



INFORMATIONAL MEMORANDUM

TO: **Planning and Community Development Committee**

FROM: **Derek Speck, Economic Development Administrator**
Brandon Miles, Business Relations Manager

CC: **Mayor Ekberg**

DATE: **October 26, 2021**

SUBJECT: **Multi-Family Property Tax Exemption Program**

ISSUE

Discussion on potential updates to the Multi-Family Property Tax Exemption program.

BACKGROUND

Revised Code of Washington (RCW) 84.14 allows municipalities planning under the Growth Management Act to provide a property tax exemption to qualifying residential developments within their cities. The Multi-Family Tax Exemption (MFTE) reduces the property taxes owed on a development by exempting the value of the multi-family residential improvements¹ over a specific period. In theory, an MFTE program stimulates the creation or rehabilitation of multi-family housing. The housing can be rental or owner-occupied and market-rate or affordable.

Overview of State Law Requirements

As outlined in RCW 84.14.007, the purpose of the MFTE is:

...[T]he purpose of this chapter to encourage increased residential opportunities, including affordable housing opportunities, in cities that are required to plan or choose to plan under the growth management act within urban centers where the governing authority of the affected city has found there is insufficient housing opportunities, including affordable housing opportunities. It is further the purpose of this chapter to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing in urban centers having insufficient housing opportunities that will increase and improve residential opportunities, including affordable housing opportunities, within these urban centers.

RCW 84.14 allows municipalities to create MFTE programs for up to 8, 12 and/or 20 years, subject to certain requirements.

- **Market Rate**: A municipality can create an MFTE program that allows for a project to have a property tax exemption for up to eight years if the project does not include affordability requirements. The project could be rental or owner-occupied.
- **Twelve Year Affordability**: A municipality can create an MFTE program that allows for a project to have a property tax exemption for up to 12 years if it meets certain affordability requirements. To be eligible for the 12-year exemption a project must commit that at least 20 percent of the units in the project be affordable to low- and moderate-income households (if rental) or moderate-income households (if owner-occupied).

¹ The land is still subject to being assessed property taxes as is space used for commercial activities.

- Twenty Year Affordability: A municipality can create an MFTE program that allows for a project to have a property tax exemption for up to 20 years if it meets certain requirements. To be eligible for the 20-year exemption, a project must commit that at least 20% of the units will be made available for affordable homeownership, with a local government or non-profit overseeing long term compliance with affordability restrictions. The zoning where the units are constructed must allow a minimum density of at least 25 units per acre.

Around 50 cities and one county in the State have in place or have had in place a MFTE program. Most of these cities are located along the I-5 corridor between Olympia and Marysville. Since cities provide additional requirements on their MFTE programs, which may vary by city. For example, the City of Woodinville requires that a building be built to LEED standards in order to get the MFTE; the City of Newcastle requires a public or cultural use for the building; and the City of Yakima requires that there be an investment of least \$25,000 in each unit constructed. Several cities, such as Seattle, require that all MFTE projects have an affordability component and do not offer the 8-year exemption option for market rate units.

Tukwila's MFTE Program

In 2014 the City adopted an MFTE program for a portion of the Southcenter District. It is the portion of the Transit Oriented Development District in the Tukwila Urban Center (Southcenter District) that is west of the Green River (see attached map).

At the time, the City's goal of adopting an MFTE program for the Southcenter District was to encourage the development of new multi-family housing to help fulfill the City's vision for the neighborhood and meet the City's regional growth targets for new housing units. Because of the lack of new housing development in that District for many years, staff recommended the incentive as a temporary way to show the private sector that the market rents for new housing was significantly higher than the comparable rents in the adjacent neighborhoods which reflected older housing stock. The incentive also made multi-family housing financially feasible for the developer, especially given the market demand for other types of land uses.

The City's MFTE program provided for both an 8- and 12-year exemption period². In order to be eligible for the MFTE, a project was required to meet additional City criteria, which included:

1. The units must be in the residential targeted areas (see attached map)
2. The units must be within a residential or mixed-use structure containing at least four dwelling units.
3. The units must have an average size of at least 500 square feet per unit.
4. A minimum of 15 percent of the units must be at least 900 square feet in area and contain at least two bedrooms.
5. The units must be designed and used for permanent residential occupancy.
6. Each unit must have its own private bathroom and private kitchen. Projects that utilize common kitchens and/or common bathrooms are not eligible.

Because the City's goal was to provide a temporary incentive to stimulate the private development without becoming a long-term subsidy, the City's Southcenter District MFTE program included a limited application period which sunset at the end of 2017. After that the City no longer accepted MFTE applications.

The following projects utilized the MFTE program within the Southcenter District.

1. AirMark Apartments (2018 MFTE Effective Date, 8-Year Exemption).

AirMark Apartments is a mixed use, 19 story building located along Andover Park East. The project features 371 market rate apartments and the Hotel Interurban. Only the residential portion of the project is eligible for the MFTE. The land (entire parcel) and hotel portion of the building is still subject to property taxes.

2. Marvelle Southcenter (2021 MFTE Effective Date, 8-Year Exemption)

Marvelle Southcenter is active senior housing at the corner of Baker Blvd and Andover Park East.

3. Holden at Southcenter (2022 MFTE Effective Date, 8-Year Exemption)

Holden at Southcenter includes five floors of assisted living units and one floor of memory care units. Only the assisted living units qualified for the MFTE.

Note: All projects submitted their MFTE applications to the City prior to the end of 2017 and were completed within the required time period.

DISCUSSION

The Housing Element of the City's Comprehensive Plan mentions multi-family property tax exemptions as a potential strategy to achieve Tukwila's housing goals. The incentive was also included as a potential strategy in the Transit-Oriented Development Housing Strategies Action Plan adopted by the Council in September 2021. Additionally, two developers have approached the City requesting the MFTE for their potential projects.

Southcenter District Project

One of the developers is proposing to construct market-rate, multi-family apartments for all ages within the City's current Residential Targeted Area in the Southcenter District. The developer plans to rent the units at market rate and is requesting that the project be eligible for the 8-year exemption.

When the City adopted the Southcenter Plan it laid out a vision to transform the Southcenter District from a retail district to a mixed-use district with retail, dining, office, and residential units. While the MFTE incentive helped attract three residential developments, they are all based on very specialized business models such as healthcare, age restrictions, and federally approved foreign financing. At this time, the Southcenter District still lacks an all ages, multi-family project that is traditionally financed³. Additionally, residential projects in the Southcenter District struggle with identifying comparable rents and proof of market demand which adds risk and makes residential projects harder to finance. Staff believes that obtaining an all-ages, traditionally financed residential project(s) in the Southcenter District can be a catalyst to attract more housing development in the District, especially for workers and others not served by the current housing.

The developer has indicated they have found a site they would like to purchase but need to know if the MFTE will be reinstated before they can move ahead.

Tukwila International Blvd Neighborhood Project

³ While the Airmark Apartments is an all ages multi-family project, it relied heavily on EB-5 (foreign) investment to be financially feasible plus shared efficiencies with Hotel Interurban.

The other developer proposes to construct 100 units of affordable, *owner-occupied* housing within the Tukwila International Blvd neighborhood. The developer has indicated that the MFTE is needed in order to secure financing from the US Department of Housing and Urban Development. Owner-occupied multi-family housing is very rare in Tukwila. In addition to making the project more financially feasible, the MFTE would enable the developer to make the units more affordable for the households living in the units. The developer has requested the 20-year exemption.

The developer has indicated they need to know if their project is eligible for the MFTE during the first quarter of 2022; otherwise, it will delay their financing and next steps for the project

Comprehensive Considerations

In addition to the two areas mentioned above, Tukwila may want to consider an MFTE in other areas of the City. For example, the Transit Oriented Development Housing Strategies Plan adopted by the City Council in September discussed the possibility of adoption of an MFTE program near the Tukwila International Boulevard light rail station. Additionally, an MFTE program could be created near the Sounder commuter train station near West Valley Hwy as a way to encourage more housing near the station or other areas of the City to encourage renovation or preservation of existing housing. The City also can include other criteria such as greater affordability, dislocation protections, design standards, etc. Those criteria do not need to be the same in all Residential Targeted Areas.

Economic Development staff recommends the City be thoughtful when considering expansions of tax exemptions because the City will incur costs in order to provide public services to the new developments and the exemptions can cause increased taxes on other property taxpayers.

Recommended Next Steps

Given the potential complexity of a city-wide MFTE program and the time sensitivity of two developments that appear to meet City goals (additional housing in the Southcenter District and affordable, owner-occupied multi-family housing), staff proposes a three-step approach to studying and possibility updating the MFTE program. It's important to note that the first two steps are not limited to just the two developments mentioned and other developments could qualify under the program.

Step 1, December 2021, Southcenter District

Amend the City's current MFTE program to accept applications through 2022. This amendment would retain the current program boundaries and other criteria. Staff proposes adding one additional criteria to require that the housing utilizing the MFTE must be available to people of all ages. This would go through the Council process starting in November, with possible final action in December.

Step 2, First Quarter of 2022, Tukwila International Blvd

Amend the City's MFTE program to create a second and new Residential Targeted Area along Tukwila International Blvd (TIB) with eligibility criteria allowing owner occupied, affordable housing. At this step, rental apartments would not be included in the program due to more complex considerations such as affordability limits, boundaries of eligible areas, design criteria, redevelopment criteria, displacement risk, market necessity, and other issues. This provision allows the City to expand owner-occupied, affordable housing opportunities in the City and new development along TIB.

Step 3, 2022, Comprehensive

Conduct a more comprehensive review to consider expansions of the MFTE program. This review would include multi-family rental housing, other geographic areas, housekeeping items, and other considerations and criteria such as:

1. Where would the City like to see more multi-family housing (rental and/or ownership)?
2. Where would the City like to see renovation of multi-family housing?
3. Where would the City like to see preservation of existing affordable housing?
4. What levels of affordability would the City like?
5. What levels of affordability are feasible given the value of the incentive, other financing, and development costs?
6. How would the MFTE prioritize multi-family housing as a land use compared to other land uses in that area.
7. Is the MFTE necessary and/or sufficient as an incentive?
8. What project design standards should be included (e.g. structured parking, public amenities, etc.)?
9. What are the financial implications to the City, Tukwila School District, and other taxing districts?
10. How will the City manage and monitor ongoing affordability requirements and reports?

FINANCIAL IMPACT

Steps 1 and 2 outlined above would have minimal financial impacts to the City primarily because they are small relative to the amount of development already in the City

Step 3 could be significant in terms of demands on city services, reallocation of property tax to other taxpayers, etc. depending on the specifics of the program. Depending on the scope, staff may want to hire a consultant to analyze the incentive's market necessity, effectiveness, and effect on City finances.

RECOMMENDATION

Discussion only. If the Committee supports the three-step process outlined above, staff will return to the Committee on November 15 with a draft ordinance addressing the Southcenter District and again in January with an ordinance to address Tukwila International Blvd.

ATTACHMENTS

- Map of Southcenter District Residential Targeted Area.

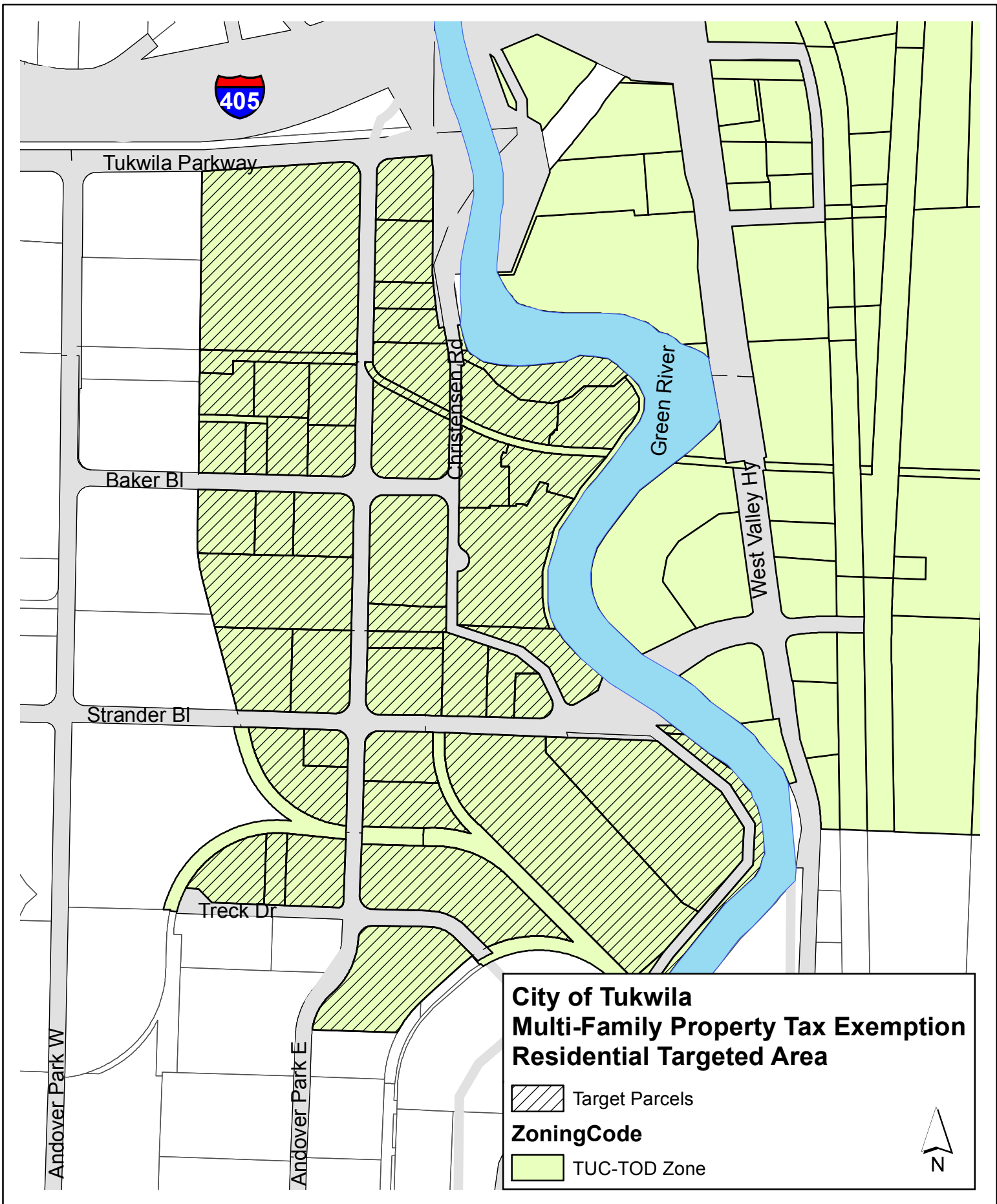


Figure A
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