Puget Sound Regional Council

Housing Innovations program

Featured Tool: Multifamily Tax Exemption*

A state law (RCW 84.14) helps cities attract residential development. Cities may exempt multifamily housing from property taxes in urban centers with insufficient residential opportunities. The city defines a residential target area or areas within an urban center; approved project sites are exempt from *ad valorem* property taxation on the residential improvement value for a period of eight or 12 years. The 12-year exemption requires a minimum level of affordable housing to be included in the development (at least 20% of the units or 100% if the building is solely owner-occupied). The eight-year exemption leaves the public benefit requirement—in both type and size—to the jurisdiction's discretion. The eight-year exemption carries no affordable housing requirement. Cities must pass an enabling ordinance to enact the MFTE and to allow applications for the exemption.

Tool Profile

Focus Areas

- Urban Centers
- Transit Oriented Development
- Expensive Housing Markets

Housing Types

- Multifamily
- Ownership
- Rental
- Market Rate
- Subsidized

Affordability Level

- 80 to 120% AMI
- Less than 80% AMI

Goal

- Affordability

** Tool considered very effective for producing units at less than 80% AMI.*

Case Studies

- Burien Multifamily Tax Exemption
- Lynnwood Multifamily Tax Exemption
- Tacoma Multifamily Tax Exemption

What issue does a multifamily tax exemption address?

This tool encourages multifamily development and redevelopment in compact mixed-use districts (urban centers) where housing and affordable housing options are deficient. Through the multifamily tax exemption, a jurisdiction can incentivize dense and diverse housing options in urban centers lacking in housing choices or affordable units. MFTE can also apply to rehabilitating existing properties and redeveloping vacant or underused properties.

Where is the multifamily tax exemption most applicable?

Cities planning under the Growth Management Act (RCW 36.70a) that have designated urban centers with a deficiency of housing opportunities are eligible to implement this tool. In King, Pierce, Snohomish and Kitsap counties, cities must have at least 5,000 in population. Cities must designate eligible areas that contain urban centers. Urban centers—in the context of the MFTE-enabling legislation—have a particular meaning:

> "…a compact identifiable district where urban residents may obtain a variety of products and services. An urban center must contain:
>
> (a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies;
>
> (b) Adequate public facilities including streets, sidewalks, lighting, transit, domestic water, and sanitary sewer systems; and
>
> (c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office, or both, use." (RCW 84.14.010)

Based on the state law, designated districts are commercial or business districts with some mix of uses. Such areas may exist in downtowns, commercial corridors, or other intensively developed neighborhoods. Examples of designated districts throughout the central Puget Sound region are listed in the model policies, regulations and other information section below.

MFTEs have been effective in producing multifamily units in the region's larger cities. Since its inception, the MFTE law has been expanded to include smaller cities. The effectiveness of this tool in larger jurisdictions could make it an attractive tool for smaller and moderate-sized cities that meet the population threshold.

Multifamily tax exemptions can encourage relatively dense attached flats or townhomes, in mixed-use projects or residential complexes, which means this tool is particularly useful in urban centers and transit-oriented developments. Dense development is also economically efficient in expensive housing markets, and can reduce housing costs.

What do I need to know about using or developing a multifamily tax exemption?

The MFTE implementation process is guided by state law in RCW 84.14. In general, the process includes preparing a resolution of intent to adopt a designated area, holding a public hearing and adopting and implementing standards and guidelines to be utilized in considering applications for the MFTE. Among other criteria, the designated area must lack "sufficient available, desirable, and convenient residential housing, including affordable housing, to meet the needs of the public who would be likely to live in the urban center, if the affordable, desirable, attractive, and livable places to live were available" (RCW 84.14.040). A property owner applying for an MFTE must meet the criteria (per RCW 84.14.030) summarized here:

- The new or rehabilitated multiple-unit housing must be located in city-designated residential target areas within the urban center.
- The project must meet local government requirements for height, density, public benefit features, number and size of proposed development, parking, income limits for occupancy, limits on rents or sale prices, and other adopted requirements.
- At least 50% of the space in the new, converted or rehabilitated multiple-unit housing must be for permanent residential occupancy. Existing occupied multifamily developments must also provide a minimum of four additional multifamily units.
- New construction multifamily housing and rehabilitation improvements must be completed within three years from approval.
- The applicant must enter into a contract with the city containing terms and conditions satisfactory to the local government.

The exemption is recorded with the County Assessor. Developments that violate the terms of the exemption are required to pay back the exempted tax amounts, plus interest, and a penalty fee.

Cities considering the program need to weigh the temporary (8-12 years) loss of tax revenue against the potential attraction of new investment to targeted areas. MFTE projects could be catalysts for other private investment if they help prove an area is desirable. Pairing the MFTE with other tools that affect density and cost reductions may help the city achieve higher density and affordable housing in designated mixed-use and commercial areas. These tools include:

Featured Tools:

- Density Bonuses
- Transit Oriented Development Overlays
- Parking Reductions

Other Tools:

- Mixed-Use Development
- No Maximum Densities
- Planned Action EIS (see in particular the SEPA residential and mixed-use exemption option)

Creating a Multifamily Tax Exemption Program

A typical planning process (gathering information, conducting public outreach and considering ordinances), together with the specific requirements of state law, will guide the development of an MFTE program:

Determine Residential Target Areas. Cities will need to consider the state law's "urban center" definition which addresses existing commercial businesses, mixed uses and infrastructure.

Analysis. To support the urban center and residential target area designations, a jurisdiction should map or collect data on current uses, services and capital facilities. The data and analysis should demonstrate that the area lacks sufficient residential housing, including affordable housing. Estimating the tax revenue and other cost-benefit implications of the MFTE program can help to determine whether the program would help achieve housing goals. For example, prior to adopting an MFTE ordinance, the City of Lynnwood prepared an analysis of tax revenue that would be foregone should the ordinance be adopted. In terms of other cost-benefits, jurisdictions can calculate the short-term construction and sales tax revenues and employment gains that stem from the development. (See case studies below.)

Conduct Public Outreach. The MFTE statute suggests that a jurisdiction considering an MFTE program issue a resolution of intention to designate an urban center and residential target area(s). The resolution should also identify the time and place of a hearing. Cities must hold a public hearing on the proposed MFTE ordinance and follow notification schedules listed in the statute. While crafting the ordinance, cities will also want to involve stakeholders, including developers of multifamily and condominium housing, affordable housing developers and advocacy groups, and major land owners and businesses in the residential target areas. See Citizen Education and Outreach for strategies to involve the public and stakeholders.

Determine Standards. The state affords jurisdictions wide latitude to design their MFTE laws to meet local planning goals. Proposals must meet local zoning and development standards and any affordability and occupancy criteria the jurisdiction sets. Based on the intent of the MFTE, key decisions to shape the ordinance include:

- **Encouraging more versus less participation from developers.** The threshold number of units to qualify for the exemption and public benefit requirements could influence the level of participation by developers. A low threshold and limited public benefit requirements, for example, might make the program more accessible to developers, but yield a smaller return in public benefit for foregone revenue. A high threshold and demanding public benefit requirement, however, might make the program unattractive to developers. Striking a balance between requirements, goals and attractiveness is essential to a successful MFTE program.

- **Encouraging affordable housing versus market-rate housing.** RCW 84.14 allows cities to provide a bonus for affordable housing provision by allowing 12 years of tax exemption, versus the eight years offered for market-rate developments. Cities could further encourage developers to opt for the 12-year exemption by setting a threshold number of units or public benefit to attract development. Offering other incentives (e.g., density bonuses, flexible single family development regulations) along with the MFTE can strengthen interest in affordable development in the city.

- **Encouraging more rental or ownership housing.** The law provides incentives for affordable multifamily rental housing where the whole development is eligible for the tax exemption if at least 20% of the units are affordable to low- and moderate-income households. To receive the 12-year exemption, buildings intended to be entirely owner-occupied must price all of their units affordably for moderate-income households. Setting a threshold number of rental versus ownership units could influence the type of tax exemption applications received in favor of a particular tenure.

- **Ensuring that affordability endures.** Affordable units may be at risk of losing their affordable status both at the end of the MFTE time period and during its existence if a developer decides to opt out of the program. Requiring affordability covenants for these units is one method for preserving affordability.

Implementation. State law requires an application process and procedures. Cities will need to allocate staff and resources to reviewing applications. A fee may be charged for the request. The agency has 90 days to approve or deny the application.

Monitoring. The law requires regular reporting by applicants and by cities. Upon construction and annually thereafter, the property owner must file reports containing information such as occupancy, vacancy, and other items required by the city. Cities will also want to make sure that these requirements are not too onerous. In some cases, partnerships between non-profits and for-profits to ensure secure income certifications and monitoring may be helpful.

Cities must report to the State of Washington Department of Commerce annually by December 31 regarding certificates granted, unit types, monthly rent and sales costs, and other information. Cities could use these regular reports to monitor the success of the program and build supporting data for future program goals. Some cities establish a sunset clause by which time the city may re-adopt or let expire the tax exemption program.

Model Policies, Model Regulations, Other Information

State of Washington: RCW 84.14

See adopted ordinances of the following cities at: http://www.mrsc.org/codes.aspx

- Bremerton: Downtown Core and Multiple Residential Zones
- Burien: Downtown Commercial Zone
- Everett: Downtown and vicinity
- Kirkland: Central Kirkland/Houghton; Totem Lake and North Rose Hill; Juanita; and NE 85th Street
- Lynwood: City Center
- Puyallup: central business district (CBD) and certain areas south of the CBD
- SeaTac: 154th Street and SeaTac/Airport Station Areas
- Seattle: 39 neighborhoods or districts
- Shoreline: Ridgecrest District
- Tacoma: 17 mixed-use centers designated on the Generalized Land Use Plan and in the Comprehensive Plan