

# Property Tax Exemption for Multifamily Housing

## *Program Summary*

The City of Seattle Property Tax Exemption for Multifamily Housing, Chapter 5.72 of the Seattle Municipal Code, was adopted by the Seattle City Council and approved by Mayor Paul Schell in December, 1998. The City of Seattle Office of Housing is responsible for implementing the program. The program provides a property tax exemption for the value of new multifamily housing construction and rehabilitation improvements for ten successive years for those projects meeting program requirements.

### **Purpose**

The purposes of the property tax exemption for multifamily housing development are to:

- Stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing;
- Increase the supply of multifamily housing opportunities within the City for low and moderate income households;
- Accomplish the planning goals required under the Growth Management Act, as implemented by the City's Comprehensive Plan;
- Promote community development, affordable housing, and neighborhood revitalization;
- Complement the City's historic preservation goals; and
- Encourage additional housing in areas that are consistent with planning for LINK Light Rail by Sound Transit.

### **Eligible Projects**

To qualify for the multifamily tax exemption, a project must meet the following general criteria:

1. Be located within a designated residential target area for this program (see attached maps);
2. Be a multifamily or mixed use project providing four or more additional apartment or condominium dwelling units;
3. Consist of new construction, rehabilitation of a vacant building, or rehabilitation where four or more units are being added;
4. At least 50% of the space within the structure must be provided for permanent residential occupancy;
5. Meet possible tenant displacement and housing replacement requirements;
6. Meet affordability requirements;
7. Complete the design review or special review district process; and
8. Be completed within three years from the date of approval of the application.

Land value, existing structures, and non-residential improvements do not qualify for exemption.

Additional details are contained in the remainder of these guidelines.

## Target Areas

To be eligible for this tax exemption program, the site must be located within the boundaries of one of the following designated target areas (*see attached maps*):

Capitol Hill	Rainier at I-90
Westlake/Denny Triangle	Columbia City
Pike-Pine	Martin Luther King at Holly Street
23 <sup>rd</sup> Ave. South at South Jackson	South Park
Pioneer Square	Rainier Beach
International District	

## Affordability Requirements

To be granted the tax exemption, the owner must agree to meet the following requirements for the first ten years of operation:

- In the Capitol Hill, Pike-Pine, and International District neighborhoods, 40% of the units must be affordable and rented or sold to households making 60% of the area median income (see Chart 1).
- In all other program neighborhoods, 25% of the units must be affordable and rented or sold to households making 80% of the area median income (see Chart 2).

Affordable units must be comparable to market-rate units in the project in terms of unit mix and construction quality.

Affordable units are defined in the Property Tax Exemption Program as units rented or sold to income-eligible households, as of the initial occupancy of each household. A unit may continue to be considered affordable if, after the date of initial occupancy, a household's annual income exceeds the annual income limit. However, when that unit is vacated, it must be rented to a qualified household. For affordable ownership units (e.g., condominiums), the City will have, for the life of the tax exemption, a written right-of-first-refusal to purchase the unit at market rate terms, consistent with another bona fide offer.

For details regarding affordability standards, consult Director's Rules 5-72-001 to 5-72-007.

## Displacement / Replacement Housing

For rehabilitation or conversion of existing occupied structures, no displacement of existing residential tenants is allowed.

For new construction projects where an existing rental housing structure that contained four or more occupied dwelling units will be demolished or was demolished within twelve months prior to application for exemption, units that were rented to tenants who qualify to receive a tenant relocation assistance payment must be replaced, subject to the following requirements:

- For the first ten calendar years of operation, the replacement units shall be affordable to households at or below 50% of median income.
- Replacement may be accomplished either as part of the new construction, or through new off-site construction of multiple-unit housing, the substantial rehabilitation of vacant multiple-unit housing, or the preservation of housing that is rented at the time of application to tenants with household annual income at or below 50% of median income and that the Director determines would otherwise be converted to a use other than rental to tenants with such income.
- The replacement housing shall be completed and a certificate of occupancy issued within three years from the date of approval of the application, with provisions for extension.
- Projects where the existing rental housing structure was demolished before the effective date of this program are not subject to the replacement housing requirements.

### **Code Requirements and Design Review**

Projects must comply with all applicable zoning requirements, land use regulations, and building and housing code requirements at the time of new construction, rehabilitation, or conversion, and for the duration of the exemption. Rehabilitation of vacant buildings is intended to address existing code problems, which must be documented; eligible rehabilitation improvements must achieve substantial compliance with applicable building and housing codes.

The City encourages quality design of new housing projects. All projects must complete the design review process conducted by the Department of Design, Construction and Land Use (DCLU) as a condition of final approval. Projects that would not typically be subject to design review are required to use the Administrative Design Review process. For projects that are City of Seattle Landmarks or are within a Special Review District, the respective Board review fulfills the design review requirement. To obtain more information about Design Review, please call the DCLU Land Use Division at 684-8850. For information on the Special Review Districts or Landmark Structures, please call the Urban Conservation Section of the Department of Neighborhoods at 684-0228.

### **Special Tax Valuation for Historic Properties**

Owners of properties that are being rehabilitated in the Columbia City Landmark District, the International Special Review District and the Pioneer Square Preservation District or properties that are City of Seattle Landmarks may be eligible to apply for the special tax valuation for historic properties. That program is administered by the Landmarks Preservation Board. For more information on this program or to determine whether your project may be eligible, please call 684-0228.

### **Other Requirements**

During the life of the tax exemption and for one year thereafter, the owner of a rental project must notify the City of intent to sell the project, and the City has twenty days to respond with a written

offer to purchase the project. The parties have an additional thirty days to negotiate and agree upon the terms of a purchase and sale agreement. If the City or its assigns does not make an offer or reach agreement within the prescribed time, the property owner has no further obligations. However, the property owner may not accept, within one year following the City's offer, another offer at a price or on terms less favorable than offered by the City.

## Process

The attached chart summarizes the process for the granting of the Property Tax Exemption for Multifamily Housing. Key steps in the process are as follows:

- Owner submits *Application for Property Tax Exemption for Multifamily Housing* to the Office of Housing **prior** to applying for a master use permit, land use permit, or building permit.
- The Director of the Office of Housing approves or denies the application. If approved, a contract with the City specifying conditions of project development is approved by the City Council by resolution within ninety days of the submission of the complete application. If the application is denied by the Director, the owner can appeal to the City Council within thirty days.
- The City issues a *Conditional Certificate of Tax Exemption*, based on the information provided by the applicant. The *Conditional Certificate* will be effective for up to three years, but may be extended for an additional two years under certain circumstances.
- Once the project is completed and a certificate of occupancy is issued, the owner submits an application for *Final Certificate of Tax Exemption* describing satisfactory fulfillment of all contract terms. Within thirty days, the Director approves or denies the application for *Final Certificate*. If approved, the City files a *Certificate of Final Tax Exemption* with the King County Assessor. If denied, the owner can appeal to King County Superior Court within thirty days.
- The tax exemption begins the first full calendar year after the Final Certificate is granted, and continues for ten (10) calendar years unless cancelled.
- An *Annual Certification*, filed with the Director, is required to verify that the conditions of the contract are continuing to be met. Failure to submit the *Annual Certification* may result in cancellation of the tax exemption. If requirements are not met, the tax exemption may be canceled and additional taxes and penalties imposed pursuant to State law.

## Fees

The application fee for the *Conditional Certificate of Tax Exemption* is \$500. If the City denies the application, the City will retain the portion attributable to actual administrative costs, and refund the balance, if any, to the applicant. The fee for amendment of existing contracts is also \$500, if the nature of the amendment is such that City Council approval is required. The application for *Final*

*Certificate of Tax Exemption* is \$150 to cover the Assessor's Office administrative costs. If the Director denies the application for the *Final Certificate*, the City will refund the fee to the applicant.

**For further information, please contact Janeen Smith at:**

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