

Effective Property Tax Exemption Programs

Washington State: The Multifamily Tax Exemption (MFTE)

Washington's Multifamily Tax Exemption (MFTE) is a statute (Revised Code of Washington [Chapter 84.14](#)) that allows local governments to incentivize multifamily housing in designated areas by offering a temporary property tax exemption on the improvements to the property. The exemption can last 8, 12, or 20 years. In Seattle, for example, the program provides a 12-year exemption in exchange for a 20 percent set aside of affordable units up to 80 percent Area Median Income (AMI). Rental projects must reserve at least 20 percent of units for income-qualified households.

More Affordable Housing and More Housing Supply Overall

A recent evaluation of the program [conducted by the University of Washington](#) found MFTE to have two benefits. The first is more affordable, workforce housing. Since the inception of the program in 1995, 7,047 income-restricted units were created, at 6,600 are still affordable.

The program arguably created more supply, incentivizing multifamily development by reducing costs. The high participation is an indication that developers found the financial benefits from inclusion of affordable units worth the reduction in revenue. Since 1995, 303 projects have used the program created a total of 33,956 total units. The University of Washington study concluded that many of these projects wouldn't have been completed without MFTE; without the new market rate units, there would have been no affordable units created.

More Supply and Affordability for a Reasonable Cost

Without MFTE many multifamily projects would not have been built, and thus wouldn't have generated additional tax revenue. But over the life of the program, there was only \$35 million worth of exemptions, a cost of \$4,967 per affordable unit created or just \$1,031 for all the units attributable to the program.

Texas: Public Facility Corporations

Public Facility Corporations (PFC) are a product of changes made to Texas statute (Local Government Code [Chapter 303](#)) in 2015. Under the law, a private developer acquires land which is transferred to a PFC, a non-profit, created by local government entity. The land is then transferred to the PFC, which is exempt from property tax. The PFC leases the land back to a development partnership through a long-term ground lease, typically lasting 75 to 99 years. The development partnership builds and operates the apartments, but because the PFC owns the land, the property does not pay property taxes and those savings are passed on to the partnership and renters.

More Affordable Housing and More Housing Supply Overall

According to [a San Antonio Newspaper](#), by 2021 The San Antonio Housing Trust PFC had created 4,371 units in 16 apartment buildings throughout the city. Of those units created, 809 (18.5 percent) were 80 percent AMI, 2,190 (50 percent) were 60 percent AMI, and, 288 (6.6 percent) were 50 percent or below. Only 1,075 of the units, about a quarter of the total units, were market rate. The mix of affordable units and market rate units varies across the state, but with long term leases, the affordability and supply will persist for decades.

Thousands of Units Produced

The PFC statute requires that at least 50 percent of units built be set aside for households earning 80 percent of AMI or less. A [University of Texas School of Law analysis](#) from 2020 expressed concerns that monthly income caps were not set at 30 percent of gross pretax income. However, [that was amended](#) to require that standard 30 percent requirement in 2023. The Texas legislature has continued to make changes and modifications to respond to concerns and criticisms about the ratios of affordable units and rent restrictions. While statewide tracking has not been consistent, overall, the PFC tool has produced thousands of units of housing both market rate and affordable.

How would similar programs work in New Mexico?

In Houston PFCs produced 17,000 over 8 years. Houston’s population is 2.4 million, similar to New Mexico’s 2.1 million. If production was similar, New Mexico could see more than 14,000 over an 8-year period. Seattle’s population is 780,000 compared to Albuquerque’s 560,300 people. If an incentive program like MFTE was in place in Albuquerque, it could produce as many as 5,000 units over time. As the University of Washington concluded, the MFTE program was likely the tipping point for many projects, incentivizing the production of housing that otherwise would have never been built.

Finally, tax incentive programs produce more housing than mandated inclusion. [We did a comparison](#) of Seattle’s MFTE program with its mandatory inclusion program, Mandatory Housing Affordability and it wasn’t even close. These kind of incentive programs are far more effective than mandates.

	<u>Market Rate Units</u>	<u>Rent Restricted Units</u>	<u>Inclusion Rate</u>	<u>Cost</u>	<u>Cost per Unit</u>
MFTE	40,000	8301	21%	\$ 66,600,000.00 ¹	\$ 8,023.13
MHA	1260	104	7%	\$ 58,700,000.00	\$ 71,936.27 ²

¹ Annual deferred tax revenue

² This is based on all 816 MHA units including units included in market rate projects. For City funded units, 712 the total is \$82,443.82