

**STATE OF TENNESSEE
OFFICE OF THE ATTORNEY GENERAL**

August 25, 2025

Opinion No. 25-016

Classification of Residential Property

Question 1

Pursuant to Article II, Section 28, of the Tennessee Constitution, which states that residential property is to be assessed at 25% of its value, “provided that residential property containing two (2) or more rental units is hereby defined as industrial and commercial property,” what is the appropriate tax classification for a single-family, stand-alone property that is being rented for periods longer than thirty (30) days?

Opinion 1

A single-family, stand-alone property that is being rented for periods longer than thirty days generally will be classified as residential, subject to the caveats discussed below.

Question 2

Pursuant to Article II, Section 28, what is the appropriate tax classification for a duplex where one half is rented and the other half is occupied by the owner?

Opinion 2

A duplex where one half is rented and the other half is owner-occupied generally will be classified as residential, subject to the caveats discussed below.

ANALYSIS

Under Article II, Section 28, “residential property containing two (2) or more rental units is . . . defined as industrial and commercial property.” This provision has been codified in Tenn. Code Ann. § 67-5-501(11), which defines residential property as “all real property that is used, or held for use, for dwelling purposes and that contains not more than one (1) rental unit.” Similar to Article II, Section 28, subsection (11) states that “[a]ll real property that is used, or held for use, for dwelling purposes, but that contains two (2) or more rental units, is defined and shall be classified as ‘industrial and commercial property.’” *See also* Tenn. Code Ann. § 67-5-501(4) (containing a similar statement in the definition of “industrial and commercial property”).

In accordance with these provisions, a single-family, stand-alone property generally will be classified as residential when it is being used as a long-term rental. Similarly, an owner-occupied duplex generally will be classified as residential if the owner is leasing the other half of

the duplex to another party. In each case, the property contains only one rental unit and, thus, qualifies for the residential tax classification.

Nevertheless, the courts have recognized circumstances where single-family, unattached homes may be considered industrial and commercial property. In *Spring Hill, L.P. v. State Board of Equalization*, No. M2001-02683-COA-R3-CV, 2003 WL 23099679, at *17–*18 (Tenn. Ct. App. Dec. 31, 2003), for example, the court held that 44 single-family homes on separately parceled lots should be classified as industrial and commercial property, rather than residential property, because the rental units were part of the same low-income housing development and were owned and managed by the same entity. The court rejected the taxpayer’s argument that “the determinative factor is whether the residences are physically conjoined.” *Id.* at *18.

Accordingly, there is no bright-line rule that a single-family, stand-alone home or an owner-occupied duplex will always be classified as residential. Rather, the property assessor should consider all the facts and circumstances of the rental property’s characteristics to make a proper classification of the property.

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