



City of Seattle

Seattle Planning Commission

Commissioners

David Cutler, Chair
Amalia Leighton, Vice-Chair
Catherine Benotto
Luis Borrero
Josh Brower
Colie Hough-Beck
Mark S. Johnson
Bradley Khouri
Jeanne Krikawa
Kevin McDonald
Chris Persons
Matt Roewe
Kadie Bell
Morgan Shook

Staff

Barb Wilson, Director
Diana Canzoneri,
Senior Policy Analyst

April 25, 2013

Councilmember Nick Licata, Chair
Housing, Human Services, Health and Culture Committee
Seattle City Council
PO Box 34025
Seattle, WA 98124-4025

RE: Proposed Changes the Multifamily Tax Exemption Program

The Commission has long supported use of the Multifamily Tax Exemption (MFTE) program as one of the main tools the City has available to encourage the market to produce housing affordable to moderate wage earners and other households with modest incomes. The City now has fifteen years' experience operating the program as well as an extensively researched report from the Office of City Auditor. We understand that the recently convened Advisory Committee on Affordable Housing Incentives, as well as a expert advisory team to soon be convened by City Council, will also be providing observations based on their real-world experience with the program. The Commission is co-chairing this committee and had been closely tracking their preliminary work. All of this information has helped to further inform the Commission's proposed recommendations.

Our review of MFTE reinforces our conviction that the program is an important tool to retain in Seattle's toolbox. Not only does MFTE incentivize affordability for households who would otherwise be priced out of many Seattle neighborhoods, it also plays a role in encouraging residential development in urban centers and villages with cooler housing markets.

While we believe the program is generally well designed, we recommend better focusing the program's goals and better calibrating the program to advance these goals.

REVISE PROGRAM GOALS AND GEOGRAPHIC SCOPE

• **Streamline program goals.**

The nine goals of the MFTE program as currently codified are diffuse and unnecessarily detailed. We recommend simplifying the way the goals are stated in the municipal code to focus on primary objectives:

1. increase the supply and availability of affordable housing for households with low and moderate incomes
2. encourage the development of housing to address gaps in the supply (i.e. the lack of family sized units, and underdeveloped housing markets)
3. support affordable living in urban neighborhoods that are well served by transit and other key components of livability

- **Promote affordability in higher-rent areas and stimulate housing development in cooler real estate market areas.**

It is important to use the program to promote affordability in higher-rent areas. Seattle's Comprehensive Plan encourages the development of mixed-income housing and affordable housing for low-income households in all parts of the city.

A well-calibrated program can stimulate residential development in target areas where relatively little housing is being produced. In neighborhoods where market rents are below the citywide average, the tax savings from the program can reduce financial risk enough to enable projects to "pencil." Although it's difficult to quantify the direct impact the program has had in stimulating development, we understand anecdotally that MFTE has been a deciding factor enabling specific projects to be built. The same role for MFTE is also relevant during slow periods in the overall economic and housing market.

Even in areas and times of relatively low rents, the program's income-eligibility restrictions still benefit target income groups by ensuring that these households actually have access to the affordable units. This can help to reduce displacement of low and moderate income residents in locations where great transit service and other investments may lead to hotter real estate markets in the future.

- **Consider the program as a potential tool for transit communities.**

Directing MFTE and other housing affordability programs to places where people can access frequent transit and other essential components of livability within a short walk can improve overall household affordability. Transportation costs are generally the second largest expense for households after housing. As highlighted in our 2010 [Seattle Transit Communities](#) report, living in a transit community makes it practical for people to reduce their driving or even forgo owning a car because they are able to do things like go to the grocery store, access services, and get to work without having to drive. Workforce and moderate-income tenants who live in a transit community may be able to allocate a somewhat larger portion of their income on housing. The City should research the potential to adjust the provisions in MFTE and other affordable housing incentive programs in light of the reduced household costs possible in transit communities.

STRENGTHEN INCENTIVES FOR AFFORDABILITY AND FAMILY-SIZED UNITS

- **Strengthen the incentive for larger unit sizes.**

We recommend refocusing the MFTE program to provide a significant incentive for developers to include more family-size units in the projects they develop. The graduated affordability levels in MFTE are intended to ensure that the incentives in the program work for larger units as well as smaller units. (Currently, MFTE rents for studios must be affordable to households with incomes at or below 65% of Area Median Income (AMI), rents for 1-bedroom units must be affordable at or below 75% of AMI, and rents for units with 2 or more bedrooms must be affordable at or below 85% of AMI.) However, the performance of the program indicate that incentives in MFTE for are actually much weaker for 2 bedroom units than they are for smaller units, and are essentially non-existent for 3+ bedroom units.

In our research for the 2012 [Housing Seattle](#) report, we found that only 2 percent of the market-rate apartment units in Seattle have three or more bedrooms, spurring our recommendation to better promote and encourage housing production that addresses gaps in the market for families with

children. A logical and immediate way to do this is to increase the AMI-based rent maximum for 2-bedroom units, and especially 3+ bedroom units, as part of an overall recalibration of the program's affordability tiers.

Attracting a greater share of the county's families with children is an explicit goal in the Housing Element of Seattle's Comprehensive Plan. One of the most basic challenges Seattle has in accommodating moderate to middle-income families is the relative scarcity of larger rental units. Housing families is going to get increasingly difficult if family-sized units continue to be left out of multifamily developments, which account for a large majority of Seattle's housing supply growth. Encouraging larger units isn't solely about housing families with children. Increasing the availability of larger multifamily units will also benefit many types of multi-generational households whose numbers are growing.

- **Strengthen affordability for studios and micro units that receive the tax exemption.** The current market for new construction is producing a large supply of studios. The current 65% AMI maximum rent level for studios should be reduced for all regular studio units. Additionally, a new tier intended to promote much deeper affordability levels should be introduced for micro units. For studios and micro units, the City should also consider increasing the percentage of units required to be set aside for income restricted affordable units.
- **Reduce the presumed occupancy for calculating maximum affordable rent for a 1-bedroom unit from 2 persons to 1.5 persons.** We concur with the auditor's recommendation on this matter. This adjustment will better reflect the average size of households in 1-bedroom MFTE units and will help make allowable rents more affordable to the households in these units.
- **Explore the potential to dynamically adjust affordability levels to increase participation and capture more benefits from the program.** In addition to recalibrating affordability by unit size tiers, we recommend exploring the feasibility and usefulness of periodically adjusting affordability levels in response to variation in market strength across time and geography. This kind of fine-tuning could have many benefits including securing the participation of more projects in neighborhoods with higher rents, thereby increasing the total number of units that MFTE incentives deliver at below market rates.

REFINE PROGRAM ADMINISTRATION AND IMPLEMENTATION:

To the extent feasible, we suggest applying similar administrative rules and procedures with the MFTE program as the City and its partners use in other affordable housing programs in Seattle in order to enhance consistency and simplify program administration.

- **Eligibility of full-time students for MFTE tenancy**

The City should not disqualify full-time students from tenancy in MFTE simply because of their student status. Doing so could undermine other programs that support economic mobility and run counter to some of the City's social equity goals. However, the City should place some additional restrictions on full time student eligibility for tenancy to ensure that the program serves those who need its help. We recommend that the Office of Housing research the way other programs such as federal Low Income Housing Tax Credit or Section 8 structure eligibility for students. The City

could then integrate those eligibility rules that would correspond with the goals of MFTE program and be feasible to administer locally.

- **Income requalification**

The City Auditor also recommended instituting an annual or every-other-year requalification of tenants. We understand that MFTE tenants typically live in their units for less than 2 years, so the technical utility of periodic requalification is limited. However, we believe that instituting some form of streamlined check on eligibility is important to safeguarding the integrity, reputation, and long-term sustainability of this important program.

Thank you for the opportunity to provide you with our recommendations on the Multifamily Tax Exemption Program. We are available to answer any questions and would be happy discuss these recommendations. You can contact me or call our Director, Barbara Wilson, at (206) 684-0431.

Sincerely,



David Cutler, Chair
Seattle Planning Commission

Sincerely,

cc: Mayor Michael McGinn
Seattle City Councilmembers
Darryl Smith, Ethan Raup, Alison Van Gorp; Mayor's Office
Diane Sugimura, Marshall Foster, John Skelton, Mike Podowski, Susan McLain, Brennon Staley; DPD
Rick Hooper, Miriam Roskin, Maureen Kostyack, Laura Hewitt Walker; Office of Housing
Rebecca Herzfeld, Norm Schwab, Sara Belz, Traci Ratzliff; Council Central Staff
Members of Advisory Committee on Affordable Housing Incentives

SEATTLE PLANNING COMMISSION RECORD OF DISCLOSURES & RECUSALS:

- Commissioner Catherine Benotto disclosed that her firm, Weber Thompson, advises housing developers and designs multi-family projects throughout the City that may be affected by this program.
- Commissioner Collie Hough Beck disclosed that the firm for which she works, HBB Landscape Architecture, works on multifamily projects in Seattle which may be affected by this program.
- Commissioner Bradley Khouri disclosed that his firm, b9 architects, works on projects throughout Seattle that may be affected by the proposed changes to the MFTE program.
- Commissioner Chris Persons disclosed that the organization he work for, Capitol Hill Housing, builds affordable multifamily apartments and uses the Multifamily Tax Exemption in some of its new construction.
- Commissioner Matt Roewe disclosed that he works for VIA architecture who does work with multifamily developers who may be eligible for this program.
- Commissioner Morgan Shook and his firm, BERK, have assisted the cities with the design of their MFTE programs. Morgan is currently representing the Planning Commission on the Mayor's Affordable Housing Incentives Committee.