

SENATE BILL REPORT

SB 5118

As of January 13, 2023

Title: An act relating to modifying the multifamily property tax exemption to promote development of long-term affordable housing.

Brief Description: Concerning modifying the multifamily property tax exemption to promote development of long-term affordable housing.

Sponsors: Senators Kuderer, Wellman, Frame, Hunt, Keiser, Lias, Lovelett, Nobles and Randall.

Brief History:

Committee Activity: Housing: 1/13/23.

Brief Summary of Bill

- Creates a new 99-year property tax exemption for properties that commit to renting or selling at least 35 percent of the multifamily housing square footage as affordable housing to low- and moderate-income households.
- Includes the value of new affordable housing constructed and corresponding land for the exemptions with an affordable housing component.
- Provides that the option to qualify by rehabilitating an existing building or converting a nonresidential building to multiple-unit housing does not apply to the 8- and 10-year property tax exemptions.
- Allows property owners receiving an 8- or 12-year property tax exemption to extend the exemption for an additional 12- or 99-years if certain affordability requirements are met.

SENATE COMMITTEE ON HOUSING

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Melissa Van Gorkom (786-7491)

Background: All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The Multi-Family Property Tax Exemption (MFTE) exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-unit residential structures located in residential targeted areas (RTA) contained within an urban center. The tax exemption applies only to the value of the construction, conversion, or rehabilitation projects and does not exempt the value of the underlying property or other improvements on the property.

The tax exemption on qualifying property lasts for eight consecutive years. However, the exemption is available for a 12-year period if the owner commits to renting or selling at least 20 percent of multiple-family housing units as affordable housing to low and moderate-income (LMI) households. A 20-year exemption is available for properties located within one mile of high capacity transit, in a city that has implemented a mandatory inclusionary zoning requirement for affordable housing for 99 years and has a population of not more than 65,000, and the property owner commits to renting at least 20 percent of dwelling units to low-income households for a term of 99 years. For this 20-year exemption, the city must require the property owner to record a covenant or deed restriction ensuring the continuing rental of units for a period of 99 years.

To qualify for an exemption, the housing project must be located within an RTA designated by a qualifying county or city. The RTA must be in an urban center that lacks sufficient residential housing, including affordable housing, to meet the needs of the public who would likely live in the urban center if housing were available.

Property owners within a designated RTA must submit an application for the tax exemption to the designated city or county. The city or county may include additional eligibility requirements for the tax exemption, including a higher percentage of units used for affordable housing to qualify for the 12-year exemption. Counties eligible to apply the tax exemption must require owners to commit to selling or renting at least 20 percent of the multi-family housing units for affordable housing to qualify for either the 8- or 12-year exemption.

At the conclusion of the exemption period, the new or rehabilitated housing cost shall be considered new construction for property tax purposes.

For the purpose of the property tax exemption, affordable housing is housing for low-to-moderate income households with housing costs not exceeding one-third of the household's monthly income. Low-income households must have an income that is no more than 80 percent of the median income of their county. Moderate-income households must have an income between 80 and 115 percent of the median income of their county.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): A new, 99-year property tax exemption is created for multifamily properties meeting certain affordability requirements. For properties to qualify for the 99-year exemption, applicants must commit to renting or selling at least 35 percent of the multifamily housing square footage as affordable housing to low- and moderate-income households.

Until December 31, 2026, any city may offer the 99-year property tax exemption to qualifying properties in areas zoned for an average density equivalent of 15 dwelling units or more per acre, or for cities with a population over 20,000, a minimum density equivalent of 25 dwelling units or more per acre.

The value of new affordable housing constructed and corresponding land is included as part of the 12-, 20-, and 99-year exemptions. The value of land is not included as part of the 8- and 10-year property tax exemptions.

"Conversion" means both the conversion of an existing residential building or the conversion of a nonresidential building to multiple-unit housing under this chapter. The option to rehabilitate an existing building or convert a nonresidential building to multiple-unit housing does not apply to the 8- and 10-year property tax exemptions.

The exemptions do not include the value of improvements constructed prior to the submission of the application unless such improvements are integral to the use of the building for multiple-unit housing.

A property owner receiving an 8- or 12-year property tax exemption may extend the exemption for an additional 12 or 99 years. To qualify for a 12-year extension, the property owner must commit to renting or selling at least 20 percent of the multifamily housing units as affordable housing units for low-income households. To qualify for a 99-year extension, a property owner must commit to renting or selling at least 35 percent of the multifamily housing square footage as affordable housing for low-income households.

Appropriation: None.

Fiscal Note: Requested on January 11, 2023.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: Washington is experiencing a housing crisis and we need to implement all the tools we can to build as quickly as we can to provide housing. This is a different approach to the MFTE that is a work in progress. Support having a third MFTE option to help developers make more units that are affordable for longer periods. Appreciate the consideration of our comments to include the value of

existing improvements as eligible for the tax exemption and providing a clear path for conversion of nonresidential buildings to multifamily residential.

OTHER: Encouraged to see that this proposal preserves the 8 and 12 year programs that have been successful and added more than 1000 rent restricted units across the state in 2021 alone. Support the changes related to conversions and believe that they will increase the likelihood that adaptive reuse projects will participate in MFTE. Extending MFTE to include existing buildings will help convert more market rate units into work force housing bringing affordable units online quickly. Do have some technical suggestions to improve the language. Would like to see the bill provide MFTE to an existing buildings that dedicates 30 percent of units to households making 80 percent AMI or less which is a higher percent of units and deeper level of affordability than what is required for the current exemption for new construction. Encourage you to provide the exemption to buildings that are not older than 15 years to ensure that market rate units being converted into affordability are new units and align with the policy of the existing 12 year exemption. Signed in other on the underlying bill but understand that the sub does retain the 12 year as an option which we support.

Concerned that the proposed 99 year program will not be used by market rate developers because our evaluation indicates that the market rate project would have better returns than if the project were to participate in the 99 year tax exemption. Ask that the Legislature review the program to ensure that there are appropriate incentives for participation.

Supportive of local jurisdictions retaining the authority to tailor the MFTE program to best meet the needs of their communities. We continue to hear that MFTE is one of the more effective solutions to continue to provide affordable housing so we support the effort.

Persons Testifying: PRO: Mary Hull-Drury, Washington Realtors.

OTHER: Tim Cavanaugh, Urban Housing Ventures; Marc Angelillo, Urban Housing Ventures; McKenzie Darr, NAIOP Washington; Michael Ennis, Association of Washington Business.

Persons Signed In To Testify But Not Testifying: No one.