

Multi-family Tax Exemption (MFTE) Program

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Housing and Human Services Committee
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Purpose of Today's Discussion

Review proposed legislation to update City's multi-family tax exemption (MFTE) program



Background



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Aspects of State MFTE program

- First authorized by State legislature in 1995 (Chapter 84.14)
- Allows local jurisdictions to authorize property tax exemptions for 8, 12, or 20 years (depending on program) for new multi-family construction, conversion, and rehab.
- Participation is voluntary, multi-family home builder will only elect to participate if program provides sufficient economic incentive.
- Home builder does not pay property taxes on residential improvements for given number of years. Still pays tax on land & non-residential improvements.
- Tax exemption is shifted to rest of Seattle's tax base.
- Program has evolved to serve multiple goals:
 - Incentivizing development of multiple-unit housing, including creating additional affordable housing
 - Encouraging urban development and density
 - Increasing market rate workforce housing
 - Developing permanently affordable homeownership opportunities
 - Promoting economic investment and recovery
 - Creating family-wage jobs

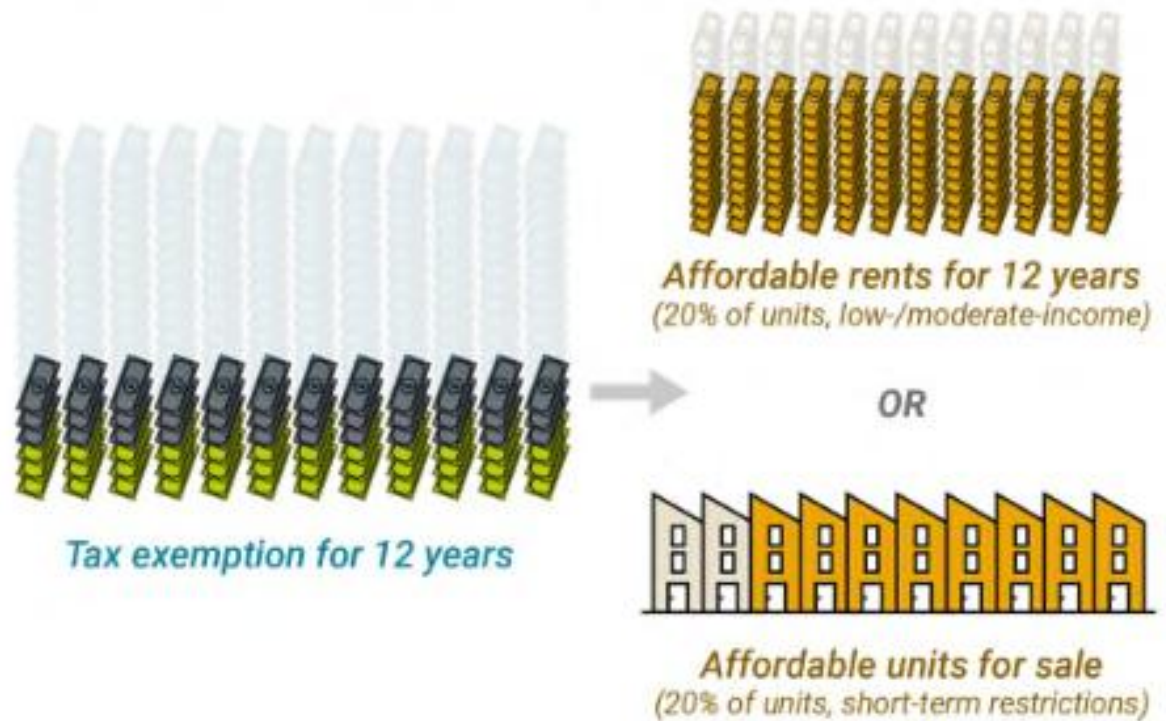
State requirements for 12-year program

12-year MFTE program must set aside at least 20% of units for low- and moderate-income households (HH).

HH income based on Area Median Income (AMI)

- Low income: 80% AMI or less
- Moderate income: 80% to 115% AMI

For a 12-year MFTE... tax exemptions are provided in exchange for at least 20% of units being set aside as affordable for 12 years (rentals or units for sale).



Overview of Seattle's MFTE Program

- Available in all multi-family zones.
- Initial 12-year exemption with voluntary extension for another 12 years at reduced AMI level.
- 25% of total units must be affordable at prescribed AMI levels (higher than state requirement), or 20% of total units if at least 8% of all units are 2 bedroom or more.
- Includes homeownership option- used exclusively by projects receiving OH funding for affordable housing.

History of Seattle's MFTE Program

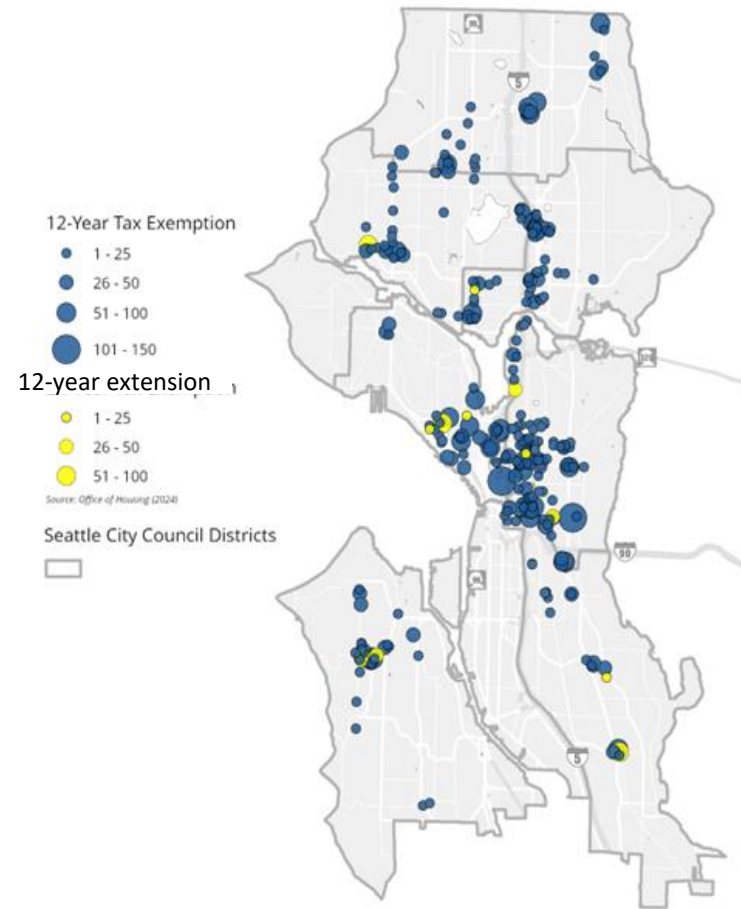
Initial adoption in 1998

Six different program iterations over the years

12-year extension option added in 2021 after State authorized.

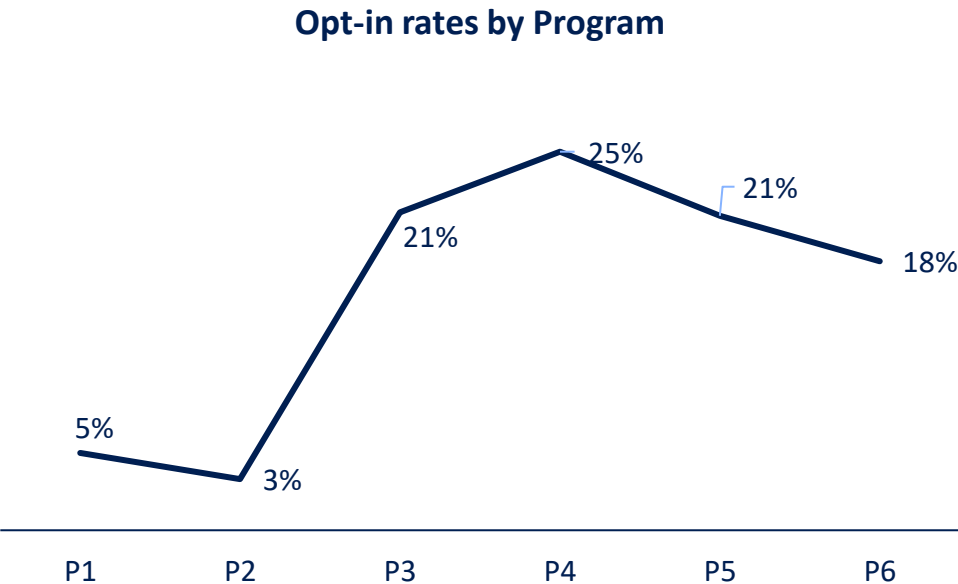
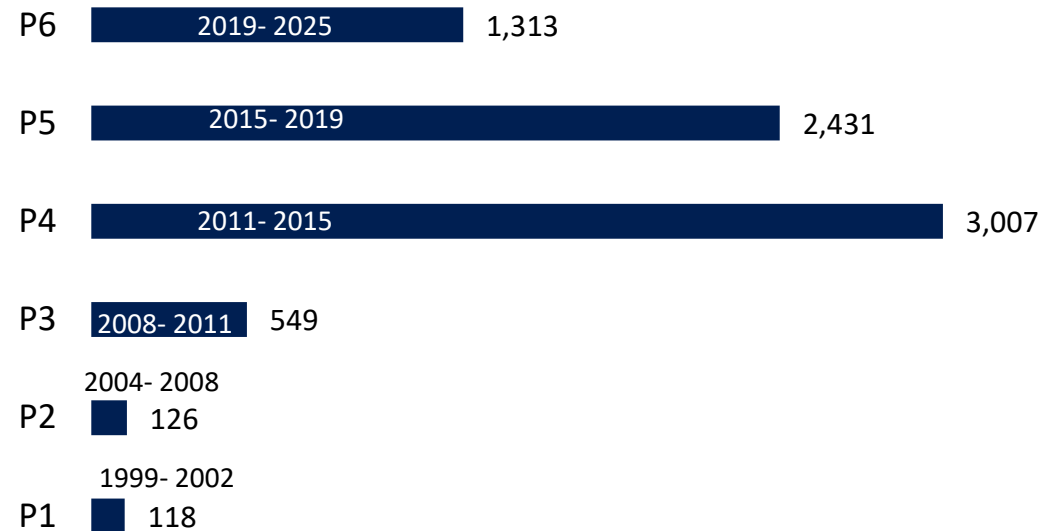
Program 1 1999- 2002	Program 2 2004- 2008	Program 3 2008- 2011	Program 4 2011- 2015	Program 5 2015-2019	Program 6 2019- 2025
10-year exemption	10-year exemption	12-year exemption	12-year exemption	12-year exemption	12-year exemption + 12-year extension
Different MFTE unit set-aside depending on RTA 40% @ 60% AMI in Pike-Pine urban center village 25% @ 80% AMI in other RTAs	Different MFTE unit set-aside depending on AMI level 20% @ 60% AMI, or 25% @ 65% AMI, or 30% @ 70% AMI	20% of total units 80% or 90% AMI depending on number of bedrooms	20% of total units 65%, 75%, or 85% AMI depending on number of bedrooms	20% or 25% of total units depending on share of multi-bedroom units 40%, 65%, 75%, 85% or 90% AMI depending on unit configuration	20% or 25% of total units depending on share of multi-bedroom units 40%, 65%, 75%, 85% or 90% AMI depending on unit configuration

Over 7,300 active MFTE units on the market today

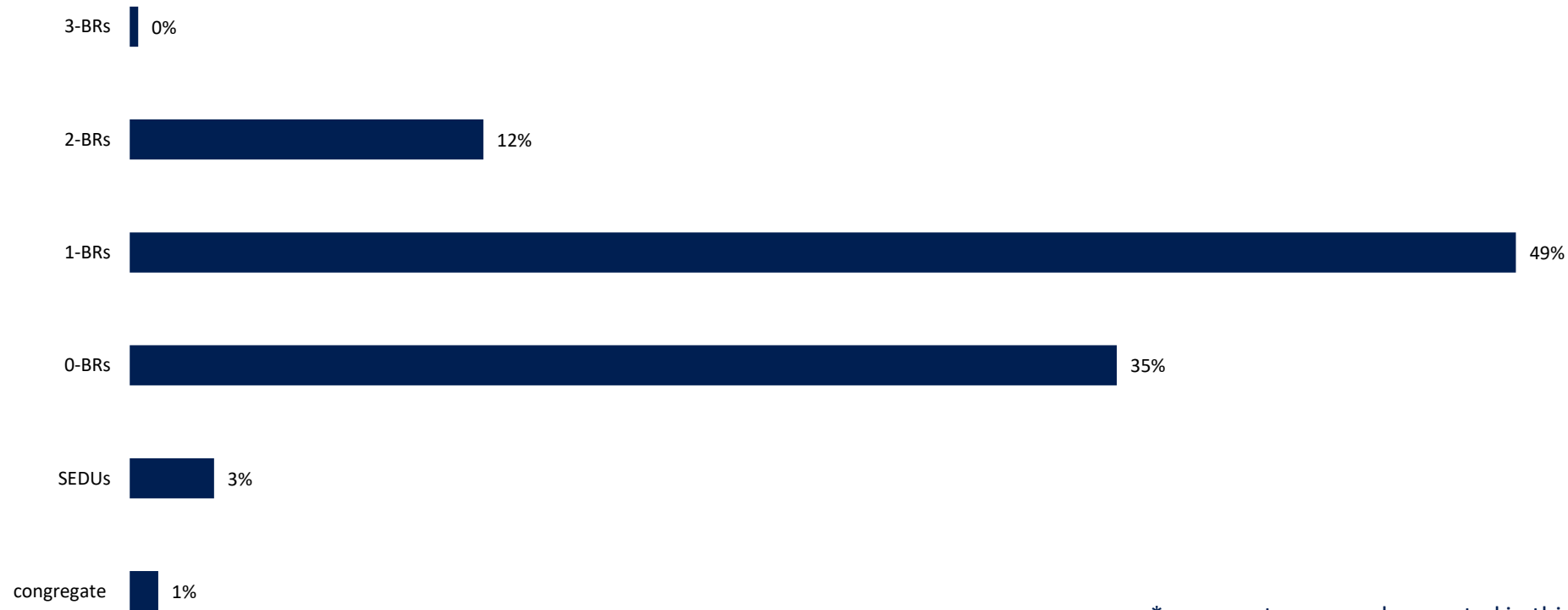


A total of 8,007 MFTE units have been produced since MFTE first adopted

Program 4 has had highest production & opt in rate



1 bedrooms & studios comprise majority of MFTE units produced to date*



*congregates are undercounted in this grouping, as many were regulated as studios in past program iterations

2024 UW Evaluation Findings

- MFTE has had a stimulative effect on housing production.
- 303 multi-family rental properties have participated in MFTE, producing 33,956 total housing units, of which 7,047 are income-restricted.
- In all submarkets and unit types, average income-restricted MFTE rents are lower than market-rate rents in MFTE properties, with larger rent discounts occurring in higher rental submarkets & for larger units.
- Current MFTE tenant income certification process and unit comparability requirements have significant administrative costs on both the City and builders and these can deter program participation, particularly during times of challenging market conditions.
- Vacancy rates for MFTE units track to vacancy rates of market-rate units in same building.



Proposed Legislation



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Goal of 2025 MFTE Update

Encourage creation of workforce housing & more housing generally:

- Reduce administrative burden
- Clarify and simplify requirements and rules to reduce confusion
- Provide for modest increases in allowable Area Median Income limits for MFTE units



Context for Update



In recent years, Seattle has seen an influx of units coming on the market, especially studios and 1-bedrooms.

Great news for renters, as higher than average vacancy rates have suppressed rent increases.

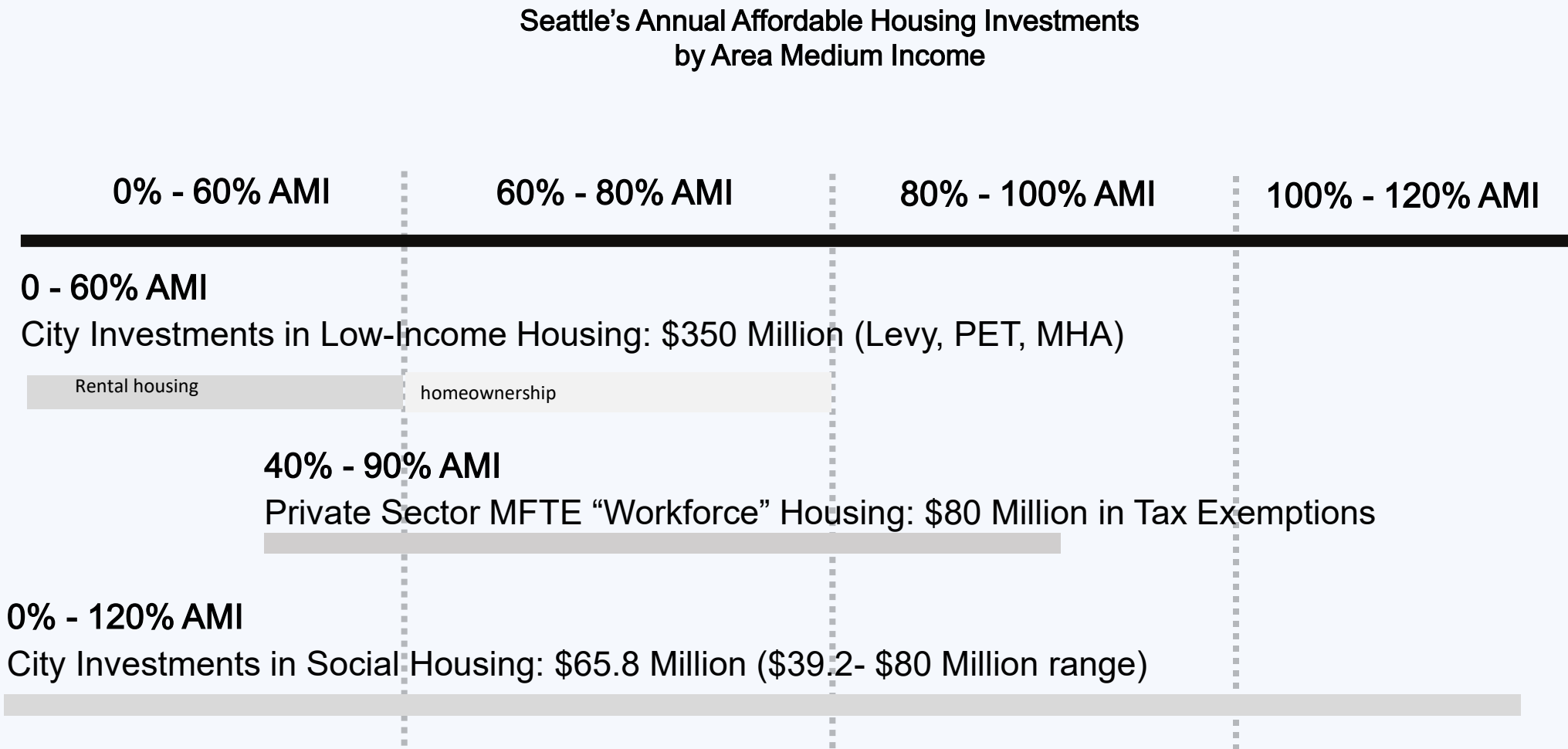


Pipeline has dried up, however, as market conditions no longer favorable for production.

High interest rates, construction costs & more recently, tariffs



MFTE in context of other housing investments



Proposed AMI Levels



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Key definitions related to rent



MFTE unit: a dwelling unit or congregate sleeping room in multifamily housing leased at an *affordable rent* to an eligible household

Affordable rent = contract rent + tenant paid utilities + required fees not included in the rent, the sum of which may not exceed 30% of the income limit.

Converting AMI into rent:

2025 income limits and Maximum rent

Income Limits

Percent of Area Median Income

Annual AMI levels published by HUD

Family Size	30%	40%	50%	60%	65%	70%	75%	80%	85%	90%
1	\$33,000	\$44,000	\$55,000	\$66,000	\$71,500	\$77,000	\$82,500	\$88,000	\$93,500	\$99,000
2	\$37,710	\$50,280	\$62,850	\$75,420	\$81,705	\$87,990	\$94,275	\$100,560	\$106,845	\$113,130
3	\$42,420	\$56,560	\$70,700	\$84,840	\$91,910	\$98,980	\$106,050	\$113,120	\$120,190	\$127,260
4	\$47,130	\$62,840	\$78,550	\$94,260	\$102,115	\$109,970	\$117,825	\$125,680	\$133,535	\$141,390
5	\$50,910	\$67,880	\$84,850	\$101,820	\$110,305	\$118,790	\$127,275	\$135,760	\$144,245	\$152,730
6	\$54,690	\$72,920	\$91,150	\$109,380	\$118,495	\$127,610	\$136,725	\$145,840	\$154,955	\$164,070

Maximum Rent, including fees and basic utilities (30% of monthly income)

Percent of Area Median Income

Annual rent chart published by OH

Unit Size	30%	40%	50%	60%	65%	70%	75%	80%	85%	90%
0-Bedroom	\$825	\$1,100	\$1,375	\$1,650	\$1,787	\$1,925	\$2,062	\$2,200	\$2,337	\$2,475
1-Bedroom	\$883	\$1,178	\$1,473	\$1,767	\$1,915	\$2,062	\$2,209	\$2,357	\$2,504	\$2,651
2-Bedroom	\$1,060	\$1,414	\$1,767	\$2,121	\$2,297	\$2,474	\$2,651	\$2,828	\$3,004	\$3,181
3-Bedroom	\$1,225	\$1,634	\$2,042	\$2,451	\$2,655	\$2,859	\$3,063	\$3,268	\$3,472	\$3,676
4-Bedroom	\$1,367	\$1,823	\$2,278	\$2,734	\$2,962	\$3,190	\$3,418	\$3,646	\$3,873	\$4,101

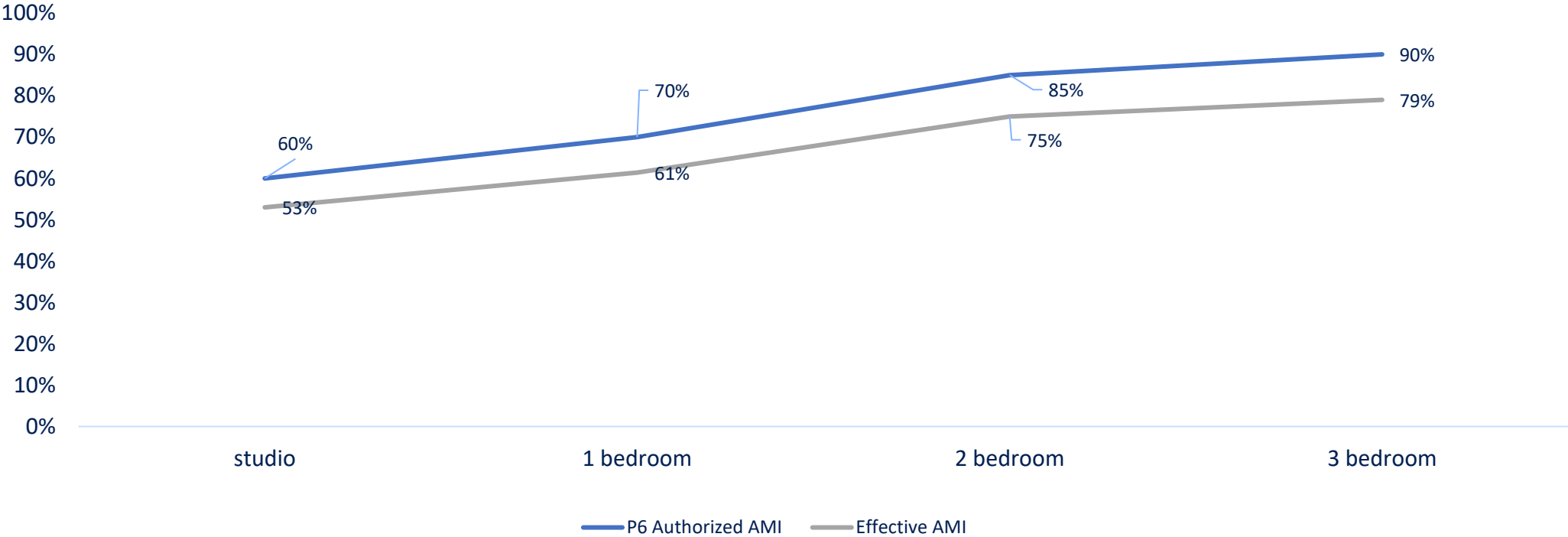


Proposed AMI levels

Unit type	AMI Levels			
	P5 2015- 2019	P6 2019- 2025	Initial P7 <i>Proposed</i> 1 st 12 yrs	P7 extension Proposed 2 nd 12 yrs
Congregate sleeping room	40%	40%	40%	35%
0 bedrooms ≤ 320 sq ft	40%	50%	50%	45%
0 bedrooms > 320 sq ft.	65%	60%	60%	55%
1 Bedroom	75%	70%	75%	70%
2 Bedroom	85%	85%	90%	80%
3 Bedroom	90%	90%	90%	80%

- Proposed AMI levels track closely to P5 or P6
- Extensions require a 5% AMI reduction & State law requires MFTE units cannot exceed 80% AMI during the extension period, thus, larger reduction for 2 & 3 bedrooms.

Program 6 Authorized AMI vs. Effective AMI



Applying State rent stabilization cap to MFTE units

- HB 1217: Caps rent at 7% + CPI for existing tenants, not to exceed 10%.
- State law exempts new construction first 12 years.
- Proposed MFTE update applies State law to newly constructed MFTE units (1st 12 years) but resets in-between tenants/unit turn-over.
- P6 rent cap remains in place for current P6 tenants but upon turnover, units can be reset to align with published HUD table & OH maximum rent table. Like P7, P6 units going forward governed by State rent cap.

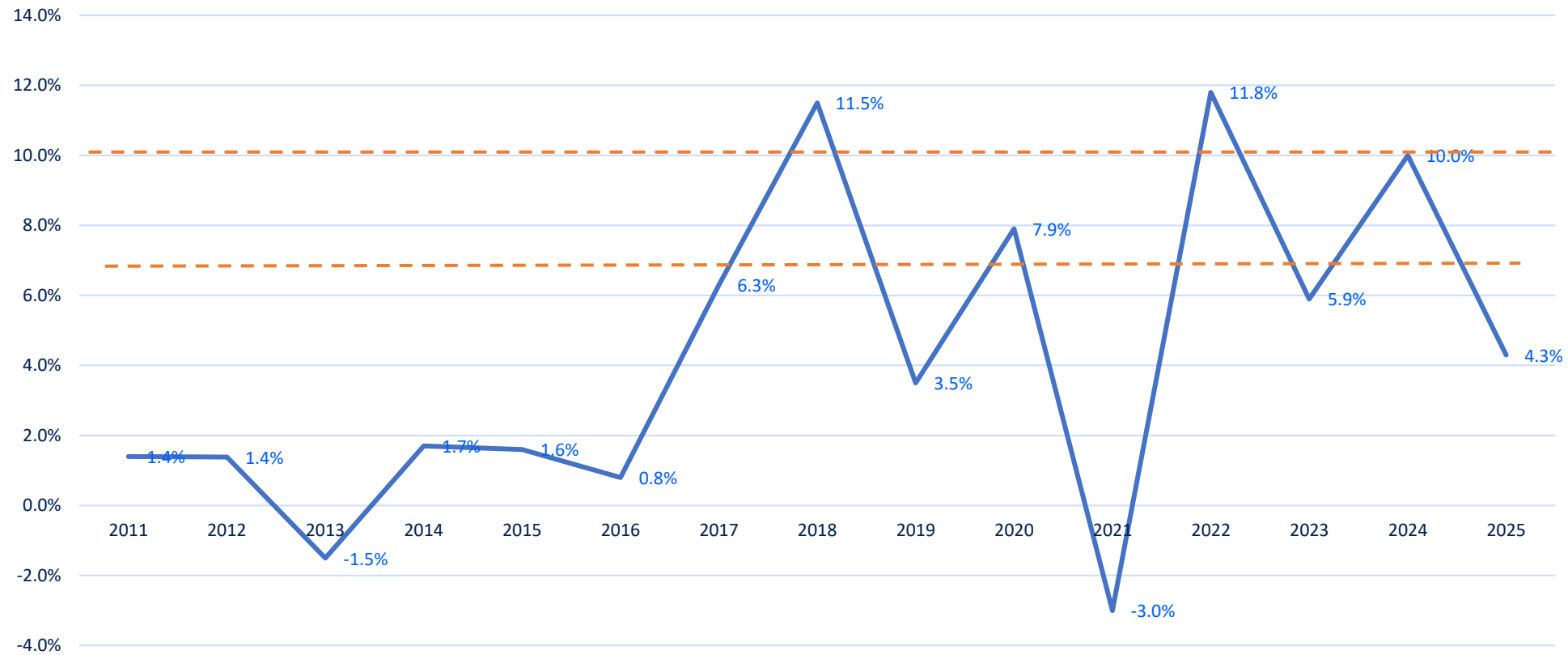
“The rent for an existing eligible tenant in an MFTE unit may not increase by more than the annual maximum rent increase determined and published by the Washington State Department of Commerce in compliance with chapter 59.18 RCW, or the increase in the affordable rent limits posted by the Director from the previous year, whichever is less.

This provision does not prohibit an owner from increasing the rent to the affordable rent limit posted by the Director after a tenant vacates and the tenancy ends.”



In most cases, annual HUD AMI adjustments will govern possible rent increases

Annual AMI Adjustments over last 15 years have averaged 4%



P7 proposed rents vs. today's market rents

Unit type/Bedrooms	Gross Median Market-Rate Rent*	Proposed P7 AMI	2025 Monthly Rent Limit as proposed under P7 AMI	2025 Annual HH Income Limit**
Congregate sleeping room	\$1,106	40%	\$1,100	\$44,000
0-bedroom/Studio ≤ 320 square feet	\$1,416	50%	\$1,375	\$55,000
0-bedroom/Studio > 320 square feet	\$1,871	60%	\$1,650	\$66,000
1-bedroom	\$2,604	75%	\$2,357	\$82,500
2-bedroom	\$4,159	90%	\$3,181	\$127,260
3-bedroom	\$5,928	90%	\$3,676	\$147,040

* March 2025 market-rate and mixed-income rents in properties built 2020-2025

** Assumes 1 person household for 0-bedroom units and 1.5 persons per bedroom for all other units, in line with current State and City practice

Other Changes



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Distinguishing between standard and “alternative, a.k.a “open” bedrooms



Standard bedroom: an area with four floor-to-ceiling walls with natural light and ventilation provided by a window that opens to the outside.

Alternative bedroom: an area with four walls and:

- a. Each wall must be at least 7 feet high
- b. At least two of walls must be floor-to-ceiling
- c. No more than one wall may be comprised partly or entirely of a sliding door.

Allowable AMI levels are 10% points lower for an alternative one or two bedroom than a standard one and two bedroom unit.

Comparability

MFTE units shall be generally comparable to standard market rate units in each building in terms of:

- 1) Number of bedrooms and bathrooms
- 2) Bedroom type (standard or alternative)
- 2) Accessibility
- 3) Net unit area measured by square feet (within 95% of standard market rate unit size)
- 4) Access to common amenity areas
- 5) Basic functionality, which means MFTE designated units should be generally comparable in function and include same features and finishes as the *standard* market-rate units.

Premium features and finishes associated with units designed to secure higher rents than the standard market rate units should not be used to assess comparability.

Distribution

MFTE units can be distributed within a building one of two ways:

1) If MFTE set-aside is 25%, then no more than 30% of units on a floor shall be MFTE units. If MFTE set-aside is 20%, then no more than 25% of units on a floor shall be MFTE units.

or

2) On the middle floor and on floors equally above and below the middle floor, provided no more than half of total units on any given floor are MFTE units.



Allowing conversion of P6 projects in the pipeline to convert to P7

Projects that have applied to Program 6 but have not yet received final certification may elect to convert to Program 7

Includes a total of 15 projects (8 new and 7 extensions)

Simplifying administrative requirements

OH is committed to significantly reducing paperwork requirements for renters and property managers.

- Simplifying options for verifying income:
 - ✓ Paystubs, W-2s, tax returns, or
 - ✓ Third-party software or verification forms.
- Reducing paperwork for documenting income received from assets.
- Allowing self-certification of income during annual recertification.

Other proposed changes

- Repeals expired MFTE Chapter 5.72
- Prohibits fees that would apply only to MFTE residents
- Removes automatic four-year sunset of MFTE program and adds guidance on when changes should be considered
- Clarifies violation of City and State fair housing laws that ban housing discrimination are grounds for cancellation of tax exemption.



Affordable Homeownership

- Only used by OH-funded affordable projects
- 20-year exemption from property taxes
- Home must be permanently affordable
- 217 homes with approved applications over life of program
- Proposed changes provide more clarity regarding:
 - Definition of “qualified non-profit organization”
 - Clarify affordability term as 99 years
 - Determining the affordable sale price
 - Monitoring and compliance requirements



Questions?



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