

Multi-Family Property Tax Exemption Roundtable

Background:

On June 22, 2021, after a discussion on proposed Ordinance #28770 to eliminate the eight-year Multifamily Property Tax Exemption (MFTE) in mixed-use centers (MUCs) designated “very high” opportunity based on the City’s Equity Index, the City Council referred an examination of the entire program to the Government Performance and Finance Committee for review and recommendation to the full City Council.¹ As part of that effort, Council Member John Hines was joined by Council Member Kristina Walker to hold a roundtable discussion with key stakeholders from the private multifamily housing development sector.

On Tuesday, September 7, 2021, 15 stakeholders who use the MFTE program or are closely affiliated with those that do, convened to share their experience and provide feedback on any potential changes to the program. Participants were provided a list of questions in advance, which can be viewed in Appendix 1. Three stakeholders who were not able to attend provided their feedback in writing.

Attendees:

<p><u>Stakeholders</u></p> <ul style="list-style-type: none"> • Cathy Reines • Leslie Byrd II • Ben Fergusson • Nick Curatola • Jessie Gamble • Chris Dobler • Andy Brooks • Paul McCormick 	<ul style="list-style-type: none"> • Bill Riley • Chris DeWald • Jim Henderson • Ryan Meacham • Luke Gemperline • Trent Mummery • Damen 	<p><u>Council Members</u></p> <ul style="list-style-type: none"> • Council Member John Hines • Council Member Kristina Walker <p><u>City Staff</u></p> <ul style="list-style-type: none"> • Debbie Bingham • Claire Goodwin • Ted Richardson
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Key Takeaways:

There appeared to be consensus that both the eight and 12-year MFTE were necessary to maintain the level of development needed to address Tacoma’s housing shortage. The stakeholders indicated an appetite for expanding the MFTE, especially along corridors and near the mixed-use centers, but are not supportive of changes to the program - specifically mentioning additional parking requirements, new design standards, or new affordability requirements. There was consensus among the stakeholders that construction costs in Tacoma are as expensive as in Seattle, but rents are higher in Seattle. Any additional requirements will make a project costlier, and therefore, less likely to happen.

¹ <https://cityoftacoma.legistar.com/LegislationDetail.aspx?ID=4990093&GUID=D6932814-BB3A-4586-A02B-AA90B96ECD5&Options=&Search=>

Stakeholder Themes:

1. Expand the areas where the MFTE can be applied. Currently limited to MUCs where land is scarce or not available. Consider expanding to corridors and near MUCs.
2. Both the eight-year and 12-year MFTE are necessary. Stakeholders were clear that both are needed and urged policymakers to not eliminate the eight-year MFTE as it has helped spur development. Some stakeholders indicated they can only make the eight-year work financially (not the 12-year).
3. Additional requirements are burdensome. They increase the cost of the project and time it takes to complete the project, making it less likely to happen in the future.
4. Construction costs are high (and increasing). It is as expensive to build in Seattle as Tacoma. However, the AMI is higher in Seattle so higher rents can be charged than in Tacoma, leading to higher returns in Seattle. Increasing rents on new projects in Tacoma is partly due to an increase in construction costs.
5. Before making changes to the MFTE, provide ample notice of changes. Projects may be stalled when new requirements are implemented and developers need as much advanced notification of changes as possible.
6. City Council should reframe the conversation about development. Stakeholders indicated that developers are frequently regarded as the “bad guy” and stated they would like to see the conversation reframed by Council to focus on the positive elements of development and the MFTE. Further, it was stated that Council could do a better job selling the success of the eight-year MFTE to the public.
7. Building more units will lead to lower rents. Many stakeholders stated that additional inventory will inevitably lead to lower rents (supply-demand concept).
8. Talk with additional partners. Besides multifamily housing developers, stakeholders suggested this conversation expand to include other cities who have successfully implemented the MFTE program with good results (Lynnwood and Bellingham) and also to lenders who have expertise on the financing for the projects. Lenders can explain if changes to the program will prevent a project from receiving financing.
9. Offer more incentives in under-developed neighborhoods. Stakeholders indicated if there are areas outside the current residential target areas where the City Council would like to see development, the City may consider offering incentives or relaxed requirements in these areas. For example, it was suggested that parking requirements be softened under the 12-year to encourage more use.

For Future Discussion:

- Housing preservation as a tool to maintain affordable housing.
- Develop incentives or provide grants for ADU owners to rent to low-income residents.
- How the City calculates AMI could be changed to also include transportation costs, not just rent and utilities.
- Percentage of AMI units required on 12-year projects in aggregate vs by type. For example, 20% of units in the entire building must be 80% AMI rather than 20% of the studios, 20% of the 1 bedrooms, and 20% of the 2 bedrooms must be 80% AMI. Aggregate approach is less burdensome. Seattle also requires developers specify the exact units that will be rent-restricted – stakeholders prefer flexibility.

- One developer had difficulties finding eligible tenants to meet the requirements of the AMI threshold. The developer suggested that the City keep a master list of interested and eligible tenants.
- It was suggested that the housing shortage is a result of the Great Recession where no housing was built from 2008-2012, but population continued to increase.
- Developers like building in Seattle because the rents are high enough that it is worth the challenge of meeting the requirements of the City of Seattle.
- One developer suggested that the 12-year MFTE be offered to expiring eight-year MFTE projects.
- To promote MFTE in places that have not seen development, re-evaluate zoning to allow additional density, increased height, zero lot lines, and bonus features.
- Developer reported that they only utilized the 12-year MFTE because the lender wanted to meet their ESG goals, which the 12-year meets but the eight-year does not. The developer agreed to use the 12-year despite their preference for the eight-year.

Appendix 1: Discussion Questions

MFTE Program Overall

1. How important is the MFTE to you in developing housing? Do you need it for financing?
2. Developers describe projects that “will not pencil” without the MFTE. What does this mean? The project will not get built? The project’s current financing structure will not work? Other?

8-Year MFTE

3. What are the potential impacts to the city suspending the 8-year MFTE program across the city and only allowing the 12-year option? What about in high-rent areas?
4. What are the potential impacts of the following changes to the 8-year MFTE to you? Would you be supportive of any of the changes below? Why or why not?
 - a. Affordability requirements (such as tenants must make at or below 100% AMI)
 - b. Higher parking minimum
 - c. New design standards that reflect the neighborhood where the project is located
 - d. Increased requirements for pedestrian infrastructure
 - e. Increased minimum density requirements (for example, projects must produce more than the current minimum of 4 units)
 - f. Anti-displacement requirements

12-Year MFTE

5. What are the potential impacts of the following changes to the 12-year MFTE to you? Would you be supportive of any of the changes below? Why or why not?
 - a. Expanding the areas where the 12-year MFTE can be used (currently, they are only allowed in the residential targeted areas)
 - b. Lowering the affordability requirement to 60% or 70% AMI (maybe make it more Tacoma-based AMI)
6. What could be done to further incentivize you to use the 12-year MFTE? What about in high-rent areas?

Further Considerations (if time permits)

7. What could the City do to incentivize development in parts of the city where development is currently not happening?
8. What could the City do to further incentivize the market to develop affordable housing in the city?