

# Multi-family Tax Exemption

## WHAT IS THE MULTI-FAMILY TAX EXEMPTION (MFTE) AND WHAT DOES IT APPLY TO?

The MFTE is a State-enabled program (pursuant to RCW 84.14) that local jurisdictions may implement in areas within their communities for which they have approved plans calling for growth in housing and jobs in proximity to transit, services and amenities. The MFTE is an incentive to encourage developers to construct multifamily buildings or mixed multifamily-commercial (“mixed-use”) buildings in these areas, while also setting aside 20% of the dwelling units for low- and moderate-income households. The exemption allows for the residential improvement value of a new project to be exempted from property tax for a period of up to 12 years. During this time any nonresidential improvement (e.g., retail first floor) value, as well as the land value are NOT exempted from property tax.

## HOW DOES THE MFTE PROGRAM WORK IN EDMONDS AND WHERE?

In Edmonds this program has been approved for the Westgate area and the Highway 99 Corridor, both areas that underwent comprehensive subarea planning processes to encourage new development that would provide a range of housing opportunities, space for new businesses and services, as well as local jobs – all in proximity to good transit service and other amenities. Edmonds City Council approved the MFTE for these two areas in order to steer development to these areas as opposed to areas of the City less suitable to accommodate new development, as well as to bring new affordable housing opportunities to these locations. A project in these areas may qualify for the MFTE only if it provides at least 20% of the units for low- and moderate-income households. (In 2017, that meant a top annual household income for a two person household of \$87,400 for a moderate-income family or \$57,000 for a low-income family.)

## WHY IS AN INCENTIVE NEEDED TO ATTRACT HOUSING FOR LOW- TO MODERATE-INCOME HOUSEHOLDS?

Since its inception in the mid-1990s the MFTE has been implemented by over 30 cities in Washington, including most of the cities neighboring Edmonds. In order to

attract new development that includes affordable housing to the Westgate area and the Highway 99 Corridor, this incentive is needed. Without this incentive, builders are likely to build only full-market rate housing due to the high-cost of land acquisition, construction materials, and labor.

## **WHAT DOES THIS INCENTIVE COST EDMONDS TAXPAYERS?**

The short answer is – nothing. The exemption essentially masks the value of the residential portion of a new development such that it does not contribute tax revenue during the exemption period. No one pays more in taxes. During the exemption period taxes accrue from the nonresidential portion of the project, from the substantially greater land value after the project has been completed, and the residents and businesses in the project will contribute substantially with sales and utilities taxes. What’s more, without the incentive, development may not occur at all in these areas – or at least be delayed by many years – leaving some sites vacant or substantially under-utilized and contributing very little in tax revenue to the City. Even during the 12-year partial exemption period, new projects on these sites would contribute more in tax revenue than existing conditions.