

# Multifamily Tax Exemption 2020 Report

SEATTLE OFFICE OF HOUSING

MARCH 2021



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# INTRODUCTION

The City of Seattle’s Multifamily Tax Exemption (MFTE) program provides a property tax exemption to owners of multifamily rental properties and buyers of homes in multifamily developments. For rental properties, the property owner does not owe property tax on residential improvements in exchange for limiting housing costs for income-qualified households on at least 20 percent of the units. For condominiums or other for-sale multifamily developments, the tax exemption accrues to the eligible buyer of each income- and price-restricted home. The property tax exemption, which is for up to 12 years unless extended according to State Substitute House Bill 2950, is for residential and related improvements in multifamily structures (not including land or non-residential uses).

## MFTE Programs

The City’s current MFTE program is codified in SMC Chapter 5.73. The Seattle City Council reauthorized the program, with amendments, six times since its adoption in 1998. MFTE’s unique iterations over time are commonly referred to as Programs 1 through 6.

PROGRAM 1 <sup>1</sup>	PROGRAM 2	PROGRAM 3	PROGRAM 4	PROGRAM 5	PROGRAM 6
Ordinance 119237 1/1/1999	Ordinance 121415 4/18/2004	Ordinance 122730 8/6/2008	Ordinance 123550 4/8/2011	Ordinance 124877 11/1/2015	Ordinance 125932 10/24/2019
Up to 10-year MFTE	Up to 10-year MFTE	Up to 12-year MFTE	Up to 12-year MFTE	Up to 12-year MFTE	Up to 12-year MFTE
<u>MFTE Units</u> 40% @ 60% AMI Pike-Pine urban center village	<u>MFTE Units</u> Rental 20% @ 60% AMI, or 25% @ 65% AMI, or 30% @ 70% AMI	<u>MFTE Units</u> Rental 20% @ 80% AMI or 90% AMI, depending on unit size	<u>MFTE Units</u> Rental 20% @ 65% AMI, 75% AMI, or 85% AMI, depending on unit size <sup>2</sup>	<u>MFTE Units</u> set-aside = 20% or 25% of total units depending on number of 2+ BR units	<u>MFTE Units</u> set-aside = 20% or 25% of total units depending on share of 2+ BR units
25% @ 80% AMI other Residential Target Areas	Owner ≤ 80% AMI	Owner ≤ 100% AMI or 120% AMI,	Owner ≤ 100% AMI or 120% AMI,	Rental 40% AMI, 65% AMI, 75% AMI,	Rental 40% AMI, 60% AMI, 70% AMI,
<u>Amendments</u> Ordinance					

<sup>1</sup> SMC Chapter 5.72 codified MFTE Program 1. SMC Chapter 5.73 codified MFTE Programs 2 through 6.

<sup>2</sup> Ordinance 124724, adopted in February 2015, amended MFTE Program 4 to require a lower, 40% AMI, affordability/income limit for SEDUs.

PROGRAM 1 <sup>1</sup>	PROGRAM 2	PROGRAM 3	PROGRAM 4	PROGRAM 5	PROGRAM 6
119371 (2/16/1999) Ordinance 120135 10/30/2000	<u>Amendments</u> Ordinance 121700 12/17/2004 Ordinance 121915 9/22/2005	depending on unit size	depending on unit size  <u>Amendments</u> Ordinance 123727 10/12/2011 Ordinance 124724 2/27/2015	85% AMI, or 90% AMI, depending on unit size  Owner ≤ 100% AMI or 120% AMI, depending on unit size	85% AMI, or 90% AMI, depending on unit size  Owner ≤ 100% AMI or 120% AMI, depending on unit size

The Seattle Office of Housing administers the MFTE Program. SMC Chapter 5.73 outlines the minimum requirements for MFTE program applications, recorded agreements, and issuance of Final Certificates of Tax Exemption. Multifamily housing property owners must apply for a Final Certificate of Tax Exemption within 30 days of issuance of a temporary certificate of occupancy, or a permanent certificate of occupancy if no temporary certificate is issued.<sup>3</sup> Final Certificates approved by the Office of Housing are filed with the King County Assessor. The tax exemption begins on January 1 of the calendar year following the date of the Final Certificate of Tax Exemption.

## Annual Report

City Council reauthorized the MFTE Program with adoption of Ordinance 125932 in September of 2019. Ordinance 125932 requires the Office of Housing to provide the following to City Council in an annual report: summary of MFTE activity including property types, sizes, locations, unit mixes, and MFTE set asides; analysis of rent data, to the extent available, for both unrestricted units and MFTE Units in multifamily housing for which a Final Certificate was issued; identification of any potential changes in the housing market; estimate of the value of tax exemptions granted to date; identification of changes to State law related to the MFTE program and labor standards; and recommended program changes based on report findings, if any.

The metrics reported for purposes of the 2020 MFTE Annual Report reflect initial application approval and exemption status as December 31, 2020.

## Definitions for Terms Used in this Report

“Approved application” means, as of December 31, 2020, the Office of Housing approved the initial MFTE application for the property. Properties with an approved application may have an MFTE status of pipeline, in service, expired, or opted out, each defined below.

“Final Certificates of Tax Exemption” means properties for which, as of December 31, 2020, the Office of Housing issued a Final Certificate of Tax Exemption. Properties with an issued

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<sup>3</sup> If no certificate of occupancy is required, the application for a Final Certificate of Tax Exemption is due within 30 days of the final building permit inspection.

Final Certificate of Tax Exemption may have an MFTE property status of in service, expired, or opted out. Pipeline properties, although they have approved applications, have yet to demonstrate eligibility for issuance of Final Certificates of Tax Exemption.

"Multifamily housing" means the residential uses in one or more residential or mixed-use structures, each of which includes at least four net new dwelling units, SEDUs, or congregate residence sleeping rooms designed for permanent residential occupancy. The property tax exemption accrues to the owner of eligible renter-occupied multifamily housing or to eligible buyers of homes in owner-occupied multifamily developments.

MFTE property status:

"Expired" means, as of December 31, 2020, the maximum 10- or 12-year term, as applicable, of the tax exemption ended and affordability/income requirements for MFTE units no longer apply.

"In service" means, as of December 31, 2020, the Office of Housing issued a Final Certificate of Tax Exemption for the property and affordability/income requirements MFTE units are available for lease or sale according to terms of a recorded agreement with the City.

"Opted out" means, as of December 31, 2020, the property owner chose to relinquish the tax exemption prior to its expiration date and affordability/income requirements for MFTE units no longer apply.

"Pipeline" means, as of December 31, 2020, the Office of Housing approved an initial MFTE application for the property. Pipeline properties have not yet demonstrated eligibility for issuance of Final Certificates of Tax Exemption. Size and AMI limits for pipeline units are estimates until construction completion.

MFTE property type:

"Low-income housing" means MFTE properties that are City-funded and/or Low-Income Housing Tax Credit/bond-financed.

"Market-rate housing" means MFTE properties that are not subsidized beyond MFTE (i.e. not City-funded and/or Low-Income Housing Tax Credit/bond-financed.)

Unit type:

"MFTE Unit" means a unit with maximum rent or sales price and income limits for residents. MFTE Units are provided as a condition of the multifamily tax exemption.

"Unrestricted unit" means a unit in an MFTE property that is not restricted (i.e. units that are not MFTE Units).



## SECTION I: MFTE PROPERTY ACTIVITY

Participation in the MFTE program grew steadily since its adoption by the City of Seattle in 1998. Since 1998, as of the end of 2020, the number of approved applications totals 344 for rental multifamily housing and 136 for homes for income-eligible buyers. Of the 344 rental properties with approved applications, 265 are in service, 60 are in permitting or under construction, and the exemption ended for 19. Of the 136 owner homes with approved applications, 72 are in service, 20 are in permitting or under construction, and the exemption ended for 44.

**Table 1.1: Approved Applications, by MFTE Status (Properties)**

MFTE STATUS	NUMBER OF RENTAL PROPERTIES	NUMBER OF FOR-SALE HOMES
IN SERVICE	265	72
PIPELINE	60	20
EXPIRED	16	24
OPTED OUT	3	20
<b>TOTAL PROPERTIES</b>	<b>344</b>	<b>136</b>

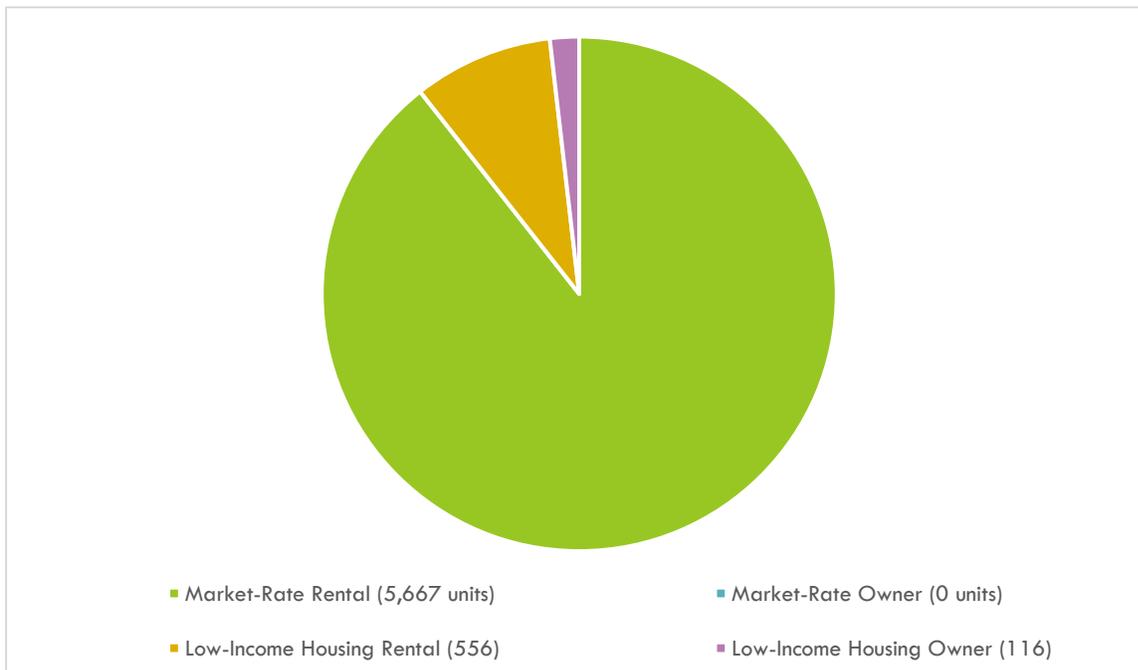
**Table 1.2: Approved Applications, by MFTE Status (Units)**

MFTE STATUS	RENTER-OCCUPIED		OWNER-OCCUPIED	TOTAL UNITS	
	TOTAL UNITS	MFTE UNITS	MFTE UNITS	TOTAL UNITS	MFTE UNITS
IN SERVICE	28,483	5,832	72	28,555	5,904
PIPELINE	8,958	1,854	20	8,978	1,874
EXPIRED AND OPTED OUT	1,643	391	44	1,687	435
<b>TOTAL UNITS</b>	<b>39,084</b>	<b>8,077</b>	<b>136</b>	<b>39,220</b>	<b>8,213</b>

Multifamily market-rate rental housing currently comprises the vast majority of MFTE activity. That contrasts with MFTE Program 1 and 2 activity, when more than half of properties benefitting from MFTE were low-income housing. Housing costs remained stable and affordable beyond the expiration of MFTE for that cohort of housing due to long-term regulatory agreements (minimum 50 years) as a condition of funding. For low-income housing, MFTE acts as a stopgap measure in the event of loss of its State exemption.

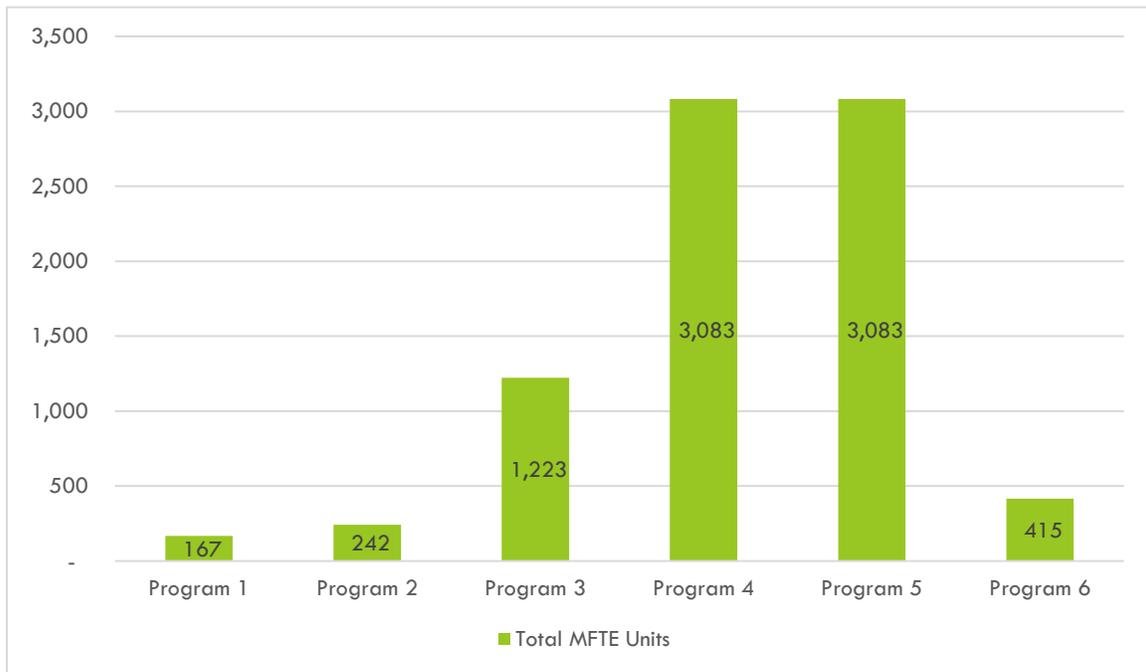
As of 12/31/2020, market-rate housing for rental occupancy accounts for nine out of ten MFTE units in properties for which the Office of Housing issued a final certificate of tax exemption. Overall, MFTE properties range from 4 to 532 total units and average 104 units in size.

**Chart 1.A: Final Certificates of Tax Exemption, by Tenure (MFTE Units)**



Based on available information for the current pipeline, the Office of Housing projects that market-rate rental properties will continue to constitute the large majority of future MFTE activity.

**Chart 1.B: Approved Applications, by MFTE Program (MFTE Units)**



MFTE Program 6 became effective on October 24, 2019. The MFTE application deadline for Program 6 is extended significantly compared to prior MFTE programs. Whereas an initial application previously was due prior to issuance of the first building permit for a project, applications now can be received any time up to six months prior to issuance of a temporary certificate of occupancy. The additional time allows property owners several more years to weigh whether or not to pursue MFTE. At this time, it is difficult to compare application rates for Program 6 with those of prior MFTE programs. As of December 31, 2020, the Office of Housing approved applications under Program 6 for 14 properties that could potentially include 415 MFTE units.

**Table 1.3: Approved Application, by MFTE Program and Status (Units; Rental Only)**

MFTE PROGRAM AND MFTE STATUS	UNITS IN MARKET-RATE RENTAL HOUSING WITH MFTE		UNITS IN LOW-INCOME RENTAL HOUSING WITH MFTE		UNITS IN ALL RENTAL MFTE PROPERTIES	
	TOTAL	MFTE UNITS	TOTAL	MFTE UNITS	TOTAL	MFTE UNITS
P1 - TOTAL	454	118	122	25	576	143
EXPIRED	291	77	122	25	413	102
OPTED OUT	163	41			163	41
P2 - TOTAL	475	126	563	116	1,038	242
EXPIRED	475	126	563	116	1,038	242
P3 - TOTAL	5,006	1,013	603	122	5,609	1,135
IN SERVICE	5,006	1,013	603	122	5,609	1,135
P4 - TOTAL	14,630	2,990	433	89	15,063	3,079
IN SERVICE	14,630	2,990	433	89	15,063	3,079
P5 - TOTAL	13,236	2,743	1,658	340	14,894	3,083
IN SERVICE	6,607	1,375	1,010	204	7,617	1,579
OPTED OUT	29	6			29	6
PIPELINE	6,600	1,362	648	136	7,248	1,498
P6 - TOTAL	1,294	272	610	123	1,904	395
IN SERVICE	194	39			194	39
PIPELINE	1,100	233	610	123	1,710	356
<b>GRAND TOTAL</b>	<b>35,095</b>	<b>7,262</b>	<b>3,989</b>	<b>815</b>	<b>39,084</b>	<b>8,077</b>

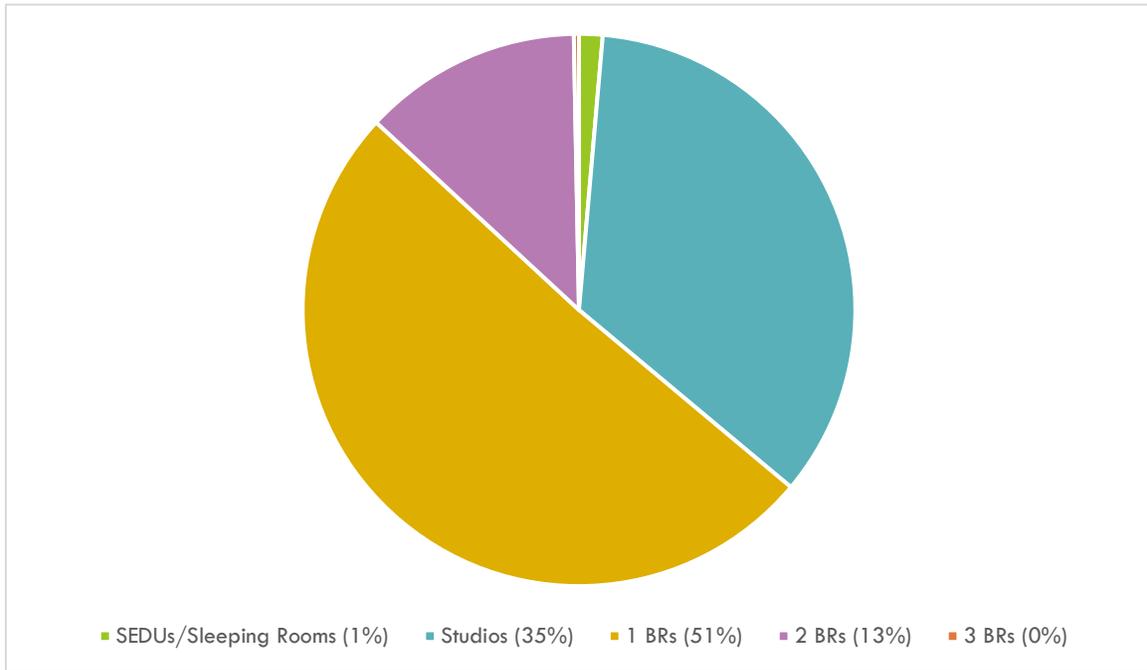
**Table 1.4: Approved Applications, by MFTE Program and Status (Units; Ownership Only)**

MFTE PROGRAM AND MFTE STATUS	MFTE HOMES FOR LOW-INCOME BUYERS
P1 - TOTAL	24
EXPIRED	24
P2 - TOTAL	0
P3 - TOTAL	88
IN SERVICE	68
OPTED OUT	20
P4 - TOTAL	4
IN SERVICE	4
P5 - TOTAL	0
P6 - TOTAL	20
PIPELINE	20
<b>GRAND TOTAL</b>	<b>136</b>

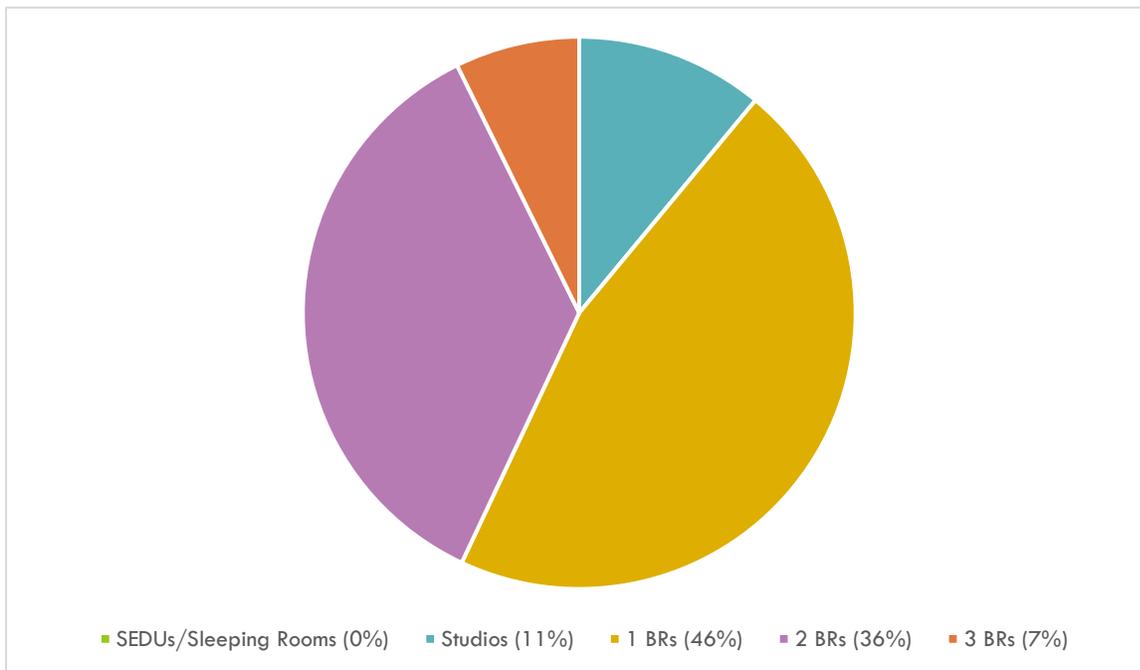
The percentage set-aside and affordability/income limits of MFTE Units vary by MFTE program depending on SMC Chapter 5.73 at the time of initial MFTE application. The affordability/income limit applicable to each MFTE Unit is determined by its size (e.g. SEDU, studio, 1-BR, etc.), as verified the Office of Housing prior to issuance of a certificate of occupancy.

A lower set-aside percentage may apply if the property includes a minimum number of units with two or more bedrooms. For Program 6, a 20% set-aside (versus 25%) is conditioned on at least 8 percent of total residential units having two or more bedrooms. To date, in properties for which the Office of Housing issued a Final Certificate of Tax Exemption, the share of MFTE units that have two or more bedrooms is 13% for market-rate properties and 43% for low-income housing. Nearly eight in ten for-sale MFTE units, which are all City funded, have two or more bedrooms.

**Chart 1.C: Final Certificates of Tax Exemption, by Unit Type (MFTE Units; Market-Rate Housing Only)**



**Chart 1.D: Final Certificates of Tax Exemption, by Unit Type (MFTE Units; Low-Income Housing Only)**



Shares of units by unit type will gradually shift as pipeline properties place in service. Based on available information for market-rate properties currently in the pipeline, a higher share of MFTE units (nearly one in ten) will be SEDUs or congruence residence sleeping rooms. For

pipeline low-income housing properties, projected distribution of MFTE units by type is approximately one-third SEDUs, congregate residence sleeping rooms, and studios, one-third one bedrooms, and one third two or three bedrooms.

The following are the affordability limits for Program 6, the latest MFTE program:

- Congregate Residence sleeping room 40% of AMI
- SEDU (if in building with mix of unit types) 40% of AMI
- SEDU (if in building with 100% SEDUs) 50% of AMI
- Studio 60% of AMI
- One-Bedroom 70% of AMI
- Two-Bedroom 85% of AMI
- Three or more Bedroom 90% of AMI

As with the preceding program, MFTE Program 6 income and affordability limits for owner-occupied developments are 100% of AMI for studio and one-bedroom units and 120% of AMI for larger units.

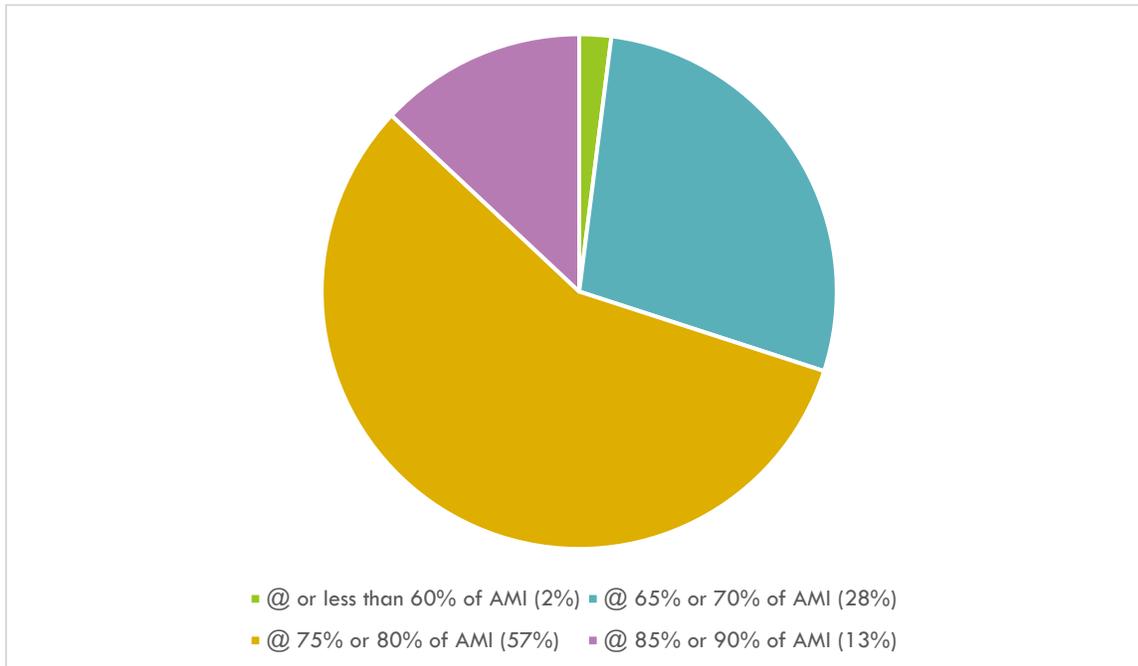
Per SMC Chapter 5.73, replacement housing units must be provided in addition to MFTE units if at any time during the 18 months prior to application for the land use permit or, if a land use permit is not required, prior to application for the building permit for the project, a tenant or tenants receiving or eligible to receive a tenant relocation assistance payment under Chapter 22.210 resided in a four or more unit structure to be demolished on the lot of the MFTE development. Replacement units must be leased at affordable rents to households with incomes at or below 50% of AMI for the duration of the multifamily property tax exemption. To date, owners of eight rental properties have each provided between one and three replacement units (17 replacement units in total).

**Table 1.5: Approved Applications, by MFTE Status and AMI Limit (MFTE Units; Market-Rate Housing Only)**

MFTE STATUS	40% AMI	50% AMI	60% AMI	65% AMI	70% AMI	75% AMI	80% AMI	85% AMI	90% AMI
PIPELINE	127	10	47	410	88	680		211	22
IN SERVICE	51		19	1,508	15	2,244	861	559	160
EXPIRED			35		91		77		
OPTED OUT							41	6	
<b>TOTAL</b>	<b>178</b>	<b>10</b>	<b>101</b>	<b>1,918</b>	<b>194</b>	<b>2,924</b>	<b>979</b>	<b>776</b>	<b>182</b>

Within MFTE rental properties with issued Final Certificates of Tax Exemption, MFTE Units are restricted as follows: 2% @ or less than 60% of AMI, 28% @ 65% or 70% of AMI, 57% @ 75% or 80% of AMI, and 13% @ 85% or 90% of AMI. Size and AMI limits for pipeline units are estimates until construction completion. The Office of Housing projects that the shares of MFTE units @ or less than 60% of AMI and @ 65% or 70% of AMI will slowly increase as MFTE Program 6 pipeline properties are placed in service.

**Chart 1.E: Final Certificates of Tax Exemption, by AMI Limit (MFTE Units; Market-Rate Housing Only)**





## SECTION III: LOCATION OF MFTE PROPERTIES

To be eligible for a property tax exemption under SMC Chapter 5.73, the multifamily housing must be located in a residential targeted area, as designated by the jurisdiction consistent with Washington state statute requirements. For purposes of SMC Chapter 5.73, the Residential Targeted Area is comprised of all parcels in Seattle zoned to allow multifamily housing according to Title 23.

See Attachment A for a map showing locations of MFTE properties.

## SECTION II: FINAL CERTIFICATES OF TAX EXEMPTION

In 2020, OH issued Final Certificates of Tax Exemption for 19 multifamily housing properties in neighborhoods throughout Seattle. One of the 19 multifamily housing developments is low-income housing. Market-rate multifamily properties receiving Final Certificates in 2020 total 2,183 rental units, including 454 MFTE units. Exemptions for properties with Final Certificate issued in 2020 became effective on January 1, 2021.

**Table 2.1: Multifamily Housing Issued Final Certificates of Tax Exemption (2020)**

PROPERTY NAME	NEIGHBORHOOD	MARKET-RATE OR LOW-INCOME HOUSING	TOTAL UNITS	MFTE UNITS
An Lạc	23 <sup>rd</sup> & Union-Jackson	Low-Income Housing	69	14
Bode Greenview	Aurora Licton Springs	Market-Rate	68	17
Capitol Hill Station Apartments - Park Building	Capitol Hill	Market-Rate	74	15
Capitol Hill Station Apartments - Ander South	Capitol Hill	Market-Rate	94	21
Center Steps	Uptown	Market-Rate	269	54
Cubix Crown Hill	Crown Hill	Market-Rate	40	8
Emerson Seattle	First Hill	Market-Rate	288	58
Ivy Apartments	Interbay	Market-Rate	93	19
Jackson Apartments	23 <sup>rd</sup> & Union-Jackson	Market-Rate	532	107
Jackson Street Apartments	23 <sup>rd</sup> & Union-Jackson	Market-Rate	75	15
Junction Landing	West Seattle Junction	Market-Rate	58	12
Livingstone Apartments	Westwood-Highland Park	Market-Rate	28	7
Loop at Green Lake, the	Green Lake	Market-Rate	45	12
Midtown Flats	Aurora Licton Springs	Market-Rate	27	7
Modera Broadway - South	Capitol Hill	Market-Rate	85	17

PROPERTY NAME	NEIGHBORHOOD	MARKET-RATE OR LOW-INCOME HOUSING	TOTAL UNITS	MFTE UNITS
Sienna Apartments	23 <sup>rd</sup> & Union-Jackson	Market-Rate	29	8
Solis	Capitol Hill	Market-Rate	36	8
STAZIONE25 - South	Mt. Baker	Market-Rate	194	39
Stream Dexios	South Lake Union	Market-Rate	79	16
<b>TOTAL</b>			<b>2,183</b>	<b>454</b>
Market-Rate Multifamily Housing with MFTE			2,114	440
Low-Income Housing with MFTE			69	14



## SECTION IV: COMPLIANCE MONITORING, INCLUDING EXPIRATIONS AND OPT OUTS

### Compliance Monitoring

As of March 1, 2021, the Office of Housing Asset Management Division received 234 annual compliance reports and lease-up reports for the 2020 reporting period from owners and property managers for properties that have a tax exemption through the MFTE Program. This response rate for reports due was over 96%, and OH continues to pursue collection of remaining reports.

Asset Management staff completed 20 property file audits in 2020. MFTE compliance training sessions for prospective applicants and property managers are held regularly. In 2020, staff from the Asset Management unit incorporated protective measures in response to COVID-19 by converting in-person trainings into virtual remote trainings. OH held 17 virtual training sessions, including 2 property management-specific sessions, for 350 registered attendees. Training attendees responded positively to the safety, convenience, and effectiveness of the virtual training format. The Office of Housing also released an updated compliance manual for MFTE and its other incentive programs in 2020.

Annual compliance reports and property file audits demonstrate that violations for issues such as overcharged rent, income ineligible occupants, or missing designated affordable units are relatively rare occurrences. Corrective action includes issuing credits for rent overages, correcting lease terms, collecting additional income documentation, and requiring properties to provide alternate MFTE units.

### MFTE Ended Due to Expiration or Opt Out

MFTE agreements and the related property tax exemption end upon expiration of a tax exemption, or upon decision of the property owner to opt out prior to expiration of the exemption.

To date, MFTE opt outs include 20 condominium units at The Pontedera, in addition to opt outs for three rental properties. For the ownership units, the property tax exemption ended upon sales to non-eligible buyers.

Since the inception of MFTE in 1998, owners of three rental properties opted out of MFTE after issuance of the Final Certificate of Tax Exemption, prior to expiration of the tax exemption. Two of those rental properties, which were converted to owner-occupied condominiums, included 41 Program 1 MFTE units prior to opt out. The third included six Program 5 MFTE units.

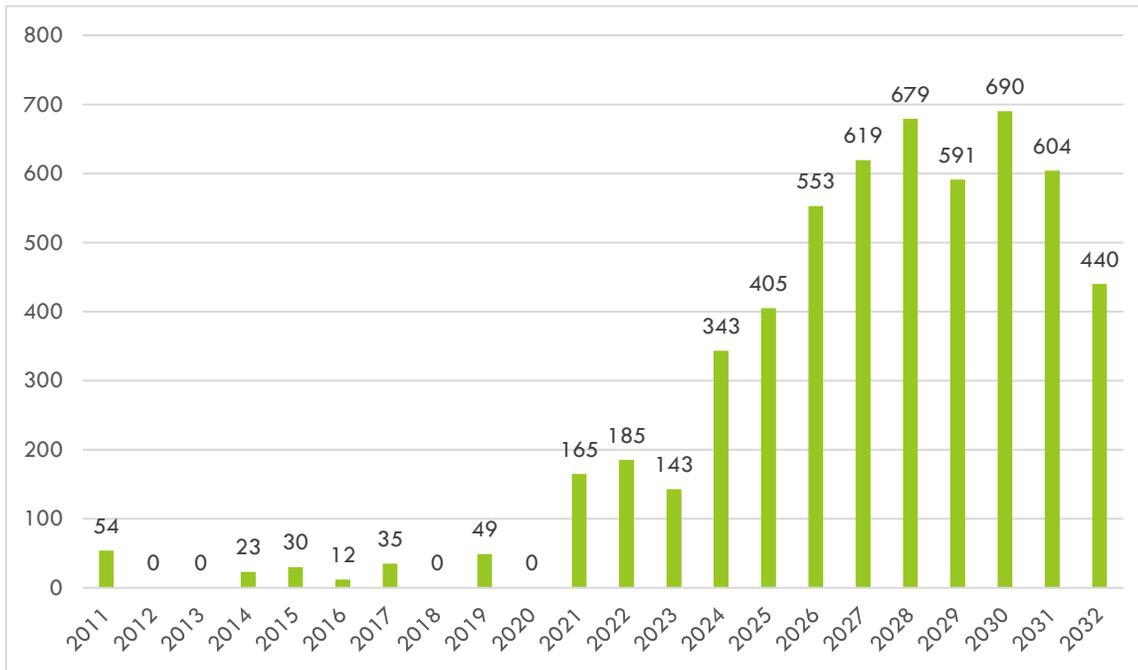
As of 12/31/2020, the multifamily property tax exemption expired for 16 rental properties totaling 344 MFTE units, plus 24 owner-occupied units. Seven of the 16 rental properties that no longer have a property tax exemption are market-rate multifamily housing. The other nine rental properties are low-income housing with long-term housing affordability covenants.

The inventory of market-rate rental multifamily housing with a set-aside of MFTE units in service currently totals 247 properties and 5,417 MFTE units. The property tax exemption for those properties expires in years 2021 through 2032. In the next five years (2021-2025), tax exemptions are scheduled to expire for the owners of 48 market-rate multifamily rental housing properties with 1,241 MFTE units.

In 2019, the Washington state legislature passed legislation allowing extension of the property tax exemption until December 31, 2021 for properties with MFTE exemptions expiring in 2020. MFTE was extended for the one property that was set to expire in 2020. In 2021, MFTE is scheduled to expire for four market-rate rental properties with 165 MFTE units. These MFTE units currently have rent/income limits of 80% AMI and 90% AMI.

Table 4.A below shows past expirations and the growing number of expirations in market-rate rental housing anticipated in the coming years.

**Chart 4.A: Expirations by Year (MFTE Units; Market-Rate Housing Only)<sup>4</sup>**



<sup>4</sup> Includes past expirations and projected expirations of properties currently in service. Does not include properties for which Office of Housing issued a Final Certificate of Tax Exemption that opted out prior to expiration of the property tax exemption.



## SECTION V: RENTAL HOUSING MARKET ANALYSIS

Based on data reported by property owners of market-rate properties with MFTE, average contract rents range from \$1,279 for SEDUs to \$2,765 for 2-bedroom units, compared to average contract rents of \$757 to \$1,885 for MFTE units of that size range. The estimated rent differential based on contract rents as reported in annual compliance reports is approximately \$522 for SEDUs, \$314 for studios, \$501 for 1-bedroom units, and \$880 for 2-bedroom units.

**Table 5.1: Contract Rents in MFTE Properties (Market-Rate Housing Only)<sup>5</sup>**

	SEDU	STUDIO <sup>6</sup>	1-BEDROOM	2-BEDROOM
Average Contract Rent – Unrestricted Units	\$1,279	\$1,438	\$1,997	\$2,765
Average Contract Rent – MFTE Units	\$757	\$1,124	\$1,496	\$1,885
Current MFTE Unit Rent Limit (MFTE P6) <sup>7</sup>	\$760	\$1,140	\$1,520	\$2,077

<sup>5</sup> Based on contract rents for a sample of roughly 1,900 units as reported by property owners or owner representatives for 115 MFTE annual compliance reports for the 2020 reporting period.

<sup>6</sup> Studios include SEDUs for those multifamily properties with an MFTE initial application submittal date prior to adoption of Ordinance 124724. Ordinance 124724 (adopted February 2015) increased the set-aside percentage and decreased the AMI limit for SEDUs, as defined by the land use code (SMC 23.42.048 and SMC 23.84A).

<sup>7</sup> MFTE Program 6 rent limits are provided for comparison purposes. With the exception of one Program 6 MFTE property currently in service, in service MFTE units are in properties participating in MFTE Programs 3, 4, and 5. For MFTE units, the base rent that may be charged is equal to the gross rent, less the household's utility estimate for their unit's utility usage, less any required recurring fees that are a condition of occupancy (renter's insurance, month-to-month charges, King County sewer treatment capacity fee, etc.). The utility estimate is based on household utility responsibility and number of bedrooms in the unit, using the schedule published by the Seattle Housing Authority. Table 5.1 compares average "contract rents," without adjustments for utility or other costs, for unrestricted units or MFTE units as reported by property owners or owner representatives.

Based on Yardi data for Seattle in Quarter 4, the average asking rent in the City of Seattle fell from \$2,176 in 2019 to \$1,937 in 2020, a decline of 11%, while the occupancy rate fell from 95.3% to 91.4% during this same period. The use of concessions rose from 10.5% of properties and an average concession of \$79 per month, to a 23.8% of properties and an average concession of \$196 per month.



## SECTION VI: MFTE TAX IMPACTS AND COST

There are two ways to evaluate the MFTE program's tax impacts and cost. The first and simplest approach quantifies the amount of exempted property tax burden – that is, the amount of property tax that MFTE property owners collectively avoid in a given year due to offering income and rent-restricted set-aside units. Other (non-exempt) taxpayers absorb this tax burden.

The second way of looking at the program considers the amount of net new property tax revenue that active MFTE properties' new construction value would have generated. As intended under State law, the majority of that potential revenue is forgone when MFTE properties' new construction value is excluded from the tax base for the duration of the exemption period. The remainder of the net new revenue is indeed collected, with the associated net new tax burden shifted to other taxpayers.

### Exempted Tax

As of December 31, 2020, the MFTE program exempted 265 multifamily rental properties and 72 owner-occupied homes in multifamily buildings from property tax on the residential portion of their properties. The combined benefit of the tax exemption to these property owners totaled \$73.6 million in 2020. The exempted amount of tax specific to owners of market-rate housing properties was \$70.3 million.<sup>8</sup>

The public agencies slated to receive this property tax revenue still collect the \$70.3 million of exempted property tax; it is not forgone.<sup>9</sup> Rather, the tax burden is absorbed by other (non-exempt) taxpayers.

### Revenue Impacts

#### Forgone Revenue

Under most circumstances new construction activity increases the maximum amount of property tax revenue that public agencies can collect. However, for MFTE and per RCW

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<sup>8</sup> As described in Section I of this report, both market-rate and low-income housing properties find value in the MFTE program. However, only in the case of market-rate housing is the MFTE program the primary driver for income and rent restrictions; low-income housing is already governed by other, and typically more stringent, restrictions.

<sup>9</sup> Multiple public agencies use property tax receipts to support operations. Seattle's property tax rate (\$9.311 per \$1000 of assessed value for tax year 2021) includes support for the City of Seattle (23 percent), King County (12.7 percent), and public schools (50.4 percent). The remainder supports specific levies, the Port, flood control, and other various uses.

84.14, taxing agencies, including the King County Assessor's Office, establish -- but set aside -- the value of any new building that has committed to participation in the MFTE program. Deferring acknowledgment of this new construction value, as intended under State law, in essence mimics a scenario in which the buildings had never been constructed. The deferred new construction value is not introduced into the revenue calculation until expiration of the exemption, typically 12 years after a development is complete.

As of the end of 2020 the King County Assessor had set aside a cumulative \$3.18 billion in new construction value for properties with commitments to participate in MFTE over the past 12 years. The formula that establishes the maximum amount of property tax revenue allowable for 2021 therefore excluded this \$3.18 billion of new construction value from the calculation. Jurisdictions that receive revenue from property taxes paid in Seattle will therefore collect up to \$31 million less than they would have had the deferred-value properties been taxable.

The forgone revenue equates to an implicit per-unit subsidy of \$5,722 when averaged across the 5,417 MFTE-restricted units in these otherwise market-rate housing properties. Over the 12-year exemption period, the estimated subsidy is \$68,664 per unit.

### **Collected Revenue**

As a final complication, a portion of the appraised new construction value of some MFTE properties is in fact included in the tax base. This occurs when the Assessor appraises partially completed properties but does not yet know that the property owner will ultimately participate in the MFTE program. So-called "captured" new construction value is factored into the revenue calculation, similar to any non-exempt property.

For 2020 the revenue associated with captured new construction totaled \$20.7 million across all jurisdictions. This amount represents a subset of the \$70.3 million of market-rate housing properties' shifted tax burden described in the "Exempted Tax" subsection, above. The captured new construction value increases 2021 property taxes for property owners throughout King County. In Seattle, owners of a median value home will experience a net increase of \$23.49, assuming a current median home value of \$674,000 and total real property value of \$620.6 billion as reported by King County. This amount changes from year to year.

Attachment B provides detail on both the tax impacts and revenue impacts of MFTE properties in service.



## SECTION VII: STATE LEGISLATIVE CHANGES

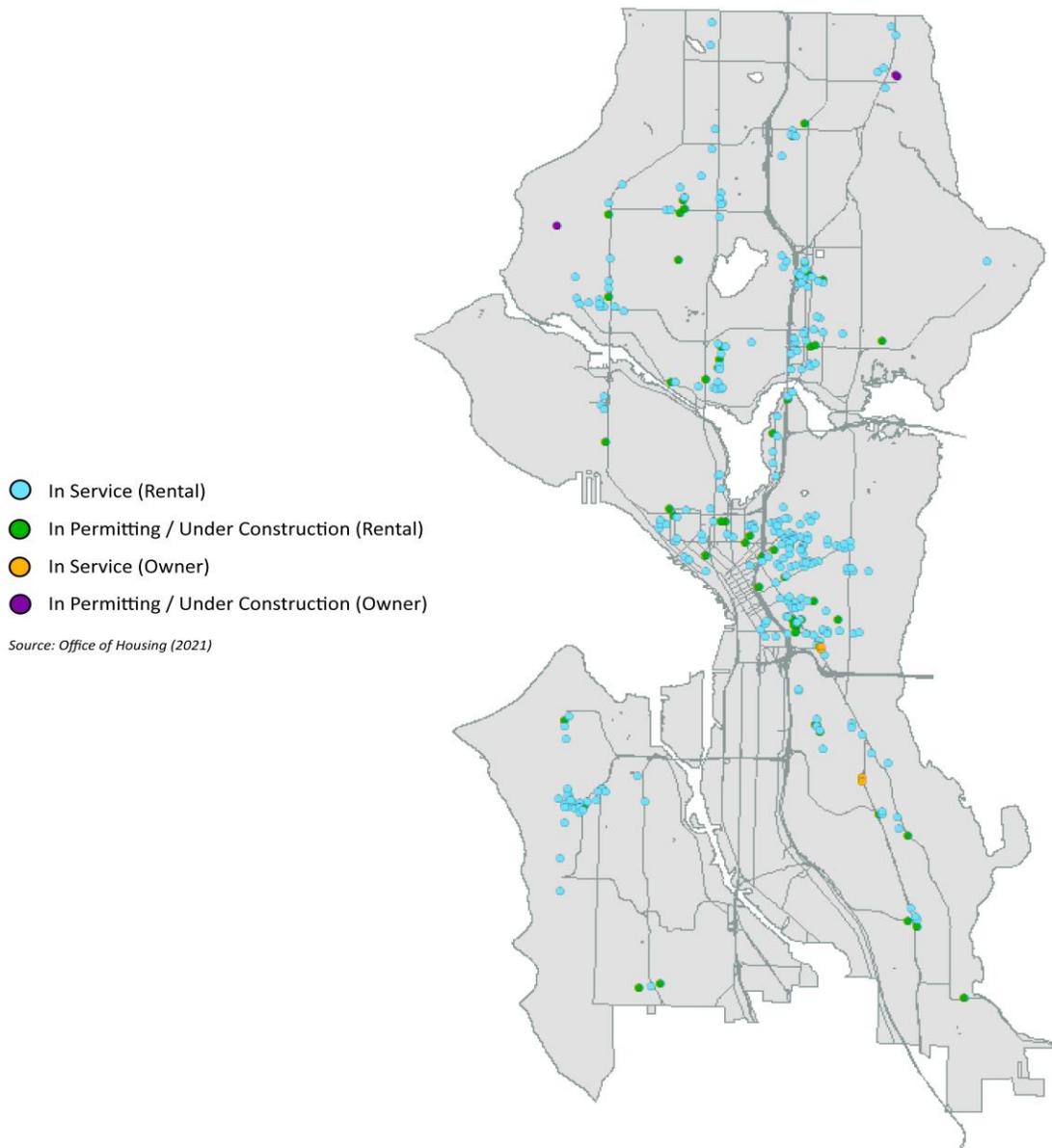
The Washington state legislature is currently considering legislation to amend [Chapter 84.14 RCW](#), the authorizing statute for MFTE. Information about [SB 5287 - 2021/2022](#), including current status, is available online. SB 5287 authorizes a 12-year extension of MFTE provided properties meet local affordability requirements. Other potential changes to Chapter 84.14 RCW include a new 20-year property tax exemption for new permanently affordable homes, authorization for local governing authorities to adopt prevailing wage or other requirements for development of MFTE properties, and extended deadlines to allow construction completion up to 10 years after MFTE application approval.

# ATTACHMENTS

Attachment A – Location of MFTE Properties

Attachment B – Property Tax Impact Analysis (Tax Year 2021)

## Attachment A – Location of MFTE Properties<sup>10</sup>



<sup>10</sup> Map shows location of MFTE properties in service or pipeline as of 12/31/2020.

## Attachment B – Property Tax Impact Analysis (Tax Year 2021)<sup>11</sup>

### Properties with MFTE: Total

APPRAISAL YEAR	TAX YEAR	TOTAL TAX CAPTURED	TOTAL 1% ANNUAL GROWTH	TOTAL TAX NOT CAPTURED	TOTAL 1% ANNUAL GROWTH
2019	2020	\$1,771,009	\$17,887	\$4,324,568	\$43,246
2018	2019	\$4,061,826	\$81,642	\$1,909,658	\$38,384
2017	2018	\$5,430,096	\$164,537	\$6,767,304	\$205,056
2016	2017	\$2,384,136	\$96,805	\$7,407,538	\$300,776
2015	2016	\$1,536,286	\$78,366	\$3,186,887	\$162,563
2014	2015	\$921,380	\$56,683	\$3,158,225	\$194,294
2013	2014	\$520,037	\$37,513	\$2,472,938	\$178,386
2012	2013	\$1,621,496	\$134,352	\$144,493	\$11,972
2011	2012	\$281,284	\$26,352	\$435,863	\$40,834
2010	2011	\$743,317	\$77,767	\$618,667	\$64,726
2009	2010	\$1,216,377	\$140,696	\$178,636	\$20,663
2008	2009	\$217,971	\$27,644	\$0	\$0

TOTAL APPRAISED VALUE	\$5,527,287,572	CAPTURED APPRAISED VALUE	\$2,262,300,464	NOT CAPTURED APPRAISED VALUE	\$3,264,987,108
2021 Total Property Tax Exempted	\$73,643,921	Total Tax Captured + 1% Gains	\$21,627,575	Total Tax Not Captured + 1% Gains	\$31,865,678
		2021 City Share of Tax Revenue Captured	\$5,874,369	2021 City Share of Tax Revenue Not Captured	\$8,655,189

<sup>11</sup> Analysis is for MFTE properties in service as of 12/31/2020. Appraisal and tax information is current as of 12/31/2020. Total tax captured and not captured is calculated by multiplying the appraised values of each property by the corresponding tax rate in its appraisal year(s).

**Properties with MFTE: Market-Rate Housing**

APPRAISAL YEAR	TAX YEAR	TOTAL TAX CAPTURED	TOTAL 1% ANNUAL GROWTH	TOTAL TAX NOT CAPTURED	TOTAL 1% ANNUAL GROWTH
2019	2020	\$1,692,736	\$16,927	\$4,116,547	\$0
2018	2019	\$3,621,476	\$72,792	\$1,784,343	\$35,865
2017	2018	\$5,128,202	\$155,390	\$6,767,304	\$205,056
2016	2017	\$2,239,040	\$90,914	\$7,202,408	\$292,447
2015	2016	\$1,536,286	\$78,366	\$3,007,608	\$153,418
2014	2015	\$852,365	\$52,438	\$3,158,225	\$194,294
2013	2014	\$511,752	\$36,915	\$2,445,048	\$176,374
2012	2013	\$1,567,587	\$129,885	\$141,824	\$11,736
2011	2012	\$272,003	\$25,483	\$435,863	\$40,788
2010	2011	\$651,346	\$739,228	\$355,343	\$37,139
2009	2010	\$969,268	\$112,114	\$156,091	\$18,038
2008	2009	\$180,150	\$22,808	\$0	\$0

TOTAL APPRAISED VALUE	\$5,229,178,509	CAPTURED APPRAISED VALUE	\$2,075,658,452	NOT CAPTURED APPRAISED VALUE	\$3,153,520,057
2021 Total Property Tax Exempted	\$70,308,106	Total Tax Captured + 1% Gains	\$20,738,544	Total Tax Not Captured + 1% Gains	\$30,776,925
		2021 City Share of Tax Revenue Captured	\$5,632,895	2021 City Share of Tax Revenue Not Captured	\$8,359,468

**Properties with MFTE: Low-Income Housing**

APPRAISAL YEAR	TAX YEAR	TOTAL TAX CAPTURED	TOTAL 1% ANNUAL GROWTH	TOTAL TAX NOT CAPTURED	TOTAL 1% ANNUAL GROWTH
2019	2020	\$280,082	\$2,801	\$208,021	\$2,080
2018	2019	\$440,350	\$8,851	\$125,315	\$2,519
2017	2018	\$301,894	\$9,148	\$0	\$0
2016	2017	\$145,095	\$5,891	\$205,130	\$8,329
2015	2016	\$0	\$0	\$179,279	\$9,145
2014	2015	\$69,015	\$4,246	\$0	\$0
2013	2014	\$8,285	\$598	\$27,890	\$2,012
2012	2013	\$53,910	\$4,467	\$2,670	\$221
2011	2012	\$9,281	\$870	\$0	\$0
2010	2011	\$91,971	\$9,622	\$263,324	\$27,550
2009	2010	\$247,109	\$28,583	\$22,545	\$2,608
2008	2009	\$37,821	\$4,797	\$0	\$0

TOTAL APPRAISED VALUE	\$298,109,063	CAPTURED APPRAISED VALUE	\$186,642,012	NOT CAPTURED APPRAISED VALUE	\$111,467,051
2021 Total Property Tax Exempted	\$3,335,816	Total Tax Captured + 1% Gains	\$1,761,883	Total Tax Not Captured + 1% Gains	\$1,088,637
		2021 City Share of Tax Revenue Captured	\$478,554	2021 City Share of Tax Revenue Not Captured	\$295,690

## FOR MORE INFORMATION

For more information about the Multifamily Tax Exemption program, contact the City of Seattle Office of Housing or visit [www.seattle.gov/housing](http://www.seattle.gov/housing).

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