

Multifamily Tax Exemption

2019 Report

Seattle Office of Housing
March 2020



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INTRODUCTION AND BACKGROUND

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 pay 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 eligible buyer of each income- and price-restricted home. The exemption does not extend to land or non-residential improvements. Under State law, the program allows a maximum 12-year exemption.

The City’s program has gone through several iterations. It was initially adopted under Seattle Municipal Code (SMC) Chapter 5.72 and now is SMC Chapter 5.73, as amended. The program’s evolution falls into six distinct phases, commonly referred to as MFTE Programs 1 through 6.

Summary of MFTE Programs 1 through 6

Program 1	Program 2	Program 3	Program 4	Program 5	Program 6
Ordinance 119237 1/1/1999) 40% @ 60% AMI Pike-Pine urban center village 25% @ 80% AMI other Residential Target Areas ≤ 80% AMI ownership <u>Amendments:</u> Ordinance 119371 (2/16/1999) Ordinance 120135 10/30/2000	Ordinance 121415 4/18/2004 20% @ 60% AMI, or 25% @ 65% AMI, or 30% @ 70% AMI ≤ 80% AMI ownership <u>Amendments:</u> Ordinance 121700 12/17/2004 Ordinance 121915 9/22/2005	Ordinance 122730 8/6/2008 20% @ 80% AMI (Studios, 1-BRs) 20% @ 90% AMI (2+ BRs) ≤ 100% AMI and 120% AMI ownership, depending on unit type	Ordinance 123550 4/8/2011 20% @ 65% AMI (Studios) 20% @ 75% AMI (1-BRs) 20% @ 85% AMI (2+ BRs) ≤ 100% AMI and 120% AMI ownership <u>Amendments:</u> Ordinance 123727 10/12/2011 Replacement units equal to # of TRAO eligible tenants: 50% AMI	Ordinance 124877 11/1/2015 MFTE Unit set- aside = 20% or 25% of total units depending on whether the development includes a minimum number of 2+ BR units Rent/income limits range from 40% AMI to 90% AMI, based on unit type Replacement Units: 50% AMI	Ordinance 125932 10/24/2019 MFTE Unit set- aside = 20% or 25% of total units depending on whether the development includes minimum share (8%) of 2+ BR units Rent/income limits range from 40% AMI to 90% AMI, based on unit type Replacement Units: 50% AMI

Program 1	Program 2	Program 3	Program 4	Program 5	Program 6
			Ordinance 124724 2/27/2015 added 25% @ 40% of AMI set-aside for SEDUs	≤ 100% AMI and 120% AMI ownership	≤ 100% AMI and 120% AMI ownership

The Seattle Office of Housing performs all program administration functions with respect to 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. An owner of the multifamily housing property 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, or as documented by the final building permit inspection if no certificate of occupancy is required. Final Certificates are filed with the King County Assessor’s office. Regardless of the date of a Final Certificate filing, the tax exemption begins on January 1 of the following calendar year.

Annual Reporting

City Council reauthorized the MFTE Program with adoption of Ordinance 125932 in September 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 market-rate and MFTE Units in multifamily housing for which a Final Certificate has been issued; identification of any potential changes in the housing market; estimate of the value of tax exemptions granted to date, including for 2019; 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 2019 MFTE Annual Report reflect property and exemption status as December 31, 2019.



SECTION I: MFTE PROPERTY ACTIVITY

Participation in the MFTE program has grown steadily since its adoption by the City of Seattle in 1998. As of the end of 2019, a total of 504 properties have been approved for MFTE participation, including 179 for sale homes in multifamily developments. Of the 504 total properties, 62 had initial MFTE applications approved by the Office of Housing but had not yet been issued the Final Certificate of Tax Exemption, 310 were in service, and 132 no longer had tax exemptions (MFTE was expired for 15 rental properties formerly with 336 MFTE units, plus 101 owner-occupied homes; 1 rental property formerly with 22 MFTE units opted out prior to expiration, and the tax exemption was rescinded for 15 owner-occupied homes; of the 15 rescinded, 14 were rescinded upon resale to a non-eligible buyer and one was rescinded for non-compliance).

Table 1.1: Multifamily Housing¹ Approved for MFTE Participation by MFTE Status (1998-2019)

MFTE Status	Renter-Occupied Properties	Owner-Occupied Homes	TOTAL PROPERTIES
Application approved ²	62	0	62
MFTE units in service ³	247	63	310
MFTE ended: Expired	15	101	116
MFTE ended: Opt out	1	0	1
MFTE ended: Rescinded	0	15	15
TOTAL	325	179	504

¹ "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 for which a property tax exemption under Chapter 5.73 may be eligible. The tax exemption applies to eligible renter-occupied multifamily housing and eligible and eligible owner-occupied MFTE units in multifamily housing.

² References to "approved applications" mean initial applications for participation. As of December 31, 2019, demonstration of eligibility for issuance of Final Certificates of Tax Exemption by each of these properties was still pending.

³ References to "in service" mean that, as of December 31, 2019, a Final Certificate of Tax Exemption had been issued for the property and rent- and income-restricted MFTE units are available for lease according to terms of a recorded agreement with the City.

Table 1.2: MFTE Units by MFTE Status

MFTE Status	Renter-Occupied		Owner-Occupied		TOTAL UNITS	
	Total Units	MFTE Units	Total Units	MFTE Units	Total Units	MFTE Units
Application approved	8,108	1,670			8,108	1,670
MFTE units in service	26,329	5,384	63	63	26,392	5,447
MFTE ended (expired, opt out, or rescinded)	1,514	358	116	116	1,630	474
Totals	35,951	7,412	179	179	36,130	7,591

Multifamily market-rate rental housing comprises the vast majority of MFTE activity. That contrasts with MFTE Program 1 and 2 activity, when over two-thirds of properties benefitting from MFTE were non-profit owned, publicly subsidized housing (i.e. City-funded and/or Low-Income Housing Tax Credit (LIHTC)-bond financed). Rents remained stable and affordable for tenants beyond the expiration of MFTE for that cohort of housing, since long-term regulatory agreements (minimum 50 years) are a condition of funding. In those properties, MFTE acted as a stopgap measure in the event of loss of a State exemption for affordable housing.

As of 12/31/2019, 230 market-rate rental properties account for 93% of all MFTE units either in service or in the pipeline, meaning initial MFTE application has been approved by the Office of Housing. These properties range in size from 4 to 385 total rental apartments, with an average of 106 units per MFTE property.

Chart 1.A: MFTE Units⁴ by Share of Property Type and Tenure

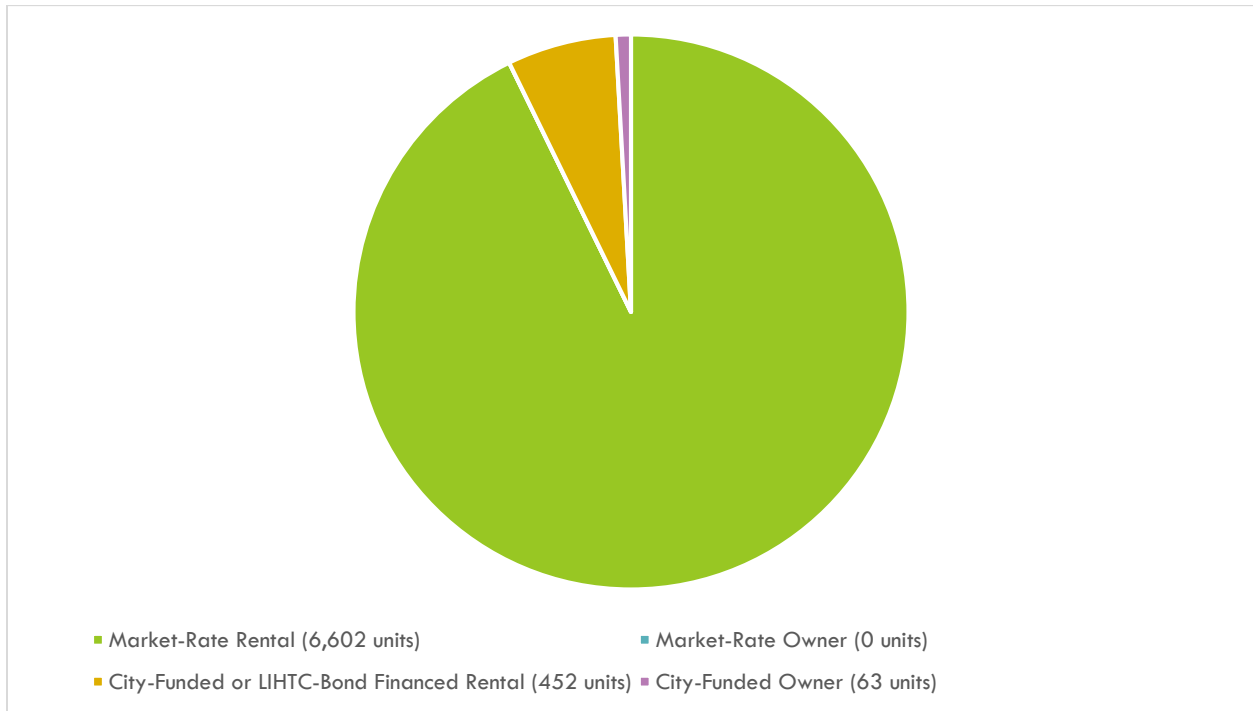
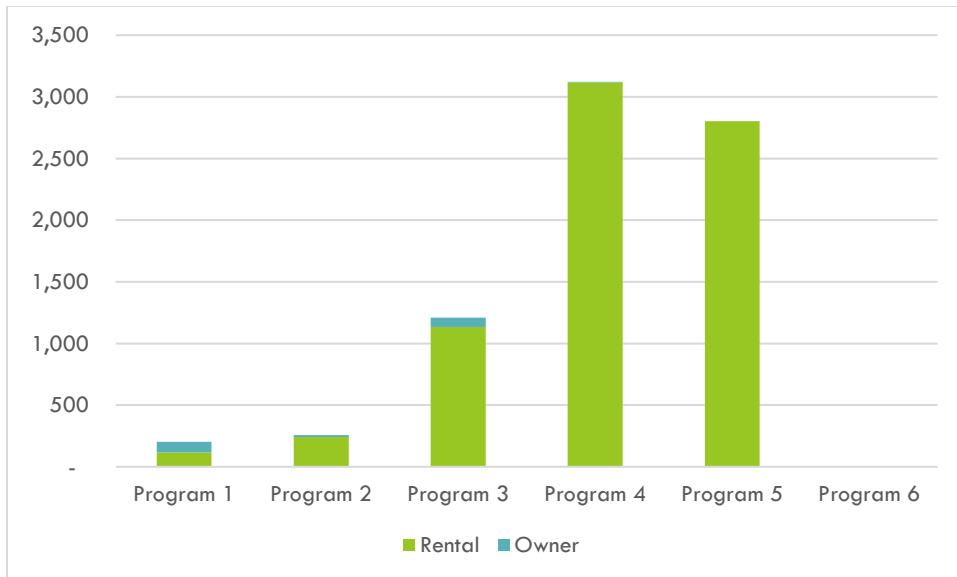


Chart 1.B: MFTE participation⁵ by MFTE Program



⁴ MFTE units in service in multifamily housing properties with tax exemptions, plus projected MFTE units based on developments for which an MFTE application was approved as of 12/31/2019.

⁵ MFTE units in service in multifamily housing properties with tax exemptions, plus projected MFTE units based on developments for which an MFTE application was approved as of 12/31/2019.

Program 6 became effective on October 24, 2019. Under Program 6, the MFTE application deadline is significantly extended compared to prior MFTE programs. Whereas an initial application previously had to be received prior to issuance of the first building permit for a project, applications now can be received up to 6 months prior to issuance of a temporary certificate of occupancy. The additional time equates to several more years for property owners to weigh whether to apply for MFTE. This makes it difficult to compare application rates between Program 6 with those of prior MFTE programs. As of December 31, 2019, the Office of Housing had no approved Program 6 MFTE applications.

Table 1.3: Renter-Occupied Multifamily Housing MFTE Activity by MFTE Program and Property Status

RENTAL	Market-Rate Housing with MFTE		City-Funded and/or LIHTC-Bond Financed Affordable Housing with MFTE		TOTALS	
	Total Units	MFTE Units	Total Units	MFTE Units	Total Units	MFTE Units
Program 1 Total	264	68	212	48	476	116
MFTE ended - Expired	176	46	212	48	388	94
MFTE ended - Opt out	88	22			88	22
Program 2 Total	475	126	563	116	1,038	242
MFTE ended - Expired	475	126	563	116	1,038	242
Program 3 Total	5,006	1,013	603	122	5,609	1,135
MFTE units in service	5,006	1,013	603	122	5,609	1,135
Program 4 Total	14,806	3,027	433	89	15,239	3,116
Application approved	176	37			176	37
MFTE units in service	14,630	2,990	433	89	15,063	3,079
Program 5 Total	12,395	2,562	1,194	241	13,589	2,803
Application approved	7,679	1,582	253	51	7,932	1,633
MFTE units in service	4,716	980	941	190	5,657	1,170
TOTALS	32,946	6,796	3,005	616	35,951	7,412

Table 1.4: Owner-Occupied Multifamily Housing MFTE Activity by MFTE Program and Property Status

OWNER	Market-Rate Housing with MFTE		City-Funded and/or LIHTC-Bond Financed Affordable Housing with MFTE		TOTALS	
	Total Units	MFTE Units	Total Units	MFTE Units	Total Units	MFTE Units
Program 1 Total			86	86	86	86
MFTE ended - Expired			86	86	86	86
Program 2 Total			15	15	15	15
MFTE ended - Expired			15	15	15	15
Program 3 Total			73	73	73	73
MFTE units in service			59	59	59	59
MFTE ended - Rescinded			14	14	14	14
Program 4 Total			5	5	5	5
MFTE units in service			4	4	4	4
MFTE ended - Rescinded			1	1	1	1
TOTALS	0	0	179	179	179	179

The percentage set-aside of MFTE units and affordability limits vary by MFTE Program. The set-aside and affordability requirements for each MFTE property are as codified in SMC Chapter 5.73 at the time of initial MFTE application. Affordability limits can also vary depending on the tenure (renter versus owner occupancy) of a property's units.

For MFTE Programs 5 and 6, the lower set-aside percentage (20% rather than 25%) is tied to a minimum threshold for units with two or more bedrooms. For Program 5 that threshold was a flat number ranging from four 2-bedroom units for properties with 100 total units or less to twelve 2-bedroom units for projects with 251 to 300 units. For Program 6, the minimum threshold for 2-bedroom units is 8 percent of total residential units in the property (between 8 and 9 two-bedroom units in the average size rental MFTE property of 106 units). The share of MFTE units that have two or more bedrooms is 13% for market-rate properties and 38% for City-funded and/or LIHTC-bond financed affordable housing.

Chart 1.C: MFTE Units in Market-Rate Multifamily Housing⁶ by Share of Unit Type

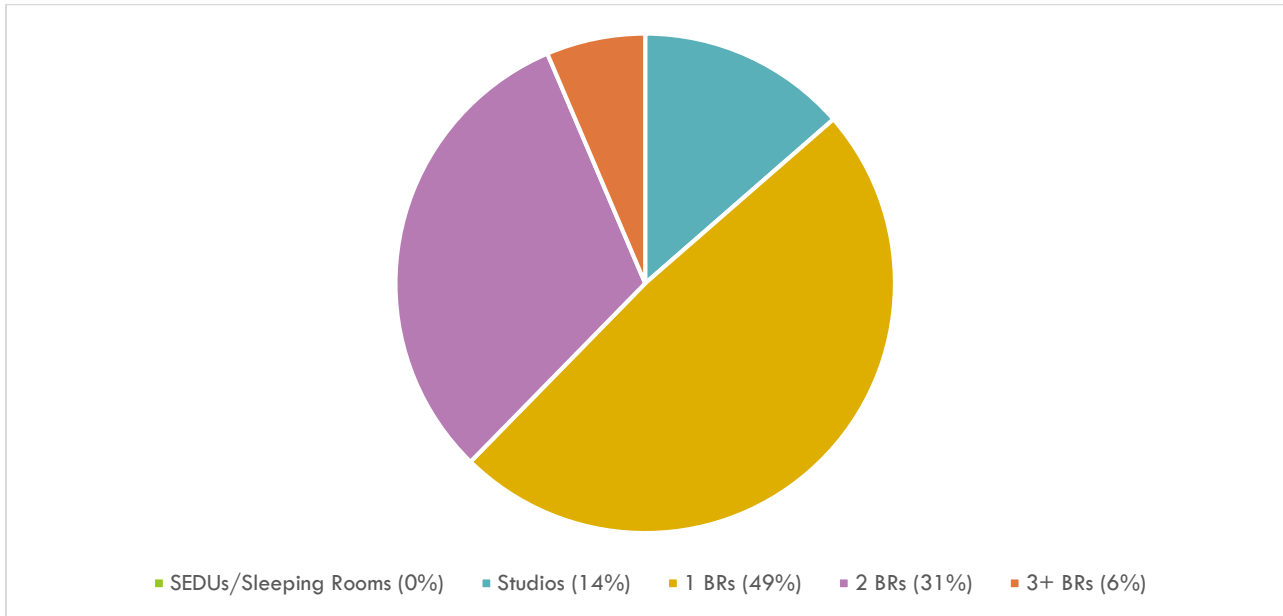
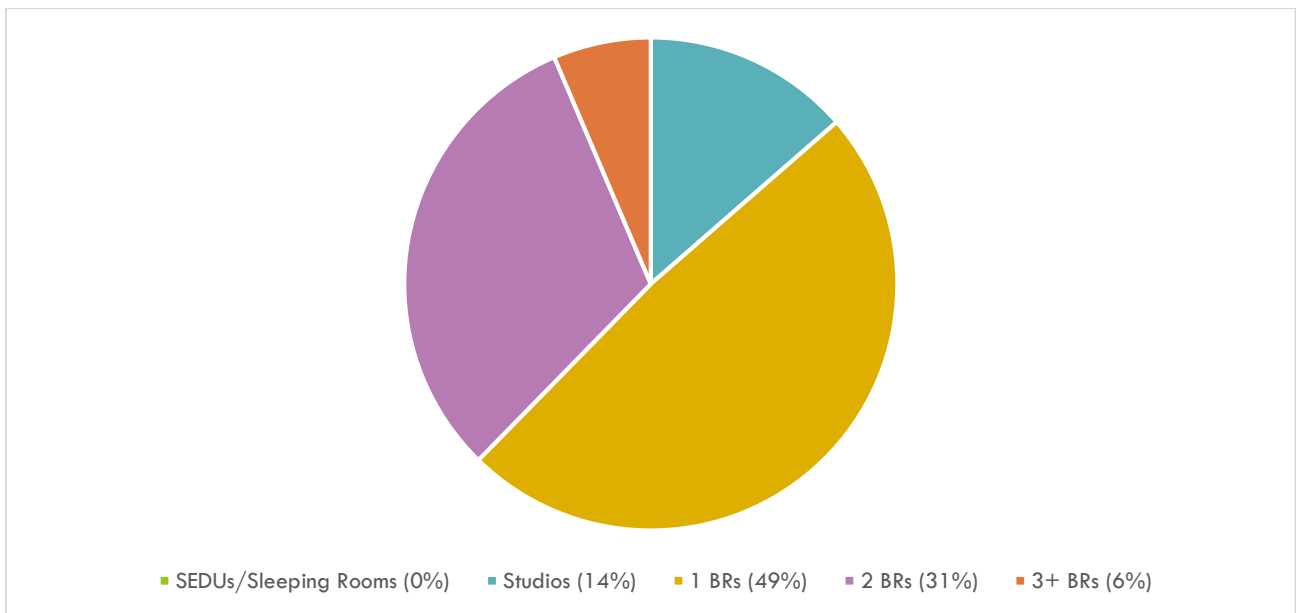


Chart 1.D: MFTE Units in City-Funded and/or LIHTC-Bond Financed Affordable Multifamily Housing⁷ by Share of Unit Type



⁶ Includes market-rate multifamily housing properties for which a Final Certificate of Tax Exemption was issued 1998-2019, plus those for which an MFTE application was approved as of 12/31/2019.

⁷ Includes market-rate multifamily housing properties for which a Final Certificate of Tax Exemption was issued 1998-2019, plus those for which an MFTE application was approved as of 12/31/2019.

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

- Congregate Residence sleeping rooms- 40% of AMI
- SEDUs (if in building with mix of unit types)- 40% of AMI
- SEDUs (if in building with 100% SEDUs)- 50% of AMI
- Studios- 60% of AMI
- One-Bedrooms- 70% of AMI
- Two-Bedrooms- 85% of AMI
- Three-Bedroom and larger- 90% of AMI

The municipal code also includes a replacement housing provision for MFTE participants. For developments in which the property owner is seeking MFTE, 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, if any dwelling unit in a building containing four or more dwelling units on the project site is occupied by a tenant or tenants receiving or eligible to receive a tenant relocation assistance payment under Chapter 22.210, and such building has been or will be demolished, the owner must provide replacement dwelling units equal to the number of tenants receiving or eligible to receive a tenant relocation assistance payment under Chapter 22.210. For the duration of the tax exemption, replacement units must be leased at affordable rents to households with incomes at or below 50% 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.

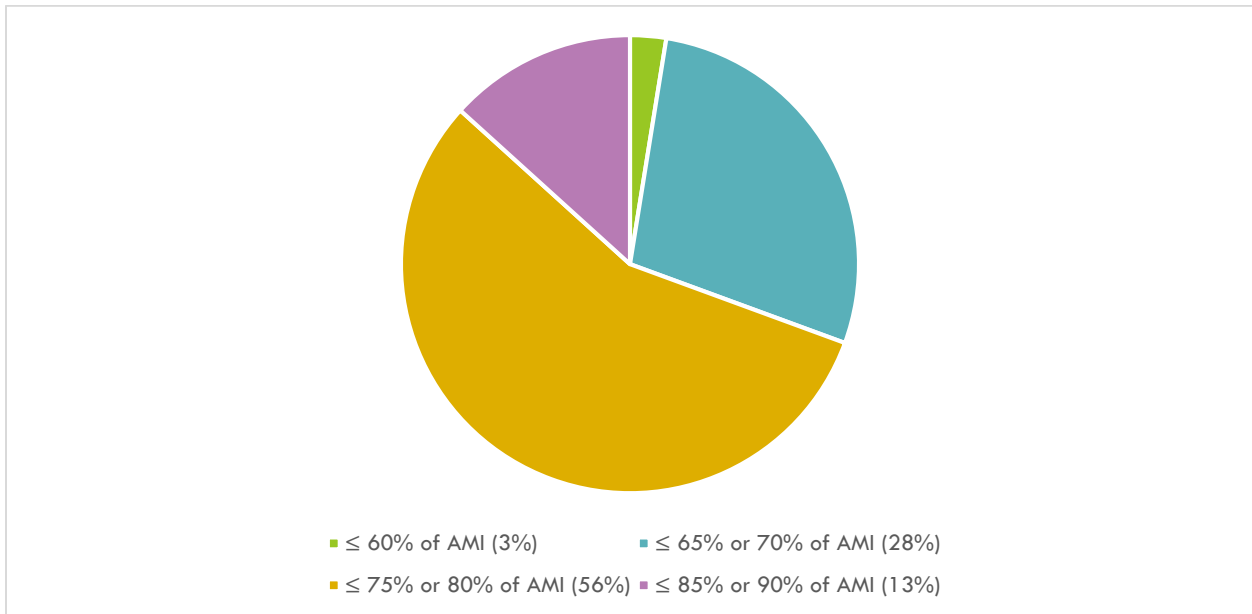
Table 1.5: Market-Rate Multifamily Housing Activity by Affordability Limit (1998-2019)

Property Status	40% of AMI	50% of AMI	60% of AMI	65% of AMI	70% of AMI	75% of AMI	80% of AMI	85% of AMI	90% of AMI
Application approved ⁸	83	0		410		884		227	15
MFTE units in service	35	20		1,406		2,002	861	506	155
MFTE ended - Expired			35		91		46		
MFTE ended - Opt out							22		
TOTALS	118	20	35	1,816	91	2,886	929	733	170

⁸ Projected MFTE rental units based on applications approved as of 12/31/2019.

In market-rate properties with MFTE that are in service or for which an application has been approved as of 12/31/2019, 3% of MFTE units have an income/rent limit of $\leq 60\%$ of AMI, 28% of MFTE units $\leq 65\%$ or 70% of AMI, 56% of MFTE units $\leq 75\%$ or 80% of AMI, and 13% of MFTE units $\leq 85\%$ or 90% of AMI.

Chart 1.E: MFTE Units in Market-Rate Multifamily Housing⁹ by Share of AMI Limit



⁹ Includes market-rate multifamily housing properties for which a Final Certificate of Tax Exemption was issued 1998-2019, plus those for which an MFTE application was approved as of 12/31/2019.



SECTION II: FINAL CERTIFICATES OF TAX EXEMPTION

In 2019, OH issued Final Certificates of Tax Exemption for 32 multifamily housing properties. Of those receiving Final Certificates, all but one development is in an urban center or village. Four of the 32 multifamily housing developments are City-funded or LIHTC-bond financed affordable housing. Market-rate multifamily properties that were issued Final Certificates in 2019 have rental apartments totaling 2,738 units, including 578 units that are rent- and income-restricted in exchange for the property tax exemption. Exemptions for properties for which a Final Certificate was issued in 2019 became effective on January 1, 2020.

Table 2.1: Multifamily Housing Issued Final Certificates of Tax Exemption in 2019

Property Name	UCUV	Market-Rate or Affordable Housing	Total Units	MFTE Units
525 Federal	Capitol Hill	Market-Rate	29	6
Adell Apartments	West Seattle Junction	Market-Rate	76	16
Avant Apartments	Madison-Miller	Market-Rate	50	10
Bogtown Flats	Greenwood-Phinney Ridge	Market-Rate	78	18
Chloe on Madison	12th Avenue	Market-Rate	137	28
Cubix North Park	Aurora Licton Springs	Market-Rate	93	19
Cypress Apartments	First Hill	Market-Rate	237	47
Grove Ballard	Ballard	Market-Rate	61	16
Huxley, The	West Seattle Junction	Market-Rate	110	22
Iron Flats East	Roosevelt	Market-Rate	63	13
Jefferson Station Apts	North Beacon Hill	Market-Rate	49	10
Jet on Boylston	Capitol Hill	Market-Rate	55	11
Lane Apartments	Northgate	Market-Rate	215	44
Liberty Bank Building	23rd & Union-Jackson	Affordable Housing	115	23

Property Name	UCUV	Market-Rate or Affordable Housing	Total Units	MFTE Units
LIV Stone Way	Wallingford	Market-Rate	59	12
Louisa Hotel Apartments	Chinatown/ID	Market-Rate	84	22
Lucille	Roosevelt	Market-Rate	106	22
Mercy Magnuson Place	OUTSIDE UCUV (NE Seattle)	Affordable Housing	108	22
Mount Baker Station North	Mt. Baker	Market-Rate	107	22
Muir Apartments	23rd & Union-Jackson	Market-Rate	129	27
Mysa	Lake City	Market-Rate	117	24
Prism Apartments	Northgate	Market-Rate	138	28
Reverie	North Beacon Hill	Market-Rate	23	6
Robin's Nest	Eastlake	Market-Rate	61	13
Spokane at Rainier Court	Mt. Baker	Affordable Housing	81	17
Stax, The	University District - NW	Market-Rate	60	12
Thai Binh	Chinatown/ID	Affordable Housing	249	50
The Luna	Admiral	Market-Rate	108	27
Valdok II	Ballard	Market-Rate	148	30
Vida Apartments	Roosevelt	Market-Rate	201	41
Vista	Roosevelt	Market-Rate	53	14
Zella Apartments	Uptown	Market-Rate	91	18
TOTAL			3,291	690

Subtotals

Market-Rate Multifamily Housing with MFTE	2,738	578
City-Funded and/or LIHTC-Bond Financed Housing with MFTE	553	112



SECTION III: LOCATION OF MFTE PROPERTIES

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

See Attachment A for a map showing location of MFTE participation as of 12/31/2019.



SECTION IV: MFTE EXPIRATIONS AND OPT OUTS; COMPLIANCE

MFTE Expirations, Opt Outs, and Rescissions (1998-2019)

MFTE agreements terminate immediately upon expiration of a tax exemption, or upon decision of the property owner to opt out prior to expiration of the exemption, or rescission of the tax exemption upon sale to a non-eligible buyer or due to non-compliance. Rescission of tax exemptions have been rare, and instances where property owners have opted out have been even rarer.

To date, MFTE has been rescinded on 15 townhome or condo units. In only one instance was the rescission due to non-compliance (e.g. owner-occupancy requirements). For the others, the tax exemptions were rescinded upon sale to non-eligible buyers. The preponderance of owner-occupied MFTE activity is City-funded. Office of Housing policies limiting funding to permanently affordable ownership projects (initial and subsequent buyers) will reduce or eliminate future rescissions of tax exemptions upon resale.

Since 1998, one property owner has opted out of MFTE after issuance of the Final Certificate of Tax Exemption and prior to expiration of the tax exemption. The Program 1 multifamily rental property, which was in the Chinatown-International District and had included 22 income- and rent-restricted MFTE rental units, converted to condominiums.

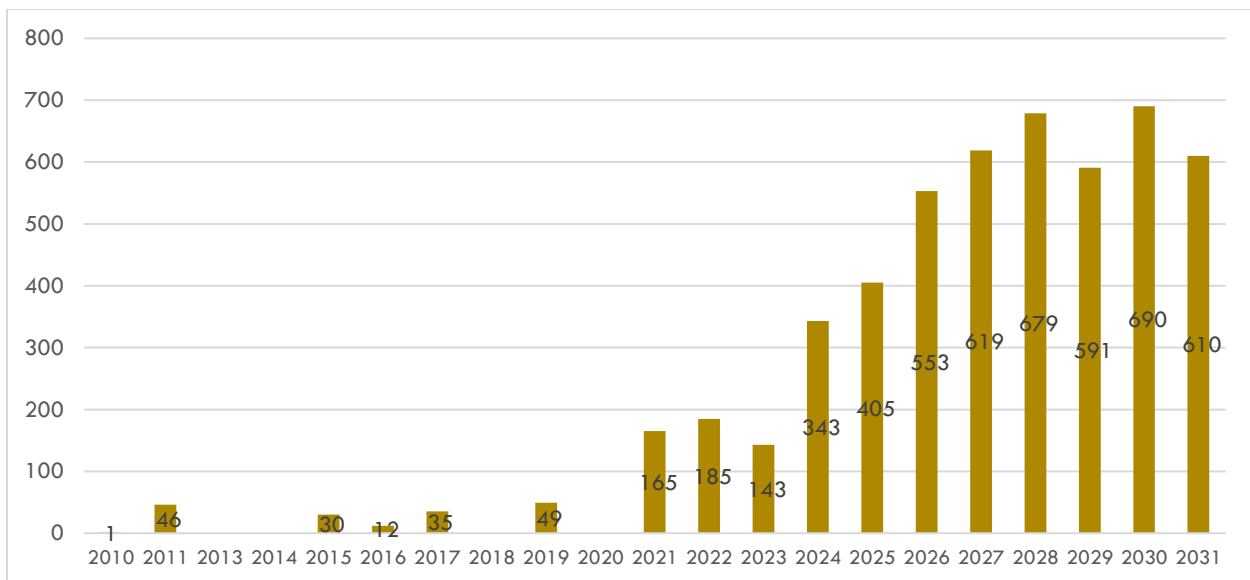
Since 1998, the multifamily property tax exemption has expired for 15 properties totaling 336 affordable renter-occupied units, plus an additional 101 owner-occupied units. One-third of the expired renter-occupied properties (5) and approximately one-half of the units (172) are market-rate multifamily housing. The other rental properties all have regulatory agreements tied to City-funding and/or low-income housing tax credits (LIHTC) and bond financing that require long-term affordability of the majority, if not all, of the units.

In 2019, MFTE expired for one property, 507 Northgate, which had 49 MFTE units.

As of 12/31/2019, the inventory of market-rate rental multifamily housing currently providing a set-aside of rent- and income restricted units in exchange for MFTE (i.e. in service) totals 230 properties and 4,983 MFTE units. Tax exemptions for those properties are scheduled to expire in years 2021 through 2031 (no exemptions in this MFTE cohort will expire in 2020). In the next five years (2020-2024), tax exemptions are scheduled to expire for the owners of 30 multifamily rental housing properties with 836 MFTE units.

The Washington state legislature passed legislation that allows a two-year extension of the property tax exemption for properties with MFTE exemptions expiring in 2020 and 2021. The City has four market-rate multifamily housing properties, located in Northgate, 23rd & Union-Jackson, and West Seattle Junction, with expirations scheduled in 2021 (no exemptions are expiring in 2020). The 165 MFTE units in these four properties currently have income/rent limits of 80% of AMI for units 1-bedroom and smaller, and 90% of AMI for units 2-bedroom and larger. See Section VII for more information on this legislation.

Chart 4.A: Expiration of MFTE Units in Market-Rate Rental Properties Through 2031



MFTE Compliance

As of March 1, 2020, the Office of Housing Asset Management Division had received 234 annual compliance reports and lease-up reports for the 2019 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 72 property file audits in 2019. Compliance training sessions for prospective applicants and property managers are held regularly. In 2019, 17 training sessions were held, including 2 property management-specific sessions, for 350 registered attendees. Annual compliance reports and inspections 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 designate additional units as income and rent restricted.

Based on 2019 annual compliance reports, average occupancy rates in MFTE properties are 95% for MFTE units and 92% for market-rate units.



SECTION V: RENTAL HOUSING MARKET ANALYSIS

Based on data reported by property owners of market-rate properties with MFTE, average contract rents range from \$1,135 for SEDUs to \$4,518 for 3-bedroom units, compared to average contract rents of \$698 to \$2,016 for MFTE units of that size range. The estimated rent differential based on contract rents as reported in annual compliance reports is approximately \$450 for SEDUs and studios, \$640 for 1-bedroom units, \$1,050 for 2-bedroom units, and \$2,500 for 3-bedroom units.

Table 5.1: Comparison of Average Contract Rents for Market-Rate Units and MFTE Units in MFTE Properties¹⁰

	SEDU	Studio ¹¹	1-Bedroom	2-Bedroom	3-Bedroom
Average Market-Rate Unit Contract Rent	\$1,135	\$1,564	\$2,094	\$2,887	\$4,518
Average MFTE Unit Contract Rent	\$698	\$1,105	\$1,453	\$1,836	\$2,016
2019 Program 6 MFTE Unit Rent Limit ¹²	\$760	\$1,140	\$1,520	\$2,077	\$2,443

¹⁰ Based on rents reported by property owners or owner representatives in annual compliance reports for MFTE properties for the 2019 reporting period.

¹¹ 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).

¹² MFTE Program 6 rent limits are provided for comparison purposes. All of the MFTE units currently in service 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 market-rate or MFTE units as reported by property owners or owner representatives.

Until the COVID-19 outbreak, the Seattle rental market was strong. From 3rd Quarter 2018 to 3rd Quarter 2019, asking rents in the City of Seattle rose from \$2,062 to \$2,141, an increase of 3.83%. During this period occupancy tightened slightly rising from 95.3% to 95.6% even as the market absorbed 4,910 units.



SECTION VI: TAX IMPACTS

MFTE Projects' Value in 2020

Two-hundred forty seven multifamily rental properties and 63 owner-occupied homes in multifamily buildings are currently receiving a tax exemption on residential improvements through MFTE in 2019.¹³ 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 \$5.53 billion. This value does not reflect any subsequent appraisals, during which property values may increase significantly.

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 corresponding 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. The associated tax revenue of excluded new construction value is foregone until the end of the exemption period. Captured new construction value generates additional property tax revenue and the associated tax burden is shifted from the tax-exempt property owner to other property taxpayers.

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,

¹³ Includes publicly subsidized (i.e. City-funded and/or LIHTC/bond-financed affordable housing).

an added amount from an MFTE project will grow at the same 1 percent rate as part of the City's overall levy amount.

In 2020, the amount of collected property tax revenue that is attributable specifically to the current MFTE participants totals about \$21.43 million (City share is about \$5.77 million). An additional \$31.55 million in annual revenue (City share is about \$8.49 million) that would have been collected from these projects (had they been constructed even in the absence of the tax exemption) is forgone until the end of the participating projects' exemption period. Assuming a current median residence value of \$690,000 and total real property value of \$585.46 billion, based on the most recent 2019 figures as determined by the King County Department of Assessments, the MFTE program will result in an additional tax payment for the median Seattle homeowner of \$25.26 in 2020, an amount that changes from year to year.

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



SECTION VII: STATE LEGISLATIVE CHANGES

At the time of publication, Substitute House Bill (SHB) 2950, which would amend Chapter 84.14 RCW (the State authorizing statute for MFTE), had been approved by the Legislature and was awaiting signature by Governor Jay Inslee.

SHB 2950 extends the property tax exemption until December 31, 2021 for properties currently receiving a 12-year exemption where that exemption is set to expire after the effective date of the bill, but prior to December 31, 2021. Any eligibility criteria or limitations that apply to the underlying exemption would also apply to the extension.

SHB 2950 also directs the Department of Commerce to contract with a nonprofit organization with experience in facilitating multi-sector policy and planning efforts to convene and provide staff to a work group to study and make recommendations on certain aspects of the MFTE program. SHB 2950 directs the work group to convene no later than July 1, 2020 and to hold at least four meetings prior to November 1, 2020. SHB 2950 directs the Joint Legislative Audit and Review Committee (JLARC) to review whether the extension provided in this bill preserves the supply of income-restricted housing units in the state.




ATTACHMENTS

Attachment A – Map of 2019 MFTE Program Participation

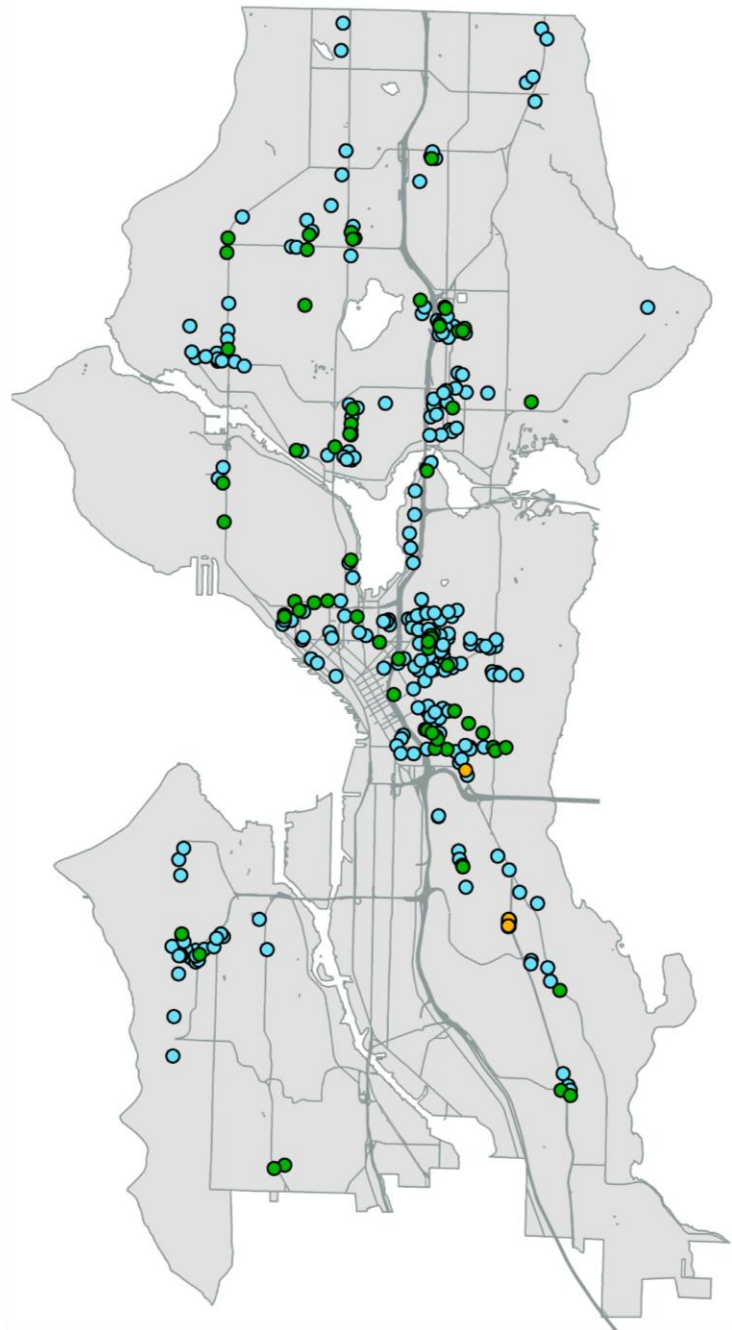
Attachment B – Property Tax Impact Analysis for Tax Year 2020

Attachment A – Map of 2019 MFTE Program Participation

2019 Multifamily Tax Exemption (MFTE) Program Participation

-  Rental Multifamily Housing with MFTE – In Service as of 12/31/2019 (5,384 units at 247 properties)
-  Rental Multifamily Development – Application for MFTE Approved as of 12/31/2019 (1,670 units at 62 properties)
-  Site of Owner-Occupied Multifamily Housing with MFTE – In Service as of 12/31/2019 (63 homes at 3 sites)

Source: Office of Housing (2020)



Attachment B – Property Tax Impact Analysis for Tax Year 2020¹⁴

ALL MFTE PROPERTIES, IN SERVICE AS OF 12/31/2019

Appraisal Year	Tax Year	Total Tax Captured	Total 1% Annual Growth	Total Tax Not Captured	Total 1% Annual Growth
2019	2020	\$1,771,009	\$0	\$4,324,568	\$0
2018	2019	\$4,061,826	\$40,618	\$1,909,658	\$19,097
2017	2018	\$5,430,096	\$109,145	\$6,767,304	\$136,023
2016	2017	\$2,384,136	\$72,242	\$7,407,538	\$224,456
2015	2016	\$1,536,286	\$62,379	\$3,186,887	\$129,400
2014	2015	\$921,380	\$47,000	\$3,158,225	\$161,101
2013	2014	\$520,037	\$31,993	\$2,472,938	\$152,136
2012	2013	\$1,621,496	\$116,967	\$144,493	\$10,423
2011	2012	\$281,284	\$23,306	\$435,863	\$36,114
2010	2011	\$743,317	\$69,638	\$618,667	\$57,960
2009	2010	\$1,216,377	\$127,260	\$178,636	\$18,689
2008	2009	\$217,971	\$25,212	\$0	\$0
2007	2008	\$0	\$0	\$0	\$0
TOTAL APPRAISED VALUE	\$5,527,287,572	Total Tax Captured + 1% Gains	\$21,430,975	Total Tax Not Captured + 1% Gains	\$31,550,176
CAPTURED APPRAISED VALUE	\$2,262,300,464	2020 City Share of Tax Revenue Captured	\$5,766,004	2020 City Share of Tax Revenue Not Captured	\$8,488,575
NOT CAPTURED APPRAISED VALUE	\$3,264,987,108				

MARKET-RATE HOUSING WITH MFTE, IN SERVICE AS OF 12/31/2019

Appraisal Year	Tax Year	Total Tax Captured	Total 1% Annual Growth	Total Tax Not Captured	Total 1% Annual Growth
2019	2020	\$1,519,578	\$0	\$3,661,565	\$0
2018	2019	\$4,538,426	\$45,384	\$2,119,290	\$21,193
2017	2018	\$5,124,642	\$103,005	\$6,545,051	\$131,556
2016	2017	\$2,296,568	\$69,588	\$7,387,459	\$223,847
2015	2016	\$1,502,062	\$60,990	\$3,115,893	\$126,518
2014	2015	\$945,866	\$48,249	\$3,504,667	\$178,773

¹⁴ Appraisal and tax information current as of 12/31/2019.

Appraisal Year	Tax Year	Total Tax Captured	Total 1% Annual Growth	Total Tax Not Captured	Total 1% Annual Growth
2013	2014	\$522,603	\$32,151	\$2,525,375	\$155,361
2012	2013	\$1,563,650	\$112,794	\$137,179	\$9,895
2011	2012	\$258,420	\$21,412	\$414,097	\$34,267
2010	2011	\$609,787	\$685,392	\$332,670	\$31,131
2009	2010	\$854,536	\$89,403	\$157,491	\$16,460
2008	2009	\$233,597	\$27,020	\$0	\$0
2007	2008	\$0	\$0	\$0	\$0
TOTAL APPRAISED VALUE	\$5,318,722,459	Total Tax Captured + 1% Gains	\$21,265,125	Total Tax Not Captured + 1% Gains	\$30,829,739
CAPTURED APPRAISED VALUE	\$2,138,915,878	2020 City Share of Tax Revenue Captured	\$5,721,382	2020 City Share of Tax Revenue Not Captured	\$8,294,741
NOT CAPTURED APPRAISED VALUE	\$3,179,806,581				

CITY-FUNDED AND/OR LIHTC/BOND-FINANCED AFFORDABLE HOUSING WITH MFTE, IN SERVICE AS OF 12/2019

Appraisal Year	Tax Year	Total Tax Captured	Total 1% Annual Growth	Total Tax Not Captured	Total 1% Annual Growth
2019	2020	\$280,082	\$0	\$245,764	\$0
2018	2019	\$129,391	\$1,294	\$73,345	\$733
2017	2018	\$131,434	\$2,642	\$0	\$0
2016	2017	\$145,095	\$4,397	\$205,130	\$6,216
2015	2016	\$0	\$0	\$0	\$0
2014	2015	\$69,015	\$3,520	\$0	\$0
2013	2014	\$8,285	\$510	\$0	\$0
2012	2013	\$4,898	\$353	\$2,670	\$193
2011	2012	\$9,281	\$769	\$0	\$0
2010	2011	\$91,971	\$8,616	\$263,324	\$24,670
2009	2010	\$247,109	\$25,853	\$0	\$0
2008	2009	\$12,025	\$1,391	\$0	\$0
2007	2008	\$0	\$0	\$0	\$0
TOTAL APPRAISED VALUE	\$208,565,113	Total Tax Captured + 1% Gains	\$1,177,931	Total Tax Not Captured + 1% Gains	\$822,044

Appraisal Year	Tax Year	Total Tax Captured	Total 1% Annual Growth	Total Tax Not Captured	Total 1% Annual Growth
CAPTURED APPRAISED VALUE	\$123,384,586	2020 City Share of Tax Revenue Captured	\$316,922	2020 City Share of Tax Revenue Not Captured	\$221,171
NOT CAPTURED APPRAISED VALUE	\$85,180,527				

* 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).

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.

Office: Seattle Municipal Tower
700 Fifth Avenue, Suite 5700
Seattle, WA 98104

Mail: City of Seattle Office of Housing
PO Box 94725
Seattle, WA 98124-4725

Phone: 206.684.0721

Email: housing@seattle.gov