

## ADVISORY COMMITTEE ON AFFORDABLE HOUSING INCENTIVES

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Date: July 29, 2014, 2014

To: Mayor Ed Murray, City Council, Council Central Staff (Land Use)

From: Tom Tierney (Co-chair), formerly Seattle Housing Authority  
Morgan Shook (Co-chair), ECONorthwest

Subject: Summary of Discussion from the Advisory Committee on Affordable Housing Incentives

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The Advisory Committee on Affordable Housing Incentives was formed in early 2013 to provide input, guidance, and recommendations on Seattle's two primary affordable housing incentive programs: the multifamily property tax exemption (MFTE) and the affordable housing elements of incentive zoning. Since its inception, the Committee met 14 times. The first three meetings focused on analysis of the Seattle housing market and options for policy changes to the MFTE program. This analysis led to our first product: a May 8, 2013 memo presenting MFTE recommendations (included as Attachment D).

Subsequent meetings focused on incentive zoning and included a panel discussion featuring presentations by members of the High-Cost Cities Housing Forum and a separate housing developer forum. Committee members also reviewed information on housing needs and affordability, housing market trends, and incentive zoning's performance to date. Selected information on these topics appears as Attachment C to this memo.

The Committee's work on incentive zoning rested on a shared understanding that incentive zoning is a limited but important means to support in-city housing options that are affordable to low- and moderate-income households. The Committee also understands that incentive zoning is not a standalone solution and needs to be part of a broader housing strategy tapping a range of housing production and affordability tools.

The Committee believes that incentive zoning can be designed in a way that delivers low- and moderate-income housing without constraining overall housing supply, which is critical in light of Seattle's growing and diverse population. Further, we believe a balanced approach, as proposed, will have spillover benefits that further the city's human capital, economic development, and fiscal sustainability goals.

Our members represent a diversity of viewpoints with backgrounds in labor, social equity, public policy, and affordable and market-rate housing development; Attachment A provides a list of the appointees to the Committee. Given the diverse stakeholder interests represented on the Committee and disagreement about multiple core policy issues, the Committee is providing a summary of their discussions over the past year rather than make any formal findings or recommendations.

This memo also includes a list of 11 principles that, taken together, are an attempt to provide context for decision makers when weighing policy options related to incentive zoning. The Committee's goal is to provide a framework that helps City decision makers make the best use of various technical and economic analyses that are currently underway and ensure that future discussions about optimal performance and payment amounts rest on a sound policy foundation.

## **CONTEXT AND PRINCIPLES FOR DECISION MAKERS TO CONSIDER**

1. Seattle is growing. Seattle needs new residential, commercial, and industrial construction to accommodate growth and to sustain our thriving economy.
2. Equity is a fundamental value for Seattle. The health and vibrancy of Seattle depends on encouraging and supporting diverse neighborhoods that are, and remain, inclusive of many races, ethnicities, ages, family types, and incomes. People with low and moderate incomes need to be able to find suitable affordable housing in Seattle with good transportation access to job centers.
3. Seattle has a housing affordability challenge. Little vacant land remains and increasing levels of economic productivity continue to bid up land prices for residential and commercial uses. The majority of new market-rate rental and ownership housing is multi-unit structures and is not affordable to households with incomes below the area's median.
4. Seattle desires a higher share of the region's families. Most of Seattle's family-sized housing stock is in single family zones. Little to no new, market rate family-sized housing is affordable to low- and moderate-income families. Achieving affordable, multi-bedroom units in new construction is challenging for many reasons.
5. Incentive zoning has its strengths and limitations. While incentive zoning is an important means to encourage new in-city housing options that are affordable to households with low and moderate incomes, it is not a standalone solution. Incentive zoning is and should continue to be *part* of a broader housing strategy that taps a range of housing affordability tools.
6. In general, policy choices should encourage development that uses maximum development capacity while providing opportunities for residential affordability.
7. Incentive zoning policy should also recognize public goals such as increased housing units and commercial space, job creation, and environmental stewardship and sustainability with creation of affordable housing.
8. Incentive zoning policy should recognize that higher-intensity zoning presents developers and investors with both opportunities and risks: opportunities to get greater financial

return on their project; and risks of doing larger projects sensitive to changing economic conditions.

9. Incentive zoning should facilitate the creation of mixed-income developments in transit- and service-rich areas throughout the city.
10. Incentive zoning should create affordable units generally in proportion to where growth is occurring, but also provide sufficient flexibility to take advantage of sites in other opportunity areas.
11. Incentive zoning requirements should strive for predictability and to reduce complexity.

## **ISSUES OF DISCUSSION**

Below is a summary of the issues the Committee discussed. These issues fell into six major categories: (1) the form of benefit generally (performance vs payment), (2) the performance option specifically, (3) the payment option specifically, (4) payment options depending on locational and other determinants of market conditions, (5) required provision of public benefits for all development within an incentive zone (“mandatory requirement”) and (6) other strategies. For each issue, this summary indicates whether the discussion applied to residential development, non-residential development or both.

### **1. Form of Benefit: Performance vs Payment**

- 1.1. The Committee disagreed on whether performance should be the only option for residential projects participating in incentive zoning or whether a payment option should also be allowed for residential projects and if so the degree to which performance should be incentivized through the calibration of the payment amount. (For residential projects, the payment option is currently allowed only in zones with heights greater than 85 feet). Below is a summary of the major pros and cons of requiring performance that were discussed by the Committee.

#### Pros of Requiring Performance:

- Performance requirements create mixed-income development at the same location where development is occurring.
- Affordable housing production occurs at the same time as development of market-rate housing.
- Performance offers a more direct mechanism to target households in 60-80% of AMI range.

#### Cons of Requiring Performance:

- If the cost to perform is more expensive than the payment option, it potentially increases the likelihood that more projects will be built to base zoning height, thereby resulting in production of both fewer market-rate and affordable units.

- The payment option can offer its own advantages. For example, payment proceeds can be leveraged with other fund sources, efficiently invested in lower-cost construction types (e.g., wood rather than high-rise structures), and help secure the affordability of preservation projects, as discussed under item 3.2.
- Performance requirements in smaller buildings may be costly to administer where they produce only a few affordable units.
- The payment option can offer additional flexibility that responds to different development conditions leading to higher incentive zoning participation rates.

1.2. Economic analysis should identify “break-points” for performance and payment options, if applicable, beyond which the City risks impacting housing supply, including the low- and moderate-income housing generated through incentive zoning.

1.3. Non-residential developers should continue to have the flexibility to pursue either the payment option or performance option in all zones.

## **2. Production of Units by Residential Developers under the Performance Option**

2.1. Affordable housing provided through the performance option should serve people with incomes between 60% and 80% of AMI since these households are not typically served through publicly subsidized affordable housing programs.

2.2. The City should consider varying the income targets for different unit sizes. In the case of very small units with market rents affordable to households with incomes equal to or less than 80% of AMI, it would be appropriate to establish a lower AMI target.

2.3. The City should consider strategies to incentivize production of larger units for families.

2.4. In the event that the rent and income limits established by the U.S. Department of Housing and Urban Development decline in a subsequent year, the City should not lower them for the purposes of the incentive zoning program. Instead the City should hold limits steady until they are raised again by HUD.

## **3. Use of Payment Proceeds from the Payment Option**

3.1. The City should continue to have the flexibility to use affordable housing payment proceeds from residential and non-residential developers to serve the full spectrum of lower incomes from 0% to 80% of AMI.

3.2. A portion of payment proceeds from residential developers should be set aside for an opportunity fund that would be awarded to projects that improve the quality and secure the ongoing affordability of existing lower-cost housing. Awards for these preservation projects should not be subject to the Office of Housing’s annual competitive funding cycle, but rather be distributed through a rolling application process designed to seize preservation opportunities as they arise.

- 3.3. The City should expend payment proceeds from residential and non-residential developers as quickly as possible, with the goal of timely production of affordable housing units relative to completion of the project that generated those proceeds.
- 3.4. The City's award of payment proceeds from residential and non-residential developers should prioritize the neighborhoods that generated those funds. In cases where a same-neighborhood award is not feasible, the proceeds should seek to expand or preserve affordable housing in areas that are well-served by transit and offer easy access to the city's growth centers.
- 3.5. Residential developers should be allowed to use incentive zoning and the multifamily tax exemption (MFTE) program in the same project. The City should look carefully at how this layering is structured to see if it can improve the feasibility of projects overall and encourage use of the performance option. However, competitive public subsidies should not be allowed for affordable housing produced through the performance option.

#### **4. Variation of Performance Set-Aside and Payment Levels for Residential and Non-Residential Developments**

- 4.1. The City should establish varying performance set-asides and per-square-foot payment levels, on the basis of economic analysis, throughout different parts of the city. Such variations should take into account use (e.g., residential vs. non-residential development), construction type (e.g., steel and concrete high-rises vs. wood-frame buildings), tenure (rental vs. ownership), and real estate market conditions by location or zoning classification but should strive limit the complexity of the variation.
- 4.2. The performance set-aside and payment levels required for residential and non-residential developers who participate in incentive zoning should be reviewed and revised every three years or more frequently in light of changing market conditions. This process should be implemented by administrative action after being reviewed by a non-political technical advisory committee.

#### **5. Mandatory Requirements**

- 5.1 The Committee was sharply divided on the question of whether Seattle's incentive zoning should be changed to a mandatory requirement as well as whether mandatory requirements are legal and whether the discussion was even within the scope of the Committee. (Mandatory was defined as being required of residential developers regardless of whether or not they took advantage of the option to build floor area beyond a base zoning limit.) While there could be many different approaches to implementing a mandatory requirement, the Committee presented high-level arguments for and against it. Those arguments, as expressed by some Committee members, are summarized as follows:

- A mandatory requirement would result in significantly more affordable housing, would encourage developers to build to maximum density, would be more predictable and simpler to administer, and has been implemented successfully, without legal challenge, by other cities in King County.
- A mandatory requirement would effectively create an illegal tax on housing production, significantly increase the cost of development, and push housing prices even higher by restricting supply.

## 6. Other Strategies

6.1 The Committee suggested that, in addition to incentive zoning, there were many other tools and strategies that the City should investigate to increase housing affordability and subsidized housing, generally. These strategies included opportunities to increase overall supply of housing, increase public funding of subsidized housing, and reduce the cost of construction and permitting. The 2013 report, *Bending the Cost Curve on Affordable Rental Development: understanding the Drivers of Cost*, a joint effort by the Urban Land Institute, the Enterprise Foundation, and the Terwilliger Center for Housing, was specifically identified as a good resource for identifying some of these strategies.

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The members of this Committee thank you for the opportunity to serve Seattle's residents through consideration of this important topic. Though incentive zoning is but one of many strategies needed to address Seattle's affordable housing problems, we are hopeful that the incentive tool resulting from the Mayor and City Council's efforts will both encourage housing and non-residential development and help provide residents across the income spectrum with suitable affordable housing options.

Should you have follow-up questions or desire a personal briefing, either of us, as co-chairs of the 2013-14 Advisory Committee on Affordable Housing Incentives, would be pleased to hear from you.

## Attachments

- A. ***Appointees*** of the 2013-2014 Advisory Committee on Affordable Housing Incentives
- B. ***Common Terms and Definitions***
- C. ***Findings of Fact*** related to incentive zoning activity to date and Seattle housing supply and needs
- D. ***Advisory Committee on Affordable Housing Incentives Comments on the Multifamily Tax Exemption Program***, May 8, 2013

**Appointees to the 2013-14 Advisory Committee  
on Affordable Housing Incentives**

**Co-Chairs**

Tom Tierney, formerly Seattle Housing Authority

Morgan Shook, ECONorthwest

**Members**

Martha Barkman, Mack Urban

Maria Barrientos, barrientos \*

David Freiboth, M.L. King County Labor Council \*

A-P Hurd, Touchstone Corporation

Paul Lambros, Plymouth Housing Group

Sharon Lee, LIHI

Pearl Leung, Vulcan

Al Levine, formerly Seattle Housing Authority

Sarah Lewontin, Bellwether Housing

John Marasco, Security Properties

Jack McCullough, McCullough Hill Leary \*

Steve O'Connor, University of Washington \*

Christopher Persons, Capitol Hill Housing

Earl Richardson, formerly Southeast Effective Development \*

Rebecca Saldaña, Puget Sound SAGE

Monica Smith/Amy Gore, Futurewise

Steve Williamson, UFCW 21

Maiko Winkler-Chin, Seattle Chinatown International District PDA

*\* Asterisked members withdrew from the Committee due to time constraints.*

## Terms and Definitions

**Affordable:** Consistent with standards used by the U.S. Department of Housing and Urban Development (HUD), housing is considered to be “affordable” to a household at a particular income level if housing costs comprise no more than 30% of the household’s income. (For renters housing costs include rent plus basic utilities. For owners housing costs include mortgage payment, interest, taxes, insurance, and homeowner association dues.)

The City refers to several levels of affordability based on household income for housing with restrictive covenants (e.g. affordable units provided as part of an agreement for bonus floor area as well as other housing). For example, the City refers to housing as “affordable” for “moderate-income” households to describe housing costs that do not exceed 30% of area median income (AMI), and “affordable” for “low-income” households to describe housing costs that do not exceed 30% of 80% of AMI.

<b>Housing Affordability by Household Income Level<sup>1</sup></b>	
<b>Level at which housing is “affordable”</b>	<b>Monthly housing costs are no more than 30% of household income at the following income levels</b>
“Extremely low-income”	30% of AMI
“Very low-income”	50% of AMI
“Low-income”	80% of AMI
“Moderate-income”	100% of AMI

**Area median income (AMI):** annual median family income for the Seattle area, as published from time to time by HUD, with adjustments according to household size. When describing the income level (percent of AMI) at which housing is affordable, the City also makes adjustments based on the average size of household considered to correspond to the size of the housing unit (1 person for studio units and 1.5 persons per bedroom for other units).

**Payment option:** means the option of making a payment to the City in lieu of providing moderate-income (owner) or low-income (rental) housing in order to qualify for bonus floor area.

**Performance option:** means providing, or committing to provide, moderate-income (owner) or low-income (rental) housing in order to qualify for bonus floor area.

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<sup>1</sup> Definitions differ for various housing programs; these are currently used for purposes of incentive zoning.



## Technical Background:

### Affordable Housing Zoning Incentives and Housing Supply and Need in Seattle

#### History

Housing incentives are adopted for non-residential and residential development concurrent with rezones of geographic areas. Some of the most notable rezones that included housing incentives included:

- Downtown rezone (non-residential bonus only) – 2001
- Downtown rezone (residential bonus only) – 2006
- South Downtown rezone (non-residential and residential bonus) – 2011
- Midrise and Highrise rezone (residential bonus) - 2011
- South Lake Union rezone (non-residential and residential bonus) – 2013

In 2006, the Washington State legislature adopted House Bill 2984, which amended RCW 82.02.020 and added chapter RCW 36.70A.540 to the Growth Management Act to allow cities and counties to adopt affordable housing incentive programs for residential development. In 2009, the state legislature amended RCW 36.70A.540 to expand the types of development (e.g. commercial) for which affordable housing incentives could be offered.

#### Use of Incentive Zoning

1. Since 2001, commercial developers have achieved 100% of their 1,613,026 gross square feet (gsf) of bonus non-residential floor area through the payment option (1,535 affordable units, including leveraged funds, were funded with housing contributions made for both non-residential and residential).
2. Residential developers who opted to use Seattle's incentive zoning to achieve 968,209 gsf of bonus residential floor area since 2006 did so in a variety of ways: 40% of bonus residential floor area was achieved through required performance – generally in zones where height limits do not exceed 85' and incentive zoning is used (41 affordable units of 1,038 total units, or 3.9% set-aside, plus 32 affordable units off-site); 13% through optional performance (21 affordable units of 236 total units, or 8.9% set-aside); and 47% of bonus residential floor area through payment.
3. Between 2007 (date when permit tracking data became available via DPD's Hansen database) and November 2013, use of housing-related extra floor area incentives has varied by zone and has been more prevalent for commercial development and downtown zones.
  - Commercial
    - Downtown: 4 of 6 issued building permits

## ATTACHMENT C

- South Lake Union:
  - 5 of 7 building permits (EDG before rezone)
  - 1 of 7 building permits (EDG after rezone)
- Residential
  - Downtown: 3 of 7 issued building permits
  - South Lake Union:
    - 0 of 6 building permits (EDG before rezone)
    - 0 of 0 building permits (EDG after rezone)
  - Dravus: 1 of 2 building permits
  - Highrise (First Hill): 1 of 1 building permits
  - Midrise: 8 of 19 building permits
  - Suffix zones: 2 of 7 building permits

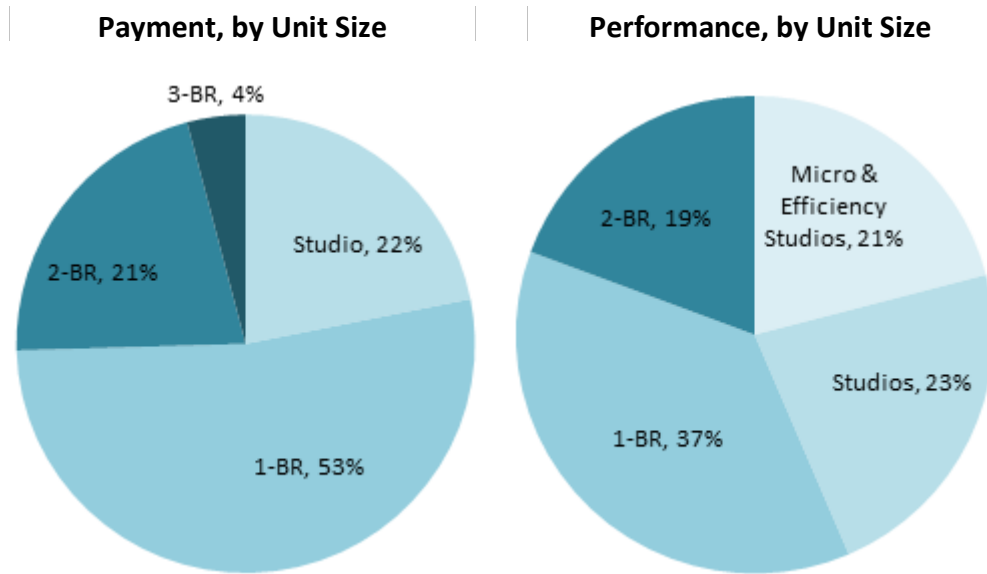
### **Households Served by Incentive Zoning**

Incentive zoning provides housing affordable to Seattle’s low- and moderate-income households (up to 80% of AMI for renters, and up to 100% of AMI for owners). Rental units produced through the on-site performance option generally serve households with incomes in the 60-80% AMI range. Developer bonus contributions are leveraged with other public and private fund sources and serve households with incomes equal to or less than 30%, 60% or 80% of area median income (AMI).

1. 100% of the 62 affordable units provided on-site through the “performance option” have income/rent limits equal to or less than 80% of AMI.
2. 100% of the 32 affordable units (# prorated to account for \$5.6M of additional City of Seattle subsidy) provided off-site through the “performance option” have income/rent limits equal to or less than 60% of AMI.
3. Of the 1,535 affordable units provided through the “payment option” (including leverage), 38% have income/rent limits equal to or less than 30% of AMI, 54% have income/rent limits equal to or less than 60% of AMI, and 8% have income limits equal to or less than 80% of AMI. Of the 126 bonus-funded units that are equal to or less than 80% of AMI, 84 are affordable rental units and the other 42 were produced by downpayment assistance for low-income homebuyers.

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4. Affordable housing units provided via on-site performance mirror the unit-size mix of market development. Developer contributions via the payment option have produced some family-size (3-bedroom) units, although the number is still modest.



Source: Office of Housing, 3/31/14

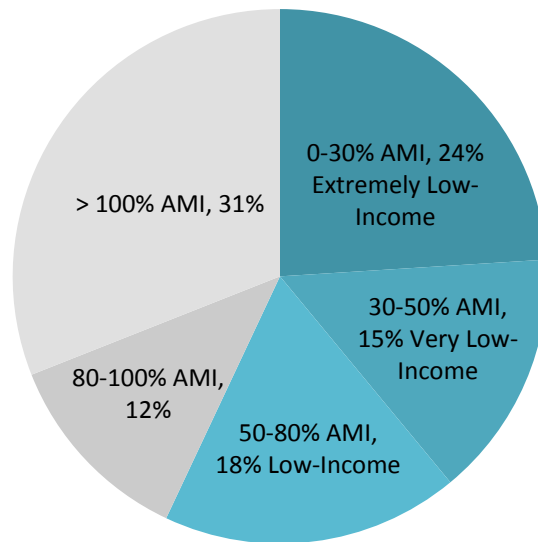
5. Income limits vary by household size. In 2014:
- 30% of AMI = \$18,550 (1 person) to \$26,450 (4 person)
  - 50% of AMI = \$30,900 (1 person) to \$44,100 (4 person)
  - 60% of AMI = \$37,080 (1 person) to \$52,920 (4 person)
  - 80% of AMI = \$44,750 (1 person) to \$63,900 (4 person)
  - 100% of AMI = \$61,800 (1 person) to \$88,200 (4 person)
6. Rent limits currently vary by number of bedrooms. In 2014:
- 30% of AMI = \$463 (0 bedrooms) to \$688 (3 bedrooms)
  - 50% of AMI = \$772 (0 bedrooms) to \$1,146 (3 bedrooms)
  - 60% of AMI = \$927 (0 bedrooms) to \$1,376 (3 bedrooms)
  - 80% of AMI = \$1,118 (0 bedrooms) to \$1,661 (3 bedrooms)

## Seattle Rental Housing Supply and Need

Source: HUD Consolidated Housing Affordability Strategy (CHAS) Data – U.S. Census Bureau, American Community Survey 5-Year Estimates, 2006-2010

1. Slightly more than half of the households in Seattle are renter households.
2. The income distribution of Seattle renter households, which is shown in the pie chart below, is more varied than it is for owner households and includes larger shares of households in low-income categories. About 42% of renter households have incomes above 80% of AMI, compared to about 79% of owner households.

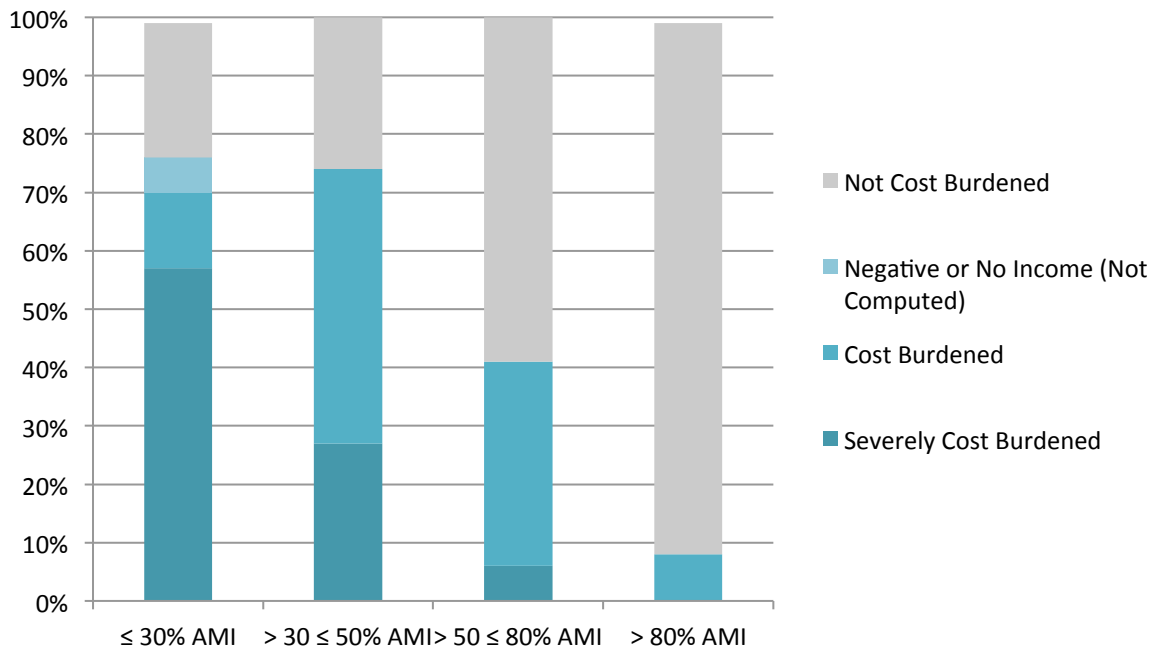
**Seattle Renter Households, by Income**



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3. Not surprisingly, rates of housing cost burden (for renters, paying more than 30% of household income for rent and basic utilities) are highest among extremely low-income households. Almost 60% of extremely low-income households, not including those with negative or no income, are estimated to be severely cost burdened, meaning they pay more than half of their household income for housing costs.

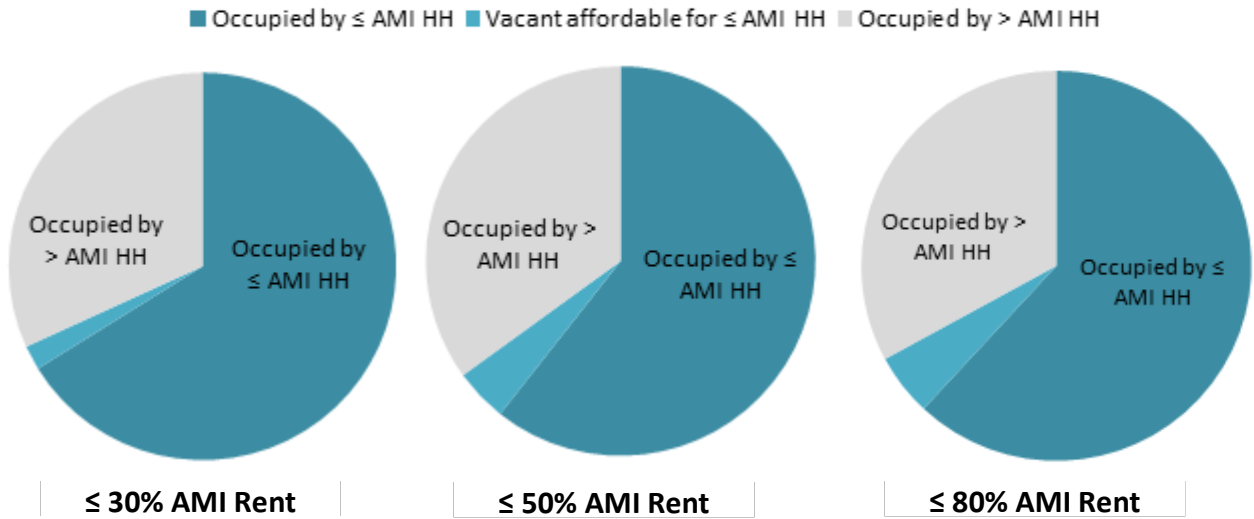
**Seattle Renter Households, Housing Cost Burden by Income<sup>1</sup>**



<sup>1</sup> Total renter households by income category may not total 100% due to rounding.

- Only housing with regulatory covenants limiting maximum rents and eligible household incomes is guaranteed to be affordable to and occupied by households of a certain income level. The broader reality is that a substantial portion of the rental housing in the city that could be afforded by low-income households is occupied by higher-income households. About a third of the rental housing renting at each of the three affordability levels indicated below are actually occupied by households with incomes higher than that income level.

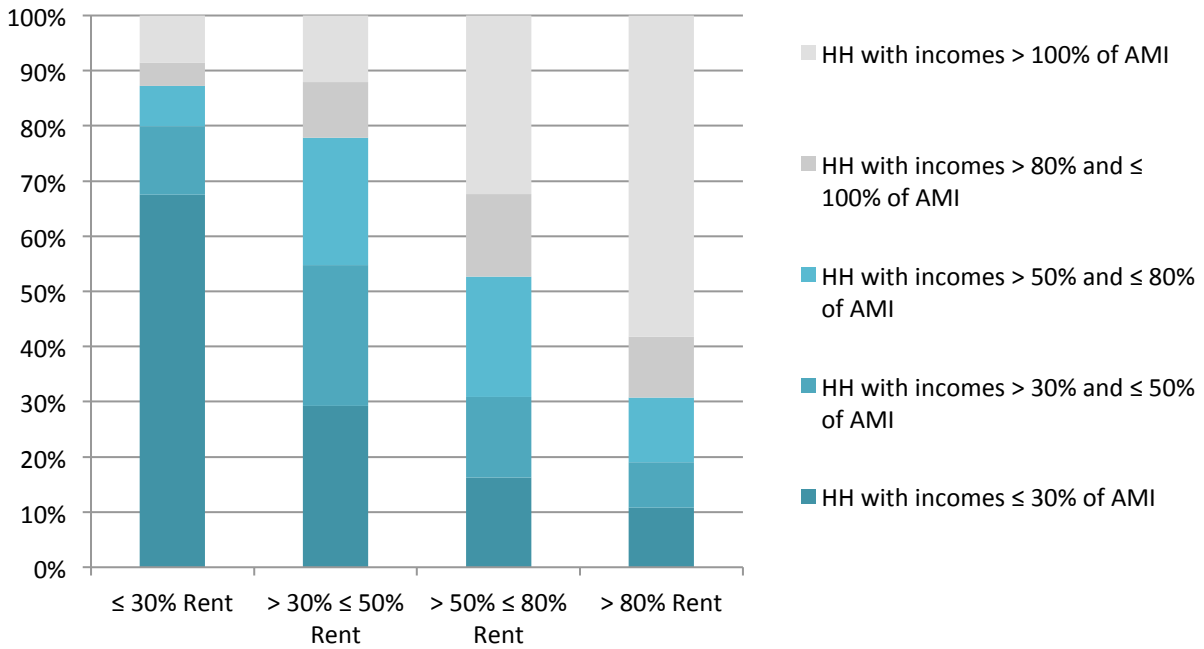
### Seattle Rental Units, by Affordability



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- The bar graph below provides a more detailed picture of the income distribution of households living in housing supplied at various rent categories. It illustrates that housing may be affordable to households within a specific income range, but the range of incomes of households actually occupying the housing is almost always much broader. Note, however, that a greater proportion of housing affordable to households with incomes at or below 30% of area median income is occupied by households within that income category in part because a greater proportion of that housing has regulatory covenants.

**Seattle Rental Units, by Household Income Level of Occupants**

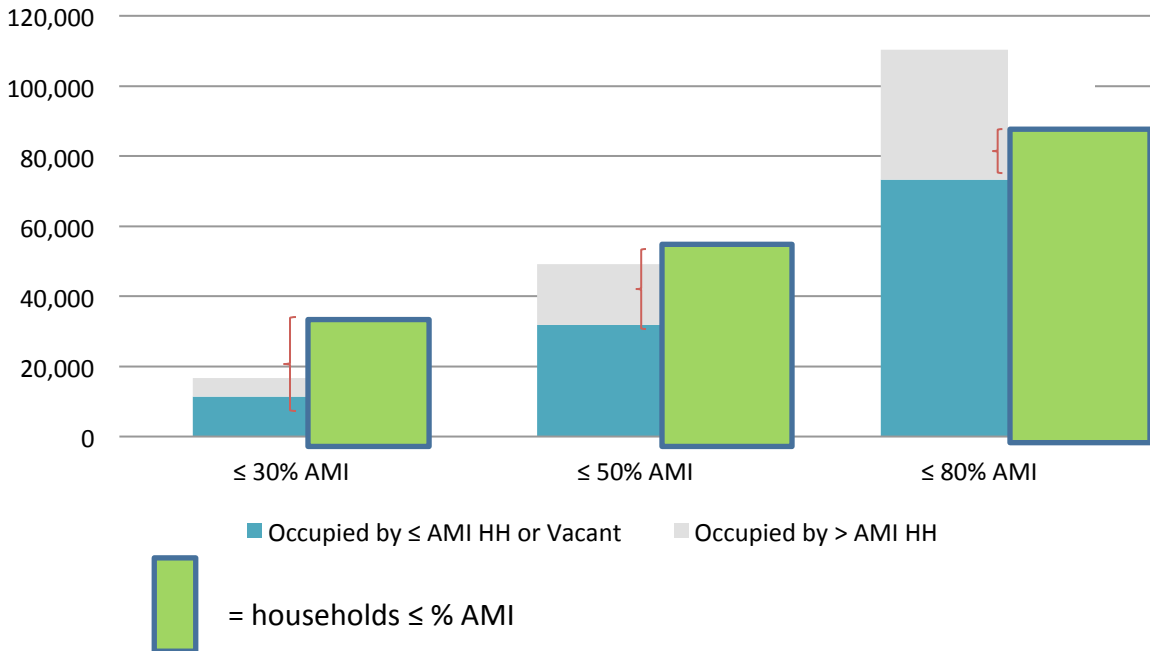


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- The net result is that Seattle has a shortage of rental housing at all low-income levels, i.e. incomes equal to or less than 30%, 50%, and 80% of AMI. Not surprisingly, the shortage is worst for households with extremely low incomes equal to or less than 30% of AMI.

For every 100 Seattle households in the extremely low income category, only 33 Seattle housing units are estimated to be affordable to and not occupied by households with higher incomes. The gap is less dramatic for households with incomes equal to or less than 80% of AMI, but Seattle is experiencing a shortage of housing even at this affordability level. For every 100 Seattle households with incomes equal to or less than 80% of AMI, 89 housing units in the city are estimated to be affordable to and not occupied by households with higher incomes. This graphic illustrates these housing shortages based on estimated numbers of households and rental housing units in Seattle by income and affordability levels.<sup>2</sup>

### Seattle Rental Housing & Renter Households



This symbol represents estimated minimum affordable housing units needed. These estimates do not account for households that may desire to live in Seattle but are unable to due to lack of affordable housing.

<sup>2</sup> These ratios are estimated based on CHAS data for broad income categories of 0-30% AMI, 30-50% AMI, and 50-80% AMI. For that reason, the analysis required a simplifying assumption that household incomes and rents are evenly distributed within each AMI-based category. Given that rents may actually be more clustered toward the higher end of an AMI category than incomes, these ratios may somewhat overestimate affordability.



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ADVISORY COMMITTEE ON AFFORDABLE HOUSING INCENTIVES

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May 8, 2013

Honorable Nick Licata, Chair, Housing, Human Services, Health, and Culture Committee  
Honorable Sally Bagshaw  
Honorable Bruce Harrell  
Honorable Tom Rasmussen

**Subject: Comments on the Multifamily Property Tax Exemption Program**

Dear Councilmember Licata:

The Advisory Committee on Affordable Housing Incentives was formed to provide input, guidance, and recommendations relating to current reviews of and updates to Seattle's Multifamily Property Tax Exemption (MFTE) and Incentive Zoning Programs.

Our members represent a variety of backgrounds and viewpoints, and we hope that our comments and key points of discussion will be helpful to you as you carry out your program review. The Committee's composition includes individuals with background covering labor, social equity, public policy, affordable housing, and private development. We have met three times since our first meeting on March 22, 2013. This letter provides you a summary of the Committee's discussion of the MFTE Program, and has been reviewed and approved for distribution by all Committee members.

**The MFTE Program Must Be Considered as Part of a Comprehensive Housing Strategy**

We have reviewed data from the Office of Housing showing that MFTE is generally creating units at below-market rents in newly constructed buildings, with some exceptions. Changes made in recent years – and in particular, expanding the geography and setting affordability levels between 65% and 85% of area median income – have enabled the program to increase development activity and increase production of below-market rate units in many areas throughout the city.

We are in the early stages of our discussions and have quickly appreciated the complexity of the MFTE program. Some of our members who have used the MFTE Program noted that it has helped make projects feasible by lowering project operating costs and assuaging investors and lenders in getting projects financed. In certain markets, however, the program does not add value to market rate projects and therefore would not be used. Against this backdrop, we find that MFTE Program can play an important role in aligning new construction by the private sector to the City's comprehensive plan goals for overall housing growth and affordability targets.

We caution against looking at any one program in isolation. In particular, we are interested in ways to ensure that all incentive programs – notably the Multifamily Tax Exemption and Incentive Zoning Programs – interact in a productive way (see Figure 1). While we understand the Council has taken up the review of the MFTE program as part of its biennial cycle, we urge you to contemplate the sequencing of any revisions to the program so that the programs can be reviewed as part of an interrelated package of tools. We anticipate our review of the incentive programs to be complete at the

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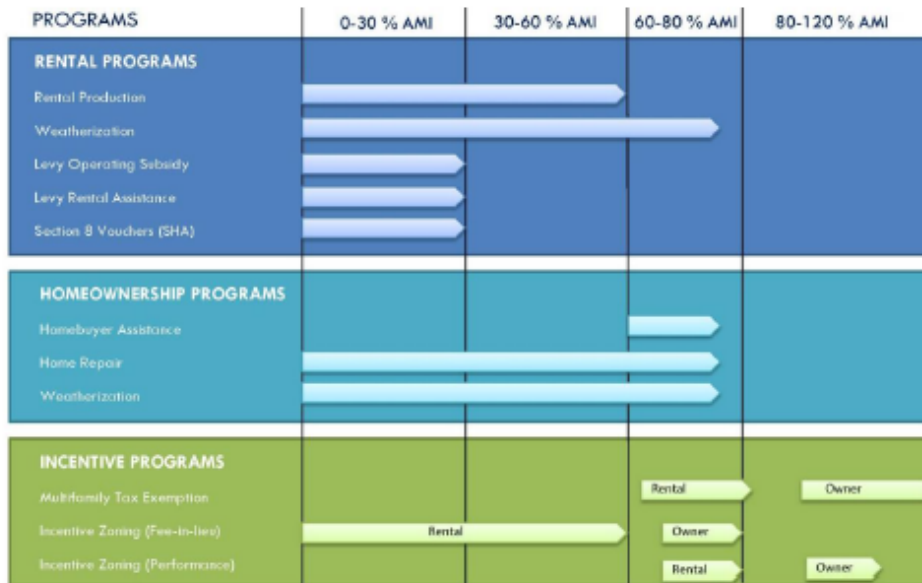
**Members of the 2013 Advisory Committee on Affordable Housing Incentives**

Tom Tierney (Co-chair) • Morgan Shook (Co-chair) • Martha Barkman • Maria Barrientos • David Freilboth • A-P Hurd • Al Levine • Sarah Lewontin • John Marasco • Jack McCullough • Steve O'Connor • Christopher Persons • Earl Richardson • Rebecca Saldaña • Steve Williamson • Maiko Winkler-Chin

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 COMMENTS ON THE MULTIFAMILY PROPERTY TAX EXEMPTION PROGRAM

end of the year and will forward our recommendations on MFTE and incentive zoning at that time. We hope our feedback will be considered.

Figure 1: Affordable Housing Programs – Affordability Levels



Source: Seattle Office of Housing, 2013.

**The MFTE Program is a Valuable Tool that Could be Better Calibrated to Achieve City Goals**

The City of Seattle is a place of economic opportunity. Global leaders in such industries as aerospace, software, and retail have helped drive the region’s economy and fueled growth for housing – both in number and price. This prosperity creates challenges for the City as it seeks to build equitable communities – places that support existing residents and businesses and welcome new ones. The MFTE program is unique program targeted at market-rate and affordable housing developers – the only program of its kind – via a tax break used to underwrite projects on the condition that affordability is preserved at program thresholds for a twelve year period.

In this regard, we see several questions for the MFTE program summarized below.

**How should the MFTE program be packaged with other housing programs?**

As stated above, we are interested in ways to ensure that all incentive programs – notably the Multifamily Tax Exemption and Incentive Zoning Programs – interact in a productive way. Our review this summer will investigate how these programs can best serve the City’s housing and equity needs.

**Is MFTE “buying” enough affordability?**

In 2012, about half of the eligible multi-family projects used the MFTE program. Within the projects that used MFTE, we would like to better understand how much benefit is derived to the applicant relative to the rent subsidized to the renter. From our brief review, it is not possible for us to say how high or low the Program’s income and rent levels could or should be,

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but it does appear to us that the affordability levels need to be sensitive to the balance between the value of the tax exemption and the gap between market and MFTE rents. From this perspective, we would like to know if there is an opportunity to selectively target MFTE at potentially lower levels of affordability (e.g. AMI targets less than the current levels).

**Can MFTE deliver more affordable units and more affordability citywide?**

We have had a robust conversation on the possibility of dynamically configuring the MFTE program to increase participation among market rate developers at alternative levels of affordability. Our conversations have entertained the notion of using the MFTE program to subsidize rents at potentially lower and higher AMI targets and committee members are intrigued at the possibility of using MFTE to deliver both more affordable units and more affordability within multi-family projects across the city. Given our limited review, it would be premature to suggest where these AMI limits could be targeted to achieve these goals; however, we do think such a measure would be impactful in providing more affordable housing options to more households.

**Can MFTE change the composition of our multi-family housing stock?**

We heard from several developers on the committee that the gap between market rents and MFTE rents for 2- and 3-bedroom units is too wide to incentivize construction of these larger units in for-profit developments. In particular, it seems as though present requirements (which apply the same rent cap to any unit of 2 or more bedrooms) are not encouraging production of units of 3 or more bedrooms – data provided by the Office of Housing show that 3 or more bedrooms account for only 2% of the affordable units within the MFTE program. As Seattle seeks to create space for families and larger households, we would like to better know if MFTE can be tweaked to incent the production of these units at meaningful affordability targets.

We do hope that you find these comments helpful, and we and the other Committee members would be glad to entertain any questions you might have. Thank you for your consideration of the Committees' comments.

Sincerely,



Tom Tierney, Co-chair



Morgan Shook, Co-chair