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SENATE BILL NO. 181

Offered January 14, 2026

Prefiled January 9, 2026

A BILL to amend and reenact § 58.1-3220 of the Code of Virginia and to amend the Code of Virginia by adding a section numbered 58.1-3221.7 and by adding in Chapter 38 of Title 58.1 an article numbered 14, consisting of a section numbered 58.1-3855, relating to real property tax; partial exemption for repurposing underutilized structures for residential use; local incentives.

Patron—Williams Graves

Referred to Committee on Finance and Appropriations

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-3220 of the Code of Virginia is amended and reenacted and that the Code of Virginia is amended by adding a section numbered 58.1-3221.7 and by adding in Chapter 38 of Title 58.1 an article numbered 14, consisting of a section numbered 58.1-3855, as follows:

§ 58.1-3220. Partial exemption for certain rehabilitated, renovated, or replacement residential structures.

A. The governing body of any county, city, or town may, by ordinance, provide for the partial exemption from taxation of real estate on which any structure or other improvement no less than 15 years of age has undergone substantial rehabilitation, renovation, or replacement for residential use, subject to such conditions as the ordinance may prescribe. The ordinance may, in addition to any other restrictions hereinafter provided, restrict such exemptions to real property located within described zones or districts whose boundaries shall be determined by the governing body. The governing body of a county, city, or town may (i) establish criteria for determining whether real estate qualifies for the partial exemption authorized by this provision, (ii) require such structures to be older than 15 years of age, (iii) establish requirements for the square footage of replacement structures, and (iv) place such other restrictions and conditions on such property as may be prescribed by ordinance. Such ordinance may also provide for the partial exemption from taxation of (a) multifamily residential units that have been substantially rehabilitated by replacement for multifamily use and (b) buildings that have undergone a qualifying residential conversion, in accordance with the provisions of § 58.1-3221.7 and to the extent allowed by the Constitution of Virginia.

B. The partial exemption provided by the local governing body may be an amount equal to the increase in assessed value or a percentage of such increase resulting from the rehabilitation, renovation, or replacement of the structure as determined by the commissioner of revenue or other local assessing officer or an amount up to 50 percent of the cost of the rehabilitation, renovation, or replacement, as determined by ordinance. The exemption may commence upon completion of the rehabilitation, renovation, or replacement or on January 1 of the year following completion of the rehabilitation, renovation, or replacement and shall run with the real estate for a period of no longer than 15 years. The governing body of a county, city, or town may place a shorter time limitation on the length of such exemption, or reduce the amount of the exemption in annual steps over the entire period or a portion thereof, in such manner as the ordinance may prescribe.

C. The local governing body or its designee shall provide written notification to the property owner of the amount of the assessment of the property that will be exempt from real property taxation and the period of such exemption. Such exempt amount shall be a covenant that runs with the land for the period of the exemption and shall not be reduced by the local governing body or its designee during the period of the exemption, unless the local governing body or its designee by written notice has advised the property owner at the initial time of approval of the exemption that the exempt amount may be decreased during the period of such exemption. In no event, however, shall such partial exemption result in totally exempting the value of the structure.

D. Nothing in this section shall be construed as to permit the commissioner of the revenue to list upon the land book any reduced value due to the exemption provided in subsection B.

E. The governing body of any county, city, or town may assess a fee not to exceed \$125 for residential properties; or \$250 for commercial, industrial, and/or apartment properties of six units or more for processing an application requesting the exemption provided by this section. No property shall be eligible for such exemption unless the appropriate building permits have been acquired and the commissioner of the revenue or assessing officer has verified that the rehabilitation, renovation, or replacement indicated on the application has been completed.

F. Where rehabilitation is achieved through demolition and replacement of an existing structure, the exemption provided in subsection A shall not apply when any structure demolished is a registered Virginia landmark or is determined by the Department of Historic Resources to contribute to the significance of a

59 registered historic district.

60 **§ 58.1-3221.7. Partial exemption for certain rehabilitated, renovated, or replacement underutilized**
61 **structures for residential use.**

62 A. For purposes of this section, "qualifying residential conversion" means the conversion of a building
63 and its structural components from retail, commercial, or religious use to residential use wherein:

64 1. Such building was first placed into service at least 15 years prior to the start of such conversion;

65 2. Depreciation is allowed for such building;

66 3. At completion of conversion, (i) at least 30 percent of the residential units in such building are reserved
67 for or offered to households with per capita income at or below 80 percent of the median per capita income
68 for the locality in which such building is located or (ii) the building owner is subject to a binding, written
69 agreement with the Commonwealth or the locality regarding the provision of affordable housing and such
70 agreement is documented in the form and manner required by the Department of Housing and Community
71 Development; and

72 4. The certified expenses incurred within the taxable year such building is placed into residential service
73 exceed the greater of (i) the adjusted basis of the building and its structural components or (ii) \$15,000. The
74 adjusted basis of the building shall be determined as of the first day of the taxable year in which a credit
75 under this section is claimed.

76 B. The governing body of any locality may, by ordinance, provide for the partial exemption from taxation
77 of real estate for which a qualifying residential conversion of a building occurs, subject to such conditions as
78 the ordinance may prescribe. The governing body of a locality may establish criteria for determining whether
79 such building qualifies for the partial exemption authorized by this provision and place such other
80 restrictions and conditions on such property as may be prescribed by ordinance.

81 C. The partial exemption provided by the local governing body may be an amount equal to the increase in
82 assessed value or a percentage of such increase resulting from the repurposing of the structure as determined
83 by the commissioner of the revenue or other local assessing officer, but shall not exceed the amount of
84 expenses incurred in connection with the qualifying residential conversion of such building, excluding (i) any
85 costs associated with the acquisition of any building or interest thereon and (ii) any expenses incurred that
86 are attributable to the enlargement of an existing building. The partial exemption may commence upon
87 completion of the qualifying residential conversion or on January 1 of the year following completion and
88 shall run with the real estate for a period of no longer than 15 years. The governing body of a county, city, or
89 town may place a shorter time limitation on the length of such exemption, or reduce the amount of the
90 exemption in annual increments over the entire period or a portion thereof, in such manner as the ordinance
91 may prescribe.

92 D. The local governing body or its designee shall provide written notification of the partial exemption to
93 the property owner that includes the amount of the assessment of the property that will be exempt from real
94 property taxation and the period of such partial exemption. Such amount shall be a covenant that runs with
95 the land for the period of the partial exemption and shall not be reduced by the local governing body or its
96 designee during the period of the partial exemption, unless the local governing body or its designee by
97 written notice has advised the property owner at the initial time of approval of the partial exemption that the
98 amount may be decreased during the period of such partial exemption. In no event, however, shall such
99 partial exemption result in totally exempting the value of the structure.

100 E. Nothing in this section shall be construed as to permit the commissioner of the revenue to list upon the
101 land book any reduced value due to the partial exemption provided in subsection C.

102 **Article 14.**

103 **Local Incentives for Repurposing Underutilized Structures for Residential Use.**

104 **§ 58.1-3855. Local incentives for repurposing underutilized structures for residential use.**

105 A. For purposes of this section, "qualifying residential conversion" means the same as that term is defined
106 in § 58.1-3221.7.

107 B. Any locality may, by ordinance, establish a program to grant tax incentives or provide regulatory
108 flexibility to encourage qualifying residential conversions of buildings in the locality. Any such incentive or
109 regulatory flexibility provided may consider population density and shall be proportionate to the amount of
110 expenses incurred in connection with the qualifying residential conversion of a building, excluding (i) any
111 costs associated with the acquisition of any building or interest thereon, (ii) any expenses incurred that are
112 attributable to the enlargement of an existing building, or (iii) any expenses incurred in connection with the
113 conversion of a building that is allocable to the portion of the property that is a tax-exempt use property
114 under Virginia law.

115 C. The tax incentives or regulatory flexibility may include (i) a reduction in permit fees, (ii) a streamlined
116 process for the approval of permits, or (iii) a reduction in any gross receipts tax on a qualifying residential
117 conversion of a building or on businesses that maintain a building that has undergone a qualifying
118 residential conversion as defined by the local ordinance.