Developer Feedback on MFTE Program
City Listening Sessions: Sept-Nov 2020

Summary

City staff held a series of four listening sessions (by video conference) with development stakeholders, most of whom have recently participated in the city's Multi-Family Tax Exemption (MFTE) Program. Meeting invitations were sent to 50 developers or consultants familiar with the program, and approximately 25 people participated in the meetings. The sessions were held on September 21 (two sessions), and on November 20 and 23.

Attendees included: Matt Grady, Fred Dockweiler, Ian Johnson, Phil Hays, Dave Campos, Garret Hodgins, Elie Kassab, Tim Leavitt, Ryan Zygar, Greg Daniels, Jamison Loos, Alkash Patel, George Diamond, Marc Heffron, Dave (Alliance Residential), Greg McGreevey, Patrick Ginn, Phil Wuest, Scott Vanderhofen, Frank Stock, Albert Angelo III, Dean Kirkland, Victoria Kirkland, Dana , Peggy Sheehan (City) and Chad Eiken (City). Phil Wuest, Lance Killian, and Clyde Holland sent more detailed written comments after the listening sessions, some of which are included below.

Below is a summary of comments received at the meetings and in subsequent emails from stakeholders:

- Rents for Clark County and Vancouver are likely much lower than what we would find if we only looked at newer projects, because the studies include housing stock that is 10-20-or more years old, which have much lower rents because they are older and possibly in poor shape.

- The City should be accounting for the "bump" in net income that Vancouver residents receive compared with Portland residents, who have to pay state income tax. Their point was that yes, incomes and rents are higher in Portland, but should be "grossing up the incomes" to reflect a true picture of the difference in incomes, which might show that it is not a 30% difference.

- Land, soft costs (engineering, architecture) and construction costs are the same as Portland (except downtown Portland), but that in Vancouver, there is sales tax on construction which Portland projects do not have. One developer stated that the tax benefit sometimes is enough to just cover the sales tax on construction.

- The City should consult with housing developers who specialize in affordable housing to understand how to make sure that affordable housing can be developed in the City of Vancouver.

- Affordable housing will not be feasible without public subsidy/support and understanding what may be necessary is critical to actually achieving the intended outcome of affordable housing being constructed.

- How important is increasing housing supply in urban/targeted areas? The MFTE program was created on a certain premise which still holds true and in some respects is even more exaggerated now with increased costs, accelerated climate change, etc. Certainly any incremental costs makes the feasibility of underwriting a project more challenging – other factors (market rent, etc.) being held constant.

- There is a common mis-conception that multi-family housing has a high return profile – that is not correct…these projects have fragile under-writing. Typically multi-family housing has one of the lowest return and highest equity profiles (for various reasons) of most real estate product types. The MFTE program has made a material difference in the expansion of the urban housing supply and density (particularly in downtown Vancouver) which is now gaining some momentum.

- Adding a fee in lieu seems reasonable (and for the right cause), it is additional cost and at a minimum should be considered in light of any other fees or charges that the City might consider increasing or imposing over time (cumulative effect can be very real).

- Is affordable housing important in urban areas (yes!)? Adjusting the AMI levels to the actual levels in Clark County makes sense, but will further complicate the underlying feasibility of affordable housing. Affordable housing simply does not pencil without public subsidy, and as we all know communities need to be doubling down on expanding affordable housing with the growing need (and extreme deficit that already exists).

- The MFTE program helps, but is only one of many cost-reducing structures that is required to make an affordable housing project financially feasible. This change to the AMI will effectively reduce the revenue potential of an affordable housing project, making it that much more challenging to under-write and may have the un-intended consequence of constraining supply.

- Has the Council explored other ideas like tax increment financing (which can be plowed back into affordable housing programs) within these prescribed areas as a means of helping support more affordable housing, or looked at other jurisdictions for ideas on how to further enable the creation of affordable housing (ie. Oregon's passage of Measure 102 in 2018)?

- The conditional certificate for Roosevelt Commons (attached here), which we're scheduled to submit for finalization this week, requires ongoing compliance with VMC 3.22, demonstrated by annual reporting. If the draft ordinance is adopted in the current form with an effective date early in 2021, will Roosevelt Commons need to demonstrate compliance with the 80% that is currently in effect or the 55% threshold in the revised Section 3.22? As drafted, it appears to me that the project would have to demonstrate compliance with 55% AMI. If that is the case, we will remove the property from the MFTE program.

- Using Roosevelt Commons as a general example, we believe the proposed code change will work against the City's affordable housing goals. The present value of the modified MFTE program for Roosevelt Commons at 55% AMI would be about -$154,000 over the ten year abatement period (or -$15,400/year or -$1,284/month). That loss arising from program participation is based on reduction in collected rents of about $350,000 to $400,000 measured against the benefit of the property tax savings over the same time period. Participating in a program with negative returns doesn't make sense.

- For Roosevelt Commons, a 36 unit project (each a 4-bedroom townhome) <u>with 8 units currently rented to residents qualifying under 80% AMI criteria</u>, the effect of the code change will be to remove the below-market-rate-rent units from available inventory. As the current leases come up for renewal, we will have to convert them to market rate if the proposed changes are adopted.

- During the stakeholder input process, we mentioned that the Vancouver AMI (as proposed) doesn't have a direct relationship to development/construction of new rental housing stock. In terms of construction costs and lending/underwriting requirements, it's a regional market. Rents are also very similar throughout the market area. I believe it will be significant challenge for market-rate projects that could otherwise provide 20% of units at below market rents at 80% AMI to be able to justify participation financially at 55% AMI.

- Because we don't believe the revised program criteria will work for project underwriting anything but project that are already receiving other subsidies, we believe that the proposed code change will result in a drop in program participation and reduction in the total number of units available at below-market rents in Vancouver.

- I trust you know we are in favor of and support affordable housing as an essential element of a healthy housing market and we are working to be part of a solution – it seems this new ordinance hasn't been fully vetted and balanced to make sure it continues to encourage and stimulate affordable housing.

- If there were lower parking ratios and opportunity for a density bonus in conjunction with MFTE program participation, that could help offset the impact of lower income limits.

- Decrease in rent revenue from the change would need to be made up from other non-restricted rents.

- I'm not sure extending the period will help. The math is really whether the annual reduction in property taxes is more or less than the reduction in rent collected. If that holds, then extending the period won't really have an impact on participation.

- When you lower the rent on the 20% of the units gaining a lower affordable unit you raise the rent required to rebalance the revenue on the 80% of the remaining units. Your analysis provides the following rental rate decreases:

	Potential Savings	Additional Cost to 80% units
Average MFI %	($483)	$121
Studio	($517)	$129
lBR	($621)	$155
2BR	($726)	$182
3BR	($800)	$200

  So going forward the average market rate units in Vancouver will have to rise an additional $121 monthly or $1,452 to produce the same average revenue to the community.

- Projects will not go forward if this is implemented. Need to create more housing at all levels as more supply leads to lower rents overall. Important to understand the "ecosystem" of affordable housing.

- Impact of the proposed change would be significantly detrimental to the affordable housing options under the program.

- Most developers are not set up to go after federal tax credits which may be necessary to build more affordable housing, and there is a limit on how many credits are available each year.

- Adopting this additional incentive will have a number of what we believe are unintended consequences. First if this proposed requirement was in place we would not have been able to finance either Vancouver Center or Block 10. As it was we had to subsidize the capital requirements in order to successfully close these two new developments. Had we not financed these the amount of sales tax we are paying on the projects would not be paid, we would also not be paying property taxes on these communities after the MFTE time period expired, there would be approximately 300 less individuals living in downtown supporting local businesses. The cost to the City of Vancouver would quickly escalate into millions of dollars and lower values on the commercial buildings from the lack of density and individuals in downtown.