requiring the same residency requirements as other homesteaded property owners, in addition to documented evidence that there is a minimum one year lease covering the period from January 1st of the year through December 31st, as well as copies of utility bills and other documents showing proof of actual residency. Another method of addressing residency documentation might be to *retroactively approve* the exemption for renters who could prove they were already in residence for the past 12-month calendar year.
- (2) Filing of a detailed rent roll, showing rental charges for both homesteaded renters and non-homesteaded renters (see calculations for rental reduction amount below). Both should be filed with an affidavit signed by the property owner, under penalty of perjury.

How would it work? The amount of the exemption per unit should not exceed the percentage (per unit) of the ratio of [\$25,000 / Average Just Value (JV) of homesteaded properties within each county] to the [Average Just Value (JV) per apartment within the apartment complex involved]. This would require each county property appraiser to maintain the additional data fields of "number of units" and "average Just Value (JV) per unit," as well as the "average homestead-to-Just Value (VJ) ratio" for all homesteaded properties within each county.

"Maximum rental exemption %" cannot exceed the *Average Annual SFR Homestead Exemption Percentage*. This insures that renters are receiving, on the average, the same percentage exemption as Single Family Homesteaded property owners.

$$\text{Maximum rental exemption \%} = [(\text{Average of SOH Capped Differential}) + (\text{Average \$25K Homestead Amount})] / (\text{Average SFR Homesteaded JV})$$

In Volusia County the calculation would be as follows:

$$\begin{aligned} \text{Average SOH Capped Differential} &= (11,081,715,668/131,740 = \mathbf{84,118}) \\ + \text{Average \$25K Homestead Amount} &= (3,288,621,454/131,740 = \mathbf{24,963}) \\ &= \mathbf{\text{Average Total Homestead Exemption} = \$109,081} \end{aligned}$$

$$\begin{aligned} \text{Maximum rental exemption \% (in this county)} &= \\ &= \text{Average Homestead Exemption} / \text{Average SFR Homesteaded JV} \\ &= \$109,081 / \$207,000 \text{ average Volusia homesteaded property JV} \\ &= \mathbf{52.70\%} \end{aligned}$$

Under this methodology, if the Just Value (JV) of a 104unit apartment complex is \$2,679,219, then the JV per unit would equal \$ 25,762. The ratio of \$25,000 to this average JV is 97.04%. Since this is greater than 52.70% maximum exemption %, the amount of exemption would be:

$$52.70\% \times \$25,762 = \underline{\$13,577.}$$

(Maximum exempt % X Average JV Per Unit) = Rental Homestead Exemption Amount

What will it do for the property owner? The resulting reduction in Just Value of \$13,577 for all units where renters are Florida residents would save the property owner approximately \$271.54 annually in property taxes for each homesteaded unit (at 20 mills X 13,577). The lower rents will increase the numbers of people who can afford units now offered at lower rates, which will result in higher occupancy rates, thereby increasing and stabilizing long term cash flows.

What will it do for the renter? In the above example, it would result in a *rental reduction* of \$22.63 a month. The property tax savings are passed to the renter while the property owner benefits from increased occupancy rates. The ultimate result will be more affordable low-income housing.

Conclusion:

A renter's homestead exemption, in the form of a reduction in taxable value to the property owner will result in lower rents and more stable cash flows to property owner, thereby having a positive effect on low income housing in Florida as well as the secondary effect of acting as a stabilizing factor in the rental marketplace.

Note: In terms of paperwork, this is simply another exemption, handled by the Property Appraiser. It does include additional data elements and calculations, as detailed above. The exemption paperwork would be prepared, submitted and certified by the property owner, since that's who gets the exemption benefit. The exemption would have to be figured on each property by the above formula, so that all properties would receive the same *relative benefit*, based on the unit value to total Just ratio, not to exceed the overall average single family exempt percentage amount (\$25K + SOH). This is a workable methodology towards helping solve a problem in a way which insures that the renters get the dollar benefit from the exemption. The owners get higher occupancies and more stable cash flows. And... the Property Appraisers get to handle another exemption and some more processing... in addition to our appraisal skills, that's what we do...