

Multifamily Housing in Urban Areas

2019 JLARC TAX PREFERENCE REVIEW

Estimated beneficiary savings in calendar years 2022 and 2023: \$262 million

Property tax

Developers have created housing using the Multifamily Housing Tax Exemption (MFTE) in 26 cities and Pierce County

Available in cities meeting population requirements and Pierce County.

Cities designate targeted area where exemption is offered, and may customize to meet city needs.

8-year exemption for market rate housing or 12-year exemption with 20% affordable units.



The preference has no expiration date.

Does this use represent a net increase in development? Inconclusive

To evaluate how the preference might affect the decision to build, we contracted with real estate economists to model the impact on the financial performance of developments.

Actual project costs and income were not available, so economists modeled various scenarios in the targeted areas.

Models identified:

Scenarios where the preferences may make a project financially feasible



Scenarios where projects were likely feasible without the preference

UNCLEAR

As a result, it is unclear whether and how the preference affected decisions to develop. Without financial analysis by cities on proposed developments, some projects may be unnecessarily subsidized.

424

Developments have received an exemption

34,885

New housing units have been created

82%

Units located in Seattle, Tacoma, Spokane or Renton

21%

Units designated as affordable

Cities have opportunities to maximize the impact of the exemption

At least 12 cities include financial analysis as a factor in offering or approving exemptions.

To improve affordability, **at least ten cities** have adopted maximum rental prices that are lower than those required by statute. These limits apply to units rented to low and moderate income households.

Without reporting improvements, the Legislature will lack critical information for monitoring the program

At least 11 cities have failed to report. As a result, the state lacks critical information such as the exemption value and units created.

Statute does not require cities to report data needed to assess compliance with affordability requirements.

Cities have implemented some provisions in ways that may differ from statutory intent or state guidance.

JLARC staff conducted extensive data collection with local governments to obtain this information.

LEGISLATIVE AUDITOR'S RECOMMENDATION

Modify

The Legislature should modify the preference to direct cities to include analysis of profitability as a consideration for the exemption.

The Department of Commerce should report annually to the Legislature on city compliance, the metrics in statute, and affordability measures.

The Department of Revenue should report to the Legislature on which statutory ambiguities require legislative changes.

The complete report is on the JLARC web site: www.leg.wa.gov/jlarc

For more information, contact: Keenan Konopaski, Washington State Legislative Auditor
keenan.konopaski@leg.wa.gov • (360) 786-5187

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