MFTE Evaluation Final Report to City of Seattle, Office of Housing

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Prepared by Gregg Colburn, Devin Collins, and Eric Wang

UNIVERSITY *of* WASHINGTON

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INTRODUCTION

A team of researchers from the University of Washington (UW) entered a contract with the City of Seattle Office of Housing (OH) to quantitatively and qualitatively assess whether Seattle's Multifamily Tax Exemption (MFTE) program is meeting the program purposes established in the Seattle Municipal Code (SMC) to increase and maintain affordable housing opportunities in new and existing multifamily housing. In addition, the UW team assessed whether Seattle's MFTE program is meeting the purpose established by Washington State Law to increase affordable housing opportunities and stimulate multifamily housing through new construction, rehabilitation of vacant buildings, or conversion of non-residential uses in urban centers.

The UW research team explored this primary research question: Is Seattle's MFTE program a cost-effective method for increasing and maintaining affordable multifamily housing opportunities in Seattle? To answer this question, the UW team assessed the quantified public benefits and fiscal costs of the program and sought to better understand how the design and implementation of Seattle's MFTE policy affect results of the program.

Key Findings

- *Benefits of MFTE*
  - Housing Production
    - Over the lifetime of the program, 303 market-only rental properties have participated in MFTE, corresponding to 33,956 total housing units, 7,047 of which are income-restricted. As of the time of this writing, there are 6,636 income-restricted MFTE units across 286 buildings active in Seattle.
    - The overall supply impact of the MFTE program is difficult to quantify, as is the counterfactual (what housing would have been built if MFTE did not exist). But given the analysis in this report and the information gleaned from qualitative interviews, we believe that MFTE has had a stimulative effect on housing production, particularly for smaller units.
    - MFTE has disproportionately produced 0 and 1-bedroom units, despite programmatic reforms designed to incentivize more family-sized units.
    - Vacancy rates in income-restricted MFTE units are, in general, close to vacancy rates in unrestricted MFTE units.

- Housing Affordability
  - In all submarkets and unit-types, average income-restricted MFTE rents are lower than market-rate rents in MFTE properties. The rent discount provided by MFTE tends to be greater in parts of the city with higher market rents. Rent discounts tend to be greater in larger units, though there are fewer of these in the MFTE portfolio.
  - When compared to the general rental market, income-restricted MFTE rents may only represent a modest discount. In lower-cost neighborhoods and for certain unit-types, average income-restricted MFTE rents exceed average market-rate rents.
  - The vast majority (85%) of tenants in income-restricted MFTE units with income documentation are housing cost burdened, defined as spending 30% or more of annual income on housing. Nearly a quarter are severely housing cost burdened, defined as spending 50% or more of annual income on housing.
- Other Benefits
  - MFTE projects are distributed throughout the city, though they are restricted by regulatory restraints (zoning rules) and market dynamics.
  - There are other benefits of the MFTE program that are not quantified in this report, including the taxes that are generated from the production of new housing.

- *Costs of MFTE*
  - There are two primary costs of the MFTE program: foregone and shifted taxes.
  - Foregone taxes represent lost tax revenue due to the way in which MFTE properties are assessed; fixing the assessment procedures would eliminate foregone taxes.
  - Total foregone taxes attributed to Seattle projects was roughly $35 million in 2023 of which greater than $9 million was lost specifically by the City of Seattle.
  - Shifted taxes are the second category of costs of the MFTE program. When projects are granted an exemption from property taxes pursuant to MFTE, those taxes are shifted to the other taxpayers in the city. Shifted taxes have no effect on total receipts of the City of Seattle.
  - In 2024, almost $80 million of taxes were shifted from MFTE projects to non-exempt property owners.

- *Cost / Benefit Relationship*
  - Because a number of the benefits of the program are not detailed in this study, the comparison of costs and benefits is limited to those that are quantified.

- We compare the value of the tax exemption to the amount of rent discount provided by the MFTE units. From the perspective of the City of Seattle, roughly half of the exemption (cost of the program) is returned in the form of discounted rents in MFTE units, until the most recent program iteration.
- The relationship between costs and benefits changed dramatically in P6 given the deeper affordability requirements associated with that iteration of the program.

- *Program Challenges and Reauthorization Considerations*
    - Tenant certification and unit comparability place significant administrative costs on both city and developers, which can deter program participation, particularly in difficult market conditions.
    - Key informant interviews revealed significant ongoing tensions between city staff and the developer community related to MFTE, attributable to changing program requirements, difficult market conditions, and ambiguous goals of the MFTE program.
    - The City of Seattle has a difficult responsibility to calibrate the relationship between the costs of the program (benefit to developers) and the public benefits it delivers (more affordable housing). As the City pushes for greater public benefits, the program becomes less attractive to developers. This is the central tension.

PROGRAM BACKGROUND

The Multifamily Tax Exemption (MFTE) is a statute that allows eligible Washington jurisdictions to target geographic regions for multifamily housing development by offering a time-limited property tax exemption for owners of multifamily rental properties and buyers of homes in multifamily developments. Seattle's MFTE typically provides a property tax exemption for 12 years in exchange for limiting housing costs in a proportion of units. For rental properties, property owners must set aside at least 20% of units as income-restricted to qualify for the MFTE. For properties that are for-sale (condominiums), the tax exemption "accrues to the eligible buyer of each income- and price-restricted home."[1] Rent and income limits are based on area median income (AMI) and adjusted for household size.

The MFTE tax preference was enacted in Washington State in 1995 and adopted by the Seattle City Council in 1998.[2] Initially designed to address problems related to urban sprawl and encourage residential development in urban centers, MFTE was amended in 2007 to include a 12-year program to promote increased affordability.[3] The 2007 amendments introduced the 12-year affordable housing exemption for developers who set aside at least 20% of units as income-restricted. In Seattle, MFTE has been reauthorized five times and the program is currently in its sixth iteration ("P6"). The state-level statute provides the base requirements for MFTE, but individual cities and jurisdictions can layer additional requirements and/or restrictions (which Seattle has done). In Seattle, MFTE is codified in SMC Chapter 5.73.[4] The chapter states the goals of MFTE are to "increase and maintain affordable housing" and to "affirmatively further fair housing as Seattle grows."

At the state level, MFTE is codified in Chapter 84.14 RCW[5], which defines the goals of the program as incentivizing urban housing development, including affordable housing, and encouraging urban development and density. RCW 84.14 defines "affordable housing" as "residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the household's monthly income." RCW 84.14 states that local governments can provide exemptions for new construction, conversion, and rehabilitation of multifamily residential improvements with at least four units. Property owners that receive MFTE are exempt only from property taxes and are

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[1]https://www.seattle.gov/documents/Departments/Housing/Reports/MFTEReports/2023_OH_MFTEAnnualReport.pdf

[2] https://leg.wa.gov/jlarc/taxReports/2019/MFTE/f_ii/print.pdf

[3]https://app.leg.wa.gov/ReportsToTheLegislature/Home/GetPDF?fileName=CommerceReports_MFTE%20Legislative%20Report_Final_0234d374-14e8-48b9-b4d2-14510446e01d.pdf

[4]https://library.municode.com/wa/seattle/codes/municipal_code?nodeId=TIT5REFITA_SUBTITLE_IITA_CH5.73204MUHOPRTAEXPR

[5]https://apps.leg.wa.gov/RCW/default.aspx?cite=84.14&full=true

not exempt from taxes on land and improvements for non-residential portions of mixed-use buildings.[6]

Throughout its existence, Seattle's MFTE program has gone through significant changes. For example, when MFTE was up for its third reauthorization in 2011 ("P4"), some Seattle decisionmakers expressed concerns about the program, "including that tax-breaks had been awarded to undeserving developers."[7] The 2011 reauthorization[8] amended MFTE by lowering affordability thresholds (65%/75%/85% AMI for 0-BR/1-BR/2-BR rental units; and 100%/120% AMI for for-sale units) and requiring OH to submit annual reports by March 30 each year.[9] Also in 2011, Seattle city councilmembers requested a performance audit of the MFTE program to better understand the fiscal impacts of the program and how much affordable housing the program was producing.[10] That audit, released in 2012, revealed that "8 of the 16 properties it reviewed were not renting the required number of affordable units, and 9 of the 9 properties it reviewed had inconsistencies between their annual property certification reports and the documents used to assess renters' income."[11] The 2012 city audit made 19 recommendations to improve the program, including increased goal clarity and performance measurement, more routine monitoring of tenant eligibility, and regular reporting of tax impacts by the Office of Housing (OH) to City Council.[12]

During committee reviews of the program in 2013, councilmembers requested additional clarity on the tax impacts of MFTE.[13] In late 2013, OH concluded that the tax burden for the majority of the exempted amount is *shifted* to other taxpayers, while a small amount of tax revenue is uncollected or *foregone*.[14] This distinction is discussed in more detail below.

In February 2015, additional amendments were made to P4 regarding affordability concerns. One major change was the inclusion of a special distinction for small efficiency dwelling units (SEDUs). Before this change, SEDUs were treated as studios and were income-restricted at 65% AMI ($1,004/month in 2015). As a result,

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[6]https://app.leg.wa.gov/ReportsToTheLegislature/Home/GetPDF?fileName=CommerceReports_MFTE%20Legislative%20Report_Final_0234d374-14e8-48b9-b4d2-14510446e01d.pdf
[7]https://www.capitolhillseattle.com/2013/09/council-to-be-briefed-on-tax-breaks-for-developers/
[8] https://clerk.seattle.gov/search/ordinances/123550
[9] https://clerk.seattle.gov/~CFS/CF_312942.pdf
[10] https://council.seattle.gov/2012/09/19/new-audit-on-mfte-program-released-today/
[11] https://leg.wa.gov/jlarc/taxReports/2019/MFTE/f_ii/print.pdf
[12]https://www.seattle.gov/documents/Departments/CityAuditor/auditreports/20130207FINALREPORTREQREPOST20140428.pdf
[13]https://council.seattle.gov/2013/04/10/2012-mfte-annual-report-reveals-possible-negative-general-fund-impact/
[14] https://www.capitolhillseattle.com/2013/09/council-to-be-briefed-on-tax-breaks-for-developers/

developers receiving MFTE were able to charge maximum income-restricted rents very close to or more than market-rate SEDU rents. Councilmembers lowered the affordability threshold to 40% AMI for SEDUs ($618/month in 2015). The P4 amendments also increased the number of required affordable units in a SEDU development to 25%.[15]

In late 2015, the council considered the fourth reauthorization of MFTE ("P5"), and made further changes to the program. First, two tiers were introduced based on project size. Projects with less than 8% 2+BR units were to abide by "Small Unit Program" rules, while projects with more than 8% 2+BR units were to abide by "Family Sized Unit Program" rules. Projects within the Small Unit Program have a higher affordable set aside requirement (from 20% to 25%), while projects within the Family Size Unit Program would remain at the 20% set-aside rate. Family Sized Unit Program participants would also need to set-aside a proportional share of total 2+BR units as income-restricted. These changes were implemented to encourage the development of affordable family-sized housing as opposed to studios and 1-BRs, which made up approximately 80% of new MFTEs coming online in 2016.[16] P5 also introduced new unit type designations (congregate and 3+BR) and expanded the eligibility boundary in Seattle to any land zoned for multifamily housing, overriding mapped boundaries of MFTE Residential Targeted Areas.[17]

During the latter half of the 2010s, a challenge for the MFTE program in Seattle was the rapidly increasing household incomes in the region. As average median income increased, the rents that could be charged pursuant to MFTE also increased; from 2015 to 2019, for instance, MFTE's maximum rents increased by 6.8% per annum.[18] In response, some councilmembers discussed pegging rent increases to the Consumer Price Index (CPI) rather than AMI to moderate rent increases. In 2019, an Office of Housing proposal to cap increases in annual rent thresholds by 4.5% was included in the MFTE P6 legislation adopted by City Council.[19] Although the cap helped moderate steep annual increases in HUD's estimated median family income for properties with P6 MFTE agreements, it did not preclude rent increases at the unit level of greater than 4.5% if prior rents were below the threshold.

In 2019, Washington State's Joint Legislative Audit and Review Committee (JLARC) released a statewide evaluation of MFTE.[20] JLARC reported 424 developments received MFTE statewide since its inception, corresponding to 34,885 housing units, 21% of which were set aside as affordable. The topline conclusion of the JLARC

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[15] https://www.theurbanist.org/2015/02/24/seattle-city-council-votes-for-microhousing-mfte-changes/
[16] https://www.theurbanist.org/2016/07/01/mfte-program-progress-report-first-trimester-2016/
[17] https://www.theurbanist.org/2015/09/29/seattle-city-council-notes-hala-work-plan-mfte-extens
[18] https://www.theurbanist.org/2017/07/19/mfte-provides-tons-affordable-apartments-use-tweaks/
[19] https://publicola.com/2019/07/26/unanswered-questions-from-durkans-housing-announcement/
[20] https://leg.wa.gov/jlarc/taxReports/2019/MFTE/f_ii/print.pdf

report was that while developers have created housing using MFTE, it is "inconclusive" whether this use represents a net increase in developments statewide. The report found that over 80% of MFTE development was in Seattle, Tacoma, Spokane and Renton, and that 75% of units created statewide between 2007-2018 were 0-BR or 1-BR.

In addition, the JLARC report found that the statutory maximum rental prices may be higher than median market rents for particular neighborhoods. In King County, for instance, JLARC found that the statutory maximum rental price for income-restricted units exceeded market rent in *all targeted areas* except for downtown Seattle, downtown Tacoma, and Mercer Island. Finally, the JLARC report found that the amount of total tax savings shifted to other taxpayers statewide could not be determined due to data limitations.

In 2019, the Seattle MFTE program was reauthorized for a fifth time ("P6"). 2019 also marked the adoption of Mandatory Housing Affordability (MHA) in Seattle. Importantly, the city does not permit "double counting" between the programs; MFTE units may not be used to count toward MHA requirements when affordable housing is provided on-site.[21] P6 was further amended by affected state and city-level policy changes in 2021. At the state-level, Senate Bill 5287[22] allowed program participants within 18 months of expiration to extend their exemption for an additional 12-year period, to prevent the loss of affordable housing. In addition, SB 5287 provided a 20-year exemption option for permanently-affordable homeownership projects. At the city level, these changes were implemented in Ordinance 126443.[23]

SB 5287 also required the Washington State Department of Commerce to adopt and implement a program to effectively audit or review that the owner of each certified tax exempt property was offering the number of units at rents committed to in approved applications. As a result, a State Commerce study was released in 2023 assessing MFTE programs and their tax impacts.[24] The study found that MFTE was effective at incentivizing housing production, that Seattle is the dominant user of MFTE, and that many communities should more regularly monitor their programs for compliance. In addition, the 2023 Commerce report estimated that 27,869 total units were constructed pursuant to MFTE statewide between 2017 and 2021, 14,773

[21]https://app.leg.wa.gov/ReportsToTheLegislature/Home/GetPDF?fileName=CommerceReports_MFTE%20Legislative%20Report_Final_0234d374-14e8-48b9-b4d2-14510446e01d.pdf

[22]https://apps.leg.wa.gov/documents/billdocs/2021-22/Pdf/Bill%20Reports/Senate/5287-S2.E%20SBR%20FBR%2021.pdf

[23]http://seattle.legistar.com/LegislationDetail.aspx?ID=5086382&GUID=2FA9A40B-CB00-4764-89D9-27266C7F5147&Options=ID|Text|&Search=126443

[24]https://app.leg.wa.gov/ReportsToTheLegislature/Home/GetPDF?fileName=CommerceReports_MFTE%20Legislative%20Report_Final_0234d374-14e8-48b9-b4d2-14510446e01d.pdf

of which were in Seattle. Of those units, 5,050 were income-restricted statewide and 3,133 in Seattle. Like the JLARC study, the 2023 Commerce Study found that market rate rents were very close to restricted MFTE levels in certain locations.

OH's 2023 MFTE Annual Report[25] was released in June 2024, and provides the most recent analysis of MFTE performance in Seattle (reporting period through December 31, 2023). At the time of that report, OH reported 352 total rental projects in the city with approved applications over the lifetime of the program, of which 286 were in active service, 49 were in pipeline, and 17 had expired or opted out. In the rental portfolio, there were 6,636 income-restricted MFTE units in service. Over its history, MFTE has produced far more studio and one bedroom units than larger units, and OH reports that 38% of MFTE rental units are 0-BR, 49% are 1-BR, 13% are 2-BR, and less than 1% are 3-BR.

As discussed earlier in this section, the affordability requirement under Seattle's MFTE program has changed over time. Table 1 below highlights the AMI rent thresholds over the six program iterations since the beginning of the MFTE program in Seattle.

[25]https://www.seattle.gov/documents/Departments/Housing/Reports/MFTEReports/2023_OH_MFTEAnnualReport.pdf

Table 1. AMI Limits by Unit Type Across Seattle MFTE Programs

	P3 (2008-2010)	**P4 (2011-2015)***	**P5 (2015-2019)**	**P6 (2019-Present)**	**P6 Extension (2021-present)**
Congregate Residences		40% AMI	40% AMI	40% AMI	30% AMI
SEDU (if in building with mix of unit types)		40% AMI	40% AMI	40% AMI	30% AMI
SEDU (if in building 100% SEDU)		40% AMI	40% AMI	50% AMI	40% AMI
0-BR	80% AMI	65% AMI	65% AMI	60% AMI	50% AMI
1-BR	80% AMI	75% AMI	75% AMI	70% AMI	60% AMI
2-BR	90% AMI	85% AMI	85% AMI	85% AMI	75% AMI
3+BR	90% AMI	85% AMI	90% AMI	90% AMI	80% AMI

Note: Prior to Program 3, AMI limits were not determined by unit-type. P1 (1998-2002) required 80% AMI for all income-restricted MFTE units (except for those in Pike-Pine urban center village, which required 60% AMI). P2 (2004-2008) required 60% AMI for all unit types if 20% of units were set aside as income-restricted; 65% AMI if 25% of units were set aside, and 70% AMI if 30% of units were set aside.
* AMI designations for SEDUs and congregate residences (P4.3) were implemented just months prior to adoption of P5 MFTE legislation in 2015 and applied to just one P4 SEDU project

Table 2 below provides a more detailed analysis of the 2024 rent and income limits under the City's MFTE P6.[26] The contrast between the affordability requirements between larger and smaller units is conspicuous, and reflects the city's intention to incentivize the production of affordable family-size housing. For example, a couple with one child living in a two bedroom apartment could earn up to $101,012.

[26] Calculated from 2024 Income and Rent Limits (https://www.seattle.gov/documents/Departments/Housing/PropertyManagers/IncomeRentLimits/2024/2024_RentIncomeLimits_5.28.24.pdf) and P6 requirements as described in 2023 OH Annual Report

Table 2. 2024 Rent and Income Limits for MFTE (P6)

Apartment Size	AMI Limit	Max. Monthly Rent (Incl. Fees and Basic Utilities)	Household Size	Annual Max. Household Income
Congregate Residence in Sleeping Room	40% AMI	$924	1 person	$36,968
SEDU (if in building with mix of unit types)	40% AMI	$924	1 person	$36,968
SEDU (if in building with 100% SEDUs)	50% AMI	$1,155	1 person	$46,210
0-BR	60% AMI	$1,386	1 person	$55,452
1-BR	70% AMI	$1,732	1 person	$64,694
			2 people	$73,940
2-BR	85% AMI	$2,525	2 people	$89,784
			3 people	$101,012
3-BR	90% AMI	$3,089	3 people	$106,954
			4 people	$118,823
4-BR	90% AMI	$3,445	4 people	$118,823
			5 people	$128,341
			6 people	$137,840

The fiscal impacts of MFTE have been a concern to policymakers throughout its history. Seattle's MFTE has two distinct types of tax impact: tax shifts and foregone taxes.

The 2023 MFTE Commerce Study estimates that in King County as a whole, the total increase in property taxes for typical homeowners as a result of MFTE is approximately $30-40, "substantially lower than other property tax components."[27] The 2023 Seattle Office of Housing report estimated that the exempt assessed value of properties that currently have MFTE in Seattle totals $8.8B. The value is not subject to property taxes and therefore those amounts are shifted to non-exempt taxpayers. OH estimates a total tax shift in Seattle of $71.4 million in 2023 alone. This corresponds to roughly $130 in additional property taxes for an owner of a median value home in Seattle. OH also notes that this estimate is likely conservative as it

[27]https://app.leg.wa.gov/ReportsToTheLegislature/Home/GetPDF?fileName=CommerceReports_MFTE%20Legislative%20Report_Final_0234d374-14e8-48b9-b4d2-14510446e01d.pdf

does not account for additional taxes paid by non-exempt property owners due to tax shift impacts from non-Seattle King County MFTE programs.

In their 2023 Annual Report[28], OH estimated that the King County Assessor had deferred $3.7B in new construction value for Seattle's MFTE rental properties that were active in 2023 (properties where MFTE started between 2012-2023), resulting in approximately $271M in property tax revenue loss during that 12-year period. This figure excludes lost revenue related to properties that have opted out of MFTE or for which exemptions have expired. The amount of foregone revenue in 2023 alone was estimated to be $38.3M.

[28]https://www.seattle.gov/documents/Departments/Housing/Reports/MFTEReports/2023_OH_MFTEAnnualReport.pdf

DATA & METHODS

In this study, we seek to quantitatively and qualitatively assess whether Seattle's MFTE program is meeting the program purpose established in the Seattle Municipal Code to increase and maintain affordable housing opportunities in new and existing multifamily housing. In addition, we assess whether Seattle's MFTE program is meeting the purpose established by Washington State Law to increase affordable housing opportunities and stimulate multifamily housing development. Of note, our study focuses only on market-rate MFTE rental properties—that is, MFTE properties for which MFTE is the only public subsidy. Owner-occupied MFTE housing and other MFTE properties that are city-funded and/or Low-Income Housing Tax Credit/bond-financed ("low-income housing") are excluded from consideration.

Our study is guided by the following primary research question: Is Seattle's MFTE program a cost-effective method for increasing and maintaining affordable multifamily housing opportunities in Seattle?

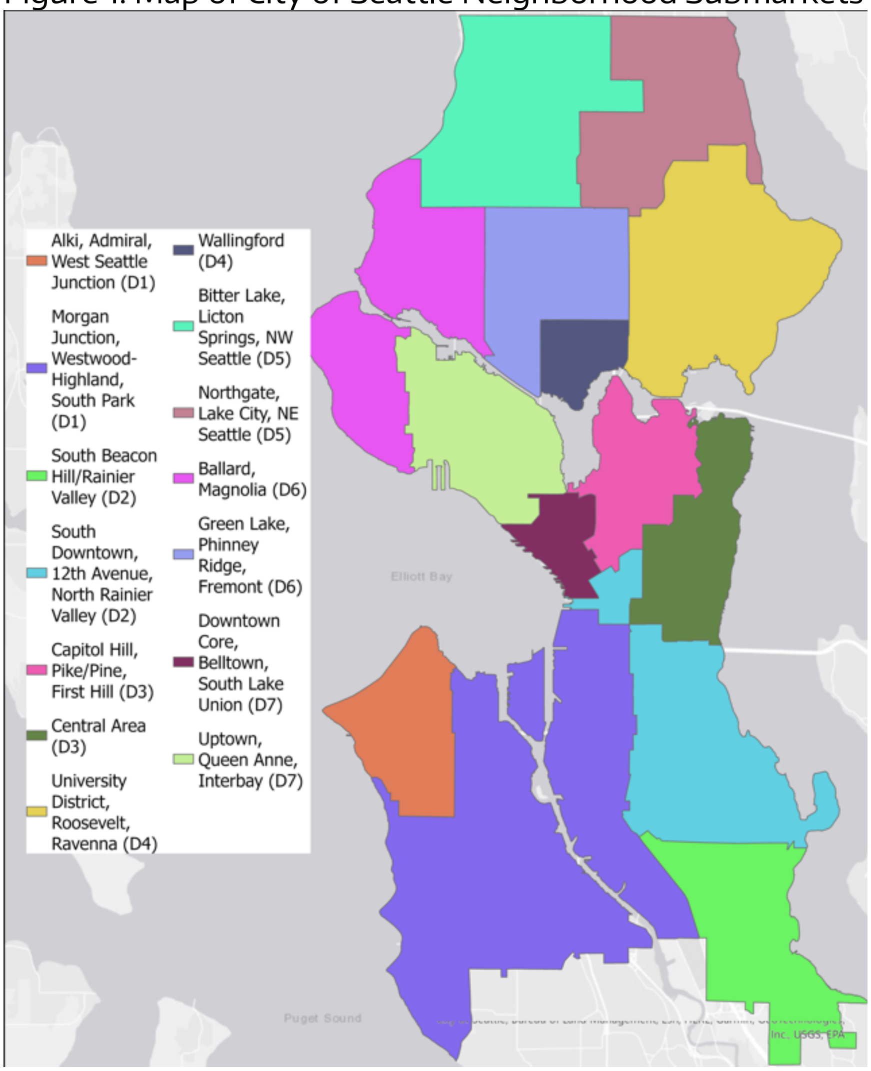
To answer this question, we pursued a mixed methods approach assessing the fiscal costs and public benefits of MFTE. The following program benefits are explored in this report: (1) total and income-restricted MFTE-related multifamily housing production over the life of the program; (2) average rent savings in income-restricted MFTE units, relative both to unrestricted units in MFTE properties and surrounding market-rate rents; and (3) lease-up and vacancy rates in income-restricted MFTE units, relative to comparable unrestricted units in MFTE-participating buildings. We assess these benefits geographically, temporally (across years and program iterations), and by unit-type (number of bedrooms and square footage).

Second, we address the public costs of MFTE, defined as shifted and foregone tax revenues attributable to the program. We use deferred new construction values of MFTE properties to calculate yearly foregone taxes and project these costs into the future. We estimate shifted taxes from yearly assessed property values, broken down by program and project type.

Third, we provide a cost-benefit analysis by property based on the quantified benefits and costs outlined in the study. For each property, we estimate rent savings by matching MFTE units with comparable market-rate units with the same number of bedrooms, bedroom type, and square footage. We then sum these unit-level rent discounts and compare them to exempted property taxes. We further break this down by program iteration and geography.

Quantitative analyses rely on a range of administrative data sources, and are largely descriptive. Data on MFTE properties, unit production, unit characteristics, and tenant income were provided by the Office of Housing. Data on neighborhood market-rate rents came from CoStar and were assembled by Office of Housing and Office of Planning and Community Development staff. Socio-demographic neighborhood characteristics were pulled from the 2022 5-year American Community Survey (ACS) estimates. Property assessment values, city and total levy rates, and exempt new construction values came from the King County Assessor. Our team worked collaboratively to clean, filter, and merge these various data sources to assess the public costs and benefits of MFTE. Descriptive analyses and figures were produced using R and Stata statistical software, and GIS spatial analyses were conducted in ArcMap Desktop. Neighborhood submarkets were constructed with assistance from city staff. Contiguous census tracts within voting districts were combined to generate two submarkets for each district, producing fourteen unique submarket areas within the city.

Figure 1. Map of City of Seattle Neighborhood Submarkets



We complement our quantitative analysis with data generated from focus groups with City of Seattle staff and one-on-one interviews with developers, operators, and investors who have participated in the MFTE program. We conducted seven semi-structured key informant interviews with housing developers and operators. We also conducted two focus group interviews with teams from the City of Seattle Office of Housing that are responsible for implementing and monitoring MFTE. Interviews and focus groups each lasted one hour, and were recorded and transcribed for qualitative analysis.

The UW research team analyzed the transcribed interviews to generate initial codes and key themes. Where relevant, findings from the qualitative interviews are used to supplement or complement results from the quantitative analysis. Consistent with a mixed methods approach to research, the two sources of data and findings were brought together to generate a deeper understanding of the program, how it is structured, its costs, and the outcomes it produces. Additionally, we conclude our findings with a standalone section from our qualitative interviews, which articulate respondents' perspectives on the goals of MFTE, perceived challenges of the program, and considerations for MFTE reform.

Data limitations prevent us from providing a definitive answer to the principal research question. To fully understand whether MFTE is a cost-effective method for producing and maintaining affordable housing, one would need to understand the housing supply impact attributable to MFTE and the impact on rents from that additional housing production. In addition, there are other benefits, such as the taxes generated from housing production, that should be considered in a comprehensive cost/benefit analysis.

Finally, it is important to note that much of the analysis in this study is based on the post-Covid 19 period which has been highly unusual. During this period, interest rates rose dramatically, building costs rose significantly, and market vacancy rates rose. As a result, all readers of this report should digest these findings with an appreciation for this broader economic and market context.

FINDINGS

In this section, we present findings on the benefits and costs of the program and then discuss ways in which these factors can be compared. Where relevant, we include findings from the qualitative interviews to corroborate (or contradict) evidence generated from the quantitative data. We conclude the analysis with results of the qualitative interviews that provide further feedback about the program and its design and implementation.

Benefits of the MFTE Program

The logic of the MFTE program is that jurisdictions will bear a cost to taxpayers in exchange for the public benefits of additional housing production, and particularly affordable housing. Calculating these benefits is a challenge given that some of the benefits are quantifiable while others are less tangible—but no less beneficial. In this section, we seek to highlight the various benefits of the program. According to the City of Seattle code, Chapter 5.73, the purpose of the MFTE program is to "increase and maintain affordable housing opportunities in new and existing multifamily housing, including through rehabilitation of vacant buildings, within the city of Seattle...In addition to increasing affordable housing [MFTE] seeks to affirmatively further fair housing as Seattle grows." We analyze the benefits of the program with this stated purpose in mind.

Housing Units

The purpose of the original MFTE law was to stimulate the production of multifamily housing in the State of Washington; affordable production was not the sole focus of the program. That changed in 2007 when the 12-year program was established which created a longer exemption in exchange for dedicated affordable units. In this first section, we analyze total housing production under the City of Seattle's MFTE program.

Given the clear empirical evidence about the relationship between housing production and affordability, one of the conspicuous benefits of the MFTE program has been the housing that has been constructed under the program, which includes both income-restricted and unrestricted units. Since inception, developers have completed a total of 303 projects under MFTE which included a total of 33,956 units.[29] Figure 2 provides a summary of the total number of active units of housing that exist in projects that have received the MFTE exemption. As of the time of this

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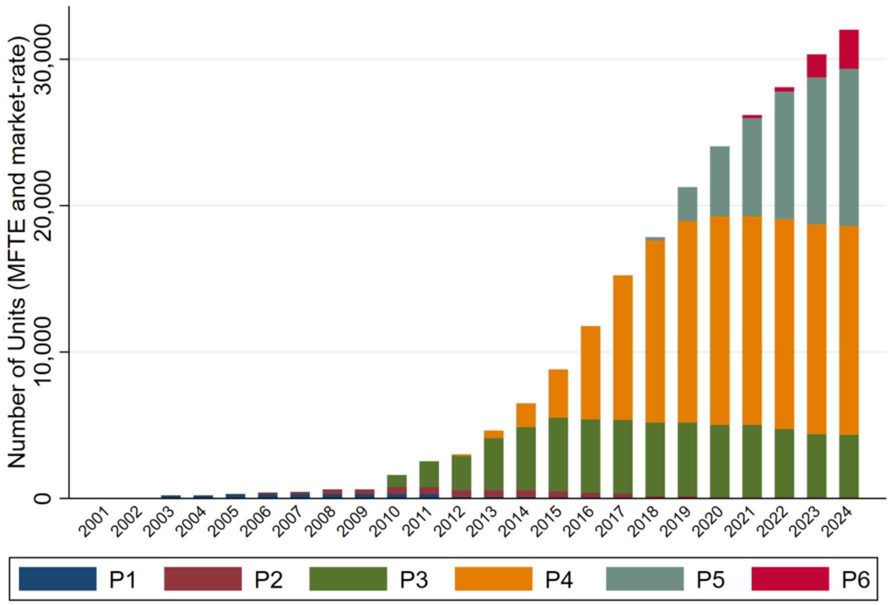
[29] This estimate is only for "market-rate" MFTE rental properties, that is, properties for which MFTE is the only public subsidy. MFTE ownership properties and other low-income housing projects that are City-funded and/or Low-Income Housing Tax Credit/bond-financed are excluded.

writing, the total number of active units in MFTE-participating properties is 32,207. As is clear from the graphic, P4 and P5 played a significant role in the production of housing.

Figure 2. Total Active Housing Units in MFTE Buildings by Program Type



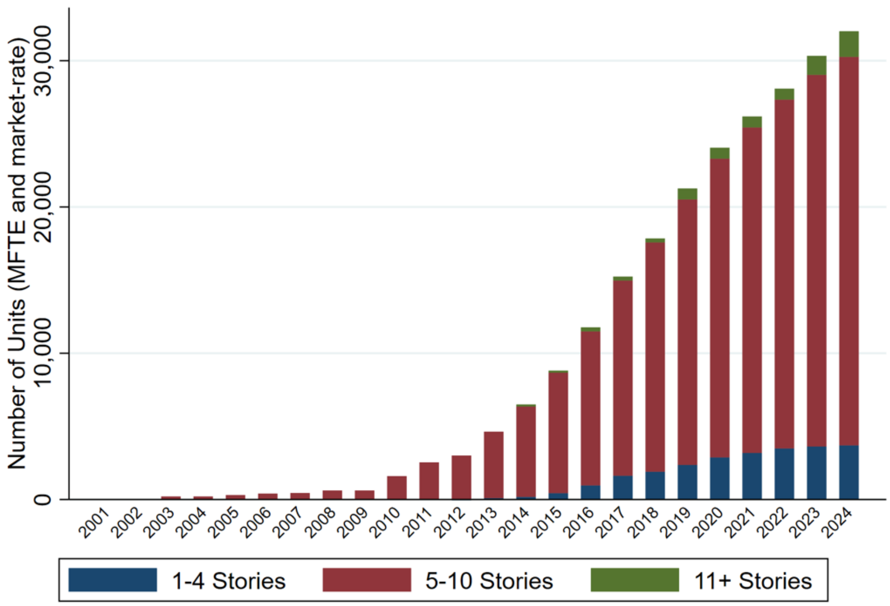
Source: King County Assessor

It is also important to highlight the types of projects developed under MFTE. In Figure 3 below, we break down the total number of active units in projects that receive the MFTE. It is clear that the vast majority of the development activity has been in buildings with 5 to 10 stories. Consistent with feedback from our developer interviews, the MFTE program primarily works for mid-rise projects. The economics do not support the development of low- or high-rise buildings. The City issued a Director's Rule in 2021 that attempted to make MFTE more appealing for high-rise development[30], but the impact has been negligible. These sentiments were expressed by a developer in our interviews, "***MFTE works for our podium projects… wood frame, generally seven, now more recently eight story buildings over parking. Generally in the urban core or the peripheral areas… up until recently… we were not able to make MFTE work in our high-rise projects… we've done a number of high-rises, every one of them, we've looked at the MFTE program and it has not worked. Most recently, with the director's rule that came out in 2021, allowing a different distribution of units within the building, we were then able to make it pencil and convince our equity partners it was good to do MFTE in high-rises as well.***" This developer

[30]https://www.seattle.gov/documents/Departments/Housing/HousingDevelopers/MultifamilyTaxExemption/MFTE_DirectorsRule_2021-02_UnitDistribution.pdf

was in the minority in our interviews as the others we spoke to all suggested that MFTE does not work for high-rise projects, "***We have never been able to make a high-rise pencil in this market, MFTE or no…. We just flat out, haven't found the rents justify the additional costs.***" Another developer made a similar argument, "***Basically MFTE works really well for mid-rise, market-rate projects. It doesn't work very well for high-rise projects.***" In our interviews with Office of Housing staff, they underscored that MFTE appeared to work best for mid-rise projects.

Figure 3. Total Active Housing Units in MFTE Buildings by Building Type

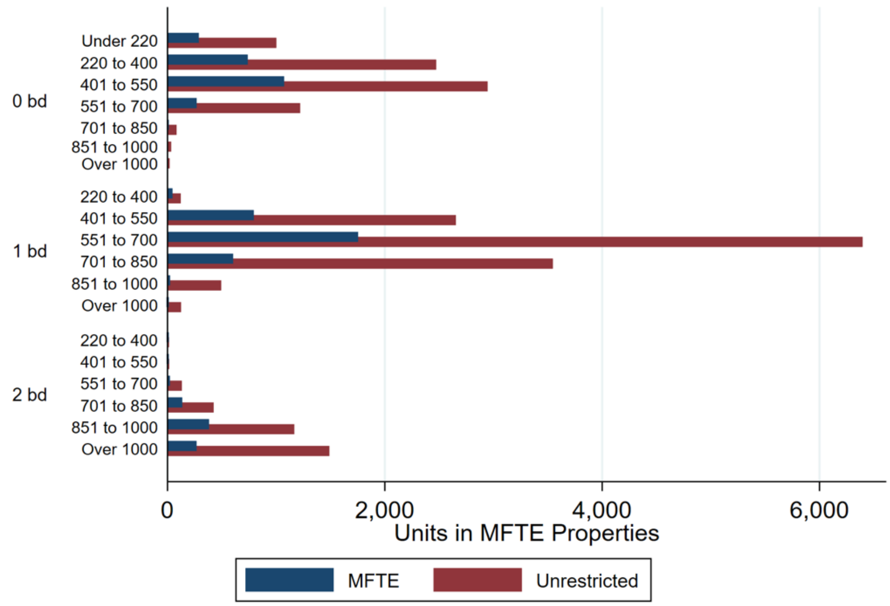


Source: King County Assessor

Figure 4 below highlights the breakdown of units in MFTE buildings that were active in 2023. The figure shows both MFTE income-restricted units (in blue) and the unrestricted units (in red). Consistent with what we observe in other data, this figure highlights that the vast majority of units built with the support of MFTE have been one bedrooms and studios. Throughout our interviews with developers, we heard that MFTE has been a program that was ideally suited for constructing one bedroom units, "***[MFTE] is a big economic development boost for one bedroom units, like the rent that's asked in Seattle relative to the market rate is pretty much on par. So if you develop a building of all one bedroom units, you get significant property tax relief. You give away little or no rent off market rate, and so it should be a significant boost.***" Multiple developers noted that rule changes adopted in P5 and P6 made using MFTE for small efficiency dwelling units (SEDUs) and congregate housing much more difficult. As one developer expressed, "***[OH] really turned the screws on the small use kind, they reversed it so hard that all of a sudden it became impossible for people developing those things***

to participate in ways that made any economic sense. And so they sort of went from a huge giveaway to no one in that space participating."

Figure 4. Unit Breakdown in MFTE Properties Active in 2023



Source: 2023 Annual MILU Certification Query

The lack of production of two bedroom units under MFTE is not a coincidence. Although MFTE AMI thresholds are highest for family-sized units, developers expressed that the structure of the program did not work well for two bedroom and larger units, and as a result, very few have been built. As noted by a developer, the size of two bedrooms creates an economic challenge, "***Project budgeting is all based on square foot. So if you have a thousand square foot unit, it's like costing you almost twice as much as a 500 square foot unit, and you need almost twice as much rent for that thousand square foot unit as you do for the studio… the AMIs are calibrated, for whatever reason, at 65% for a studio which is pretty close to what you need for market in a mid-rise building. For a two-bedroom, the AMI at 85% isn't enough. Market rent has to be so much higher… Whereas the studios, you know, 65%, 70% is still fine.***" We heard similar comments from staff members from the Office of Housing who noted, "***There could be a deeper, stronger incentive to bring [family-sized] units to market, because it doesn't feel like it's working.***"

It is important to note that attributing this production solely to MFTE would be an incorrect conclusion. Some of these projects may well have been constructed in the absence of the program, but estimating what would have happened in the absence of MFTE is very difficult. In our interviews, developers articulated that MFTE has been important for many projects and some of these projects "***would not have***

penciled" were it not for MFTE. As one developer noted, "***I think the good thing about MFTE is, a lot of the mid-rise projects in particular don't pencil without it. So the important thing to keep in mind is that it's not just generating these rent-restricted units. It's generating the other [market-rate] units.***" All we can say is that there is a positive, yet difficult to quantify, impact on the Seattle housing supply from the MFTE program. Developers expressed support for MFTE (especially in its earlier iteration) as a valuable tool to promote housing production in Seattle: "***MFTE overall is a fabulous solution, because at least I can't define it as actually costing anything. And it does promote the behavior it's intended to do from that standpoint. I actually think it's been fairly well conceived... [Without MFTE] I think that the few projects that are moving forward would just simply vanish.***"

To generate a deeper understanding of this dynamic, we solicited feedback on the issue of MFTE's impact on housing production from two developers. The following three hypothetical outcomes were presented:

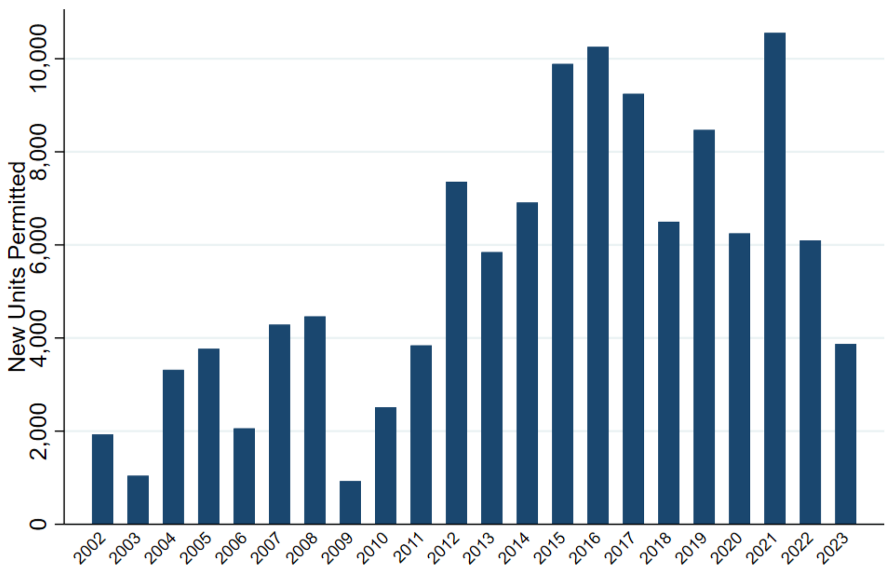
1. The benefit associated with MFTE was integral to the development of a lot of multifamily housing in Seattle over the last 15 years. In the absence of MFTE, housing production would have been much lower.
2. All of this housing would have been built independent of MFTE. MFTE just made the development more profitable.
3. MFTE doesn't change the build/not build decision because the benefits (abatement) are closely calibrated with the costs (affordability requirements). Without MFTE, you get the same amount of production, you just wouldn't have the affordable units that came with the MFTE program.

The response from one developer was that if you were to poll the entire development community, you would get all three responses, with option three getting the most responses. We also understand option three to be increasingly relevant as the affordability requirements of the program have increased. As the costs of the MFTE program for a developer (affordability requirements) are more closely aligned to the benefits of the program (the tax exemption), the program becomes less advantageous and may no longer serve as key factor in the decision of a developer to build a project or not. It becomes an issue for the developer, once they decide to develop a project, whether to apply for MFTE or not.

A second developer took a different tack in answering this hypothetical. They indicated that it depends on the size of the projects/units. For smaller units, MFTE had a clear impact on housing supply, not just income-restricted supply, "***In that category of small apartments, MFTE produced a massive boom of housing, such that the rents in that area have fallen sharply since 2019, even before adjusting for inflation. While this is painful for speculative developers, I think it's hard not to count this as a policy win.***" In responding to the build / don't build question, this developer suggested that one cannot provide a blanket response. Rather, "***there is probably a marginal project out there where its exactly calibrated, maybe around a 400sf 1BR project…But for smaller product types it's a win, for larger it's a loss.***"

Before presenting the data on the production of MFTE, it is important to provide context on the overall level of housing production in the City of Seattle over the last 20 years. Figure 5 shows permit activity and highlights that there was a boom in residential construction during the decade of the 2010s. It is important to note that a permit precedes the completion of a housing development by a couple of years. This is why we observe a significant decrease in permit activity in 2023—this reduction will produce a fall in new unit deliveries in the years to come.

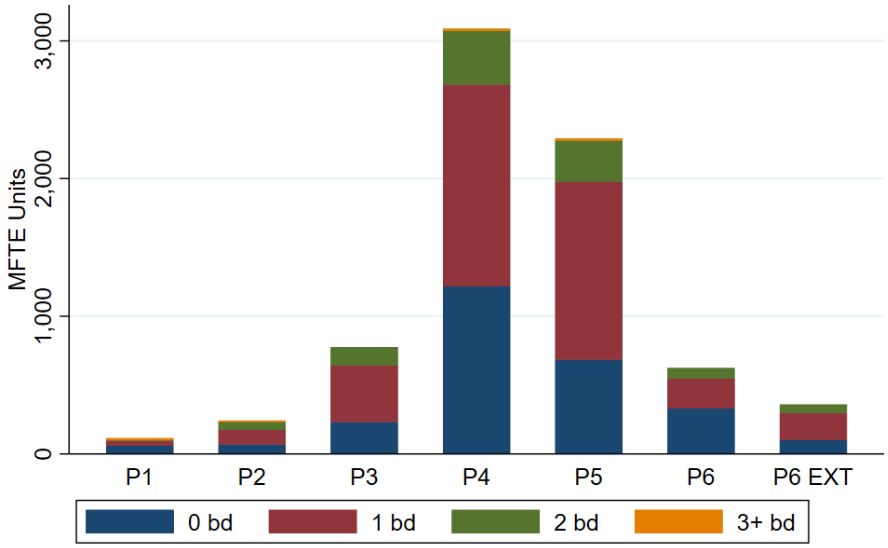
Figure 5. New Multifamily Housing Permits Issued by Year



Source: Permit data assembled by Office of Planning & Community Development and Office of Housing Staff
Annual sums include new permits for apartment; congregate housing; multifamily non-ground level dwelling; and small efficiency dwelling categories. Annual sums include MFTE-related development.

Under the MFTE program, a portion of the units in projects that receive the MFTE must be affordable pursuant to certain income restrictions (as described earlier in this report). These units are a clear benefit of the MFTE program—they would not exist were it not for the presence of the program. Figure 6 highlights the number of income-restricted units produced under each iteration of the program. P4 and P5 have had a disproportionate impact on MFTE housing production, but these programs also coincided with Seattle's residential development boom. Over the life of MFTE, 7,047 total income-restricted units have been produced in the City of Seattle.

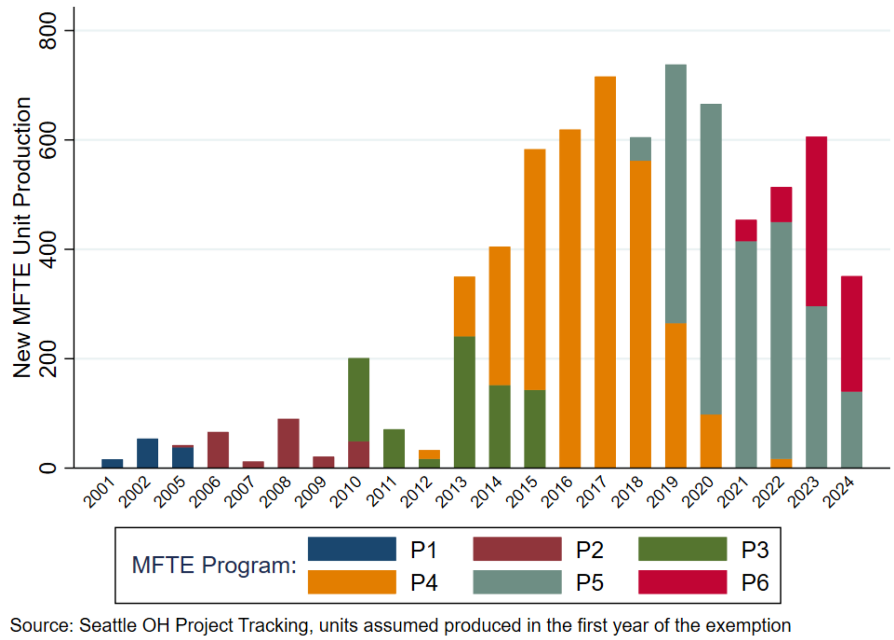
Figure 6. Total Income-Restricted Housing Production Under MFTE By Program



Source: Seattle OH Project Tracking
Under 400, SEDU, and congregate started to be tracked separately by OH in 2015
P6 EXT are 12-yr extensions to P3, not new production, subject to new affordability
0 bedrooms include SEDU, Congregate, Under 400 sq ft., which are subject to different AMI limits

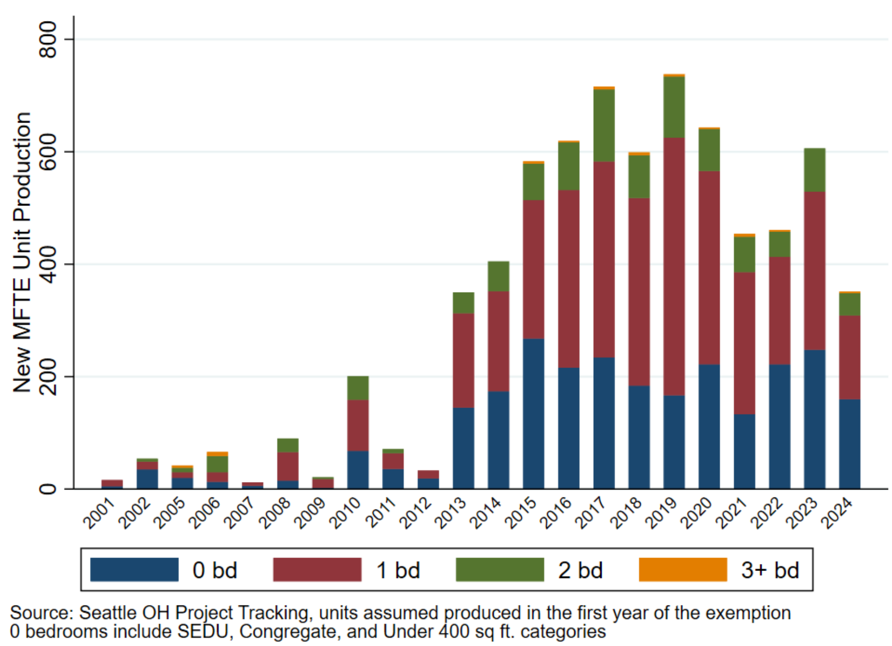
Figure 7 highlights the annual production of income-restricted units under the program. It is important to note that new projects take time to complete. Therefore, completions in 2024 were started years earlier (and therefore come from different program iterations). There is a reduction in production in 2024, but this is based on partial year data. But we know from our interviews, that the challenging market conditions evident in the post-Covid era (higher interest rates and construction costs) will lead to significantly lower completions in the years to come. This decline in production is not yet evident in the data given the lag between project start and completion. But one should expect dramatically lower completions and deliveries over the next three to four years.

Figure 7. Yearly New Income-Restricted Unit Production by Program



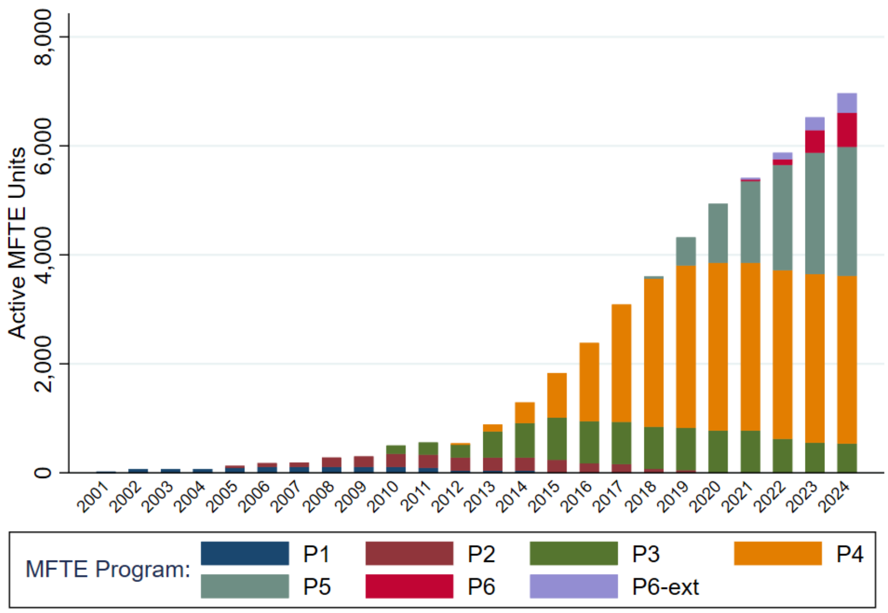
In Figure 8, the same annual production numbers that were presented in Figure 7 are broken down by unit type. The figure demonstrates, consistent with other data and the feedback from developers, that MFTE projects have disproportionately created zero and one bedroom income-restricted units.

Figure 8. Yearly New Income-Restricted Unit Production by Unit Type



Because the tax exemption is granted for only 12 years, some MFTE units exit the pool of income restricted units upon expiry of the tax exemption. Therefore, once the program reaches maturity, each year there are units added to the pool due to completions of new projects, while other units are lost due to projects reaching the end of the exemption period. In addition to focusing on total production (as we do in the figures presented above) we also focus on the total number of units that are active in any given year. Figure 9 below presents the number of active MFTE units in any given year over time broken down by program. As of the time of this writing, there are 6,636 active income-restricted units in the City of Seattle's market-rate MFTE rental portfolio.

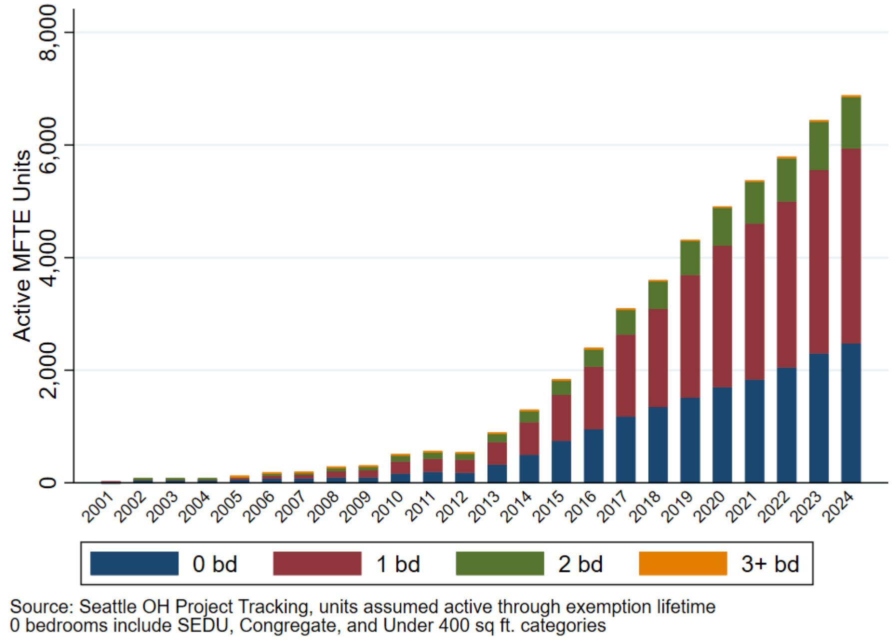
Figure 9. Annual Active Income-Restricted Units by Program



Source: Seattle OH Project Tracking, units assumed active through exemption lifetime

Figure 10 presents the yearly active MFTE portfolio of income-restricted units broken down by unit type. As the figure highlights, the MFTE program has disproportionately produced studio and one bedroom units. There have been a modest number of two and three bedroom units produced, but those represent a small minority of total production. Our interviews with developers underscored that the economics of development under MFTE made studios and one bedrooms the only type of units that made financial sense.

Figure 10. Annual Active Income-Restricted Units by Unit Type



In sum, 303 market-rate multifamily projects built with the support of MFTE have created 33,956 total housing units over the life of the program, of which 7,047 of those units are income- and rent-restricted pursuant to program rules. In 2024, there were 6,636 units of income-restricted housing in 286 MFTE buildings. These unit counts are an important benefit of the MFTE program.

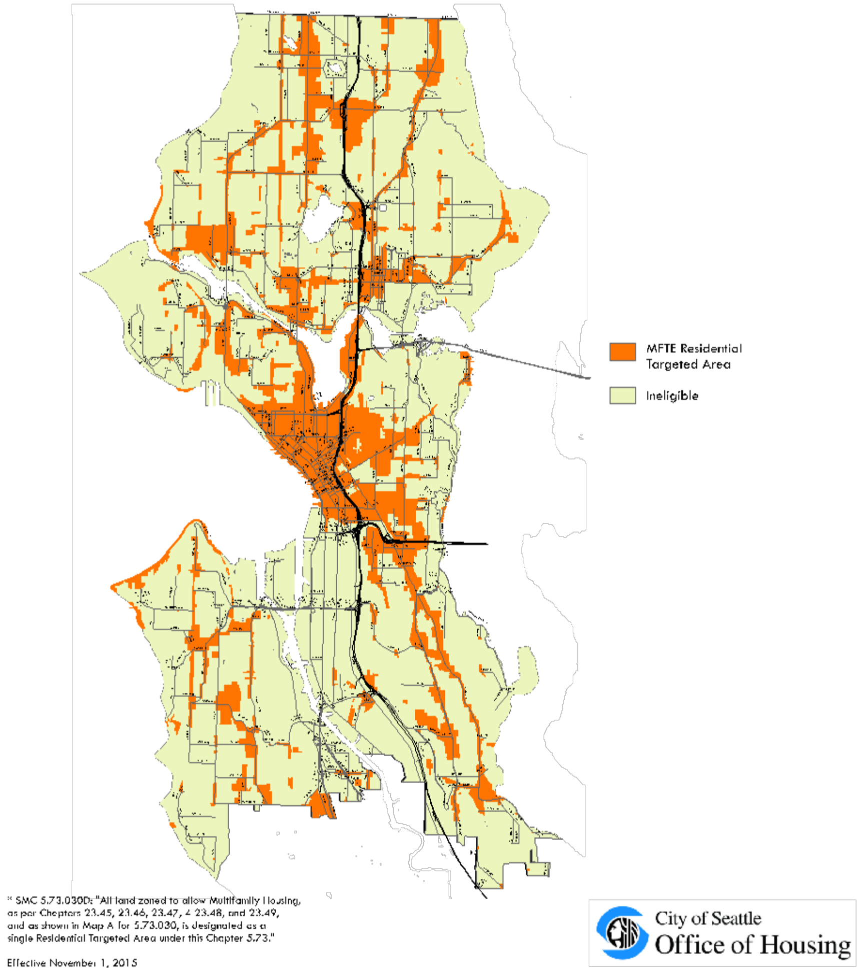
Affirmatively Furthering Fair Housing

As noted in the City's municipal code, a second goal of the program is to affirmatively further fair housing (AFFH). Per the U.S. Department of Housing and Urban Development, AFFH requires communities to "take meaningful actions to overcome patterns of segregation and foster inclusive communities."[31] Therefore, it is important to understand where MFTE units are being constructed.

The first step in this analysis is to understand where these MFTE projects have been constructed. Before presenting maps of the location of MFTE projects, it is important to understand the regulatory context in which these projects are developed. Projects using MFTE may only be developed in locations that are considered a Residential Targeted Area (RTA). In 2015, under P5, the City of Seattle expanded the RTA from primarily urban centers and villages to allow MFTE development in any location zoned for multifamily housing (as of 2015). Figure 11 below shows the current RTA map in Seattle, which has been in effect since 2015.

[31] https://www.hud.gov/AFFH

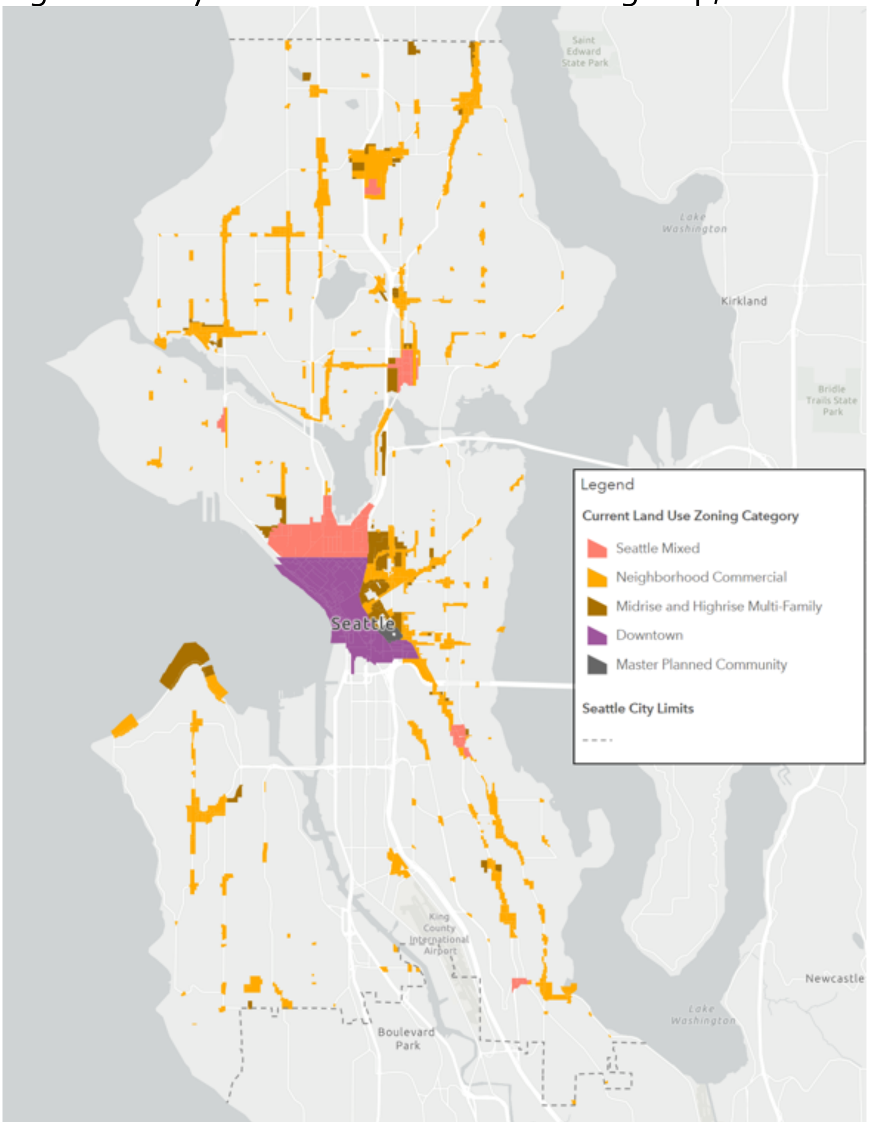
Figure 11. City of Seattle Map of Residential Targeted Areas, Pursuant to SMC 5.73.030[32]



There is a significant overlap between the RTA map and the City of Seattle's current multifamily zoning. However, they are not identical, as MFTE development is not permitted in areas of the city that have been upzoned since 2015. Figure 12 is the most recent zoning map published by the City of Seattle.

[32]https://www.seattle.gov/documents/Departments/Housing/HousingDevelopers/MultifamilyTaxExemption/MFTE_RTA_Map.pdf

Figure 12. City of Seattle Residential Zoning Map, 2022[33]



The location of MFTE units is driven by both regulatory constraints (RTA) as well as market dynamics. Based on our interviews, market conditions across the city have a significant impact on the spatial distribution of MFTE units. A city staff member summarized these dynamics: "***Everything that's in the MFTE program will be on the RTA, [but] you still see somewhat of a like, market-driven consolidation. Like this program operates very much within the market. So where buildings are already feasible to build is where you see the most MFTE activity. From my perspective, it doesn't necessarily shift where development happens.***"

With these regulatory and market contexts in mind, Figures 13 through 17 depict the location of active (in 2023) MFTE projects by each program iteration. As these

[33] https://seattle.gov/dpd/research/GIS/webplots/Smallzonemap.pdf

figures demonstrate, there is a fair amount of spatial consistency in MFTE development across programs.

Figure 13. Location of Active P3 MFTE Properties

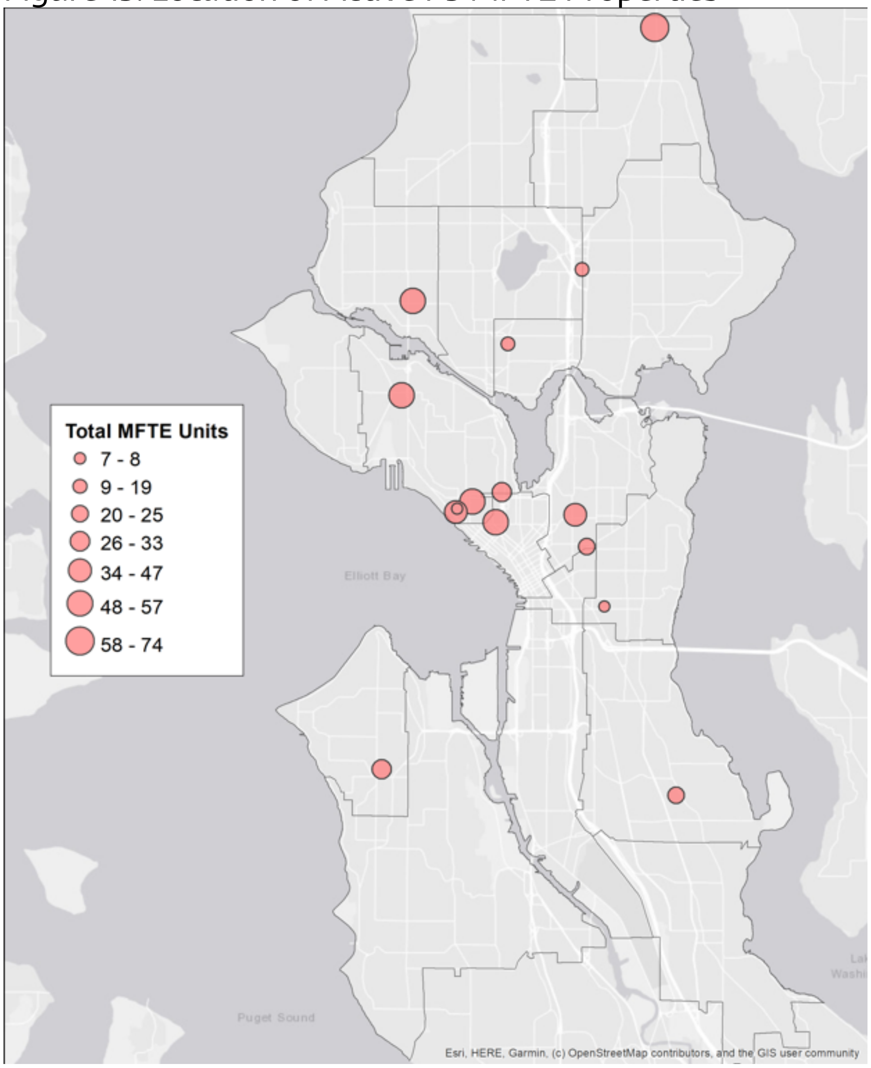


Figure 14. Location of Active P4 MFTE Properties

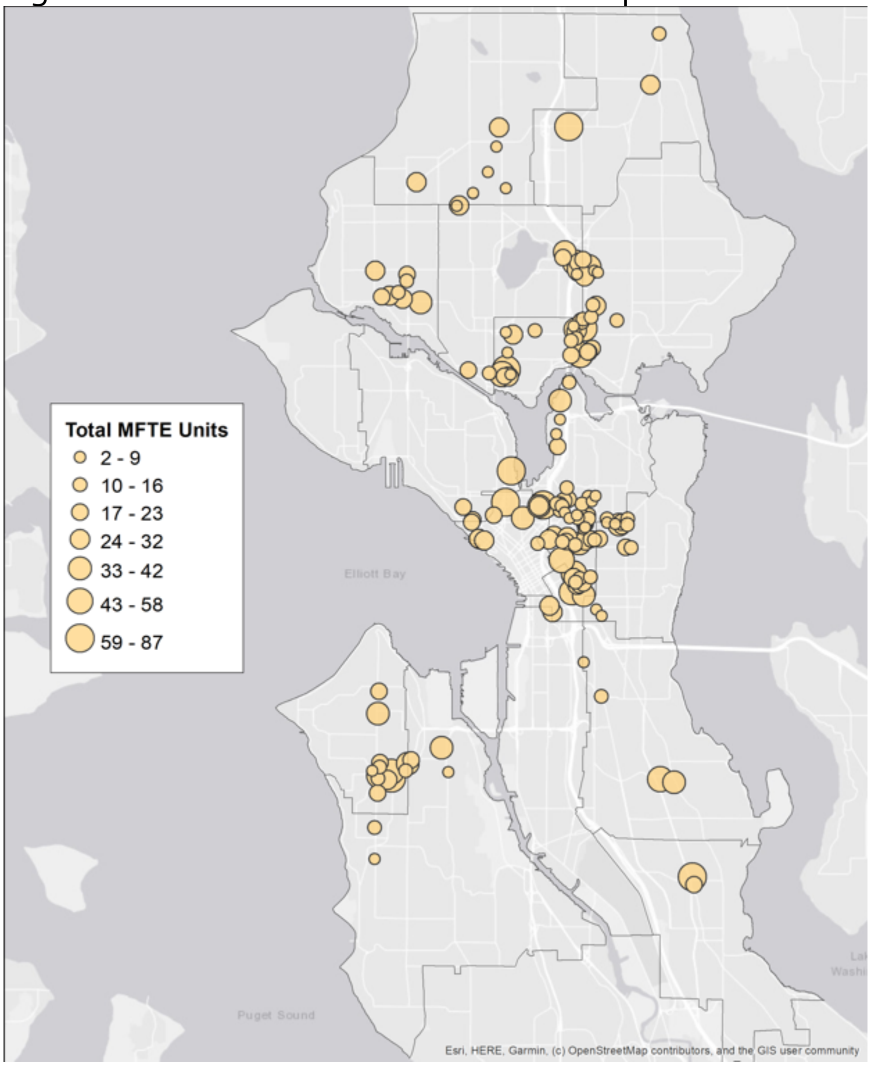


Figure 15. Location of Active P5 MFTE Properties

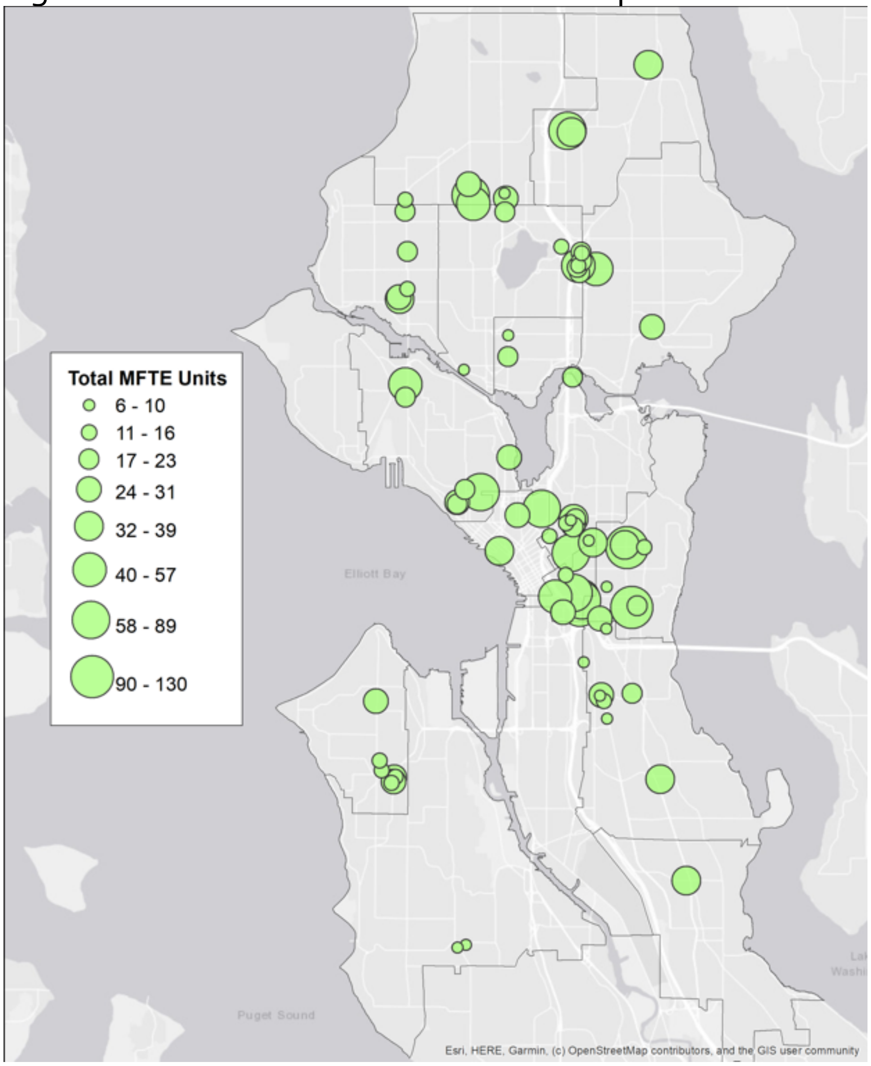


Figure 16. Location of Active P6 MFTE Properties

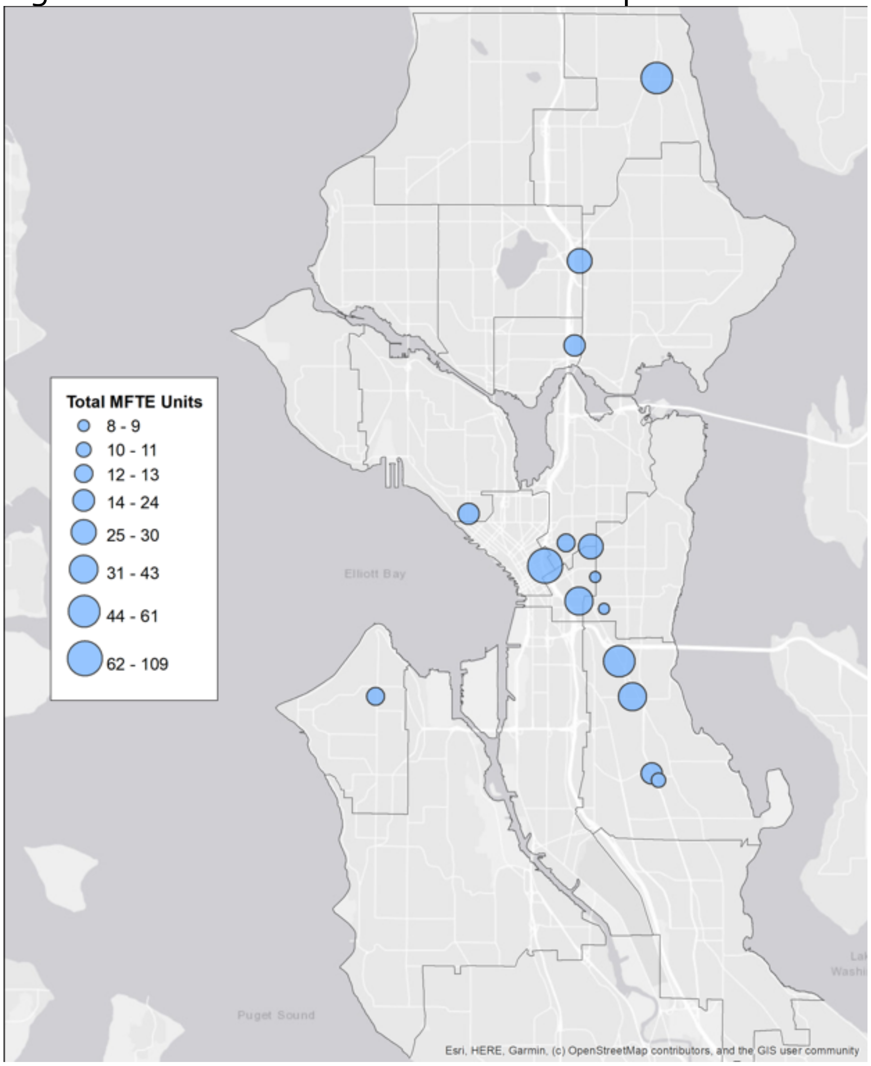
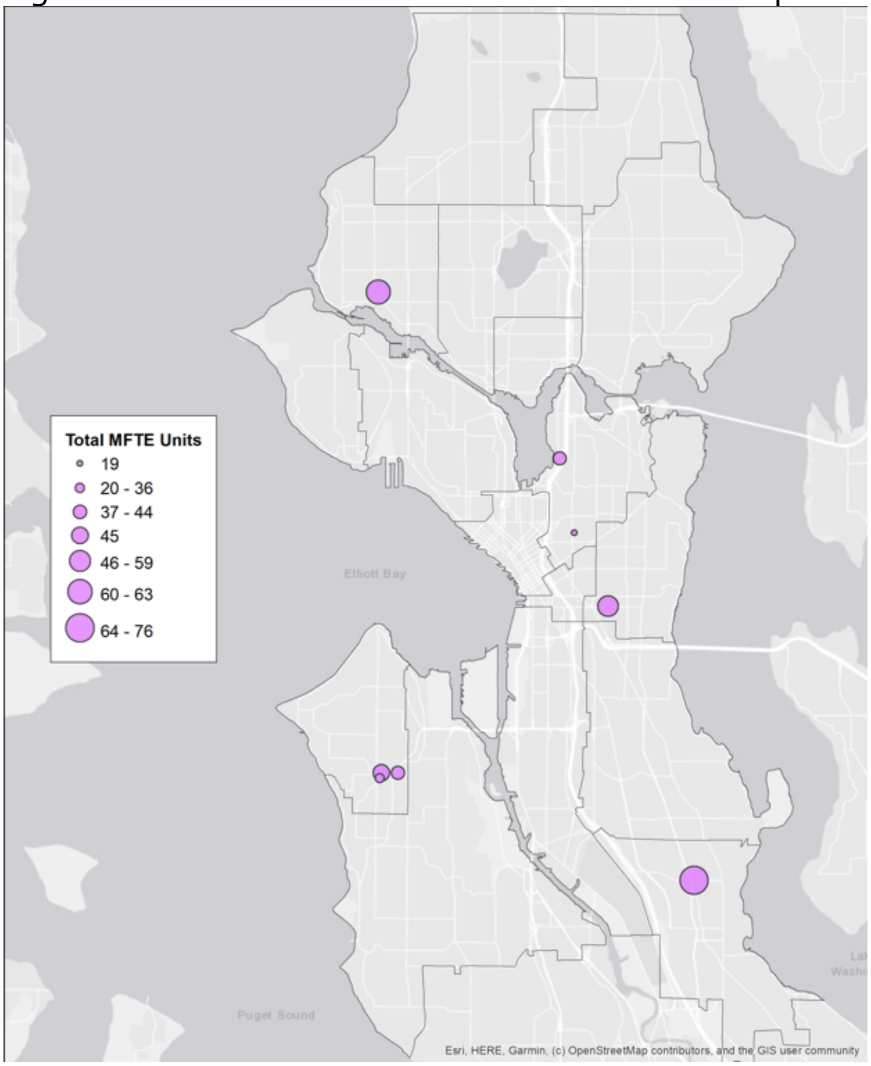


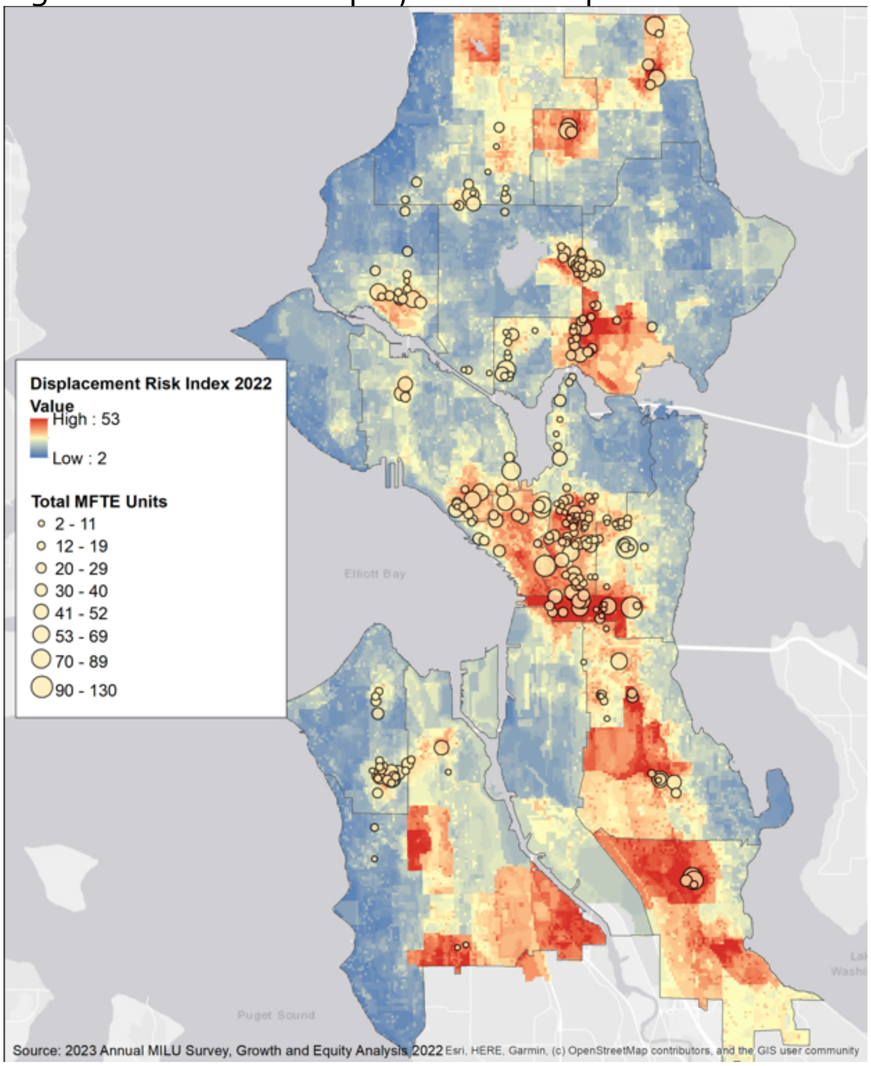
Figure 17. Location of Active P6 Extension MFTE Properties



Another concern in the City of Seattle is the risk of displacement. In Figure 18, we place active MFTE projects on the city's map of displacement risk (as described in the Seattle Office of Planning & Community Development Comprehensive Plan).[34] The figure clearly demonstrates that many of the MFTE projects are located in areas with high displacement risk. One could argue that this is negative (potentially adding to displacement risk where new MFTE development is occurring) or positive (creating more housing supply in locations where scarcity is driving displacement). It is important to note that there is significant correlation between zoning, land values, and displacement risk. It is not a coincidence that a lot of residential construction occurs in areas with high displacement risk due to the underlying market fundamentals in those locations that makes development more attractive.

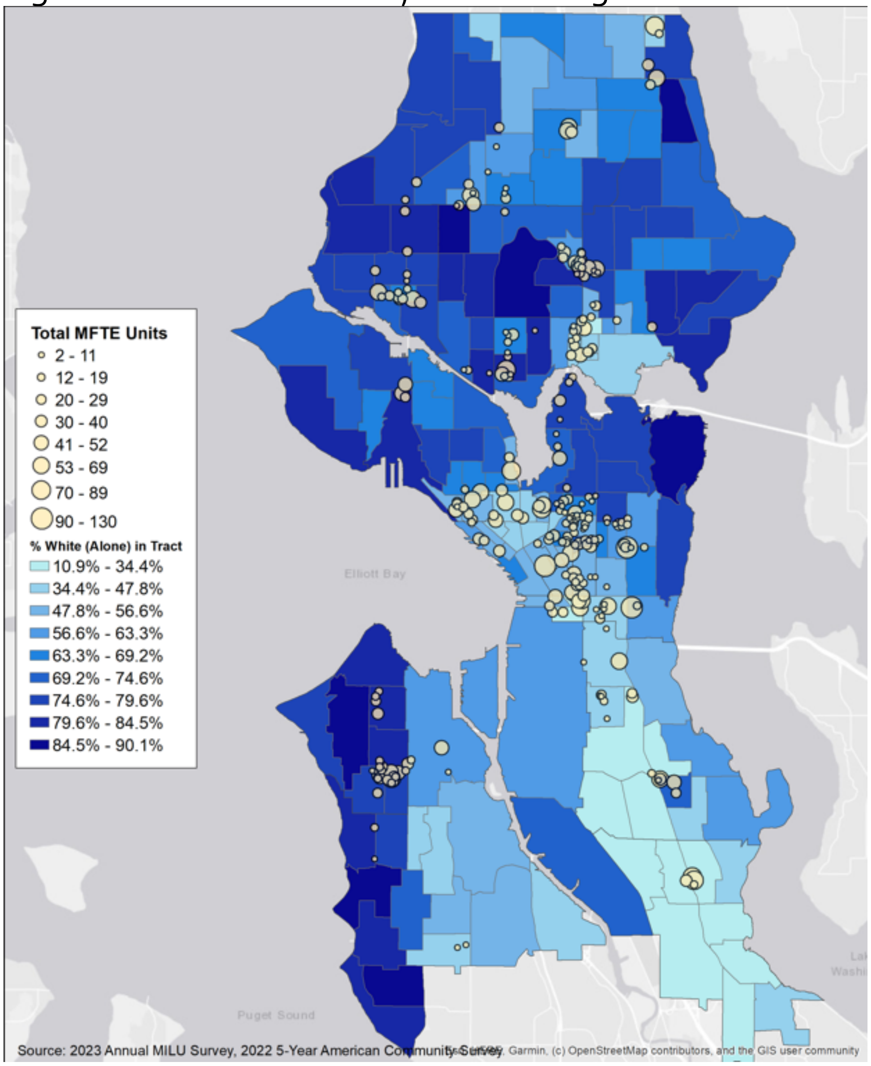
[34] https://www.seattle.gov/documents/Departments/OPCD/SeattlePlan/OneSeattlePlanAntiDisplacementFramework.pdf

Figure 18. Active MFTE projects and Displacement Risk Areas



Next, we analyze the demographic composition of census tracts in which MFTE projects have been built. First, we consider racial composition. Figure 19 depicts the percent of households in a tract that are white. The figure shows that MFTE units tend to be located in neighborhoods that are not disproportionately white. This is likely more a function of zoning rather than the spatial decisions of MFTE developers. Many of the whitest neighborhoods in Seattle are zoned single-family and therefore multi-family construction—and MFTE units by extension—are not permissible. We also observe that the neighborhoods with the lowest percentage of white households are also not home to many MFTE units.

Figure 19. Active MFTE Projects and Neighborhood Racial Composition

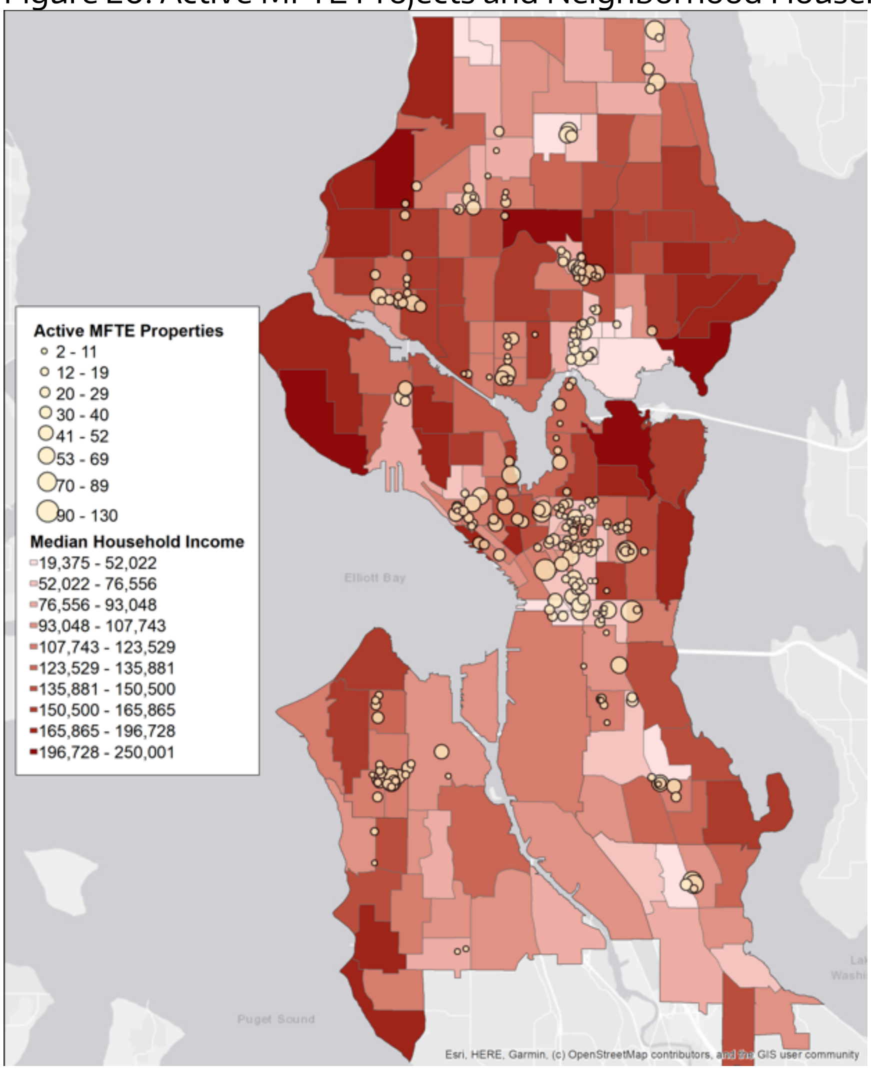


In Figure 20, we map MFTE units and the median household income across census tracts in the City of Seattle. The story is similar to what was observed in Figure 18. Some of the wealthiest neighborhoods in the city are zoned single-family and therefore not open to MFTE development. Developers also have not focused MFTE construction in the poorest neighborhoods in the city due to the less favorable market dynamics in those locations.

Throughout our interviews, there was extensive discussion about the location of MFTE projects in the city. Both city staff and developers noted that there are significant gaps between market and MFTE rents in higher cost neighborhoods such as South Lake Union and Downtown, while in lower cost locations, market rents are very close to the rents that can be charged in MFTE units. A city staff member noted this discrepancy and argued that this should make development in lower cost locations of the city more attractive for developers, "***There are several areas in the***

city where MFTE rents are market rent. So Rainier Beach and parts of Rainier Valley, parts of Lake City, you know, if you compare some of these rents, there's really no difference. So there's no public benefit being provided at all. Zero, zero, zero. So why not do MFTE? It's a no-brainer." But we heard from developers that even though the rent discount is limited—or non-existent—in lower cost areas, the overall market fundamentals don't provide the economics needed to pursue these projects. As one developer explained, "***At a certain point it becomes very difficult to use MFTE in a lower-income area. Like you're in Rainier Beach, the overall project is going to be very difficult to pencil, because the market rents aren't there, so you might have a very narrow gap between market and affordable rents that would make that MFTE incentive very accretive. At the same time, the market rents aren't high enough to justify the project.***"

Figure 20. Active MFTE Projects and Neighborhood Household Income



AFFH has its origins in Title VIII of the Civil Rights Act of 1968 (the Fair Housing Act). HUD currently defines AFFH as the use of funds to combat discrimination, overcome patterns of segregation, and foster inclusive communities free from barriers that restrict access to opportunity based on protected characteristics such as race, national origin, sex, and religion.[35] Yet, as described above, MFTE is limited by regulatory (i.e., zoning) considerations which restrict multifamily development of any kind in many of Seattle's most affluent neighborhoods. Moreover, assessing the extent to which MFTE affirmatively furthers fair housing would require a consideration of the sociodemographic characteristics of residents in income-restricted units. Unfortunately, city-provided tenant-level data has a high degree of missingness—for instance, race and ethnicity data are missing for nearly 40% of MFTE tenants in 2023. In the absence of better tenant-level sociodemographic data, we can only speak to the location of MFTE units and the characteristics of those neighborhoods.

Rental Affordability

As clearly articulated in the City statute, creating more affordable housing is a primary goal of the city's program. Therefore, it is important to understand the scope and depth of affordability provided by the MFTE program. Based on our analysis and interviews with developers and city staff, there is an open question of whether MFTE can deliver the level of affordability that is desired. One developer noted in our interview, "***[MFTE] doesn't solve the problems of low-income housing, it solves a problem of middle-income housing. Which we still need. And I think that's a very important issue that people forget.***" Corroborating this point, the city estimates an overall need of 112,000 new housing units—at varying levels of affordability—by 2044.[36] There is an open question of whether the program as structured can deliver deep affordability. Another developer noted, "***What are we trying to accomplish here? What's the number? One goal in the city is we need housing. We need housing of all income levels... MFTE is not the lowest income level, but it's important workforce housing... it's been successful in producing that middle-income housing... You've got to set what is the objective here, and quit worrying about all the little details.***"

We begin the analysis of affordability by comparing the rents of income-restricted MFTE units to the rents of unrestricted units in the same buildings. We prefer this comparison because it compares units in the same buildings, which all tend to be relatively new and of similar quality. One of the threats to this comparison is that

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[35] https://www.hud.gov/AFFH

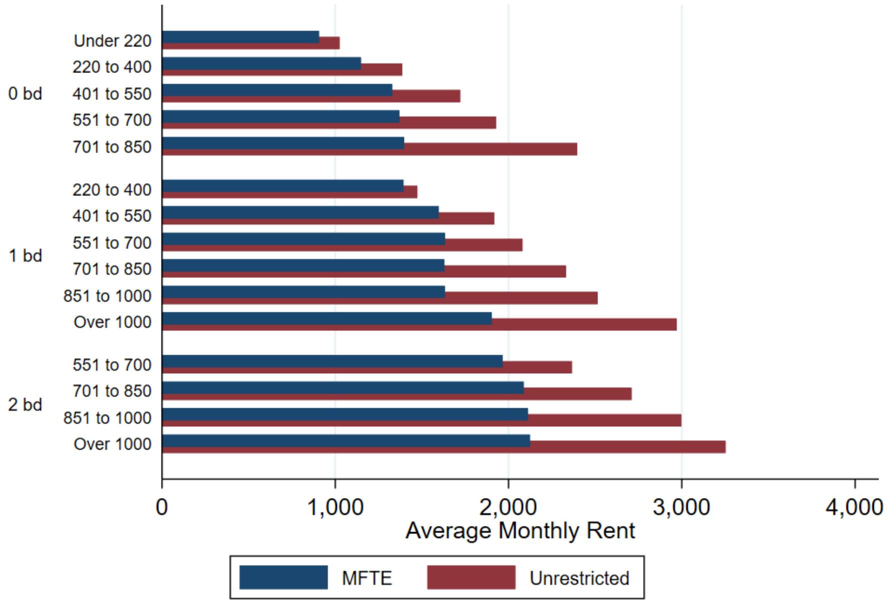
[36] https://cdn.kingcounty.gov/-/media/king-county/depts/executive/performance-strategy-budget/regional-planning/cpps/kc_2021_cpps_ord_19660_113021.pdf?rev=dc68c4a4ea67465c8c79de0869fcb867&hash=A3EB1B05E22148F999802F018F0827B3

not all MFTE units are perfectly comparable to the unrestricted units in the same building. Over time, the city has established stronger comparability standards, but there are frequently differences which may, in part, explain some of the price difference. Units may differ based on different views, location in the building, or amenities, or configuration. Units may also differ in terms of whether utilities are fully or partially included in the rent. Despite these challenges, we find this comparison to be more compelling than comparisons to all rental housing given the dramatic differences in the size, quality, and age of rental units that can have significant impacts on prices. We provide a comparison to the general market later in this section.

A second challenge of this analysis is the treatment of utilities in the published rent figures. For both restricted and unrestricted units, there is a mix of approaches: some landlords publish rents inclusive of utilities, while others exclude those costs. Creating a clean comparison is difficult. Among units in MFTE buildings, nearly 87% of unrestricted units have no utilities included, while for restricted units that number is 42%. As a result, the rental gaps observed in the following analyses are likely underestimated given the different treatment of rents between restricted and unrestricted units.

In the first analysis, we compare average MFTE (restricted) rents to average unrestricted rents in buildings built with MFTE and were active in 2023. Figure 21 provides this summary broken down by unit characteristics. Consistent with intuition, rents increase with unit size and MFTE units are cheaper than unrestricted units in the same building.

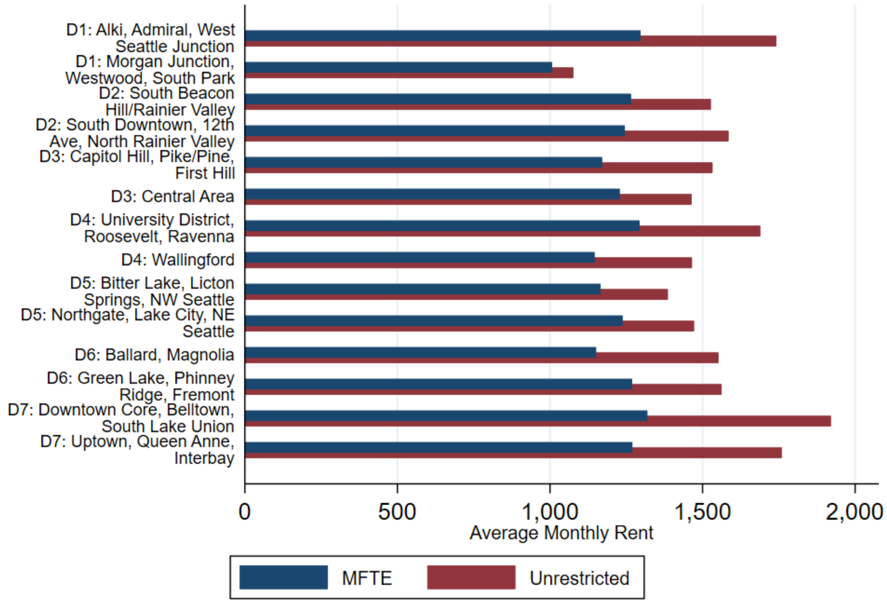
Figure 21. Average Monthly Rent in MFTE Properties by Unit Type



Source: 2023 Annual MILU Certification Query, only categories with 50+ units citywide

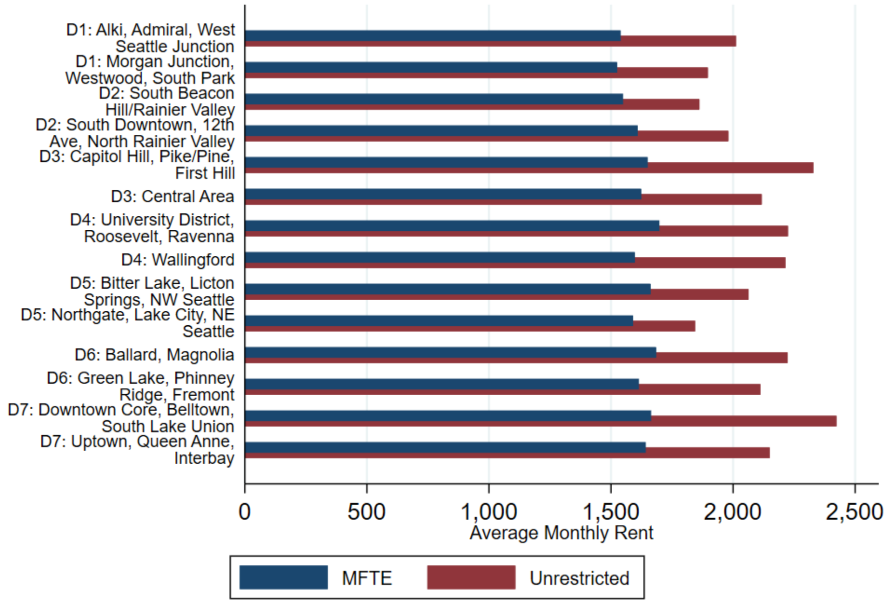
We continue this analysis by breaking down the rent comparison by neighborhood. Figures 22– 24 provide a rent summary for units in developments that used MFTE. The greatest variation exists among market rents depending on the prevailing conditions in each neighborhood submarket, while MFTE rents are more consistent given the MFTE payment thresholds that apply equally throughout the city. An obvious implication of these dynamics is that the rent discount provided by MFTE tends to be greater in parts of the city with higher market rents. It also means that in certain lower rent locations, there may be negligible differences between the rents of restricted and unrestricted units.

Figure 22. Average Monthly Rent in MFTE Properties, 0 Bedroom



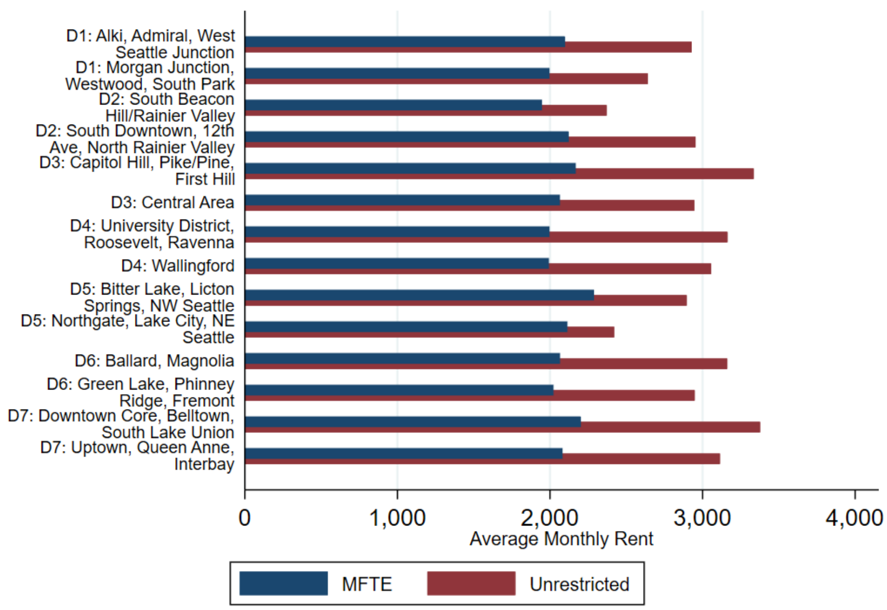
Source: 2023 Annual MILU Certification Query

Figure 23. Average Monthly Rent in MFTE Properties, 1 Bedroom



Source: 2023 Annual MILU Certification Query

Figure 24. Average Monthly Rent in MFTE Properties, 2 Bedroom

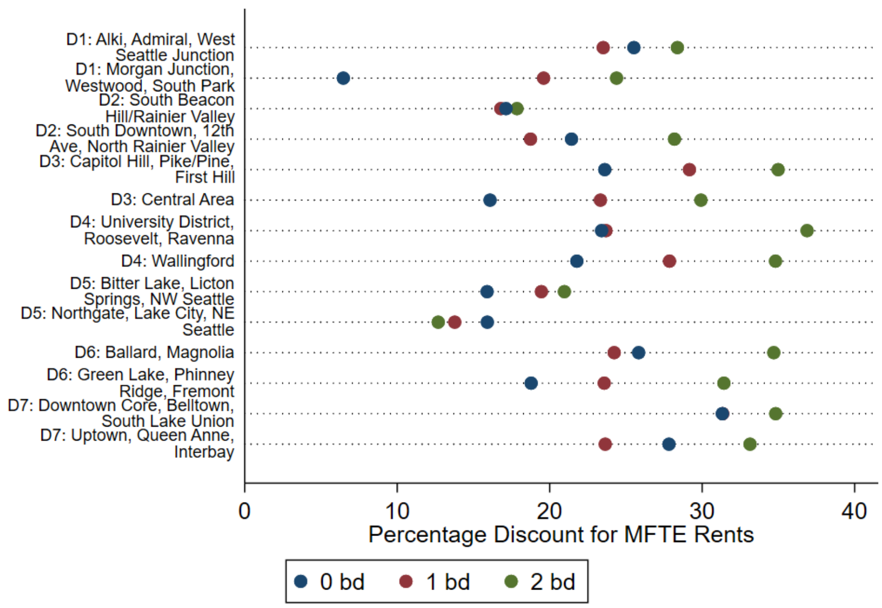


Source: 2023 Annual MILU Certification Query

The analysis of rents in MFTE properties yields a few important takeaways. Regardless of the number of bedrooms, MFTE units provide a relatively consistent discount to the rents charged for unrestricted units. The discounts tend to be larger in higher rent locations such as South Lake Union and Downtown. Such a finding is consistent with intuition since the MFTE payment standard is constant throughout the city, while unrestricted market rents vary by location.

In Figure 25, rent differentials by unit type are depicted across the 14 neighborhood sub-markets. These dots represent the percentage discount provided by MFTE units relative to unrestricted units of the same type in the same location. The MFTE discounts tend to be greater in larger units and in certain higher rent locations. In general, for 0 and 1 bedroom units, the level of discount ranges between 15 and 30 percent.

Figure 25. Summary of MFTE Rent Differentials in MFTE Properties

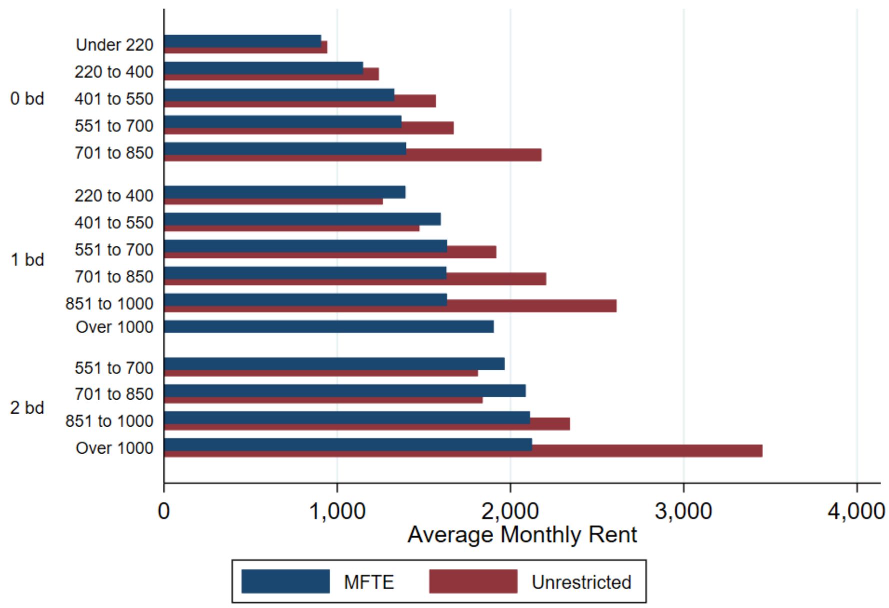


Source: 2023 Annual MILU Certification Query, calculated as (Unrestricted - MFTE)/Unrestricted

A second way to assess affordability is to compare MFTE units to all unrestricted units in a specific geography. The data on the unrestricted market units comes from CoStar, which provides a point-in-time estimate of average rents charged in market-rate properties for specific geographies and unit types. CoStar rent estimates were prepared on September 28, 2023. There is some missingness in the CoStar market-rate rent estimates for particular geographies, especially the South Beacon Hill / Rainier Valley submarket. MFTE contract rents were provided by the Office of Housing, and our comparison includes only MFTE income-restricted units occupied on September 28, 2023 (n=5,561 units).

We believe that this comparison offers less utility, because the universe of unrestricted units is no longer restricted to comparable buildings that have used MFTE. Therefore, many of these unrestricted units may be located in buildings that are older and of poorer quality than the MFTE units, which have all been built relatively recently. Again, like in the prior rent comparison, units may also differ based on how utility payments are reflected in contract rents.[37] But, the comparison has salience because tenants searching for housing presumably compare all of the options in the market, not just those buildings that have been built with MFTE. Figures 26 through 32 summarize this comparison. For the succeeding figures, the blue represents average contract rents charged on income-restricted units in MFTE buildings and the red represents average market-rate rents according to data from CoStar.

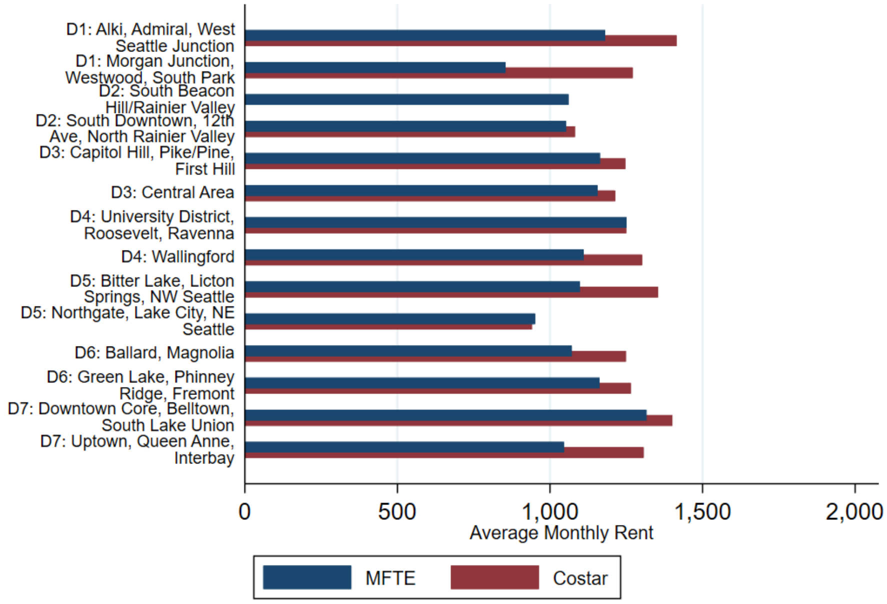
Figure 26. Average Monthly Rent for MFTE Units Compared to All Unrestricted Units by Type



Source: 2023 Annual MILU Certification Query and CoStar, only categories with 50+ units citywide

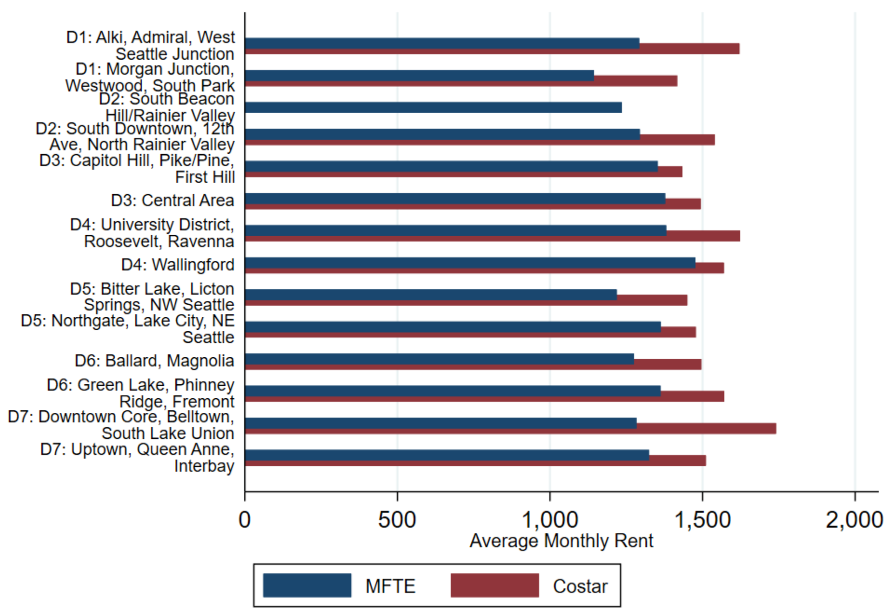
[37] Both rent comparisons performed in this study, 1) restricted versus unrestricted units in MFTE buildings, and 2) restricted MFTE units to the general market (CoStar) face comparability challenges due to different approaches to utility payments. In the CoStar market sample, we rely on the contract or effective rent variable which excludes utility payments paid directly by the tenant. But, contract or effective rent may include utility payments that are paid by the landlord. While it is likely that the CoStar sample includes a mix of utility payment approaches, we cannot quantify those details. Of the restricted units in the MFTE sample, 42% of units had no utilities included, while for unrestricted units it was 87%. Among the restricted MFTE sample, it was more common for utility payments to be included in contract rents for smaller and 0-bedroom units. As a result, all rent comparisons should be understood within the context of unit comparability that may vary based on a variety of different variables, including utility payments.

Figure 27. Average Monthly Rent Comparison, 220 to 400 sq ft. 0 bedroom by Neighborhood



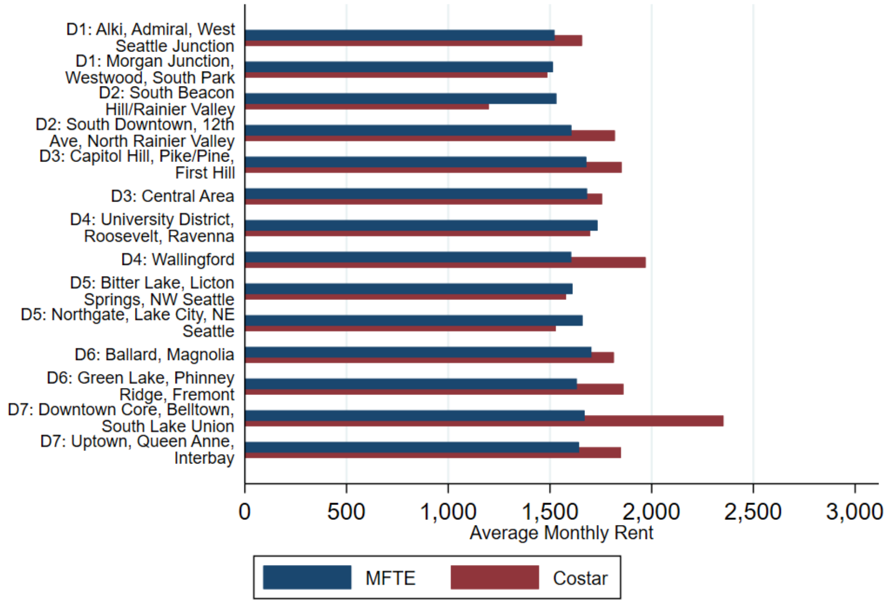
Source: 2023 Annual MILU Certification Query and CoStar, 621 MFTE units

Figure 28. Average Monthly Rent Comparison, 401 to 550 sq ft. 0 bedroom by Neighborhood



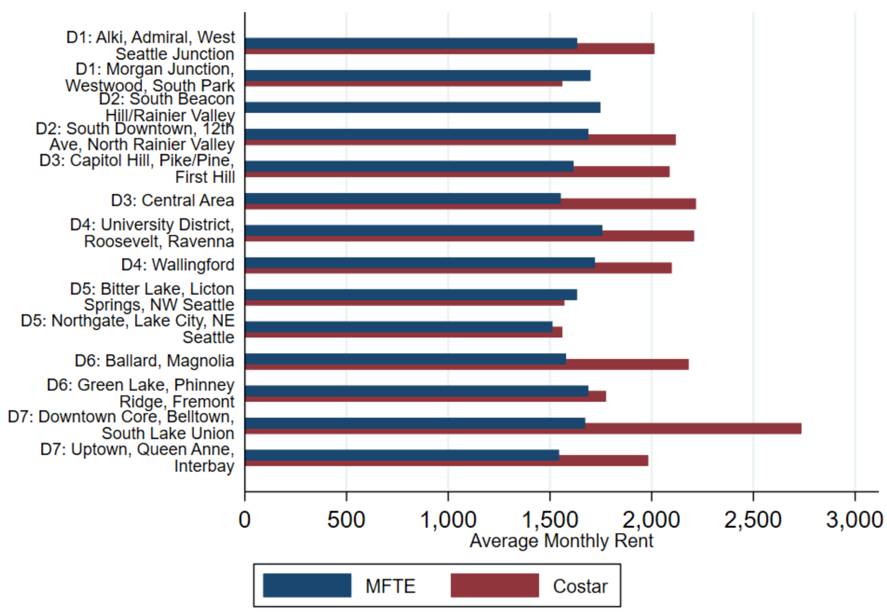
Source: 2023 Annual MILU Certification Query and CoStar, 940 MFTE units

Figure 29. Average Monthly Rent Comparison, 551 to 700 sq ft. 1 bedroom by Neighborhood



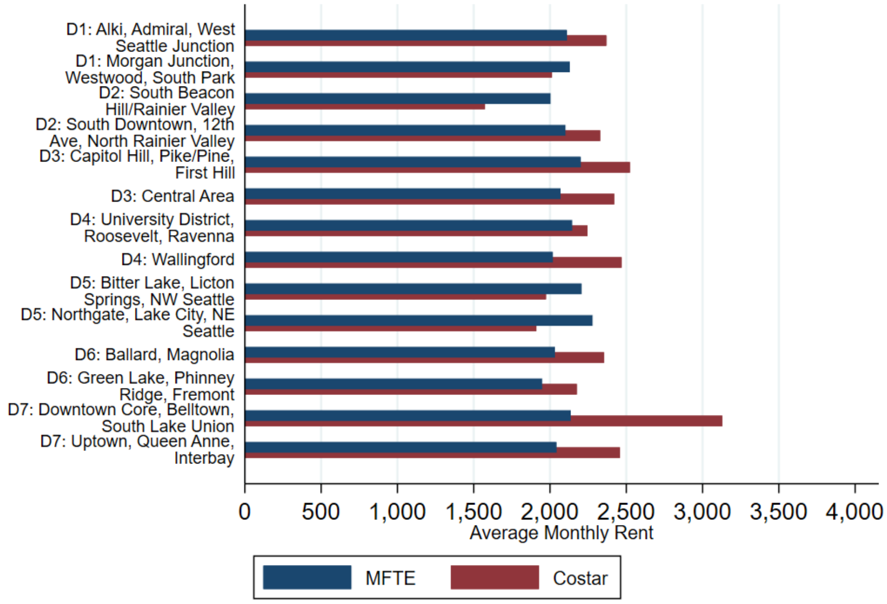
Source: 2023 Annual MILU Certification Query and CoStar, 1520 MFTE units

Figure 30. Average Monthly Rent Comparison, 701 to 850 sq ft. 1 bedroom by Neighborhood



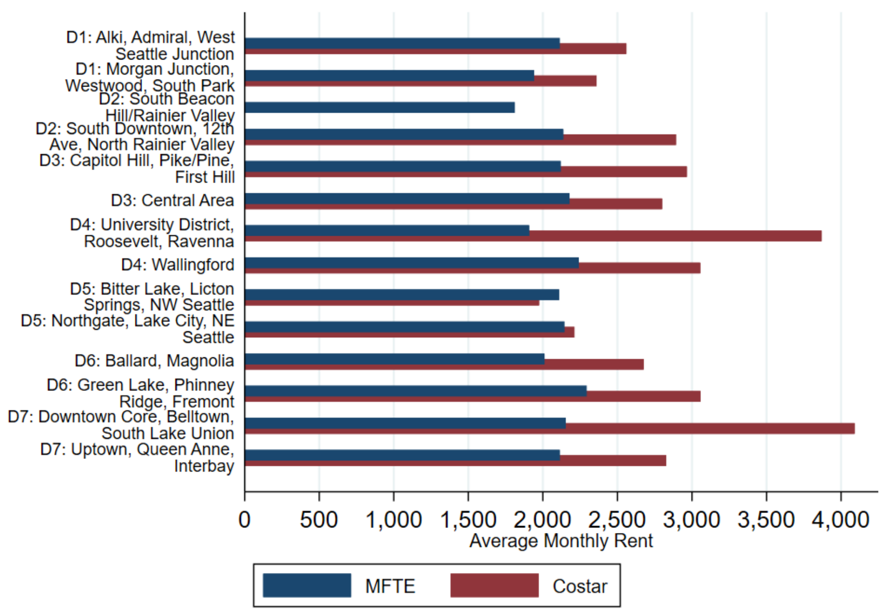
Source: 2023 Annual MILU Certification Query and CoStar, 545 MFTE units

Figure 31. Average Monthly Rent Comparison, 851 to 1000 sq ft. 2 bedroom by Neighborhood



Source: 2023 Annual MILU Certification Query and CoStar, 329 MFTE units

Figure 32. Average Monthly Rent Comparison, Over 1000 sq ft. 2 bedroom by Neighborhood



Source: 2023 Annual MILU Certification Query and CoStar, 228 MFTE units

The findings of the comparison between MFTE units and the broader market provide a couple of key takeaways. First, MFTE rent discounts are not as great as they were when we restricted the comparison sample to MFTE buildings, because the general market sample includes more lower priced units found in older buildings with fewer amenities. As a result, new income-restricted MFTE units may only represent a modest discount to the general rental market. Second, there is significant variation in the rent spread based on location. In lower cost locations, average MFTE rents may actually be greater than average market-rate rents. This can create a challenge to lease up MFTE units in certain locations. On the other hand, there can be dramatic differences in rents in high cost locations such as the Downtown Core, Belltown, and South Lake Union submarkets. Finally, the discounts provided by MFTE are more significant for larger units. In sum, whether the MFTE program provides significant affordability depends on the type of unit and its location.

Finally, we consider housing cost burden as a measure of affordability. Due to data limitations, housing cost burden estimates should be interpreted with caution. There are many MFTE households for which we lack occupant income data. For example, about 10 percent of the sample report $0 household income according to data from the 2023 Annual Certification Query submitted to the Office of Housing. To estimate housing cost burden, we eliminate a number of households (those with zero income, older households of retirement age, and students) from this analysis in an effort to capture housing cost burdens amongst households likely to be earning wage income. The filtered sample includes 4,761 households that reside in income-restricted MFTE units. Because residents of many MFTE units report very low annual incomes (even after filtering the sample), the average housing cost burden is less meaningful, as outliers produce very high average cost burdens. The median cost burden among MFTE renters is 38.5 percent, meaning the median MFTE household in our sample spends 38.5% of their annual income on housing (rent and utilities). This clearly exceeds HUD's 30 percent threshold to determine whether a household is housing cost burdened. At least in part, residents of MFTE units are cost-burdened because of the income and rent limits that determine eligibility (see Table 2). Households must qualify, based on income, to reside in restricted units, and rents are based on a payment standard which sets maximum rents at ~30% of maximum household income. In other words, as MFTE rent and income thresholds are currently structured, households making the maximum allowable income and paying the maximum allowable rent will, by definition, spend approximately 30% of their income on housing. Therefore, tenants making below the maximum allowable income and being charged maximum allowable rent will, by definition, be cost burdened. And the lower the income (below the threshold) the greater the cost burden. In the sample, 85 percent of households living in MFTE units are housing cost burdened, which is far higher than the national average which is close to 50 percent. Nearly a quarter of the sample (23%) are *severely* cost burdened, which occurs when housing costs exceed half of household income. A City of Seattle Office of Planning & Community Development report using 2015-2019 data found 40% of renter households in Seattle were cost burdened and 19% were severely cost burdened.[38] What is clear is that reduced rents offered by MFTE do not prevent tenants in income-restricted units from experiencing housing cost burdens.

Vacancy

The final topic to consider when summarizing the benefits of the MFTE program is vacancy. The existence of affordable housing units is a clear benefit of the program, but if those units sit empty, that reduces the value of that benefit. We therefore conclude this section with an analysis of vacancies in MFTE units. One can think about vacancy as a contra-benefit—vacancies reduce the overall benefit of the program.

No topic received as much attention in our interviews as the topic of vacancy. It was also the topic in which we found the most contradictions. There was inconsistent evidence about the level of vacancies and what was causing them. Staff from the Office of Housing expressed concerns about the high level of vacancies, which would reduce the overall public benefit of the MFTE program. OH staff cited a number of different potential explanations for high vacancies including: limited desire to lease MFTE units, concerns about potential non-payment from tenants of income-restricted units, market dynamics in lower cost neighborhoods that make MFTE units less attractive, the lack of affirmative marketing for MFTE units, and landlords that prioritize market rent units when demand is lower.

Developers had a much different perspective on vacancies in MFTE buildings. A number indicated that they have had little issue with vacancies, "***We generally, over time, have not seen much vacancy in the MFTE homes. And once people move in, in our data, they tend to stay about twice as long as market-rate residents.***" The developers also underscored the fact that they had no incentive to leave units vacant; all developers expressed a desire to fill their MFTE units. Developers did acknowledge that vacancies increased during the pandemic and in the succeeding years. Like in the interviews with OH staff, developers provided a range of different explanations for higher vacancies.

A common explanation was that vacancies tend to be higher in lower cost areas of the city because MFTE rents do not provide a significant discount to market rents, "***As a general rule, the lower your average market rents, the harder it is to lease the MFTE units… in some cases we have to discount our MFTE rents in order to lease those spaces, as compared to putting them in a high-rise in the middle of downtown in the nicest new building, and they lease up in 60 days or less.***" Developers also suggested that because of the additional administrative

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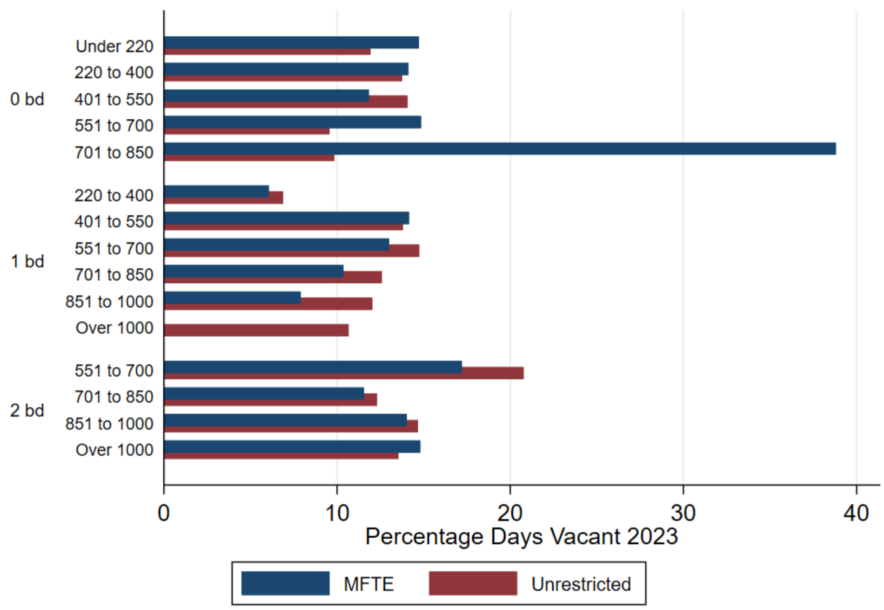
[38]https://www.seattle.gov/documents/Departments/OPCD/SeattlePlan/OneSeattlePlanDraftHousingAppendix.pdf

burden associated with MFTE, potential tenants have little motivation to lease an MFTE unit if there is an equivalent unrestricted unit that they can rent for a similar price, "***There have been times in certain sub-markets where you'll see, maybe in Columbia City or something, if the MFTE rent is close to the market rent, the resident is going to choose the market rate, especially if they can get a concession on top of that... just because they don't have to go through the application process.***" In the current soft market, we heard that concessions were a common tool for developers to use to entice new renters to lease vacant units, both restricted and unrestricted. Another developer shared a similar story, "***Your income-restricted units, if they get a little bit too close to market rents, the market will lower itself... if you're trying to keep the building full with MFTE, at some point the market rent might jump below that... an MFTE resident could say, well, I could go through all this red tape and hassle of doing the income documentation and the 40-page application... or I could just take this market-rate rent... they'll take the market-rate unit because it's less hassle.***"

Additional explanations for vacancies according to developers were: a lack of renters at the income threshold in certain neighborhoods, a lack of an effective marketing plan for MFTE units, and a lack of expertise to market and process MFTE applications. To address these concerns, the Office of Housing has published affirmative marketing guidelines to help property owners create marketing plans with wide reach. Finally, some developers noted a challenging relationship with city regulations. Because of the difficulty to evict problematic tenants, some suggested that could serve as a deterrent to renting to lower-income tenants. Finally, one additional reason for vacancy is that developers might be reluctant to the lower the price on MFTE units. Instead, developers try to use concessions to get the units filled. Developers cited the difficulty in raising rents due to city regulations as a reason for their reluctance to meaningfully reduce rents to get them filled, "***We would generally use concessions rather than cutting rents... part of that is also because of Seattle's rent increase notification requirements, if you increase more than 10%, you have to offer relocation, those sorts of things. So we'd rather use a temporary concession if we needed to.***" A different operator made the same argument, "***In Seattle you've now got the 9.9% rule where you want to try to keep your rents high so you don't have to increase your rent by more than 10% ever, because now you have this big penalty if you do... once you get your rent below the maximum amount, it's hard to increase them back up again.***"

We began the quantitative analysis by calculating the total number of vacant days for units in MFTE buildings.[39] This provides a strong comparison because all of the units are in buildings of comparable quality and location. In general, the level of vacancies are fairly consistent. As shown in Figure 33, in studio apartments, restricted vacancies tend to be a bit higher than those that are unrestricted. The 701 to 850 square foot category for 0 bedroom units has a very small sample size with very high vacancies, which resulted in a meaningfully high vacancy figure.

Figure 33. Percent Days Vacant in MFTE Properties By Unit Type

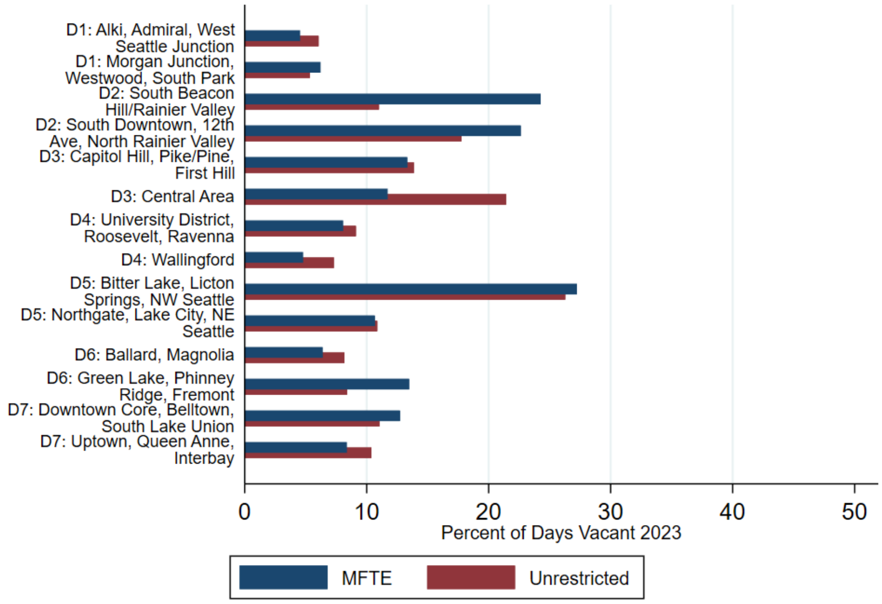


Source: 2023 Annual MILU Certification Query, only categories with 50+ units citywide

We continue the analysis by considering how vacancy varies by location and by unit type. In Figure 34, the vacancies for studio apartments in MFTE buildings are broken down by the 14 neighborhood districts in Seattle. The major takeaway from this analysis is that there are locations where MFTE vacancies are much higher than what we observe in unrestricted units, particularly in lower cost locations like Rainier Valley and South Park. Elsewhere, the levels are fairly consistent.

[39] Vacancy rates come from the 2023 Annual Certification unit-level data. Average vacancy rates at the building level were calculated by (1) removing all duplicate unit-rows, (2) grouping observations by property, and (3) estimating average vacancy rates for MFTE income-restricted units and unrestricted units in each building.

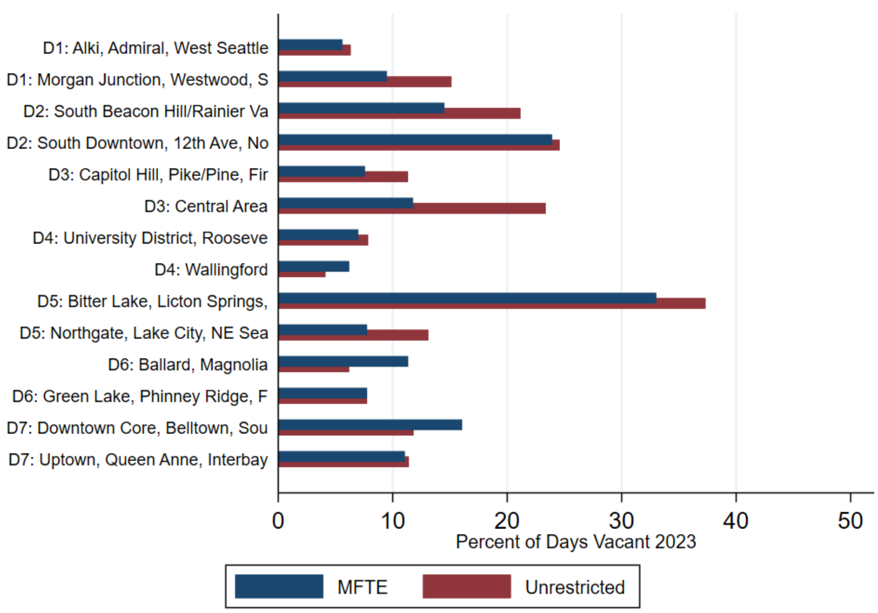
Figure 34. Percent Days Vacant in MFTE Properties, 0 Bedroom



Source: 2023 Annual MILU Certification Query

For one bedroom units in MFTE buildings, there is little difference in vacancy rates and there is no discernable pattern by geography. Unlike for studios, there are higher cost locations (Ballard and Downtown) where MFTE units have higher vacancies than the unrestricted units.

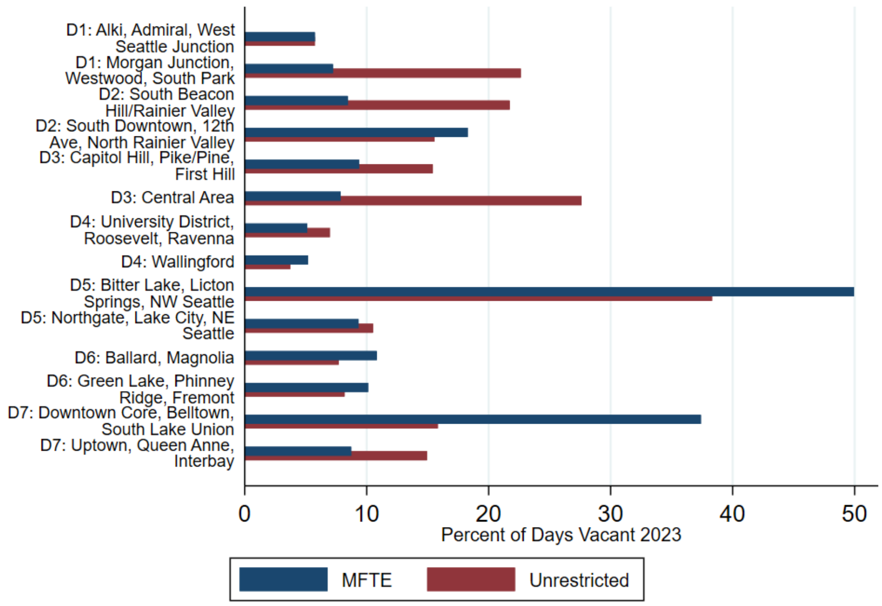
Figure 35. Percent Days Vacant in MFTE Properties, 1 Bedroom



Source: 2023 Annual MILU Certification Query

The data for two bedrooms is a bit more random because there are so few two bedroom projects that have been built pursuant to MFTE. As a result, the findings of the vacancy analysis have more variation and less importance. As Figure 36 highlights, there are certain locations in the city, such as Bitter Lake, Licton Springs, and NW Seattle, with very high levels of vacancy, for both MFTE and unrestricted units alike.

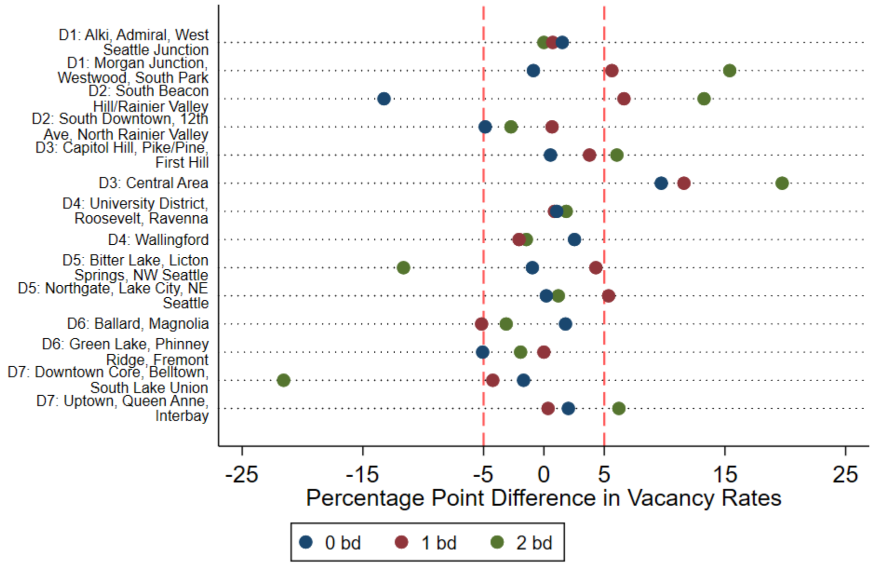
Figure 36. Percent Days Vacant in MFTE Properties, 2 Bedroom



Source: 2023 Annual MILU Certification Query

Figure 37 provides a summary of the difference in vacancy rates by location and by unit type. The results suggest that the vast majority of MFTE units have vacancy rates within 10 percentage points of their unrestricted peers. There are outliers in both directions, but generally the results cluster between -5 percentage points (where MFTE vacancies are higher) and +5 (where MFTE vacancies are lower). Despite this overall finding, there are still instances of buildings with very high vacancy rates—both for restricted and unrestricted units. Across all MFTE properties active in 2023, the average vacancy rate for MFTE income-restricted units was 11.1%, and the average vacancy rate for unrestricted units was 11.9%. In 2023, 31 properties (about 11% of all MFTE-participating properties) reported an average vacancy rate of 20% or more for their income-restricted units; the average vacancy rate among this subset of buildings was 42%. The unrestricted units in these buildings had average vacancy rates of 33%. Three properties reported near 100% vacancy in 2023, for both income-restricted and unrestricted units. Addressing abnormally high vacancies in specific buildings is an area for focus for both developers and the city as persistently high vacancies reduce the benefit of the program.

Figure 37. Percentage Point Difference in Vacancy Rates By Unit Type



Source: 2023 Annual MILU Certification Query, (Unrestricted percentage - MFTE percentage)
negative = higher MFTE vacancy; positive = higher unrestricted vacancy
77% of units are in properties with <5% difference between MFTE and market-rate vacancy

The vacancy analysis suggests that there are vacancies in MFTE units, but it does not appear to be disproportionate relative to unrestricted units in the same buildings. There are certain locations with much higher levels of vacancy (i.e. Bitter Lake) which may be due to timing of completion (new buildings may have higher vacancies) or something specific to local market dynamics. But these higher levels exist for both MFTE and unrestricted units. Generally, the smaller units tend to have higher vacancy rates which is likely due to the fact that the market has produced far more studio and one bedroom units over the last five years which has dramatically increased the supply of these smaller units. According to one developer, "***The program is almost entirely used by studio and small apartment builders where the gap between market and affordable is smallest, right, like the rent loss is smallest for the same tax benefit. And that particular product class had a huge boom and is now totally overbuilt… market rate is now 50-60% AMI threshold rent which is causing huge problems for the affordable housing community… they have a vacancy problem, because they can't compete with private sector in this particular segment.***" The same has not occurred for two bedroom and larger units and vacancies overall tend to be lower in these larger units. In sum, vacancy is certainly a concern, especially in locations with limited housing supply, but there does not appear to be systematic vacancies in MFTE units in the 2023 data that we analyzed.

During interviews with Office of Housing staff, they highlighted proposals to address high rates of vacancy in MFTE units. "***If you have a unit that remains vacant for 30 days, [MFTE participants should have to] lower the rent. If it***

remains vacant another 30 days, you lower the rents some more, and you lower that until it gets leased. Because either the rent is too high or there's something in the market… I really think that we, as a program, should just say 'Hey, guess what, you have a vacant unit after 30 days? Tell us. After 30 more days, you start lowering that 5% or whatever, right? Until that gets leased. Because you are receiving a tax exemption, and you need to start providing that public benefit for it." The challenge around vacancy provides multiple examples of the tensions that exist between the city and its desire to maximize public benefit and developers who see such efforts as limiting the benefit of the program.

Costs of the MFTE Program

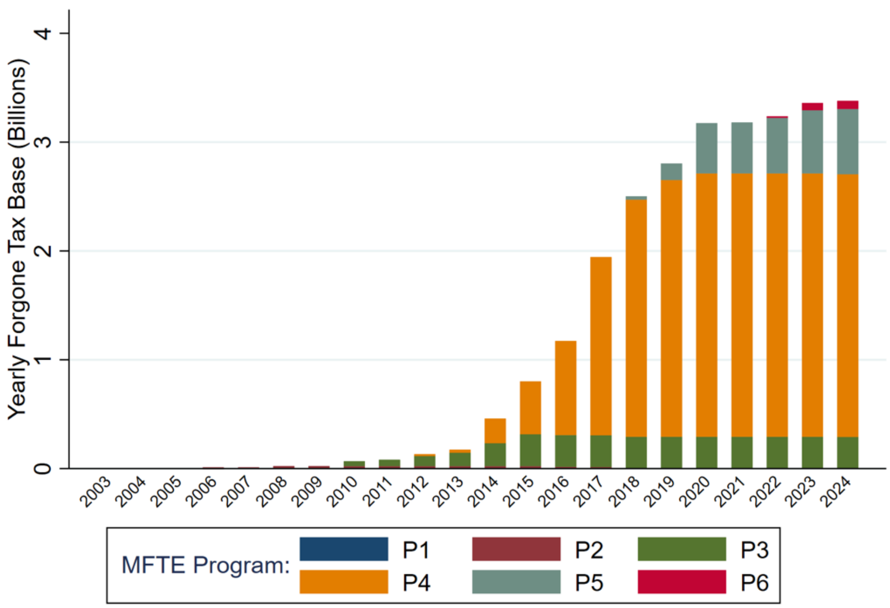
Property taxes are a significant source of revenue for the City of Seattle. In 2001, Washington voters approved Initiative 747 which called for a one percent cap on regular property tax increases from year to year. After a court battle, the cap was signed into law in 2007. Because of the one percent rule, the amount of money that the City can raise from property taxes can only increase by one percent per annum. So a jurisdiction will set the amount of tax receipts it intends to collect and divides that value by the total tax base (the sum of all assessed property values) to determine the tax levy rate. In a very simple example, if the tax base grows at a rate faster than one percent, the levy rate will fall in order to prevent total receipts from growing by more than the one percent growth cap. The one percent rule excludes sources of tax revenue including new construction. Therefore the property taxes associated with the new developments can still be collected even if it results in total tax receipts that exceed the one percent cap. The structure of tax receipts is important context when analyzing the two cost elements of the MFTE program: foregone taxes and shifted taxes. We rely on data from the city and the county to calculate foregone and shifted taxes and we follow the approach developed by The City of Seattle Office of Housing, City Budget Office, and the King County Assessor's Office to generate these estimates.

Foregone Taxes

Foregone taxes result in a loss of tax collections for the City of Seattle (and King County). Were it not for MFTE, new construction would be assessed upon completion at full value and the taxes associated with this new construction would be collected (new construction is not subject to the one percent property tax growth threshold). Foregone taxes occur due to the way in which MFTE properties are assessed. Because MFTE properties are assessed prior to the completion of a project, in some cases, only a portion of the project's total value is captured in the official assessed value. Due to state law, the project is not re-assessed (for these purposes) until expiry of the MFTE exemption period—twelve years or twenty-four year. As a result, there is additional assessed value that is not reflected on the assessors' books for MFTE projects. The end result is that the tax levy rate is applied to a smaller tax base (assessed value) which results in taxes that are *foregone.*

Figure 38 below depicts the amount of tax base that is deferred or foregone in each year. That deferred tax base will be captured at the conclusion of the MFTE exemption period. As described above, the City of Seattle MFTE program has had six different iterations, beginning with P1 (program one) which was established in 1998 to P6 which is currently in operation. Since 2020, the total amount of deferred tax base associated with the MFTE program is just over $3 billion per annum. Much of that deferral is due to P4 which produced the most units of any of the MFTE programs. The level of deferred tax base is a function of development volume and construction costs, so a reduction in new project deliveries (which is expected in the next couple of years due to challenging market environments) will result in lower levels of deferred tax base.

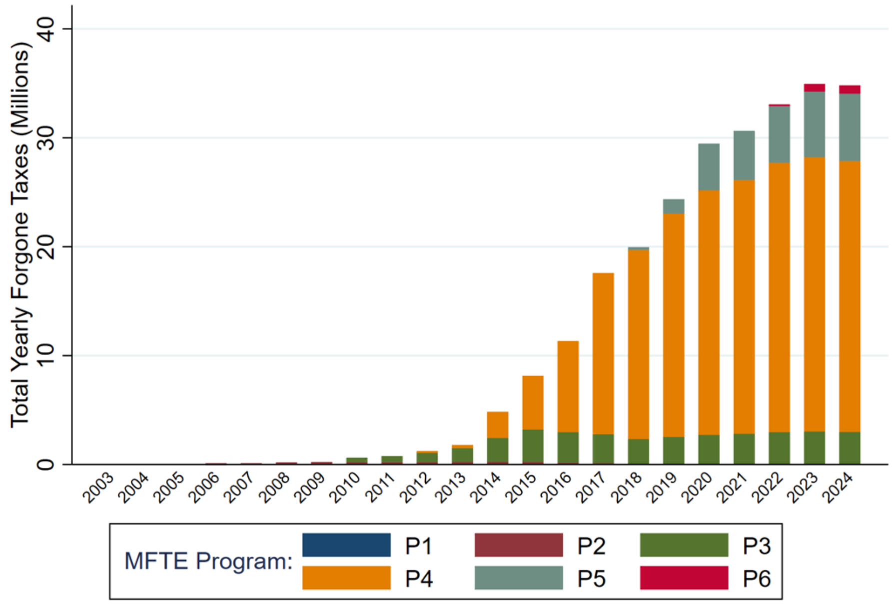
Figure 38. Yearly Foregone Tax Base by MFTE Program



Source: King County Assessor, 2024 incomplete, assumed no assessed value growth

Given the reduced tax base—due to deferred new construction values associated with exempted MFTE projects—tax receipts fall. These collections are lower due to the deferred tax base presented above. Figure 39 highlights the total annual foregone taxes. The cost is roughly $30 million per annum and, again, P4 projects represent a disproportionate percentage of that foregone tax revenue. Property tax collections from projects located in the City of Seattle are split between the city and King County. The city receives roughly a quarter of the total collections.

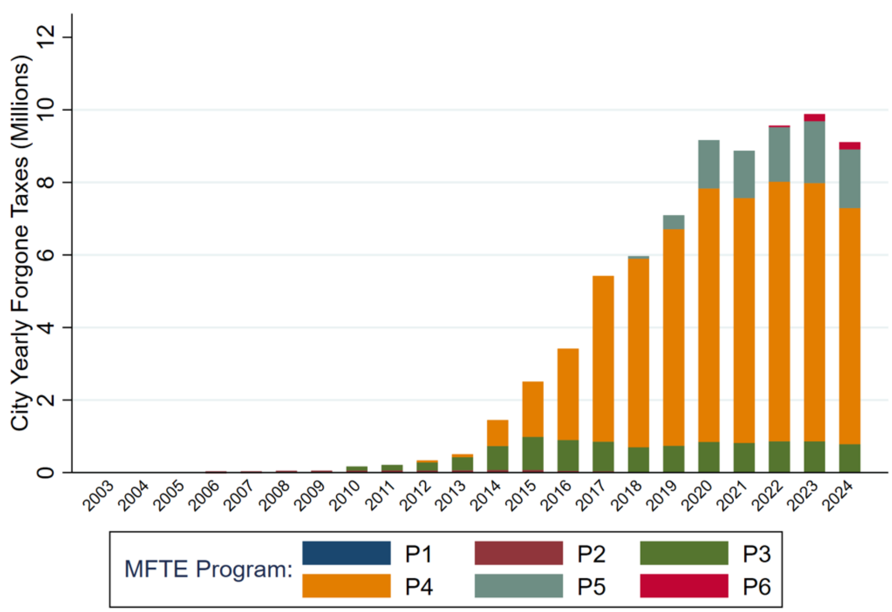
Figure 39. Yearly Total Foregone Tax Collections by Program



Source: King County Assessor, 2024 incomplete, assumed no assessed value growth

Figure 40 further breaks down this amount and shows the allocation of foregone taxes attributed to the City of Seattle. In 2024, that amount is roughly $9 million. The remainder of the foregone taxes would have been collected by other entities, such as King County.

Figure 40. Yearly Foregone Tax Collections by Program for City of Seattle



Source: King County Assessor, 2024 incomplete, assumed no assessed value growth

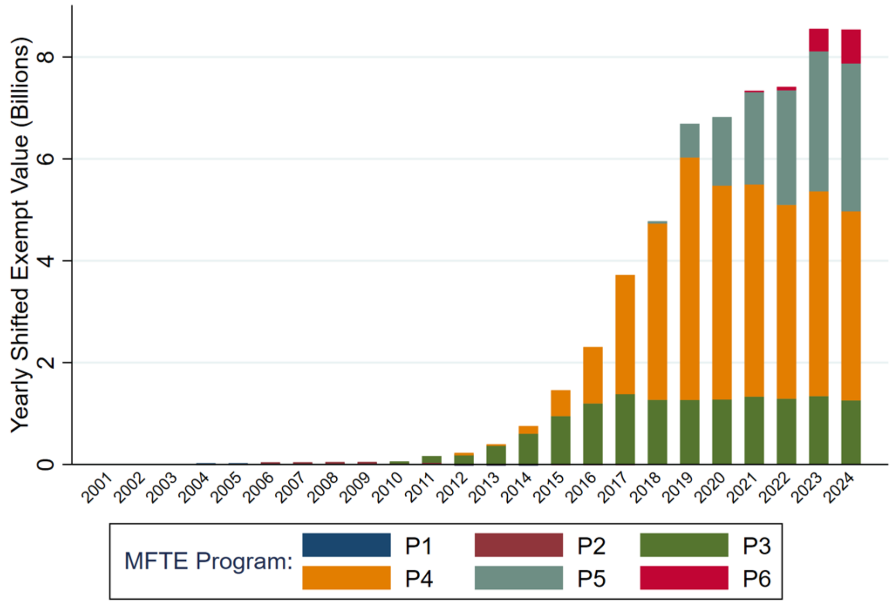
It is important to underscore that foregone taxes are not necessary or inevitable. Changes to the law that dictate how MFTE properties are assessed could reduce—or eliminate—foregone taxes. Aligning the assessment procedures for MFTE properties with the ways in which non-MFTE properties are assessed would eliminate all foregone taxes and limit the costs of the MFTE program for jurisdictions like the City of Seattle.

Shifted Taxes

The second tax impact—or cost—of the MFTE program is the tax obligation that is shifted from MFTE property owners to non-MFTE property owners within a given jurisdiction. This impact is at the heart of the MFTE program. The purpose of the program is to provide developers of housing an exemption from property taxes in exchange for constructing housing. Importantly, this exemption does not reduce the tax collections of the city, rather it shifts that tax obligation to the rest of the taxpayers in that jurisdiction. Fundamental to the concept of a shift in taxes is the idea that when total levy collections remain constant, the tax exemption for some property owners results in an increase tax burden for non-exempt property owners. Therefore, the more properties that the city exempts, the greater the tax obligation that is shifted to non-exempt properties. It is our perception that many people do not understand that this is the primary tax impact of the MFTE program. From a purely financial standpoint, the City of Seattle experiences no budget impact from the taxes that are shifted pursuant to MFTE, but there are concerns about the allocation of taxes across taxpayers within the city.

We begin the analysis of shifted taxes by highlighting the amount of tax base that is associated with the MFTE program. It is important to note that the tax base—or assessed value—used in the analysis of shifted taxes is different than what is used to calculate foregone taxes. These should be viewed as separate and distinct analyses. Figure 41 estimates the total amount of tax base (assessed value) that is associated with the MFTE program. The amount has grown dramatically over the past decade and it surpassed $8 billion in 2023. Like we observed in the foregone tax analysis, P4 has had a disproportionate effect on shifted tax base associated with MFTE projects.

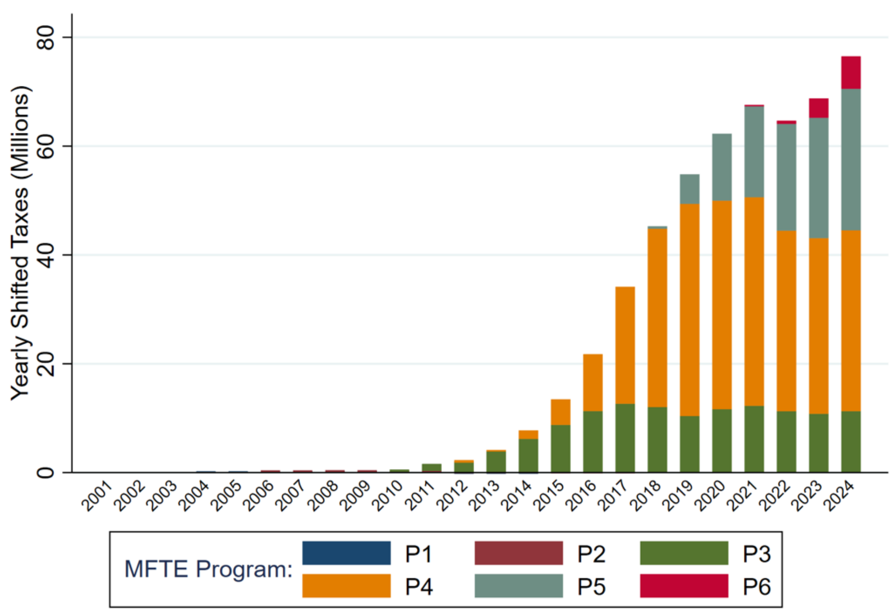
Figure 41. Yearly Shifted Tax Base by Program



Source: King County Assessor

In Figure 42, we convert the exempt tax base to the amount of taxes that were shifted from MFTE projects to non-exempt property owners. By 2024, the annual amount approached $80 million. While this is a "cost" of the program, it is really a cost to property owners who do not participate in the MFTE program.

Figure 42. Yearly Shifted Taxes By Program

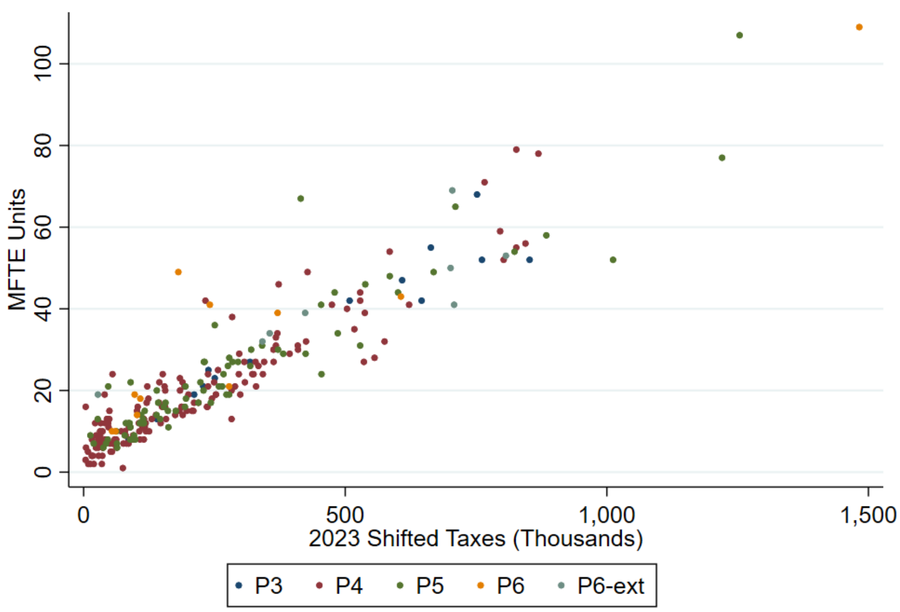


Source: King County Assessor, counter factual levy rates are drawn from the CBO shifted tax model

Comparison of Costs and Benefits

We now attempt to compare costs and benefits of the program for the City of Seattle. It is important to note that many of the benefits of the program, such as the housing production impact of the program and taxes associated with new housing construction, are difficult to quantify so this is a fairly simplistic, and incomplete, analysis. We calculate a program cost-benefit by comparing shifted tax costs to the rent benefits. The calculations are completed at the building level and then summed. Figure 43 below plots all MFTE properties, by the amount of tax exemption they received in 2023 (shifted taxes) and the number of MFTE units, broken up by program. As expected, properties that received larger tax exemptions (as larger properties) provided more MFTE units in their buildings. The relatively linear relationship suggests that there are not outliers of buildings that received disproportionate benefits relative to the MFTE units that they constructed.

Figure 43. Comparison of Shifted Taxes to MFTE Units by Building



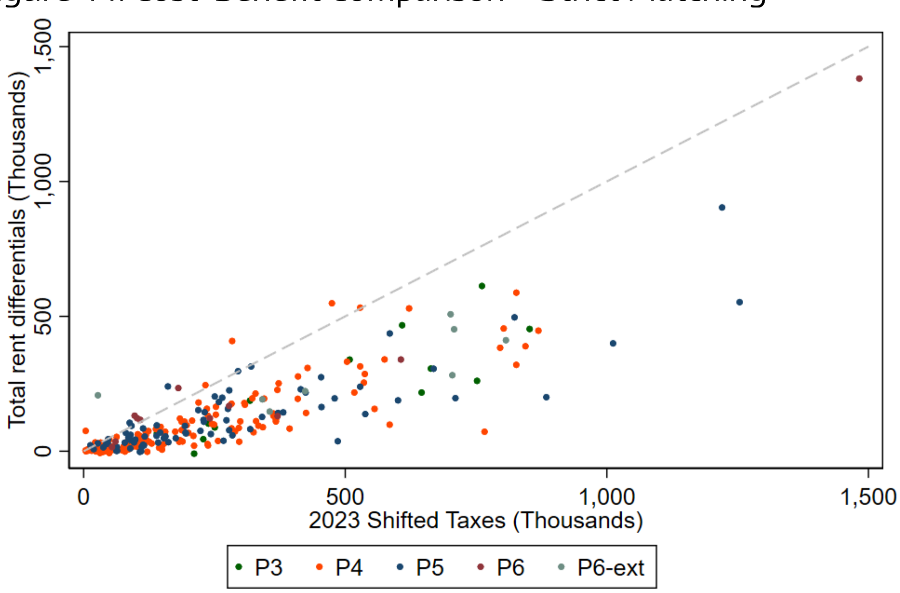
Source: Annual MILU Certification Query

Next, we examine the amount of public benefit—in the form of rent discount—that each property provides. For each MFTE unit, we find the average rent for comparable market-rate units in the same building, with the same number of bedrooms, bedroom type (open or standard), and square footage (within 50 square feet). We then take the difference between MFTE and market-rate rent and multiply by 12 for a yearly rent benefit of MFTE. Figures are presented here without incorporating vacancy rates, as they do not substantively change the analysis (especially given the lack of vacancy rate differences between MFTE and market-rate units as discussed earlier).

Figure 44 plots all properties based on their total shifted tax (costs) and total rent discount (benefits). In this figure, properties closer to (or above) the 45 degree line can be interpreted as providing more public benefits relative to the tax benefit that they received. Generally, as property value (and therefore MFTE costs) rise, the amount of rent benefits also increases. The properties cluster below the 45 degree line because developers will only apply for MFTE if it provides an economic benefit. Observations above the 45 degree line would indicate that property owner is giving up more in rent than they receive in tax benefits. This circumstance will be rare. It is also important to note that there are other costs borne by the developers that are not reflected in this simplistic analysis.

There are other key takeaways from this figure. First, there is substantial variation in the cost-benefit relationship between properties. For example, properties receiving an exemption from property taxes of about $500,000 provide rent benefits ranging from around $40,000 to $550,000. These properties provide a radically different "public benefit" for the same level of tax exemption. Second, there is a relationship between program rules and the cost-benefit relationship. The stronger affordability requirements of P6 have a direct bearing on this relationship. We observe P6 properties much closer to the 45 degree line (breakeven) than the properties developed under P4 and P5. This is consistent with the feedback from developers that the rules of P6 have made the MFTE program less accretive, or favorable, for developers.

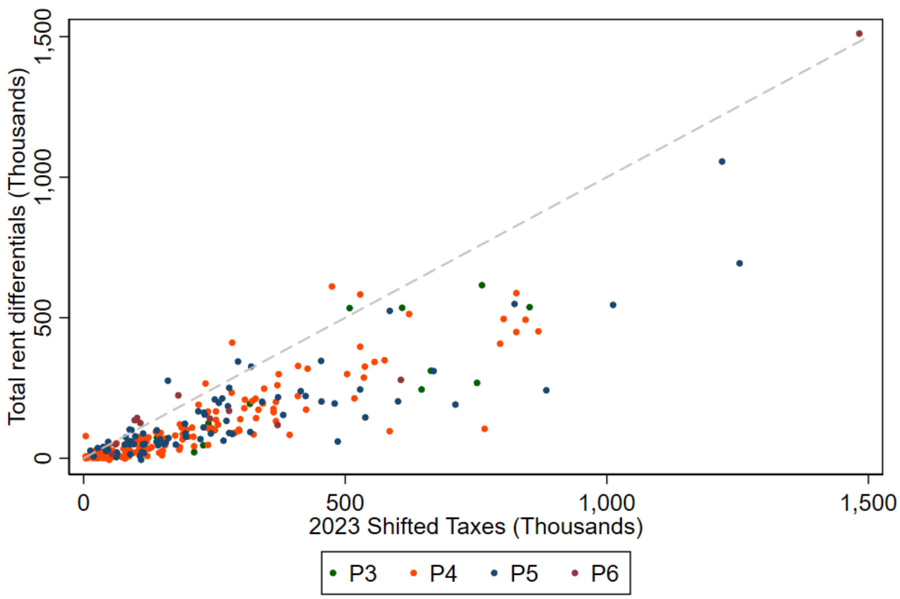
Figure 44. Cost-Benefit Comparison – Strict Matching



Source: Annual MILU Certification Query.
Each MFTE unit is matched to comparable units based on unit type (dwelling/SEDU/sleeping room), # of bedrooms, bedroom type (open/standard), and within 50 sq ft

Figure 45 depicts the results with a more relaxed matching criteria in which MFTE units are matched to unrestricted units based solely on the number of bedrooms. The result of this analysis is there is greater public benefit in the form of larger rent differentials. We believe that the stricter approach (presented in Figure 45) is a better estimate, but we share the more lax match for completeness.

Figure 45. Cost-Benefit Comparison – Lax Matching



Source: 2023 Annual MILU Certification Query.
Each MFTE unit is matched to comparable units based solely on # of bedrooms

Finally, we outline the cost benefit by program iteration for 2023. In Table 3, we calculate the benefit using both the stricter and more lax matching techniques described in Figures 45 and 46 above. As Table 3 below highlights, the calculated benefit is greater when using the less strict approach to matching, but we believe that the stricter method is a better estimate.

A key takeaway from this analysis is how the cost-benefit relationship has changed over time. Outlined below is the more significant public benefits produced in P6. The stricter rent requirements produced greater public benefit for each dollar of tax exemption than did prior program iterations. The stricter comparability standards also contributed to the greater benefit achieved in P6. From the perspective of the City of Seattle, the program changes implemented in P6 "worked" if the measure of success is greater public benefit for each dollar of exemption. A potential consequence of such changes could be less MFTE uptake by developers.

Table 3. 2023 Cost-Benefit by Program

				Strict Match		Lax Match	
MFTE Program Iteration	Total Units	MFTE Units	2023 Exemption Amount	Total Rent Benefits (matched on bedrooms, type, sq. ft)	Benefit / Cost	Total Rent Benefits (matched on bedrooms only)	Benefit / Cost
3	2,478	494	6,266,030	3,154,140	50.3%	3,635,894	58.0%
4	14,101	3,000	32,348,240	14,869,814	46.0%	17,293,099	53.5%
5	9,218	1,882	21,435,230	10,037,562	46.8%	11,665,819	54.4%
6	1,558	373	3,583,568	2,797,565	78.1%	2,908,622	81.2%
P6 Ext.	1,685	337	4,069,542	2,422,687	59.5%	2,656,263	65.3%
Total	**29,040**	**6,086**	**67,702,609**	**33,281,768**	**49.2%**	**38,159,697**	**56.4%**

Qualitative Findings

The qualitative interviews provided valuable feedback on a range of issues related to the MFTE program. Key themes that emerged from the analysis are presented below.

Developers' Decision to Apply for MFTE is Solely Economic

Repeatedly throughout the interviews, developers noted that the decision to participate in MFTE was solely an economic decision. One developer described the decision-making process, "***The decision to use [MFTE] is a fairly straightforward economic analysis, we're just looking at the lost rent relative to the tax abatement.***" Another noted, "***It's basically just a math equation.***" Developers were also clear about the relationship between the developer of a project and the investors that provide the capital. A developer can't simply decide to make less money on a project because if the return of the project doesn't work for their capital source, the deal won't be financed, "***It's not like we can go tell investors and lenders, 'Hey, you should accept a lower yield on this so we can participate in this program.' They just think well, no, that's not what we're in the business of doing. So it's not really about just giving up a little bit in profit.***"

MFTE Has Been a Catalyst for Housing Production

Developers we interviewed stated that the MFTE program has clearly been a catalyst for some projects. The benefits associated with MFTE (property tax relief) helped some projects get across the finish line. Especially given the current challenging market environment, MFTE provides an opportunity to get deals done. As one developer put it, "***MFTE is like, the last breath of oxygen that is really, that makes it possible to do projects, or less impossible. Right now there are so many market fundamentals that are just flipped upside-down that there's almost no new market rate multifamily housing development getting built. And that's going to be a real problem in a few years.***" In addition, MFTE is clearly a critical tool to get affordable or workforce housing built, "***All of our folks that are developing workforce housing are pretty much depending upon MFTE to make their pro formas work at this point... they sort of ran out of gas with current construction costs and land costs and rent structures a long time ago, and basically optimizing the program for MFTE is the only thing they have left to hold onto viability.***"

Program Changes Impact Desire to Use MFTE

Throughout our interviews, developers noted that programmatic changes have made the MFTE program less attractive. As the program mandates greater affordability and greater administrative burden, the benefits of the program (the tax abatement) are no longer clearly greater than its associated costs. As one developer explained, "***Program 6 is getting really really close to the not accretive side of the equation.***" Developers expressed concerns that stricter AMI limits and/or increases in programmatic costs could result in lower program participation.

Some interviewees focused on rent side of the equation, "***60% AMI is really where things end for me. I can't make projects pencil.***" And another noted, "***[OH] is going to have to revisit AMI levels, as painful as that may be for them to consider that, the problem is there because we're gonna have a dearth of production. For the next 2-3 years, MFTE is gonna be rolling off quicker than they can possibly refill it. So if you care about the portfolio size of MFTE and expanding that, you need to turn the knobs to make P7 a little bit more accretive, maybe even more than P5. Start encouraging people to get into the program.***" In sum, one developer summed up what we heard from many developers that the current program is not providing much benefit, but it could if program rules were relaxed to what existed in prior iterations, "***I don't know if [MFTE] is a material benefit in Seattle because they've cut it pretty close to the bone. But it could have a stimulating effect, and into getting projects underway that have been languishing for a while. That's certainly possible.***"

Developers Perceived Increased Administrative Burdens Associated with MFTE

Developers across the board reported a perception that MFTE-related administrative burdens had increased in recent years. Administrative burdens manifested in two program requirements: tenant income verification and unit comparability. Developers suggested that greater administrative burdens—especially when combined with stricter AMI thresholds and generally unfavorable market conditions—diminished the attractiveness of MFTE.

First, tenant income verification refers to the process by which potential or actual tenants are screened and deemed eligible for income-restricted MFTE units. OH staff reported that income verification is an important component of the program, crucial for ensuring that "***the folks that are applying for these units are indeed the folks that we're targeting... folks that do need affordable housing.***" OH staff described instances of non-compliance as the motivation for strict income verification. For instance, one OH staff member described an MFTE applicant who was discovered to have "***a million dollars worth of assets.***" Developers too recalled instances of MFTE residents "***gaming the system***" by "***trying to run Airbnbs through multiple MFTE units.***" OH staff stated that some property managers have been "***negligent***" in terms of income verification and "***just moving in anyone who can pay rent***" regardless of actual income. As a result, OH staff perceived that "***the tenants who are in some of these buildings, a lot of them should never have been moved in, and a lot of that is due to a lack of client standards that owners were not willing to invest in.***"

Developers, however, felt that the level of income documentation required for potential MFTE units was onerous, both for residents and property managers. For instance, one developer expressed that "***The information [tenants] have to provide from every single source of income they might have is ridiculous... it scares some people away. They just say forget it, you know? It's not worth it to me. It's a lot of time for our leasing staff.***" Developers described tenant verification as a "***very paperwork-heavy and documentation-heavy process, closer to what you do when you apply for a loan at the bank.***" Several developers called out reporting Venmo transactions as an example of unnecessary burden.

Developers suggested that income verification requirements was a disincentive for tenants to apply to MFTE units, potentially contributing to higher MFTE vacancy rates and longer lease-up periods. As one developer explained, "***When [MFTE units] do go vacant, they're vacant for longer, because it takes so much longer to qualify someone.***" Developers we spoke with also reasoned that potential tenants are likely to opt for non-MFTE units and avoid income certification paperwork in areas of the city where MFTE and market-rate rents are close together.

Developers also highlighted the"***economic loss***" associated with the current income verification process. Developers reported hiring third-party verification companies or additional staff to process MFTE applications, which comes with increased administrative costs. Some developers suggested that heightened administrative costs and longer lease-up periods associated with income documentation were "***starting to factor into our underwriting,***" and that "***lenders are starting to catch on as well because they see it in the numbers.***"

To mitigate these challenges, developers suggested that the Office of Housing rely on income tax filings as means of verifying tenant income. Developers highlighted that the risk to the city is that more relaxed income-verification criteria would, at worst, result in an income-restricted MFTE unit being rented "***to somebody who is slightly less poor.***"

Both developers and city staff highlighted potential changes to address these challenges. Developers proposed an MFTE prequalification program so that qualified tenants could apply to several MFTE units without needing to resubmit income verification paperwork multiple times. City staff members suggested that managers of MFTE-buildings be required to complete trainings on income verification, similar to those required by city-funded nonprofit housing providers.

Second, developers frequently highlighted the increased burden associated with the unit comparability processes. Unit comparability refers to the requirement that income-restricted units be comparable (in terms of square footage, unit type, and amenities) to the unrestricted units in an MFTE building. OH staff stated that unit comparability requirements were important to ensure that income-restricted units are not disproportionately smaller, or that "***all the MFTE units [aren't] back by the alley with the garbage.***" OH staff also stressed the importance of unit comparability for health, safety, and quality of life reasons—for instance, that residents in income-restricted units are not denied air conditioning. Finally, OH staff expressed a commitment to unit comparability to facilitate an accurate estimation of public costs and benefits. However, staff also stated that developers often resist unit comparability rules, and that a few "***bad apples***"—that is, developers who do not adhere to compliance requirements or "***push the envelope on comparability criteria***" – place additional burdens on OH staff managing MFTE compliance.

Across the board, developers expressed frustration around comparability rules, which they perceived to be overly restrictive and/or inconsistently applied by OH. As one developer put it, "***we have this massive spreadsheet, there's so many variables. We need 20% of patios, balconies, a guardrail, you know, do you have kitchen islands? Do you have lighted mirrors in every home? Which direction does it face? You need to evenly distribute that, evenly distribute the floor, evenly distribute amongst floor plan, type, square footage... We submitted in January and we're still arguing with OH...***"

Developers also stated that comparability requirements had become stricter over time, and expressed a desire for greater transparency in comparability requirements. Several developers expressed a sense that there was now "***more subjectivity***" in determining comparability, and that the rules were "***not written anywhere.***"

Developers also stated that comparability requirements had "***imposed a huge amount of burden and risk on developers***", particularly because OH staff assesses comparability late in the development process. As one developer explained, "***[OH comes] in at the end, after you invested all your money, and they take issue with the unit on this floor vs. that floor… there's just not enough clarity…***" One developer stated that their future decisions around applying for MFTE were "***going to have a lot to do with how [OH] deal with those very strict [comparability] requirements.***"

OH staff also acknowledged that they "***spend a lot of time arguing***" with developers about comparability. However, they also reiterated the need for strict unit comparability. As one staff member explained, "***the only way I know how to even measure public benefit and private benefit is to make sure there's an apples-to-apples measurement.***"

In addition to greater standardization and transparency, developers suggested more lax unit comparison rules. As one developer opined, "***[OH] needs to get much more realistic… it's OK to have an apartment unit facing an alley instead of facing the water and have that be the more affordable unit. Give the developers more latitude in getting these projects off the ground and running affordable units that are not as attractive as the market-rate units, but still provide a home.***"

There are Significant Concerns About the Coming Shortage of Housing

The market conditions of the last couple of years have had a chilling effect on housing production in Seattle. This is not an MFTE-specific issue, rather these are factors that have limited housing production of all types over the last couple of years. The impact of this slowdown has not yet been felt, but will over the next couple of years. There are projects that are currently being completed, but the slowdown will hit in the next two to three years. There is a concern among developers that rents will increase dramatically in a couple of years once the economy stabilizes, hiring continues to accelerate, but there is limited new housing. One developer summed up the challenge:

> ***Today we're in a pickle, because nobody can build anything, because the interest rates are more than twice as much as they were before COVID. Cap rates are higher, which is bad, and we're not making the returns we need initially to get the project started. So the return on***

cost is not penciling out because we still have high construction costs from the run-up prior to COVID, continuing inflation, rates haven't come down. So we're not able to get the return. Some products are still even a negative return today… it's gonna be a while before production is gonna start up again, there's gonna be a period where we're not gonna have many new starts, which will put the rental market under pressure.

Uncertainty About the Goals of MFTE

Our interviews with city staff and developers/operators of multifamily highlighted open questions about the purpose and goals of the program. One developer highlighted this challenge, "***[OH] is focused on one thing, which is the production of deeply affordable housing. That was never what MFTE was meant to be, right? The goal of MFTE was for, firstly, a workforce housing program, and as an economic development program to attract capital into the city… So I think the yardstick here should not be like, is it being used begrudgingly and have you made it just not shitty enough so people are using it. The yardstick should be, what is the potential for making this reach its actual goals in the long run.***" Office of Housing staff also noted that there are multiple goals of the program, "***[MFTE's goals] are twofold generally: it's to create affordable housing for Seattle. Right now, it's largely functioning as a way for, especially new projects that are soon to be completed, a way for them to pencil financially, because many of them are underwater. And we understand that. So it's really a development subsidy for them.***"

Given the competing goals and interest, one developer made an argument that the goals of MFTE program should be more clearly articulated:

> ***Every time [MFTE] comes up for renewal, I ask this simple question: What is your goal for this program? What do you want to get out of it? Is it so many units of production? Is it a certain percentage of all new projects being delivered? Is it so many units in a certain window of time? Usually when this tool has been used… [it's] to encourage production in the urban core… as a stimulus tool to get housing to start where it hadn't really taken off… [In Seattle] we're not using it as a stimulus tool. We're using this as an affordability tool… if the city had one goal, that's what I think the elected should really do, because it gives everyone some political cover to adjust goals if it's not working out. MFTE is a series of knobs. The AMI knob, the unit selection knob, the set-aside percentage, and you can adjust those knobs to create the outcome you need. But I think the city would be better served, and the development community, if it set goals and said, 'Okay, this program is***

going to be for three years, we want this amount of production.'... have a periodic review of those variables and adjust it in real time.

Another developer highlighted the tension between the limits of the MFTE program and the desire for it to produce greater affordability and public benefit. "***The private sector is never going to be able to provide [0-30% AMI] housing... it's not an economic activity... So if we take one step back and say, what is the solution to our city's housing issues, I would say, let the private sector handle anything that is 60% AMI with tax incentives that don't require a penny of public funding and get out of the way on zoning, get out of the way on energy code, just figure out how to get permits issued in six months and go build the housing, do to one and two bedrooms what we did to studios over the last 5 years and make them cheap... then all those billions of dollars of OH funding, take all that and put it to work creating 0-30% spaces that we can actually use to address our most vulnerable people.***" The same developer concluded with a proposal to expand MFTE to include a more limited exemption without an affordability requirement, "***I would bring back the 8-year MFTE, which doesn't require any affordability requirement whatsoever. And just as a pure economic development play: we want more housing, we want more building, we want more B&O taxes, we want more sales tax, we want more jobs, like, just please come build housing in Seattle. That would be an extremely powerful tool to continue to attract investment into Seattle... I would use the 12-year to incentivize family construction, which is harder to do and harder to pencil.***"

Interaction Between MFTE and MHA

As described in the introduction of this report, Seattle (unlike other jurisdictions) does not allow "double-counting" of MHA and MFTE income-restricted units. As a result, developers told us that the dual requirements of MHA and MFTE made "performance" on MHA difficult. Performance is when the developer provides units in the building, rather than paying the fee. As one developer explained, "***[MFTE] discourages doing performance on your MHA units because you can't have that many subsidized units and still have a viable project... in most cases we pay the fee.***" Similarly, another developer stated, "***[In Seattle there is] no stacking... and your on-site [MHA] requirement is 9%, MFTE is 20%. You have to get 29% of your units as restricted... that's a huge financial difference... And the 71% [unrestricted units] just don't generate enough revenue for me to make the project pencil.***"

Relationship Between OH and Developer Community

As alluded to in the preceding sections, a confluence of factors have strained the relationship between OH and the developer community when it comes to MFTE. The program is a public-private partnership that, in theory, provides benefit to both parties. However, respondents on both sides indicated that the relationship has deteriorated over time. Part of this challenge stems from the fact that the MFTE program—as designed in the City of Seattle—seeks to provide affordable rents and fair housing while using for-profit development as a delivery mechanism. The City of Seattle feels a sense of obligation to deliver "public benefit" in exchange for the tax exemption that is being provided. The City takes this responsibility seriously and is evident in their work and program design. Developers, on the other hand, seemed pleased to help deliver affordable housing, but need to do so within the constraints of the return expectations of their financing partners. This context helps to explain the nature of the relationship between the city and developers in this section.

Developers perceived a "***hostility***" and "***lack of trust***" between OH and the developer community, in part related to stricter program requirements such as income verification and unit comparability. For instance, one developer felt that income verification requirements "***assume bad intentions from everybody along the way.***" Another developer stated that annual recertification is "***really punitive***" and communicates "***disdain for private sector housing developers.***" Developers also felt that OH "***look at us as greedy***" and endeavor to make MFTE "***as difficult as possible.***"

Importantly, changing market conditions which have made housing development more difficult across the board have compounded tensions between developers and the city. While MFTE seemed to be mutually beneficial in the pre-COVID era, stricter P6 MFTE requirements (combined with MHA requirements) arrived at a time that "***nothing is penciling***" for developers. As one developer explained, "***If we've got to pay MHA and deal with all this other stuff still, and deal with the new construction costs and higher interest rates, the current [MFTE] AMIs don't work.***" While developers routinely warned that they may soon be unable to continue participating in MFTE, they also expressed a desire to participate in the program if the economics makes sense. As stated above, developers framed MFTE as "***the last breath of oxygen that really makes it possible to do projects, or less impossible.***" Thus, some developer frustration came from a sense that they could neither live "with" nor "without" MFTE in the current market environment. Resultantly, developers expressed their desire that MFTE be made more generous for developers by raising AMI thresholds and relaxing comparability and income requirements. One developer went as far as to suggest that "***there should be no affordability requirement***" for workforce housing and family-size units.

Finally, goal ambiguity in the MFTE program may be partially responsible for some of these tensions. As described in the previous subsection, there is a lack of widespread agreement on the goals and purpose of MFTE. While OH is committed to affordability, fair housing, and comparability between income-restricted and market-rate units, developers were more likely to frame MFTE as an economic development stimulus tool that facilitates the production of housing and neighborhood renewal. Developers repeatedly expressed their sense that MFTE was not an appropriate tool for providing housing for "***the lowest income level.***"

Therefore, getting developers and OH on the same page about the intent and desired outcomes of MFTE may help alleviate some of the tensions we encountered in our interviews. As one developer put it, "***if the city had a goal… it gives everyone some political cover… The city and the development community would be better served if [the city] set goals and said, OK, this program is going to be for three years, we want this amount of production, and if we're not getting that, we need to adjust… especially when you're going through downturns like this.***"

Finally, one developer highlighted their hope for the reauthorization process that is currently underway, "***[MFTE reauthorization] should be a fairly straightforward process. If it were, I think we could all stop arguing about it, and then just sort of set, you know, set the numbers and say 'The goal is that you should get this much economic benefit for the developer and this much economic benefit for the renter.' And just basically publish the math behind it.***"

CONCLUSION AND DISCUSSION

In this closing section, we highlight key takeaways from the study and areas of focus as the city considers reauthorization.

Summary of Benefits and Costs

There are two categories of benefits associated with the MFTE program. First, and most obviously, are the 7,047 income restricted units that have been constructed pursuant to the program. The current stock of income-restricted is over 6,600 units. The program has disproportionately produced smaller (0 and 1 bedroom) units. The analysis of rents highlights that in all submarkets and across all unit types, income restricted MFTE units are lower than the rents of unrestricted units in the same buildings. The rent discount tends to be greater in locations with higher market rents. When compared to the general rental market, average rents in MFTE restricted units in certain lower cost neighborhoods are similar to—or in some cases lower than—average market rents. In higher cost locations, MFTE units still represent a discount to market rents.

A second, and more uncertain, benefit of the MFTE program is the addition of new housing supply to the market. Since inception, 303 developments have been constructed with the support of the MFTE program producing 33,956 total housing units. In a city that faces a housing shortage, this housing production is of significant value. The question, though, is whether that construction should be attributed to the MFTE program, or if that production would have occurred (absent the income restricted units) without MFTE. Assessing this counterfactual state is necessary to determine whether MFTE stimulates housing production. In this study, we are unable to estimate the counterfactual, therefore we do not opine on whether this additional production is a true benefit of the program. In our interviews, developers told us that MFTE did help some projects "pencil" and that housing would not have been built without it. But that is clearly not the case for all projects. In particular, MFTE appeared to stimulate construction of small units, which led to price decreases in this category of housing due to increased supply. Our assessment is that there is a positive, yet indeterminate, supply benefit of the MFTE program.

The costs of the MFTE program are foregone and shifted taxes. Our analysis estimates annual foregone taxes of $35 million, of which $9 million was foregone by the City of Seattle. Foregone taxes reduce potential collections of the City. The other cost is taxes that are shifted from exempted taxpayers (owners of MFTE projects) to nonexempt taxpayers (owners of commercial and residential property in the city). In 2024, almost $80 million of taxes were shifted to nonexempt taxpayers.

The comparison of costs and benefits must be assessed by the City of Seattle. Are the additional units of income restricted housing (and greater production of housing) sufficient to justify the costs of the program? In a simple analysis comparing benefits of the program (rent discounts) to its costs (shifted taxes), we found that the changing affordability requirements of the program have increased the ratio of benefits to costs (see Table 3).

Goal Clarity

Is the purpose of the MFTE program to create affordable units or to stimulate housing production? These goals need not be mutually exclusive, but being clear about the stated goal is an important first step. All stakeholders can then work together to ensure that the program is designed to achieve the stated goals. Fundamental to this exercise is for the city to consider whether the only public benefit of the program is income-restricted units, or whether greater housing production, generally, also can be considered a public benefit of the program. The answer to that question will help to clarify the goals of MFTE and determine how the program should be structured.

The analysis of the cost-benefit of the MFTE program highlights how program rules can affect the attractiveness of the program for developers. P6 provided—by far—the best cost benefit relationship for the city, but it also led to significant pushback from the developer community. Finding the appropriate balance between encouraging development and delivering public benefit—in the form of affordable rents—is a significant challenge for the city.

A byproduct of greater goal clarity would be an improvement in the relationship between the city and developers. Clear goals with consistent administration would be valued by the developer community, and developers would know the areas of focus that are most important to the city. This won't eliminate the tension in the program, but it might lead to a more productive working relationship that could result in greater production of housing units with the support of MFTE.

The Swinging Pendulum of Administrative Oversight

We learned from both developers and city staff that the way the MFTE program has been administered has changed over time. On issues of unit comparability and income verification, the process was less burdensome 5-10 years ago and has become increasingly strict over time. There is a clear benefit (and public benefit) from greater unit comparability and effective income verification procedures. The tension arises when the costs (financial and operational) of these administrative rules are incorporated into the developers' decision-making process. Developers made a very vocal case that these rules are decreasing the attractiveness of the

MFTE program, by slowing lease-up of income-restricted units and increasing frustration with the program overall. The City, by comparison, highlighted instances of "bad apples" that have failed to comply with program rules. Given the obligation the City has to the public, they do not feel that they can allow noncompliance to proceed without corrective action. For the City, the shift of taxes from exempt to non-exempt taxpayers demands attention to ensure that the public benefit is sufficient to justify this shift. This sense of obligation to City of Seattle taxpayers motivates the City in its oversight of this program. An added focus of the City is consistency, but the push for consistency certainly leads to increased rules and oversight. Finding the right blend between these competing interests will be important as the program moves forward.

Coming Shortage of Housing, Especially Two Bedrooms

We heard repeatedly that there is great concern about the coming shortage of multifamily housing in Seattle. Due to the challenging market conditions of the past few years few multifamily projects have started. As a result, we should expect a dramatic decrease in deliveries over the next two to four years, potentially exacerbating the rental housing affordability crisis in Seattle. These macro forces are having a global impact on housing development so Seattle is not alone in this challenge. The question becomes what should the city do to respond? Given the substantial addition to the stock of studio apartments in Seattle over the past few years, there appears to be adequate supply for the near term. The question is whether additional emphasis should be placed toward the development of family-sized units in Seattle, and how MFTE could be used to achieve that goal.

Improved Data

The two goals of the MFTE program are to encourage affordability and to affirmatively further fair housing. In both of these cases, the administrative data at the city's disposal is limited. There is extensive household level data that is missing, including household income and race and demographic attributes. One of the stated goals of the City of Seattle's MFTE program is to affirmatively further fair housing. Determining success in this effort is challenging, but it is particularly difficult given the current quality of data. It is important to note that better data collection will likely necessitate some level of administrative burden. For example, enhanced data collection would allow us to assess who (in a demographic sense) is living in MFTE units and how that compares with the racial makeup of a neighborhood. Currently, race and ethnicity is missing for 40% of household observations. This case highlights how improved data would facilitate analyses that are fundamental to understanding the outcomes and effectiveness of the MFTE program.