City of Seattle
Office of Housing

CITY OF SEATTLE MULTIFAMILY PROPERTY TAX EXEMPTION PROGRAM

2015 STATUS REPORT TO CITY COUNCIL – MARCH 30, 2016

Introduction and Background

The City of Seattle's Multifamily Tax Exemption (MFTE) program provides a property tax exemption to developers and owners of multifamily rental and for-sale residential projects. For rental properties, the property owner is excused from property tax on residential improvements in exchange for rent-restricting at least 20 percent of the units for income-qualified households during the period of exemption. For condominiums or other for-sale multifamily properties, the tax exemption accrues to the owner of each income- and price-restricted unit, so long as at least 20 percent of the units are set aside. In no case does the exemption apply to land or non-residential improvements. Under State law, the program currently provides a 12-year exemption.

The program has gone through several iterations. It was initially authorized under Seattle Municipal Code 5.72 and now operates under SMC 5.73, as amended. The program's evolution falls into four distinct phases, as follows:

- Program 1 (1998-2002): Ten-year duration for tax exemption. Affordability capped at 80% of area median income (AMI) for 25% of units for all but one residential targeted area, to which more stringent restrictions applied. Program operates in 9 residential targeted areas, with two additional areas added by ordinance in 2000.[i]
- Program 2 (2004-2008): Ten-year duration for tax exemption. Affordability levels in rental projects vary depending on the number of units set aside for affordability restrictions: a 20% set-aside at 60%AMI, a 25% set-aside at 65%AMI, or a 30% set-aside at 70%AMI. Affordability level of for-sale units capped at 80%AMI. Program operates in 17 residential targeted areas.
- Program 3 (2008-2010): Following a 2007 change to State law, Seattle's program was adjusted to a 12-year duration. Affordability levels were set at 80%AMI for studios and 1-bedroom units and 90%AMI for 2-bedroom and larger units with a blanket 20% set-aside. Affordability level of for-sale units capped at 100%AMI and 120%AMI depending on unit size. Program operates in 39 residential targeted areas.
- Program 4 (2011- October 2015): Twelve-year duration. Affordability restrictions set at 65%AMI, 75%AMI, and 85%AMI for studio, 1-bedroom, and 2-bedroom and larger rental units, respectively. Affordability level of for-sale units was capped at 100%AMI and 120%AMI depending on unit size. Program operates in 39 residential targeted areas.
- Program 5 (November 2015 – Present): Twelve-year duration. Affordability restrictions for rental projects set at 40% AMI for small efficiency dwelling units and housing units in congregate residences, 50% AMI for replacement units in Tenant Relocation Assistance-mandated projects, 65% AMI for studios, 75% AMI for 1-bedroom units, 85% AMI for 2-bedroom units, and 90% AMI for 3-bedroom and larger units. Affordability level of for-sale units was capped at 100%AMI and 120%AMI depending on unit size. At minimum, 25% of units required to be restricted at MFTE affordability levels, unless a minimum number of 2-bedroom or larger units are provided within the project, in which case 20% of units are required to be restricted at MFTE affordability levels. Program operates in one RTA that encompasses all multifamily-zoned land.

The process by which a project is approved involves multiple steps. Property owners must apply before the first building permit is issued. If the project meets the eligibility requirements specified in Seattle Municipal Code 5.73, then the City's Office of Housing (OH) Director approves the application. The City signs an agreement with the developer and issues a Conditional Certificate of Tax Exemption. The developer has three years in which to complete the project. Upon receiving a temporary or permanent Certificate of Occupancy, the developer can then apply for the Final Certificate of Tax Exemption. If the project meets the terms of the agreement, then the Final Certificate is issued to King County and the tax exemption begins on January 1 of the following year.

This Report

City Council passed Ordinance 123550 in February 2011 and Ordinance 124877 in September 2015, reauthorizing the MFTE program and requiring OH to submit an annual report by March 30 of each year. Per Ordinance 123550, the annual report is to include the following information, each of which is addressed in the following sections/attachments of this report:

REQUIRED INFORMATION	SECTION	ATTACHMENT
1. A summary of development activity	Section I	ATT A
2. The number, size and affordability level of units planned or produced under the various versions of the MFTE program	Section I and II	ATT A
3. The number and location of projects planned or produced under the various versions of the MFTE program	Section III	ATT B
4. The number of projects owned by for-profit and nonprofit entities	Section I	ATT A
5. The rent and sales prices of the affordable and market rate units for projects that received a Final Certificate of Tax Exemption in the prior year	Section IV	ATT C
6. The number of low and moderate income households benefiting from the MFTE program	Section II	ATT A
7. The estimated total amount of tax exempted annually and cumulatively for individual projects in the MFTE program, and for the entire MFTE program	Section VI	ATT E
8. The estimated annual impact of the MFTE program on the average individual homeowner in the City of Seattle	Section VI	ATT E
9. The number of approved projects for which the tax exemption has expired or the Final Certificate of Tax Exemption has been terminated	Section V	ATT D
10. The number of units planned or produced in each of the Residential Targeted Areas	Section III	ATT B
11. Any recommendations to change the MFTE program	N/A	N/A
12. Market-rate rates in expiring MFTE projects	N/A	N/A
13. Comparison of affordable rents in seven-year-old MFTE buildings to market-rate rents	Section IV	N/A

SECTION I: Development Activity and Unit Production

As shown in the following summary table, participation in the MFTE program has grown steadily over time. As of the end of 2015, 243 projects had been approved for MFTE participation. One-hundred twenty-nine projects were actively participating in MFTE, 92 were approved and in development, 11 had participated and expired, and 11 had withdrawn prior to receiving a Final Certificate of Tax Exemption.

In recent years, privately developed market-rate projects have comprised the majority of MFTE applications. Rental projects have consistently outnumbered for-sale projects since 1998. In early years, projects were predominantly sponsored by non-profit agencies. Projects that receive public financing are eligible to receive a state property tax exemption if 75% of their current tenants' incomes are less than 50% of AMI. However, if a project's financing allows higher AMI levels, it risks not achieving the affordability required to receive the state property tax exemption. Therefore, those projects typically apply for MFTE in order to ensure a property tax exemption.

Approved Projects by Developer Type and For-Rent vs For-Sale, 1998-2015
Based on approved applications

	Program 1 1998 – 2002	Program 2 2004 – 2008	Program 3 2008 – 2010 *	Program 4 2011 – Oct. 2015 **	Program 5 Nov. 2015 – Dec. 2015 ***	All 2015	TOTAL
Non Profit	6	7	5	7	0	3	25
For Profit	1	5	30	182	0	55	218
Total	**7**	**12**	**35**	**189**	**0**	**58**	**243**
Rental	5	11	33	188	0	61	236
For Sale	2	1	2	1	0	0	6

* Squire Park Plaza applied during 2007, but the City Council included language in Ordinance 122730 in 2008 to enable projects whose first building permit was issued between July 22, 2007, and August 6, 2008, to be eligible for Program 3 and subject to the affordability provisions of Program 3. This project had been included in Program 2 totals in previous reports.
** One application submitted during in 2015 and subject to the affordability requirements Program 4 was approved in 2016 and will be enumerated in the 2016 Annual Report.
*** One application for Program 5 was received in 2015, but it was approved in 2016. It will be enumerated in the 2016 Annual Report.

Total Units in Approved Projects (Inclusive of Market and Restricted Units), 1998-2015
Based on approved applications, inclusive of rental and for-sale units

	Program 1 1998 – 2002	Program 2 2004 – 2008	Program 3 2008 – 2010	Program 4 2011 – Oct. 2015	Program 5 Nov. 2015 – Dec. 2015	All 2015	TOTAL
SEDU / Congr.	0	0	0	27	0	27	27
Studio	97	293	1,642	7,195	0	2,341	9,227
1BR	204	537	3,238	8,123	0	2,821	12,102
2BR	134	310	1,024	2,167	0	820	3,635
3+BR	39	38	22	69	0	28	168
Total	474	1,178	5,926	17,581	0	6,037	25,159

SECTION II: Affordability Levels and Set-Aside Requirements

Maximum affordability levels for income- and rent-restricted MFTE units have varied across the programs, but, prior to 2015, had always fallen within the range of 50% to 90% of AMI. Ordinances 124724 and 124877, both passed in 2015, established a new affordability level of 40% of AMI for small efficiency dwelling units and housing units in a congregate residence. Ordinance 124877 continued the affordability levels of 65%, 75%, and 85% of AMI for studios, 1-bedrooms, and 2-bedrooms, respectively. The ordinance created a new affordability of 90% of AMI for 3-bedroom and larger units. Projects that displace households which qualify for tenant relocation assistance must provide additional affordable units, beyond the minimum 20% set-aside requirement, restricted at 50% of AMI. Starting in 2011, the affordability levels for owner-occupied projects rose from a blanket 80% AMI to either 100% or 120% AMI, depending on unit type.

Ordinance 124877 established a new set-aside requirement, mandating that projects that do not meet a minimum threshold of 2+BR units, as determined by total project size, must set aside 25% of all units as affordable. Projects meeting the minimum 2+BR amount are required to set aside 20% of units as affordable. Through the end of 2015, no new MFTE projects were approved under this new program.

In the program's earlier years, the bulk of affordable units were subject to other rent or income restrictions due to the projects' use of public financing with equally or more rigorous affordability requirements. While projects with other fund sources still tap the MFTE program from time to time, these projects now represent a small proportion of the projects – and the units – participating in the MFTE program.

As of the end of 2015, OH had approved MFTE applications for projects comprising 6,457 affordable for-rent units and 119 affordable for-sale units, for a total of 6,576 affordable units. The following two tables display the distribution of these projects across various AMI levels. The third table shows production of affordable units by unit size.

Distribution of MFTE-Restricted Units by Percent of Area Median Income (Rental Only), 1998-2015
Based on approved applications

AMI	Program 1 1998 – 2002	Program 2 2004 – 2008	Program 3 2008 – 2010	Program 4 2011 – Oct. 2015	Program 5 Nov. 2015 – Dec. 2015	All 2015	TOTAL
40				7	0	7	7
50*				11	0	3	11
60**	122	563	601	430	0	246	1,716
60		35					35
65				1,485	0	482	1,485
70		91					91
75				1,598	0	550	1,598
80	67		874				941
85				418	0	146	418
90			155				155
Total	**189**	**689**	**1,630**	**3,949**	**0**	**1,434**	**6,457**

* Only units that satisfy the replacement unit requirements described in Chapter 5.73.040.A.7 of the Municipal Code are required to be set aside at 50% of AMI.
**Up to 60%AMI attributable to restrictions created through other subsidy sources.

Distribution of MFTE-Restricted Units (For-Sale Only) by Percent of Area Median Income, 1998-2015
Based on approved applications

AMI	Program 1 1998 – 2002	Program 2 2004-2008	Program 3 2008-2010	Program 4 2011 – Oct. 2015	Program 5 Nov. 2015 – Dec. 2015	All 2015	TOTAL
60					0	0	--
80	24	15			0	0	39
100			19	0	0	0	19
120			52	9	0	0	61
Total	**24**	**15**	**71**	**9**	**0**	**0**	**119**

Distribution of MFTE-Restricted Units (both Rental and For-Sale) by Size
Based on approved applications

	Program 1	Program 2	Program 3	Program 4	Program 5		
Unit Type	**1998 – 2002**	**2004-2008**	**2008-2010**	**2011 – Oct. 2015**	**Nov. 2015 – Dec. 2015**	**All 2015**	**TOTAL**
SEDU/Cong.				7	0	7	7
Studio*	73	88	456	1,523	0	506	2,140
1BR	93	324	841	1,818	0	640	3,076
2BR	33	254	388	548	0	252	1,223
3BR	16	38	16	43	0	23	113
4BR	0	0	0	11	0	3	11
Total	**213**	**704**	**1,701**	**3,958**	**0**	**1,434**	**6,576**

* Includes units required to be set aside as replacement units in accordance with Chapter 5.73.040.A.7 of the Municipal Code

SECTION III: Locations

State law requires that participating jurisdictions offer the MFTE program only in designated "residential targeted areas." City Council has altered Seattle's residential targeted areas over the years. Under Program 4, MFTE was available in 39 areas, most of which correlate to Seattle's urban centers and villages. Under Program 5, the RTA is expanded to enable MFTE participation for all properties zoned for multifamily use. OH will continue tracking the urban centers and villages in which MFTE projects are located, or whether they are located outside of any urban centers or villages.

The following table shows the number of approved units within each active residential targeted area under Program 4. By the end of 2015, 34 of the 39 areas had approved MFTE applications. Through the end of 2015, no new MFTE projects were approved under Program 5. Attachment B.1 - B.3 provides maps that display the locations of projects.

Project and Unit Counts by Location, 1998-2015
Based on approved applications

Urban Center/Village	Projects	Total Units				
		P1	P2	P3	P4	TOTAL
12th Avenue	10	0	0	0	738	738
23rd & Union-Jackson	15	122	77	429	430	1,058
Admiral	3	0	0	0	321	321
Aurora Licton Springs	5	0	0	0	173	173
Ballard	12	0	0	697	995	1,692
Belltown	4	0	0	0	599	599
Bitter Lake	2	0	140	476	0	616
Capitol Hill	37	0	0	774	1,468	2,242
Chinatown/ID	4	176	40	57	120	393
Columbia City	6	0	0	204	446	650
Commercial Core	0	0	0	0	0	0

Crown Hill	1	0	0	0	131	131
Delridge/Westwood Highland Park	2	0	0	195	16	211
Denny Triangle	2	65	0	0	74	139
Dravus	1	0	0	236	0	236
Eastlake	6	0	0	204	329	533
First Hill	3	0	0	0	517	517
Fremont	8	0	0	0	788	788
Green Lake	2	0	0	0	192	192
Greenwood-Phinney Ridge	4	0	0	0	224	224
Lake City	4	0	0	319	392	711
Madison-Miller	3	0	0	0	207	207
MLK @ Holly	5	54	0	352	515	921
Morgan Junction	2	0	0	0	68	68
North Beacon Hill	3	0	0	0	180	180
North Rainier	6	7	229	0	208	444
Northgate	3	0	163	278	265	706
Pike/Pine	11	0	0	0	1,072	1,072
Pioneer Square	4	50	132	0	241	423
Rainier Beach	0	0	0	0	0	0
Ravenna	0	0	0	0	0	0
Roosevelt	13	0	0	63	1,130	1,193
South Lake Union	11	0	272	0	1,820	2,092
South Park	0	0	0	0	0	0
University District - NW	18	0	125	47	1,359	1,531
Upper Queen Anne	0	0	0	0	0	0
Uptown	8	0	0	881	209	1,090
Wallingford	5	0	0	93	247	340
West Seattle Junction	20	0	0	621	2,071	2,692
TOTAL	**243**	**474**	**1,178**	**5,926**	**17,581**	**25,159**

SECTION IV: Final Certificates Issued in 2015, Program Monitoring, and Compliance

In 2015, OH approved Final Certificates of Tax Exemption for 34 projects located in 14 residential targeted areas. OH had approved initial applications for these 34 projects between December 2010 and August 2013.

All except one are for-rent projects.[ii] Attachment C provides detail on rent differentials for units within these 34 projects. Twelve of these projects include microhousing with units averaging 200 square feet that do not command market-rate rents in excess of MFTE limits. These MFTE applications submittal dates preceded issuance of Director's Rule 13-01 in 2013. In all other cases, though, market-rate studio units' weighted average of $1,402 per month is about $500 greater than the average for rent-restricted studios. Market-rate one-bedroom units' weighted average of $1,783 per month is about $600 greater than rent-restricted one-bedrooms. Market rate two-bedroom units' weighted average was $2,296 per month, about $800 greater than rent-restricted two-bedrooms.

Attachment F shows the locations and unit counts for the 34 projects receiving Final Certificates in 2015.

Ordinance 124877 created a new requirement that the Director of Housing "analyze rent levels information for Affordable Units in buildings that received a Final Certificate seven years prior, compared with rent levels for market-rate units of comparable size and age that are located in comparable neighborhoods." In 2015, three projects had just completed their seventh year of participation in MFTE; of those, two projects, Cambridge Apartments and Quintessa, are subject to deeper affordability requirements from other programs besides MFTE. The third project, Alley 24, is required to set aside 20% of its units at 60% of AMI. This affordability level yields maximum rents (excluding utilities) of $817 for studios, $950 for 1BRs, and $1,035 for 2BRs. This compares to market-rate rents of $1,637 for studios, $1,912 for 1BRs, and $2,991 for 2BRs.[1]

Eighty-six participating projects submitted required annual certification reports in the fall of 2015. The reports revealed few long-term vacancies of the MFTE set-aside units; occupancy patterns for the MFTE set-aside units were consistent with those of the market-rate units. The reports stated that rents charged for the set-aside units were consistent with program requirements, as were the tenant households' income levels. In the few cases where we identified a potential violation of MFTE affordability requirements, we successfully effected corrective action with the property manager. Follow-up site visits to approximately 50 properties will take place in 2016.

SECTION V: Expirations and Cancellations

Since the program's inception, the tax exemption has expired for 11 projects containing 451 total affordable units. In 2015, two projects expired containing a total of 208 affordable units. No projects are scheduled to expire at the end of 2016; the next expirations are anticipated to occur after 2017. As new leases for the formerly Affordable Units are signed during 2016, OH will track the new market-rate rents, as per SMC 5.73.100.C and report them to Council in the 2016 MFTE Annual Report.

Since the program's inception, two projects have withdrawn from the MFTE program upon conversion to condominium: the Empress on Fifth and the Mosaic Apartments, both in the International District. Eleven projects are received initial approvals but did not proceed to Final Certificate; they either chose not to submit applications for Final Certificate of Tax Exemption, likely because of the run-up in the market and resulting widening gap between potential market rents and MFTE rents. In other cases, construction delays resulted in an expiration of the Conditional Certificate, which expires after three years.

Attachment D provides detailed information on each of the expired projects.

SECTION VI: Tax Impacts and Rent Savings Analysis

MFTE Projects' Value in 2016

One-hundred twenty-nine projects are actively receiving the tax exemption in 2016. The combined appraised value of residential improvements for these projects, as determined only during their initial appraisal years during which time new construction value would be calculated, totaled approximately $1.70 billion. This value any subsequent appraisals, during which property values may increase significantly.

[1] Dupre + Scott, Rent and Vacancy Trends Reports, Spring 2016, Belltown/Downtown/South Lake Union market area, properties ranging from 40 to 199 units, built between 2006 and 2007

New Construction, Revenue Impacts, and Incremental Tax Burden

The amount of the tax exemption is different from the amount of new, or incremental, tax burden that is specifically attributable to construction of the MFTE-participating projects. The City annually levies additional property taxes in an amount equal to 1 percent growth plus the value of new construction as identified by the King County Assessor throughout the preceding 12 months. The incremental tax burden attributable to new MFTE-participating projects and, shifted to non-exempt taxpayers is a function of the amount of new construction value from these projects recognized by the King County Assessor for the relevant tax year.

In cases where the grant of exemption occurs before the King County Assessor captures some or all of the project's value, the Assessor defers that additional tax burden until the end of the exemption period; thus this value neither increases the City's levy nor the burden on non-exempt taxpayers. It is possible that a single project could have some new construction value deferred and some added for purposes of the levy, depending on project and administrative timing. Once included in the City's levy, an added amount from an MFTE project will grow at the same 1 percent rate as part of the City's overall levy amount.

For 2016, the amount of collected property tax revenue that is attributable specifically to the current MFTE participants totals about $7.46 million (City share is about $2.18 million). An additional $9.44 million in revenue (City share is about $2.76 million) that would have been collected from these projects (had they been constructed even in the absence of the tax exemption) is foregone until the end of the participating projects' exemption period. Assuming a median residence value of $427,000 and total real property value of $369.8 billion, based on the most recent 2015 figures as determined by the King County Department of Assessments, in 2016 the MFTE program will result in an additional tax payment for the median Seattle homeowner of $8.62.

For 2016, the program will save Seattle renters an anticipated $14 million, in projects for which MFTE is the lone rent restriction. This analysis assumes average market-rate rents in newly constructed buildings of $1,423 for studios, $1,860 for 1BRs, and $2,168 for 2BR/1BRs.[2] In addition, the MFTE program continues to enable homeownership for 90 income-eligible households.

Attachment E provides detail on both the tax impacts and revenue impacts of the participating projects.

SECTION VII: Legislation

Ordinance 124724, Council Bill 118324

Ordinance 124724, effective March 29, 2015, modified Subsection 5.73.040.B of the Seattle Municipal Code (SMC) established a new affordability requirement for Small Efficiency Dwelling Units (SEDUs) to be restricted to 40% of area median income with a 25% set-aside amount. The ordinance followed up on legislative changes to the Land Use Code in 2014 that created SEDUs as a new dwelling unit type.

Ordinance 124877, Council Bill 118505

Ordinance 124877, effective November 1, 2015, renewed and modified SMC Sections 5.73. The ordinance modified and strengthened the program in numerous ways, including:

- Narrowing the program's purpose;
- Expanding the applicable geography from the former 39 residential targeted areas, which were largely coterminous with the City's urban centers and villages, to now include all properties zoned for multifamily development;

[2] Dupre + Scott, Rent & Vacancy Report, Spring 2016, City of Seattle, Built Year 2010-16

- Modifying eligibility criteria to allow participation by congregate residences at 40% of area median income, establishing a new affordability level of 90% of area median income for 3-bedroom and larger rental units, and increasing the affordability set-aside amount from 20% to 25% of all units, unless the project contains a minimum threshold of 2-bedroom or larger units, in which case the set-aside amount remains at 20%;
- Authorizing the Director of Housing to limit move-in or unit transfer fees and by prohibiting owners from charging income verification or program administration fees to income-eligible occupants;
- Changing the application fee to $10,000 for all projects except for those with more than 75% of all units being affordable, which may pay a $4,500 application fee;
- Requiring detailed floor plans and unit layouts with the application for Final Certificate, and a compliance certification report within two weeks of lease-up and no later than January 31 of the first year of tax exemption;
- Establishing new reporting requirements for owners of MFTE properties after the end of the compliance period, and for the Director of Housing to report on rent levels for both affordable and market-rate units for buildings to have receive Final Certificates of Tax Exemption seven years prior; and
- Establishing a new program expiration date of December 31, 2019.

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[i] MFTE was not available in Seattle in 2003 and the beginning of 2004. Pursuant to SMC 5.72.120, Program 1 expired four years after the effective date of the ordinance codifying Chapter 5.72.120; the program expired on January 1, 2003. The full Seattle City Council passed Ordinance 121415 on March 15, 2004, thus establishing MFTE Program 2.

[ii] In addition, OH issued Final Certificates for individual condominium units for the Pontedera, which has been selling units gradually since 2010. As individual condominium units sell, OH clusters them into periodic Final Certificates that are submitted to the King County Dept. of Assessments.