

# Memo

**Date:** January 29, 2015

**To:** Seattle City Council – CHAHSER Committee

**From:** Seattle Office of Housing, Emily Alvarado 684–3727, Mike Kent 684–0262

**Subject:** MFTE – SEDU Legislation

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The proposed ordinance would reduce the maximum rent threshold for income–restricted Small Efficiency Dwelling Units (SEDUs) in Multifamily Tax Exemption (MFTE) projects to a level affordable to individuals earning 40% of Area Median Income (AMI).

What would this legislation do?

- The proposed ordinance would establish a lower affordability threshold for SEDUs that are set aside as affordable housing under the MFTE program. The proposed affordability level would align with existing affordability requirements for incentive programs related to SEDUs, which were approved by Council in 2014. This change would help ensure that MFTE properties containing SEDUs provide ample public benefits through the provision of affordable housing.

What prompted the need for this legislation?

- In 2014, the Council passed an ordinance establishing SEDUs as a new unit type, distinct from other unit types. Because existing Code does not set affordability requirements specifically for SEDUs in MFTE, the MFTE program would regard a SEDU as a studio, restricted at 65% of AMI. This translates to a maximum monthly housing cost of \$1,004 and a maximum annual income for a one–person household of

\$40,170. However, typical SEDU market-rate rents are anticipated to be less than not only market-rate rents but also the restricted, affordable-rate rents for studios.

What would be the result of the lower affordability threshold in terms of affordable rent and annual income limits?

- The proposed legislation would reduce the maximum rent threshold for income-restricted SEDUs in MFTE projects to a level affordable to individuals earning 40% of AMI, resulting in a maximum monthly housing cost of \$618 and a maximum annual income for a one-person household of \$24,720.

What is the Multifamily Tax Exemption (MFTE) program?

- The MFTE program incentivizes affordable housing by granting property owners a limited property tax exemption for 12 years. The City of Seattle has administered the program since 1998. In order to qualify, at least 20 percent of a building's units, proportionally distributed among various unit types, must be income- and rent-restricted. In return, property owners are exempt from paying property taxes on the appraised value of the residential portion of their buildings; the appraised value of land and, in the case of mixed-use projects, non-residential space remains fully taxable.