Multifamily Housing Property Tax Exemption (MFTE)

No expiration date

Estimated two-year savings: $262 million

Did the preference cause a net increase in multifamily housing development?

Staff contracted with real estate economists to assess the impact of the preference on financial performance of prototypical new housing developments.

Rachel Murata

October 2019

WASHINGTON
JLARC

Contractors developed a pro forma model for estimating the financial performance of developments

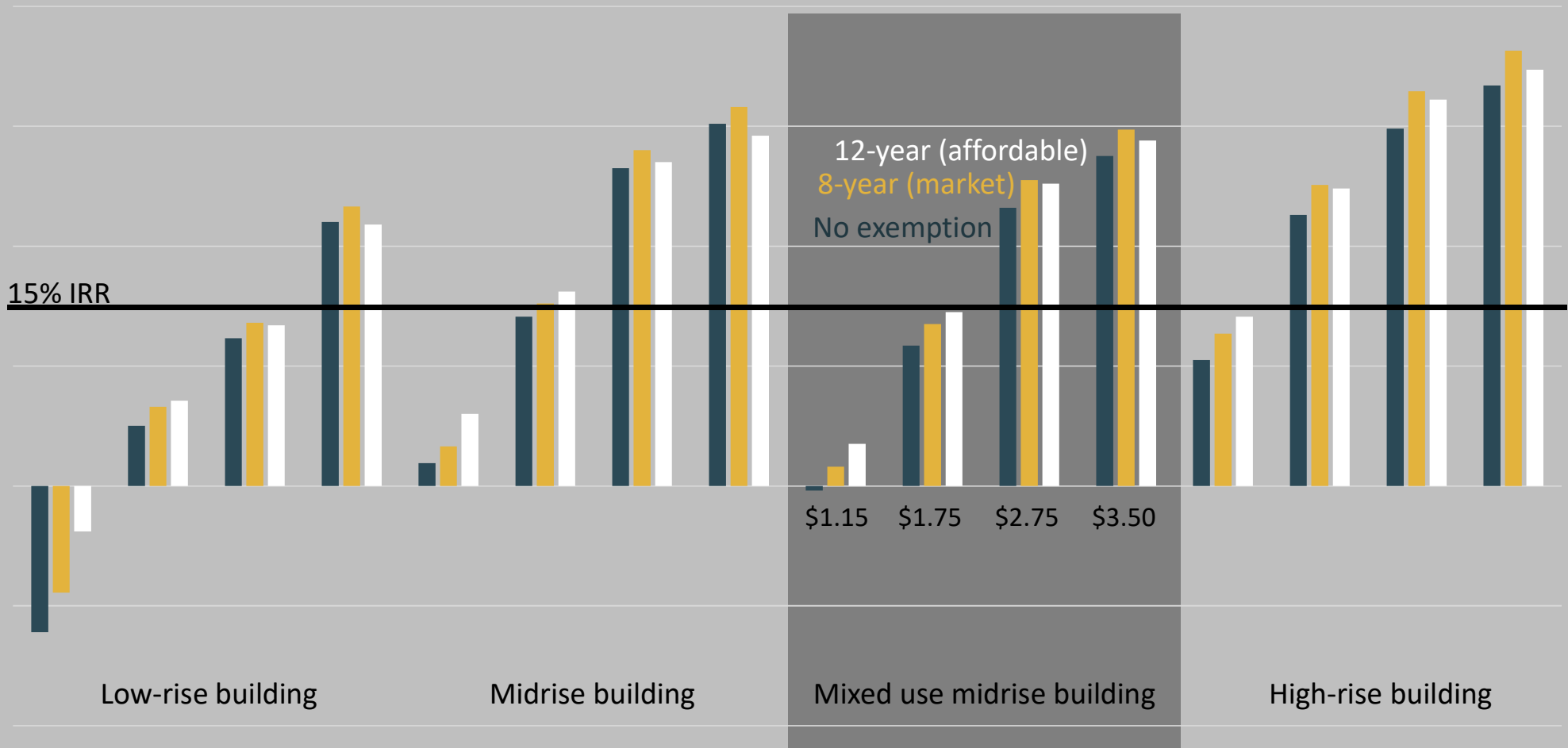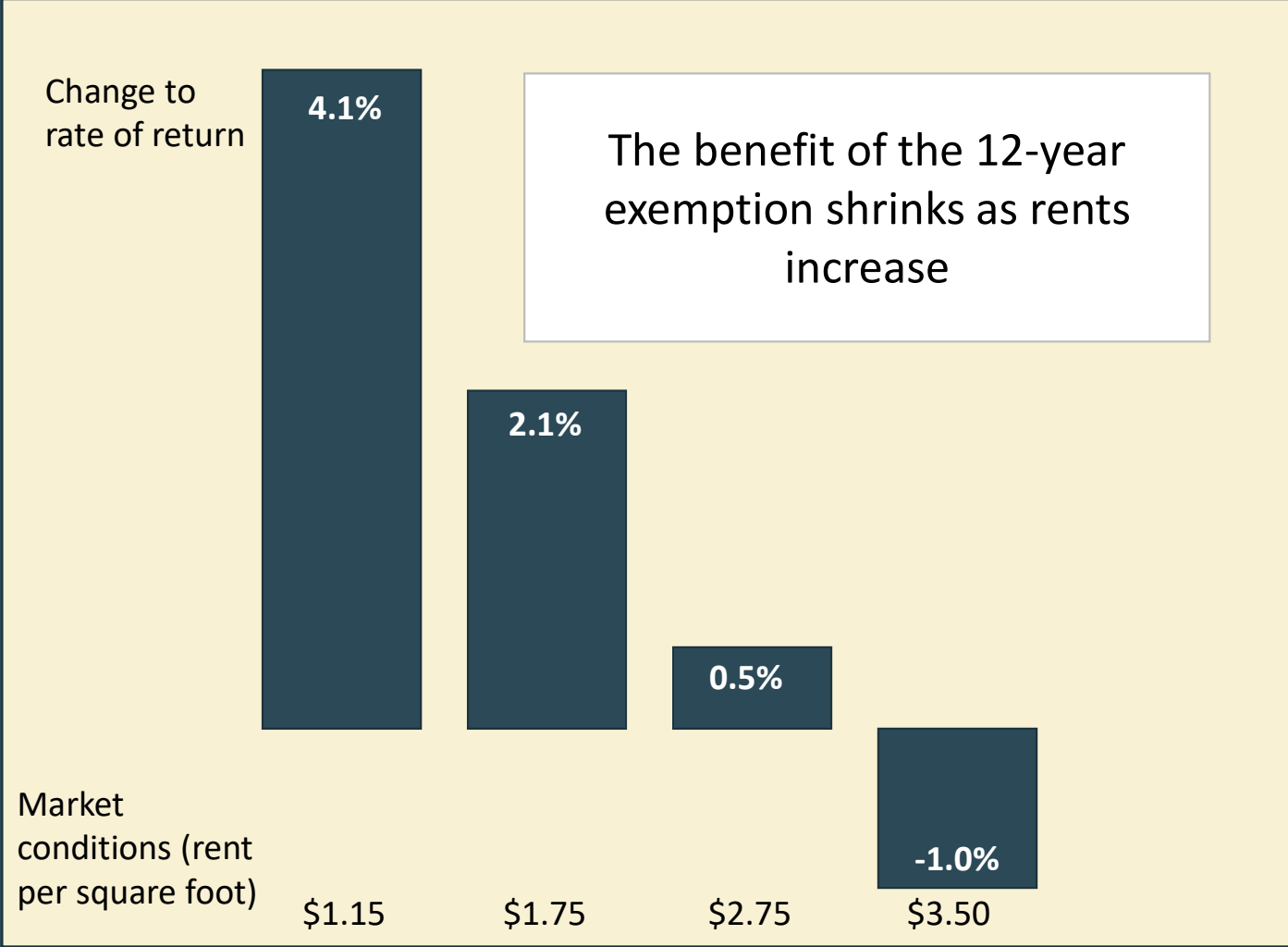| Select Rent Level:	$3.50 ▾	< *Change rent level here*
	$1.15	
	$1.75	
	$2.75	
	$3.50	

Typology	Midrise Mixed Use		Rent Level	$ 1.15	
	Amount	**Rate**	**Total**		
Hard Costs - Residential	168,750	$ 86	$ 14,512,500		
Hard Costs - Retail	28,125	$ 122	$ 3,431,250		
Site Improvement Costs	65,625	$ 15	$ 984,375		
Soft Costs	$ 18,928,125	30%	$ 5,678,438		
Retail Tenant Improvements	22,500	$ 25	$ 562,500		
Interest Reserve	$ 17,943,750	5%	$ 897,188		
Contingency	$ 24,606,563	5%	$ 1,230,328.13		
Site Acquisition	65,625	$ 10	$ 656,250		
Total Development Costs			$ 27,952,828		

Based on the input market conditions, each model estimates the rate of return for a given type of development

Returns	Cash on Cash (Year 1)	IRR (Levered, 10-year hold, terminal value)
No Exemption	-10.1%	-0.4%
8-year	-8.8%	1.6%
12-year	-4.3%	3.5%
Minimum Returns According to JLARC Stakeholders	7%	15%

Results by type of development and market levels

15% IRR

12-year (affordable)
8-year (market)
No exemption

$1.15 $1.75 $2.75 $3.50

Low-rise building   Midrise building   Mixed use midrise building   High-rise building

Change to rate of return

The benefit of the 12-year exemption shrinks as rents increase

4.1%

2.1%

0.5%

-1.0%

Market conditions (rent per square foot)

$1.15 $1.75 $2.75 $3.50

Difference between 8 and 12 year exemption

As rents increase, the 8-year exemption becomes more attractive

1.9%

1.0%

-0.3%

-0.9%

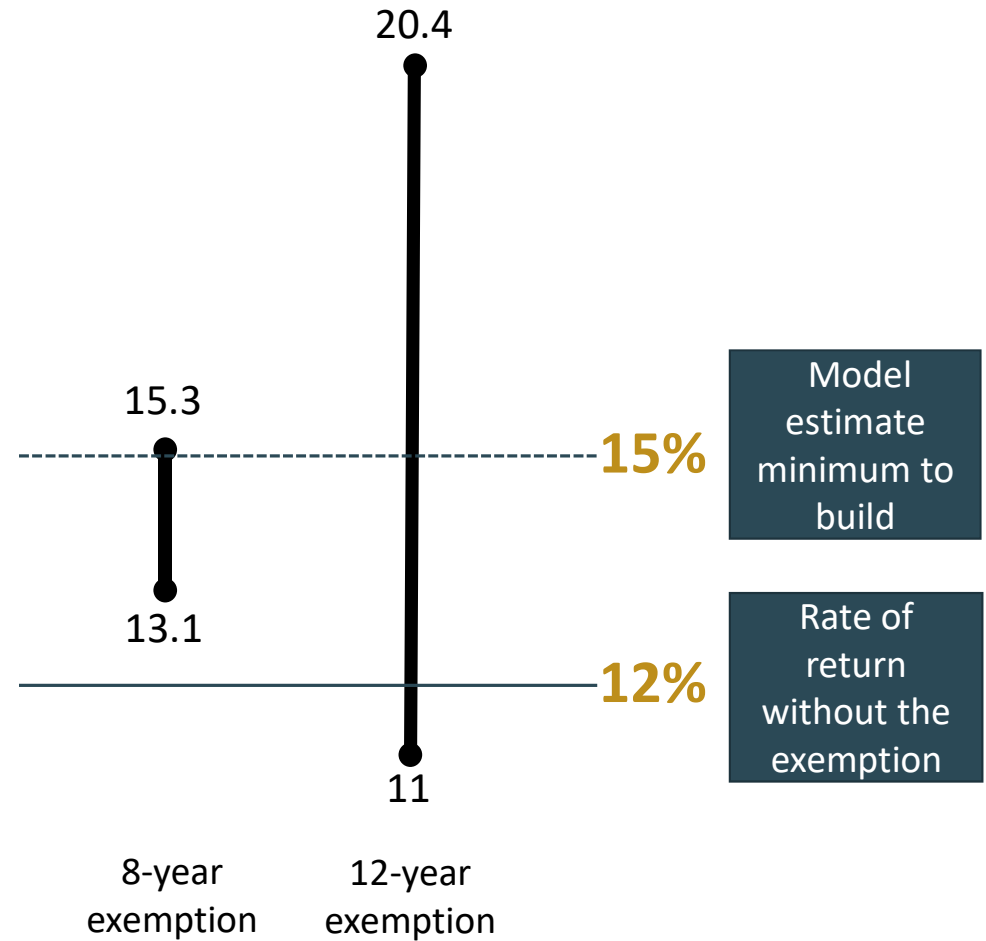Market conditions (rent per square foot)
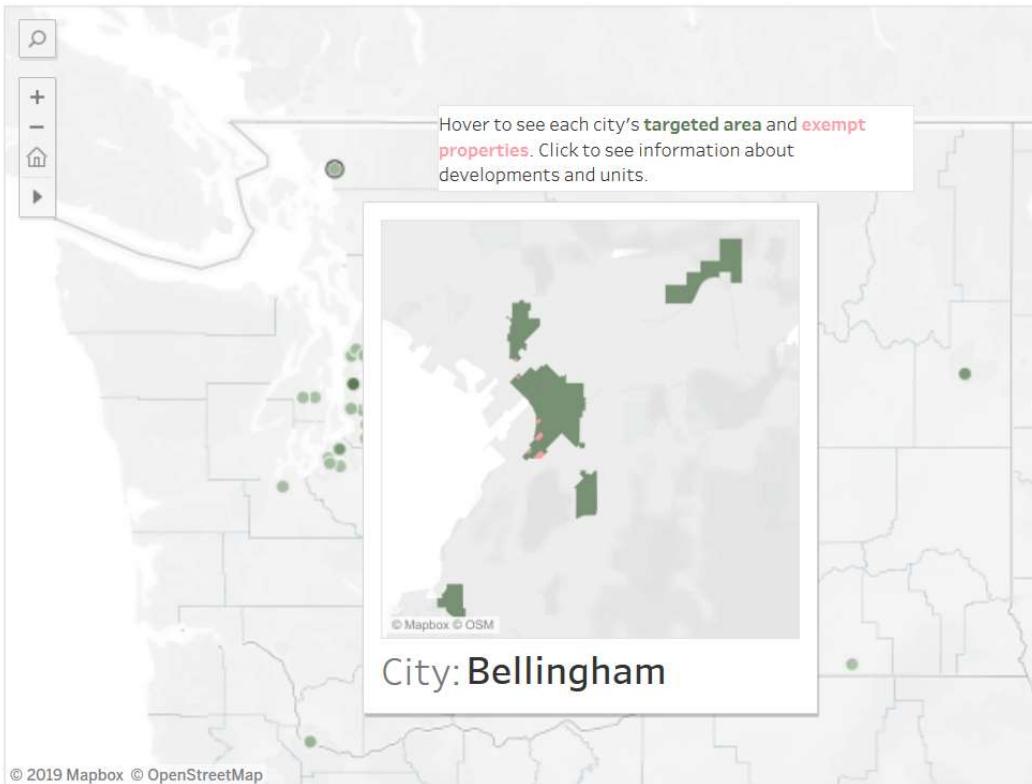
$1.15 $1.75 $2.75 $3.50
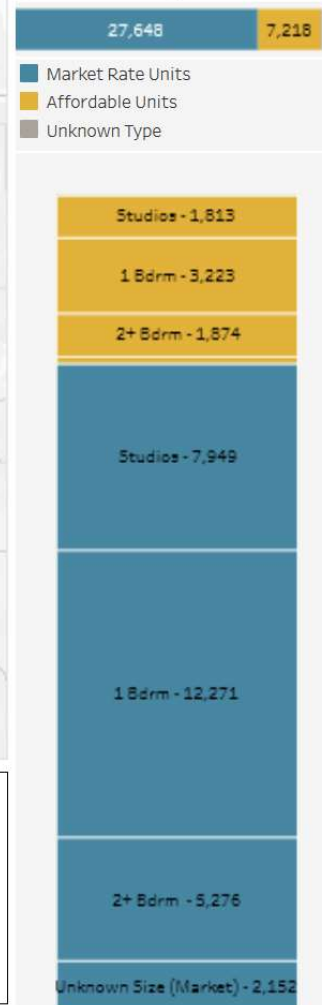
Effect on development is inconclusive

- Some projects may have been feasible and others not.

- At least 12 cities perform some kind of financial analysis.

20.4

15.3

13.1

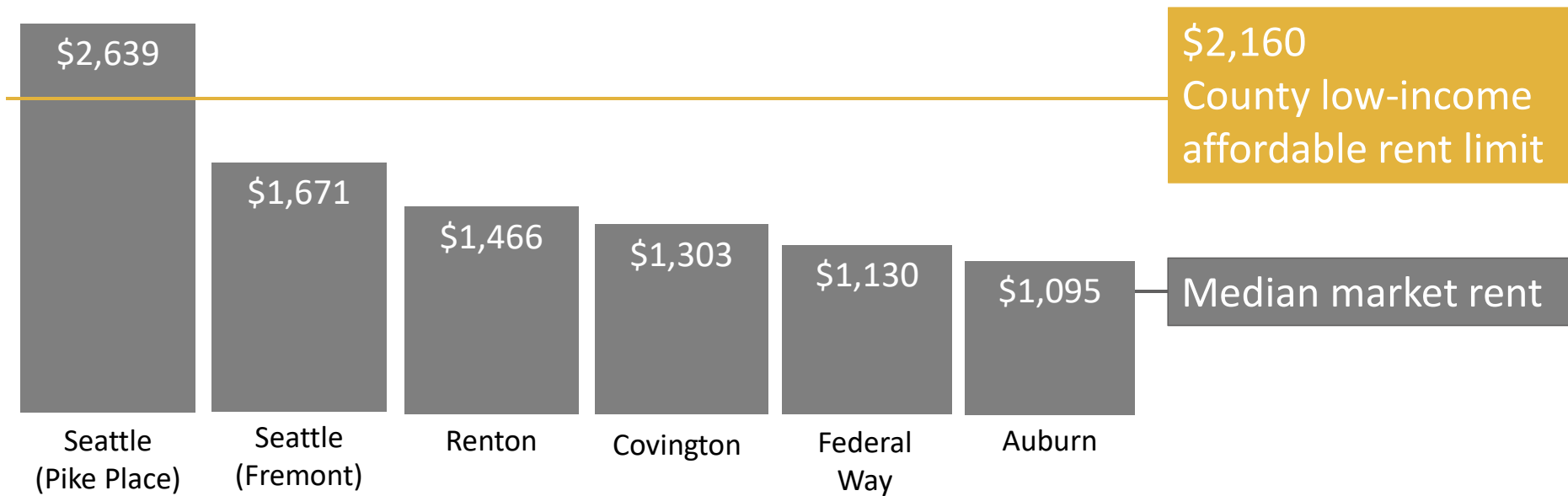**15%** — Model estimate minimum to build

12% — Rate of return without the exemption

11

8-year exemption

12-year exemption

MFTE development by city

Hover to see each city's **targeted area** and exempt properties. Click to see information about developments and units.

City: **Bellingham**

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Total units (2007-2019) ⓘ

| 27,648 | 7,218 |

■ Market Rate Units
■ Affordable Units
■ Unknown Type

Studios - 1,813
1 Bdrm - 3,223
2+ Bdrm - 1,874
Studios - 7,949
1 Bdrm - 12,271
2+ Bdrm - 5,276
Unknown Size (Market) - 2,152

Annual beneficiary savings (CY 2018 only) ⓘ

Developments with affordable units		Developments where all units are market rate	
Savings	Real Savings Per Aff Unit	Savings	Real Savings Per Unit
$67,658,278	$10,651	$13,624,978	$2,096

Housing may qualify as affordable even when above median market rent

$2,639 — Seattle (Pike Place)

$1,671 — Seattle (Fremont)

$1,466 — Renton

$1,303 — Covington

$1,130 — Federal Way

$1,095 — Auburn

$2,160
County low-income affordable rent limit

Median market rent

Statutory affordable rent limits are not adjusted down to an individual household's actual income

In a county with a **median income** of: $64,600

A household **could qualify** as low income at: $51,680

And they **would pay** up to: $1,290 *Per month* | 30%

If they **made**: $38,760

They would **still pay**: $1,290 *Per month* | 40%