ECONOMIC EVALUATION OF PROPERTY TAX EXEMPTION PROGRAM FOR MULTIFAMILY DEVELOPMENT

CITY OF TACOMA

PROPERTY COUNSELORS

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I. INTRODUCTION AND SUMMARY

INTRODUCTION

The City of Tacoma was the first City in Washington to initiate a Property Tax Exemption Program for multifamily housing. It had in fact initiated and supported the legislation in Olympia. The program has allowed qualifying multifamily housing projects to be exempt from property taxes on the value of housing improvements for a period of ten years. The purpose of the program is to stimulate new multifamily construction and rehabilitation of vacant or underutilized buildings for housing, expand housing opportunities including affordable housing in designated mixed use centers, direct population growth to designated areas by encouraging higher density development, and achieve densities that are conducive to mass transit use. The program was initiated in 1996 as a tool to implement the State Growth Management Act's direction to accommodate a greater share of population within cities and to achieve Tacoma's own growth strategy as adopted in the Comprehensive Plan. Fourteen areas in the City were designated as eligible.

The City conducted an evaluation of the program in 2005 to determine its performance, its success relative to the stated objectives, and the economic impact of the program activity. Property Counselors, economic consultants, prepared the study at that time. The City has committed to updating that evaluation again this year. This report documents the results of the current evaluation. Two major issues are addressed in this update. First, the 2007 Legislature made several significant changes to the program. While these changes will not affect the projects currently approved, they will affect projects approved after July 22, 2007. The biggest change is related to the period of the tax exemption. The ten year exemption period is reduced to eight years; however, projects that include at least 20% affordable units will be exempt from taxes on the improvement value for twelve years. Second, the market conditions for development in Tacoma change over time and the question is raised as to whether the program incentives are still necessary to stimulate and guide growth and development. The current evaluation provides an update of the previous analysis, and adds an analysis of the new provisions as well as an analysis of feasibility of development of different types and in different locations. The findings and conclusions are documented in this report. It is organized in nine sections.

I. Introduction and Summary

II. Definitions

II. Program Description

III. Benefits to Program Participants

IV. Multifamily Development Trends

V. Property Tax Impact

VI. Other Tax Revenues

VII. Feasibility Analysis

VIII. Comparison with Tax Exemption Programs in Other Communities

IX. Program Recommendations

The major findings and conclusions of each section are summarized below.

SUMMARY

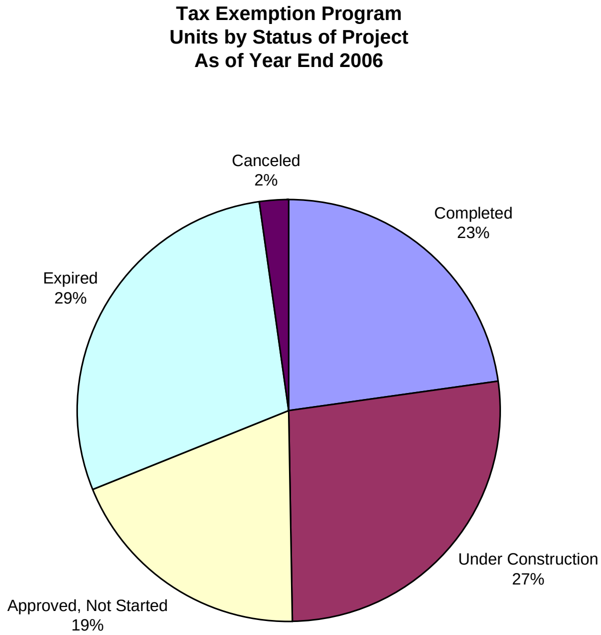
PROGRAM ACTIVITY

The City has processed applications for the tax exemptions for 139 projects having 5,802 units since 1996. The status of those units is shown in the following table and figure:

Units by Status*

Status	Projects	Units
Completed	45	1,320
Under Construction	29	1,559
Approved But Not Started	38	1,117
Expired	17	1,674
Cancelled	10	132
Total	139	5,802

*As of December 31, 2006

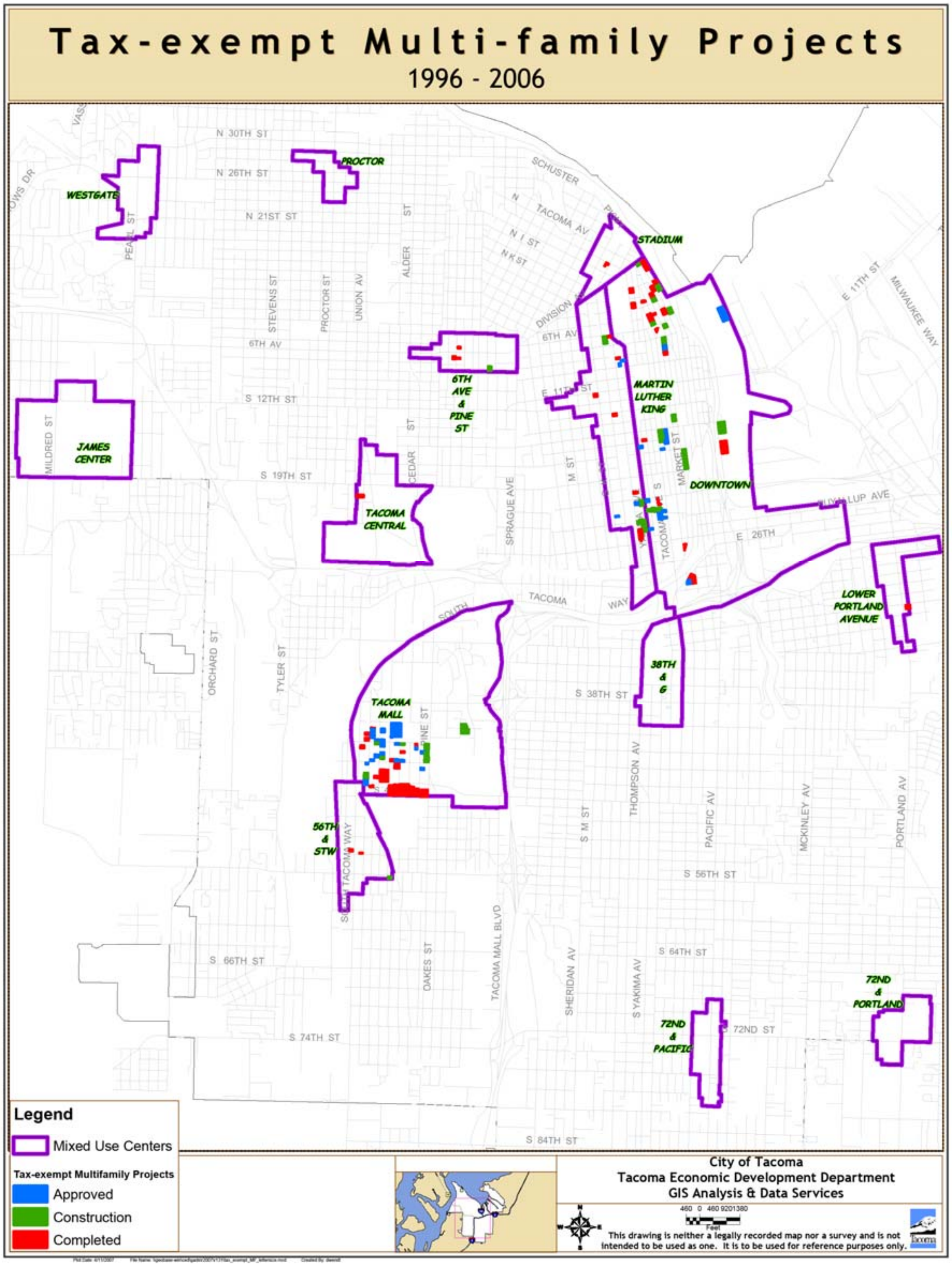


The 14 mixed use centers and the location of tax exempt projects are shown in the map on the following page. The number of units in completed projects or under construction in each mixed use center is summarized in the following table.

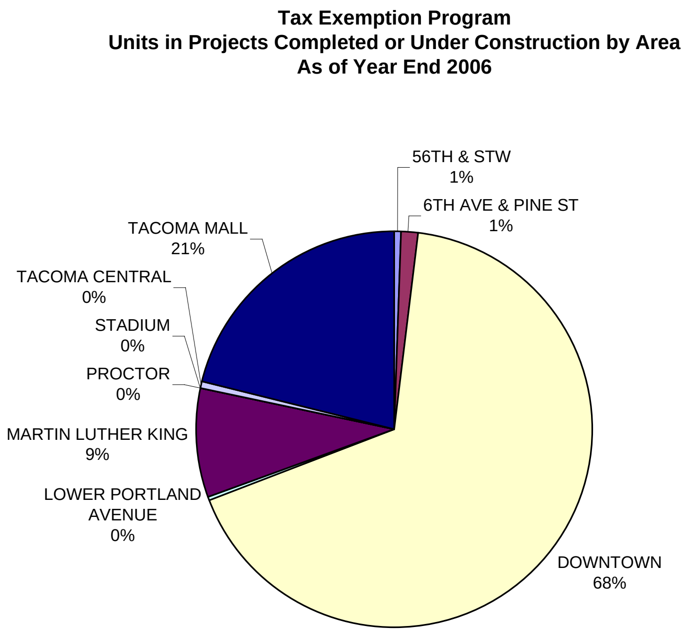
Tacoma Tax Exemption Program
Summary of Units Completed and Under Construction Projects by Area

	Completed Projects	**Under Construction**	**Total**
56TH & STW	8	8	16
6TH AVE & PINE ST	24	16	40
38TH & G	-	-	-
72ND & PACIFIC	-	-	-
72ND AND PORTLAND	-	-	-
DOWNTOWN	873	1,059	1,932
LOWER PORTLAND AVENUE	12	-	12
JAMES CENTER	-	-	-
MARTIN LUTHER KING	102	150	252
PROCTOR	-	-	-
STADIUM	7	-	7
TACOMA CENTRAL	12	-	12
TACOMA MALL	282	326	608
WESTGATE	-	-	-
Total	1,320	1,559	2,879

As of December 31, 2006.


Tax-exempt Multi-family Projects
1996 - 2006
WESTGATE
PROCTOR
STADIUM
6TH AVE & PINE ST
JAMES CENTER
MARTIN LUTHER KING
DOWNTOWN
TACOMA CENTRAL
LOWER PORTLAND AVENUE
38TH & G
TACOMA MALL
56TH & STW
72ND & PACIFIC
72ND & PORTLAND
Legend
Mixed Use Centers
Tax-exempt Multifamily Projects
Approved
Construction
Completed
City of Tacoma
Tacoma Economic Development Department
GIS Analysis & Data Services
This drawing is neither a legally recorded map nor a survey and is not intended to be used as one. It is to be used for reference purposes only.

The geographic distribution of the completed units and those under construction is shown graphically in the following figure. Together, the Downtown and Tacoma Mall MUC's represent almost 90% of program activity.



All projects considered in the analysis of program activity were approved prior to the effective date of the new legislation, and are subject to the ten year exemption period. Overall program activity can be summarized as follows:

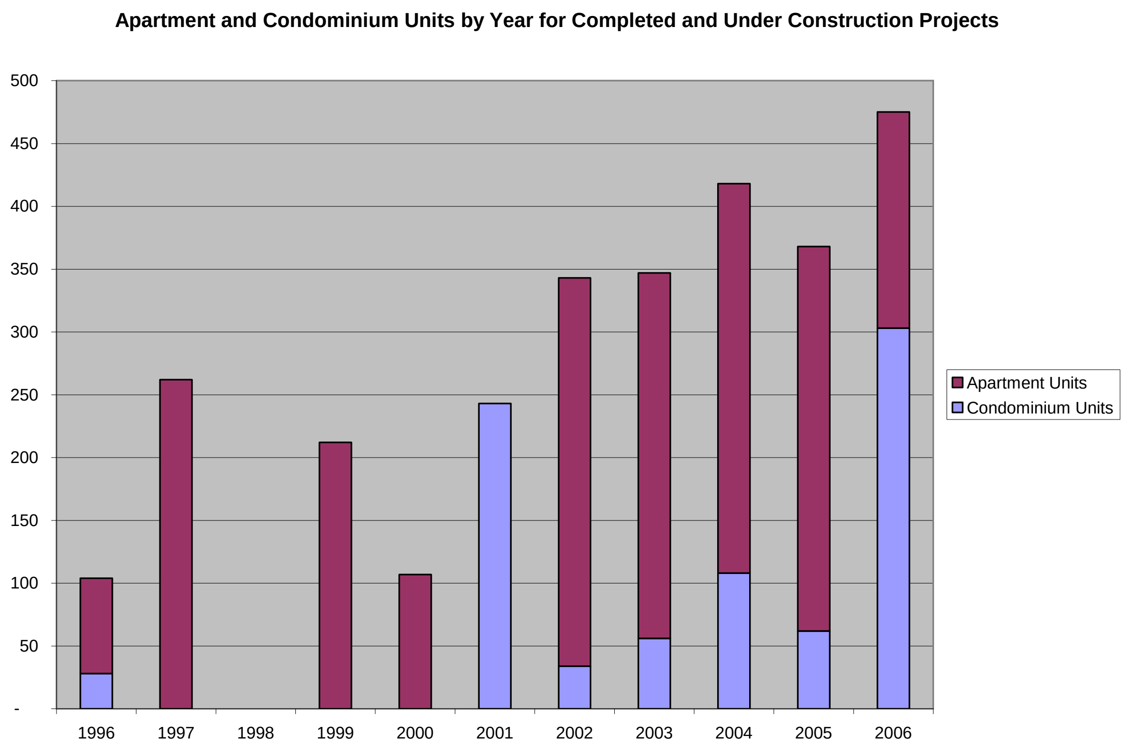
- The program has been very active with applications received for 139 projects totaling more than 5,800 units involved as either completed, under construction, approved, pending approval, approval expired, or cancelled.

- The average size completed project has 42 units. The average size of projects for which the exemption expired was 99 units. In many cases, exemptions were approved for large projects, but construction was delayed beyond the three year period, and will require an applicant to reapply before a project can move forward.

- Eight of the 14 designated areas have experienced program activity. Six centers have not experienced any activity: James Center, 38th and G, East 72nd and Portland, 72nd and Pacific, Proctor, and Westgate. Lower Portland Avenue. Tacoma Central have had only one project each. These results are due to disparate conditions within the mixed use centers. In some, there are no available sites; in others market conditions are not strong enough to support housing development, suitable sites contain rental units that are occupied or have not been vacant for the required 12 months, or competing uses are sufficiently strong to limit opportunities for redevelopment.

- Approved but expired projects represent almost the same number of units as completed projects and those under construction. Even with the benefits of the tax exemption program, many projects don't meet the financial or market requirements of developers and lenders to proceed. However, since 2005 there were only three projects with 189 units whose eligibility expired.

- Twenty-nine percent of units completed to date or under construction have been condominium units. Sixty-four percent of units approved in 2006 and completed or under construction are condominiums. For sale housing has been increasingly in demand with the continued low interest rates. However, there are indications that this is changing in response to slowing sales and low apartment vacancy rates.



BENEFITS TO PROGRAM PARTICIPANTS

The reduced property taxes resulting from the exempt value of improvements is shared among consumers in the form of lower prices/rents, and/or developers in the form of increased project income. In either case development is stimulated both by increasing demand, and reducing the cost of development. We solicited comments on the program from a variety of participants in 2005 and identified a series of benefits.

Developer Income and Return. Reduced property tax payments increase the development return on a marginal project to threshold levels, increasing feasibility.

Rent Savings. In a competitive market, all cost savings beyond those required to make the project feasible will be passed on to renters.

Housing Choice. Even when all savings are necessary to make the project feasible, new housing development provides increased housing choice for consumers.

Lender Requirements. Reduced property taxes increase the performance of a project relative to lender underwriting standards, thereby allowing the developer to secure debt financing.

Affordability to Purchaser. The purchaser of a condominium receives the tax exemption, making housing more affordable and improving a buyer's ability to either secure a higher mortgage loan or qualify for any loan.

ESTIMATED BENEFITS

The impact of the tax savings can be expressed in terms of impact on rents and sales prices.

- An average rent apartment developed without the program would have to rent for $1,020 per month under a consistent set of assumptions, but only $890 for the same apartment developed with the program. A high rent unit developed without the program would have to rent for $1,900; but only $1,700 for the same unit developed with the program.

- A purchaser could afford to pay $276,000 for an average price condominium developed with the program; but only $261,000 for the same unit developed without the program. A purchaser of a high price condominium could afford to pay $640,000 for a unit developed under the program; but only $611,000 for the same unit developed with the program.

IMPACT OF CHANGES TO EXEMPTION PERIOD

Under the new state legislation (HB1910) applications completed after July 22, 2007 for the property tax exemption are eligible for only eight years of tax benefits. The net present value of the savings is thus less than under the ten year exemption period. The twelve year exemption period is also available if the development meets the 20% affordability requirement, in which case the value of the tax savings is higher, but there is foregone income because of the requirement. In the case of the average value unit, the foregone impact is small because the difference between affordable values and market values is small. In the case of the high value units, the foregone value is high and the net annual income declines significantly. Given that result, a developer is likely to proceed with an eight year exemption project, rather than a twelve year one.

These changes in the program features will have an impact on market conditions. There are 1,559 units currently under construction and 1,117 units in projects approved but not started as of January 2007, with 10 year exemption periods. Projects applying after July 2007 will be subject to the new exemption periods and reporting requirements. These projects will be competing in the same markets with different cost factors affecting financial performance.

MULTIFAMILY DEVELOPMENT TRENDS AND PROGRAM IMPACT

A variety of evidence suggests that the program has stimulated development that might not otherwise have occurred.

1. There has been a significant level of tax exempt program activity since its inception. Activity through 2003 occurred during a period when development activity in the county as a whole was relatively flat in comparison with King and Snohomish counties. The level of activity in the MUC's would not have been expected without the availability of the tax exemptions under the program. Since 2003, the level of program activity has followed the pattern of county-wide activity. The 1,932 units in completed projects and projects under construction in Downtown have almost met the City's goal of 2010 units by year 2010.

2. The theoretical economic benefits to developers and consumers are significant. There continue to be projects that don't proceed despite these benefits, however. While approvals for 17 projects with 1,674 units have expired since the beginning of the program, approvals for only three projects with 189 units expired during the past two years. Development conditions improved after the 2005 study of the program, based on evidence through 2006. However, with recent changes in the credit markets, current development conditions are not nearly as strong.

Based on this limited evidence, we conclude that much of the development activity that has occurred under the program might not have occurred in the absence of the program. In order to test this conclusion, the impact of the program should be evaluated according to an assessment of feasibility given current development conditions. This issue is addressed in the Feasibility Analysis herein.

PROPERTY TAX IMPACT

Owners are exempt from taxes on improvements by all taxing jurisdictions during the ten year period. The property tax rates in the City of Tacoma for 2007 taxes are shown in the following table:

Property Tax Rate in Tacoma – 2007

State	$2.2912/$1,000 Assessed Valuation
Pierce County	1.1779
Port of Tacoma	0.1856
City of Tacoma	2.5797
Emergency Medical Services	0.5000
Tacoma School District	5.5078
Metropolitan Park District	0.7603
Total	13.0025/$1,000 Assessed Valuation

Source: Pierce County Assessor

As shown, the total tax rate within the City was $13.00 per $1,000 assessed value, of which $3.80 (21.6 percent of the total) is the City levy. The largest component is the $5.51 levy by the Tacoma School District.

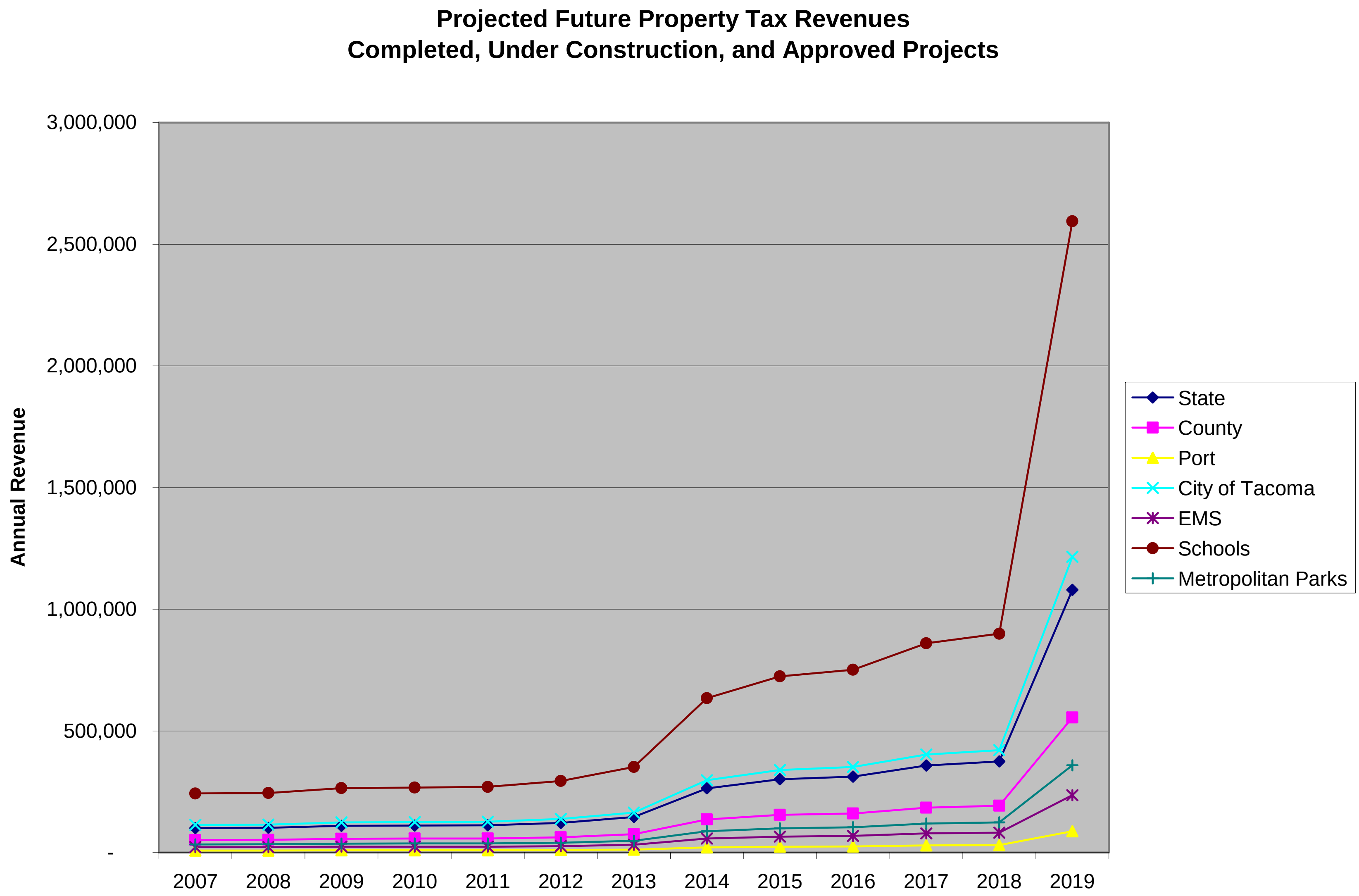
Property taxes are collected on assessed land value throughout the ten year exemption period. It is only improvement values that are exempt from taxes for that period. When the ten year exemption period expires, the full value of land and improvements are taxed. There is evidence that the improvements associated with the projects often greatly increase the taxable land value. Estimated taxes in each of the categories are summarized in the following table.

Comparison of Property Taxes Paid and Exempt Taxes

	Taxes on Land Completed Projects (Year 2007)	Exempt Taxes Completed Projects (Year 2007)	Exempt Taxes U/C & Appr. Projects (2007 if Compl)	All Taxes Compltd U/C Appprvd Projects (Year 2019)
State	67,901	232,508	622,455	1,079,300
County	34,907	119,531	319,999	554,860
Port	5,499	18,830	50,411	87,409
City of Tacoma	76,451	261,787	700,837	1,215,210
EMS	14,818	50,739	135,835	235,530
Schools	163,226	558,921	1,496,303	2,594,502
Metropolitan Parks	22,532	77,154	206,550	358,146
Total	385,334	1,319,469	3,532,390	6,124,958

U/C – Under construction

Property taxes paid on land value for the completed projects were $385,300 in 2007, with $76,500 of that paid to the City of Tacoma. The exempt value of taxes from improvements was $1.3 million for completed projects and would have been $3.5 million for projects under construction or approved, if all had been completed. After the 10-year exemption period expires for all properties (assuming that they are completed), the annual tax payments would reach $6.1 million; $1.2 million of that amount would go to the City of Tacoma annually. Projected tax collections are shown by year in the chart on the following page.


Projected Future Property Tax Revenues
Completed, Under Construction, and Approved Projects
Annual Revenue
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
State
County
Port
City of Tacoma
EMS
Schools
Metropolitan Parks

The amount of taxes paid on the land is modest compared to the value of exempt taxes on improvements, however, the average assessed value increased by 40.7% in 2007. Since many of the projects would not have been developed without the program, exempt taxes would not have been collected by jurisdictions in any case. With the expiration of the ten-year exemption period, tax collections will increase significantly and predictably.

OTHER TAX BENEFITS

There are taxes collected by the City on program activity in addition to property taxes. These taxes include one time taxes and recurring annual taxes.

Estimated One-Time Taxes

One Time Taxes on Construction for Completed Projects through 12/31/06

Retail Sales Tax	$1,096,800
B&O Tax	522,300

One Time Taxes on Construction on Condominium Sales through 12/31/06

Real Estate Excise Tax	$519,800

Total One Time Taxes: $2,138,900

Estimated Recurring Taxes

Annual Taxes on Estimated Resident Purchases

Retail Sales Tax	$213,200

Annual Taxes on Estimated Utility Consumption

Utility Tax	$232,600

Estimated Annual Per Capita Distribution from State

Distribution	$95,700

Total Estimated Recurring Annual Taxes: $541,500

FEASIBILITY ANALYSIS

A series of alternatives were analyzed to reflect the impact of several variables including program changes, market conditions and development costs. The alternatives consider the availability of the program (no program, program with eight year exemption, and program with twelve year exemption for projects with at least 20% affordable units), rental versus ownership of units, classification of mixed use centers by market conditions, and differing height alternatives. The mixed use center classification was described and presented as part of a market overview prepared by Property Counselors in February 2007 as part of the City's Mixed Use Center review. Mixed Use Centers were classified as:

Established Market Areas where there is an existing proven market for new multifamily housing. This category includes Downtown, Stadium and Tacoma Mall.

Emerging Market Areas where there is limited existing market activity but there are indications that the area is increasingly desirable. This category includes 6th and Pine, Proctor, Tacoma Central, Martin Luther King, 56th and South Tacoma Way, and Westgate.

Limited Market Areas where there is limited market demand for the foreseeable future.

It is important to note that classifications will likely change over time, with changes to national and regional market conditions, and with other changes in community conditions. Limited markets will emerge, and emerging markets will mature.

The physical development alternatives reflect different densities of development, and vary by height and type of construction:

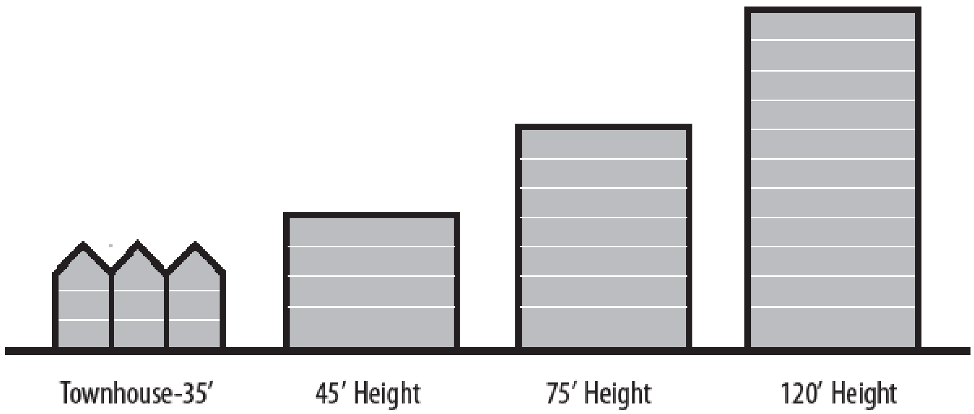
45' height is the existing height limit in most of the mixed use centers. Development is assumed to take the form of three floors of wood frame construction over one floor of underground parking and one floor of retail and above ground parking.

75' height is the height that allows many of the mid-rise buildings in downtown. Development is assumed to take the form of five floors of wood frame construction over one floor of underground parking and two floors of retail and above ground parking.

125' height is a development type that is occurring in parts of Downtown. Development is assumed to take the form of ten floors of concrete or steel residential construction over three floors of underground parking and two floors of retail and above ground parking.

Townhouses are generally three story attached structures with private garages.

The development alternatives are compared graphically below.



The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the cost of development to completed value to determine the entrepreneurial profit. Entrepreneurial profit is considered the compensation to a developer for incurring the risk of undertaking and completing a project. Entrepreneurial profit for any development plan is compared to a target rate to identify whether that option is feasible. A 15% rate is considered a typical rate falling within a range of 10% to 20% in stable to growing markets. Such a rate provides adequate incentive for a developer to assume the risk associated with development. While 15% is a preferred rate, 10% is considered as a minimal hurdle rate for this analysis. Note that in declining markets developers and their lenders may require higher hurdle rates when evaluating project feasibility. Also note that entrepreneurial profit as percent of development cost is only one measure of financial return. It shouldn't be confused with internal rate of return (IRR). A 10% entrepreneurial profit as percent of cost may be equivalent to an IRR of 20%.

The results of the feasibility analysis are shown in the following table. The results for the various alternatives can be expressed simply as follows:

> If the developer return exceeds the 10% hurdle rate without the use of the program, the analysis indicates that the program may not be necessary to stimulate development.
>
> If the developer return exceeds 10% with the exemption but not without it, the analysis indicates that the program is still necessary to provide an incentive. The alternatives where this is true are indicated in green in the table.

If the developer return doesn't exceed 10% for the eight or twelve year exemption periods, projects are not feasible under current conditions even with the program. The alternatives where this is true are indicated in red in the table.

Comparison of Feasibility Results
Feasibility Conditions for Development Scenarios

APARTMENTS

	45' Height	75' Height	125' Height	Townhouse
Limited Market Areas				
Emerging Market Areas				
Established Market Areas				

CONDOMINIUMS

	45' Height	75' Height	125' Height	Townhouse
Limited Market Areas				
Emerging Market Areas				**12 Yr Exempt**
Established Market Areas		**8 Yr Exempt**		

	Tax exemption not required for feasibility.
	Tax exemption necessary for feasibility.
	Projects not feasible under current conditions even with program.

The results can be interpreted as follows:

1. Apartment project returns are less than 10% for all cases. The program provisions do not provide adequate incentives to overcome current weak development conditions.
2. Condos project returns in the 45' height cases also fall short of the 10% hurdle, even with use of the program. The established market areas are the only cases where the return is even positive.
3. Condos project returns in the 75' height cases fall short of the 10% hurdle in all cases except with use of the 8 year exemption in the established market areas.
4. Condos project returns in the 125' height cases are negative in all market areas even with use of the program. The premiums for prices in taller buildings aren't sufficient to justify the higher costs of construction.
5. The Townhouse project returns exceed the 10% hurdle for the 12 year exemption in the emerging market areas. Market prices don't exceed affordable prices, so there is no income loss for providing affordable units.

Note that should developers/lenders require a 15% hurdle rate, all projects would be infeasible under this analysis.

In summary, the analysis indicates that the tax exemption program is necessary but not sufficient for feasible development for all building alternatives and market areas. The results reflect the worsening of development conditions since the end of 2006, the end date for the program activity figures presented in this report. Even this conclusion should be tempered by two considerations. First, the 10% hurdle rate is at the low end of the feasible range and may not be adequate if more profitable development opportunities are available elsewhere. Second, with recent problems in the credit markets, higher hurdle rates may be necessary to secure project financing.

COMPARISON TO TAX EXEMPTION PROGRAMS IN OTHER CITIES

The property tax exemption program is available to cities in Washington State with a population of over 15,000, (recently reduced by the legislature from 30,000) or to the largest city in counties planning under the Growth Management Act. The characteristics of existing programs in Seattle, Everett, Vancouver, and Auburn; and similar programs in Portland and Eugene in Oregon, were compared to those of Tacoma.

Tacoma currently has few restrictions beyond those specified in Washington State statutes. These have been significantly increased under the 2007 legislation. Programs in all cities were initiated in response to housing market conditions specific to their areas. Tacoma and the Washington cities other than Seattle were interested in stimulating all types of multifamily housing, particularly market rate housing. Cities like Seattle and Portland that were already experiencing strong demand for market rate housing focused their program efforts on housing for households with incomes below the median.

RECOMMENDATIONS

The City's goal of attracting multifamily housing to its mixed use center areas is being met in some of the centers, but far from all. Scarcity of vacant land, insufficient market demand, or lagging interest by developers in certain neighborhoods appear~~s~~ to be the major reasons for absence of activity in certain areas. In the other areas, we conclude, based on the discussion in Section IV, that much of the new development would not have occurred without the Property Tax Exemption Program. Thus, much of the exempt taxes on improvement value would not have been available to taxing jurisdictions either with or without the program. While some of the development might have occurred in the future as real estate markets matured, the tax revenues would also not be available pending the development. With the Property Tax Exemption program the new value will be on the tax rolls at predictable times, thereby facilitating financial planning and budgeting. We believe that the program has been successful and will generate long-term tax benefits to the City and other taxing jurisdictions. Acknowledging the benefits of the program, it's still appropriate to consider potential changes. Our recommendations for the program are broken out by category of mixed use center and related to market conditions found in those centers. The recommendations are summarized in the table on the following page.

Recommended Program Features by Mixed Use Center Market Classification

	MUC Classification		
	Limited Market	**Emerging Market**	**Established Market**
Mixed Use Centers	38th and G	Proctor	Downtown
	Lower Portland Avenue	6th and Pine	Stadium
	72nd and Pacific	Tacoma Central	Tacoma Mall
	72nd and Portland	James Center	
		56th and So. Tacoma	
		Martin Luther King	
		Westgate	
Program Eligibility			
Apartments	Eligible	Eligible	Eligible
Condominiums			
< 75'	Eligible	Eligible	Eligible
> 75'	Eligible	Eligible	Eligible
Allowable Exemption Period			
8 Years	Available	Available	Available
12 Years with 20% Affordable Housing	Available	Available	Available
Requirement for 12 Month Vacancy	Eliminate	Eliminate	Eliminate
Design Review	Part of City-wide	Part of City-wide	Part of City-wide
Financial Reporting	As required by Statute	As required by Statute	As required by Statute
Public Benefits			
Crime Free Training and Design	Encouraged	Encouraged	Encouraged
Prevailing Wage	Not Required	Not Required	Not Required
LEAP/HUB	Not Required	Not Required	Not Required
Others	Not Required	Not Required	Not Required

The rationale for the changes and discussion of other relevant issues follows.

1. Program Eligibility

We have defined an analytical framework under which, at some points in time and for certain market segments, and in certain market conditions, the property tax exemption program ought to be considered for suspension or ineligibility.

Currently however, the feasibility analysis indicates that all types of projects in all MUC's need to make use of the program. Specifically, we recommend that:

a. No additional restrictions be placed on rental projects in any of the MUC's

b. No additional restrictions be placed on condominium projects in any of the MUC's in the Limited or Emerging Market categories.

c. No additional restrictions be placed on those projects in any of the MUC's in the Established Market categories. Projects in these MUC's, particularly those less than 75' in height may become feasible without the program as market and credit conditions improve. A regular update of the feasibility analysis can identify when these conditions are achieved.

2. Affordability Requirements

The new State statute reduces the available exemption period to eight years, but allows for a longer exemption period of 12 years for projects including 20% affordable units. The feasibility analysis indicated that a project built to 75' in established market areas, while not feasible under current conditions, would achieve a higher return with an eight year exemption period than one with affordable housing units and a twelve year period. If these results are true in the future, under better market conditions the City could require that an eligible project must provide the 20% affordable housing component. It would be prudent however to first see that some mixed income projects are successfully developed in Tacoma.

We recommend that the program include the affordable housing as an option for all projects. This simply tracks state law.

3. Requirement for 12 month Vacancy to Demolish Existing Housing

The recent state legislation removes the requirement that a structure be vacant for 12 months before a project is eligible for the program. This requirement provides an extra burden on a project in terms of lost time and interim revenues. We recommend that the requirement be eliminated in all cases.

4. Require Prevailing Wages

The City has received requests that all benefiting projects be required to pay prevailing wages as defined by union wage scales. Most multifamily construction is not subject to these requirements. Any requirement that increases the cost of construction would offset the development stimulus of reduced taxes. Such a change could reduce the desirability of the program and reduce production of multifamily housing in designated areas. We recommend no change in this policy given the current credit market conditions. The requirement for prevailing wages could be required later as one of several options for program eligibility for condominium projects at a 75' height in the Established Market areas.

5. Design Review

A concern has been expressed to require that eligible projects undergo design review in order to receive the tax benefit. The City now requires that tax exempt projects meet the same standards as other multifamily projects. The City is conducting a city-wide evaluation of design review alternatives which should reach Council in the spring of 2008. A design review program for all properties would not penalize tax exemption program projects, although it would contribute to higher development costs.

6. Requirement for HUB/LEAP

   Requirements for participation in programs such as Historically Underutilized Businesses (HUB) and Local Employment and Apprenticeship Program (LEAP) are sometimes proposed. The net effect of mandating such features or programs would be to impose unfamiliar cost factors on developers or to mandate costs that couldn't be recovered fully through higher rents and sales prices, thereby offsetting all or a portion of the tax benefit. Requirements such as these are not justifiable given current development conditions. In the future, such provisions could be considered for those MUC's and development types (for example, 75' wood frame projects) that are approaching feasibility without the exemption program.

7. Requirements for Crime Free Multifamily Housing Training or Crime Prevention through Environmental Design

   These programs could pay for themselves if they are truly effective. If they aren't, any requirements will simply increase the cost of housing. The training program would likely not place an unusual burden on projects. Participation in CEPTD is recommended as part of a city-wide design review program. More specifically, the "Defensible Space" approach of CPTED principles to multi-family housing development should be considered citywide.

8. Requirements to Share Financial Information

   The new State Statute requires that the City report annually on the cost of each unit of housing produced under the program. This cost can be reconciled with the sales tax collections on construction by the City. Requirements for income verification under the 2007 statute will place a burden on owners and renters, and on the city administratively. Additional financial information should be required.

9. Limits on Density or Spacing of Projects

   The question has been raised regarding potential limits on the number or spacing of units produced under the program for any geographic area. Given the underlying goals of the program to encourage development that meets the city's density targets under the Growth Management Act, there is no obvious rationale for imposing maximum limits on density. These same goals provide a justification for minimum densities. The feasibility analysis indicates that additional incentives may be necessary to make some of the higher density development types feasible. The property tax exemption may not be adequate as a stimulus to development above 75' even with improved market conditions.

10. Impacts on Taxing Jurisdiction

   The analysis in Section V documents the amount of tax revenue foregone by jurisdictions as a result of tax exemptions. To the extent that the development would not have occurred in the absence of the program, the revenue is not really lost.

However those jurisdictions that have increased demands for service do experience some adverse financial impact in the short run. In particular, the school district may need to educate additional students. While the student generation factors are significantly lower for multifamily units, there is still an impact. The net estimated cost (after State and Federal funding) to the district of serving students from the tax exempt units is $361,000. The property taxes paid to the district on taxable land value in the exempt projects in 2007 are estimated to be $163,000. Thus, the shortfall is approximately $200,000. The amount of foregone tax on exempt improvement value by the district in 2007 is $559,000, significantly greater than the net cost to the district. There will be a shortfall to the district during the exemption period, but there will be a surplus when the exemption period expires.

II. PROGRAM DESCRIPTION

The starting point for the evaluation of the property tax exemption program is a description of the objectives and features of the program, as well as the level of program activity to date. The program activity reflects the program as authorized prior to the changes passed by the State Legislature in 2007.

PROGRAM FEATURES AND OBJECTIVES

The Multifamily Property Tax Exemption Program (MFTEP) for multifamily residential development was authorized by the Washington State Legislature in 1995 (RCW 84.14.007). The City of Tacoma played a leading role in developing this legislation. The 2007 Legislature made substantial changes to the program. The program activity to date was completed under the previous provisions. The program allowed qualifying housing projects to be exempt from property taxes on the value of improvements for a period of 10 years. A qualifying project must:

- Be located in a residential targeted area designated by the City Council within an urban center.

- Include four or more housing units.

- Must meet requirements deemed necessary by the City Council.

- Must not replace a residence occupied by tenants within the previous twelve months.

- Buildings to be rehabilitated must fail to comply with one or more building code or housing standards.

- Must be completed within three years of approval.

Eligible cities were those with a population of 30,000 or greater, or the largest city or town within a county. The program is available for both rental units and for-sale attached housing (apartments, condominiums, townhouses, fourplexes, etc.).

Tacoma initiated its program in 1996. Fourteen mixed use centers were designated as eligible locations.

Central Business District
James Center
N. 26th and Proctor
6th Avenue and Pine Street
Stadium

S. 11th and Martin Luther King
S. 38th and G
Lower Portland Avenue
East 72nd and Portland Avenue
S. 72nd and Pacific
Tacoma Mall
Tacoma Central
56th and South Tacoma Way
Westgate

The location of the areas is shown on Figure II-1 on the following page.

The objectives of the program were identified as:

1. Encourage increased residential development within mixed use centers designated by the City Council as residential target areas.

2. Rehabilitate existing substandard, vacant or underutilized buildings.

3. Stimulate new construction to increase and improve housing opportunities.

4. Direct population growth to designated mixed use centers, thereby reducing development pressures on single family residential neighborhoods.

5. Encourage higher density development in mixed use centers in response to mandates of Growth Management Act.

6. Achieve densities that are conducive to transit use in mixed-use centers.

2007 CHANGES TO PROGRAM

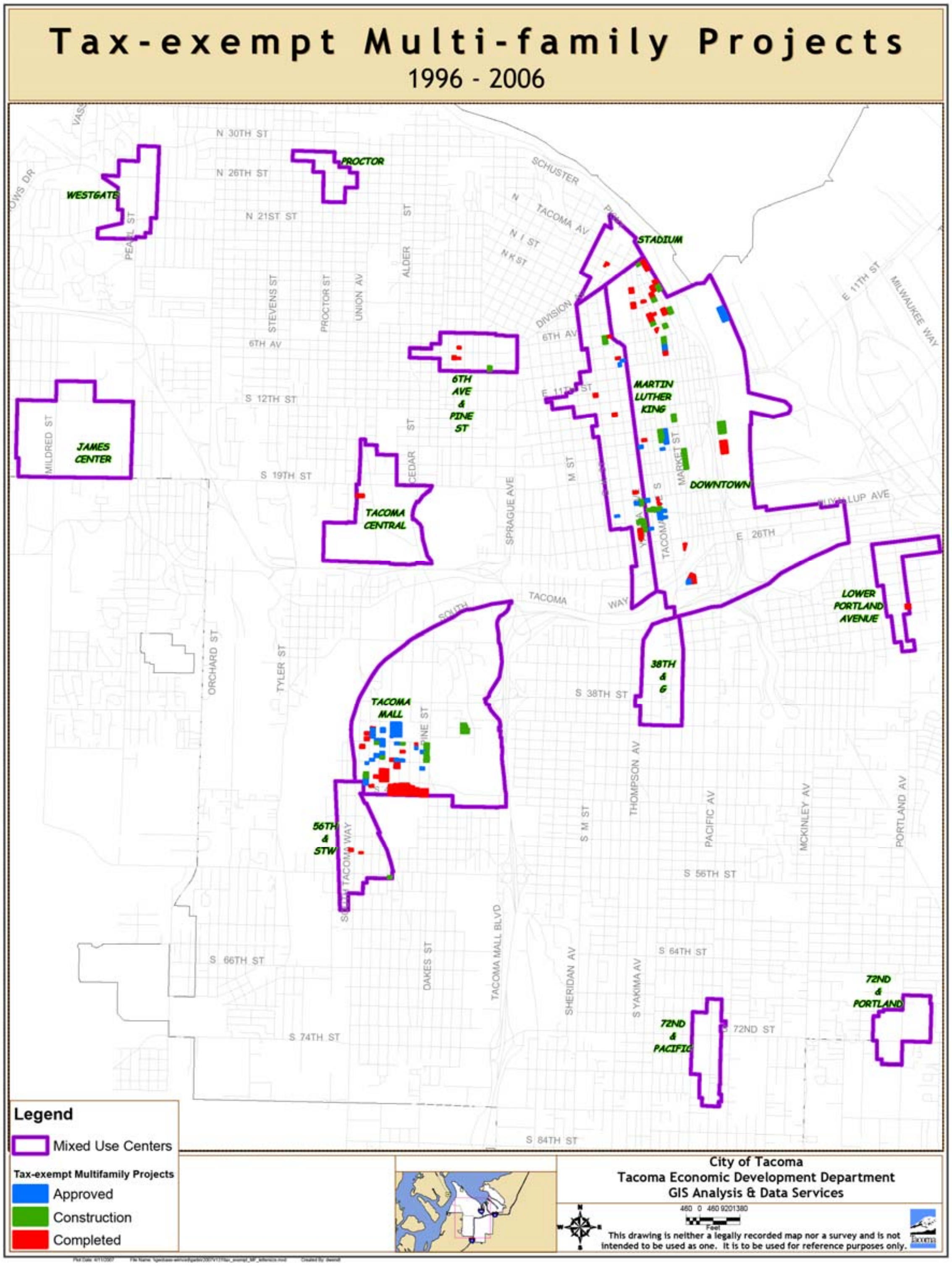
The 2007 Legislature made several significant changes to the program. While these changes will not affect the projects currently approved, they will affect projects approved after July 22. The biggest change is related to the period of the tax exemption. The ten year exemption period is reduced to eight years; however projects that include at least 20% affordable units can be exempt from taxes on the improvement value for twelve years. Eligible projects are those that are affordable to low income households for rental housing (household income no greater than 80% of median for the County), and affordable to moderate income households for ownership housing (household income no greater than 115% of median for the County).

There are additional reporting requirements for both the property owner and the City. The property owner must file annual reports containing statements of occupancy, statement of compliance, and description of improvements. The city must report annually to the State the following: number of certificates granted, number of units produced, number of affordable units, development cost, rent or sale amounts, income levels for renters and purchasers, and value of tax exemption. The size criterion for city eligibility was reduced from 30,000 minimum population to 15,000. Many additional cities will now be eligible to participate.

PROGRAM ACTIVITIES

The program has been active since 1996. A list of projects and their characteristics is included in Appendix 1, and maps showing their locations are included in Appendix 2. Tables II-1 and II-2 provide a summary of the number of projects and units that have been approved or are pending at this time. Projects are designated as completed, currently under construction, approved but not yet under construction, pending but not approved, approved but expired due to three year expiration requirement, or cancelled. The year shown represents the year in which projects were approved for the tax exemption. As shown, the program has resulted in applications for 139 projects with more than 5,800 units. Of those, 45 projects (1,320 units) are complete, and 67 projects (2,676 units) are either approved and awaiting start of construction or are currently under construction.

Figure II-1



Tax-exempt Multi-family Projects
1996 - 2006
WESTGATE
PROCTOR
STADIUM
6TH AVE & PINE ST
JAMES CENTER
MARTIN LUTHER KING
DOWNTOWN
TACOMA CENTRAL
LOWER PORTLAND AVENUE
TACOMA MALL
38TH & G
56TH & STW
72ND & PACIFIC
72ND & PORTLAND
Legend
Mixed Use Centers
Tax-exempt Multifamily Projects
Approved
Construction
Completed
City of Tacoma
Tacoma Economic Development Department
GIS Analysis & Data Services
This drawing is neither a legally recorded map nor a survey and is not intended to be used as one. It is to be used for reference purposes only.

Table II-1

Tacoma Tax Exemption Program
Units by Status and Year of Approval-All Projects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Completed	104	262	-	212	107	243	76	157	118	33	8	1,320
Under Construction	-	-	-	-	-	-	267	190	300	335	467	1,559
Approved, Not Started	-	-	-	-	-	-	-	260	78	307	472	1,117
Expired	-	-	-	84	727	706	118	39	-	-	-	1,674
Canceled	-	69	5	-	-	-	8	-	26	20	4	132
Total	104	331	5	296	834	949	469	646	522	695	951	5,802

Source: City of Tacoma, Department of Economic Development. As of January 2007

The program has been particularly active since the beginning of 2000. As shown in the table, however, approvals for almost 1,700 units have expired. That number is approximately equal to the number of units either completed or under construction.

Table II-2

Tacoma Tax Exemption Program
Projects by Status and Year of Approval-All Projects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Completed	3	4	-	4	4	3	8	9	4	4	2	45
Under Construction	-	-	-	-	-	-	3	1	5	4	16	29
Approved, Not Started	-	-	-	-	-	-	-	1	2	14	21	38
Expired	-	-	-	3	4	7	1	2	-	-	-	17
Canceled	-	2	1	-	-	-	1	-	3	2	1	10
Total	3	6	1	7	8	10	13	13	14	24	40	139

Source: City of Tacoma, Department of Economic Development. As of January 2007

The average number of units per project was 42 as shown in Table II-3. The largest projects on average were those for which the exemption has expired.

Table II-3

Tacoma Tax Exemption Program
Average Units per Project by Status and Year of Approval-All Projects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Completed	34.7	65.5		53.0	26.8	81.0	9.5	17.4	29.5	8.3	4.0	29.3
Under Construction							89.0	190.0	60.0	83.8	29.2	53.8
Approved, Not Started								260.0	39.0	21.9	22.5	29.4
Expired				28.0	181.8	100.9	118.0	19.5				98.5
Canceled		34.5	5.0				8.0		8.7	10.0	4.0	13.2
Total	34.7	55.2	5.0	42.3	104.3	94.9	36.1	49.7	37.3	29.0	23.8	41.7

Source: City of Tacoma, Department of Economic Development. As of January 2007

The number of units is summarized by year and mixed use area in Table II-4 for all projects. As shown, the program has been used in nine of the designated mixed use areas. The program was most active in Downtown, followed by the Tacoma Mall area, and Stadium District.

Table II-4

Tacoma Tax Exemption Program
Units by Area and Year of Approval-All Projects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
56TH & STW	-	-	-	-	4	-	-	4	-	-	8	16
6TH AVE & PINE ST	16	-	-	-	-	-	4	4	4	-	16	44
DOWNTOWN	88	88	5	228	727	945	8	626	407	586	377	4,085
LOWER PORTLAND AV	-	-	-	-	-	-	-	-	-	12	-	12
MARTIN LUTHER KING	-	-	-	-	63	4	181	4	-	19	149	420
PROCTOR	-	-	-	-	-	-	-	-	-	6	-	6
STADIUM	-	-	-	36	-	-	7	-	-	-	-	43
TACOMA CENTRAL	-	-	-	12	-	-	-	-	-	-	-	12
TACOMA MALL	-	243	-	20	40	-	269	8	111	72	401	1,164
Total	104	331	5	296	834	949	469	646	522	695	951	5,802

Source: City of Tacoma, Department of Economic Development. As of January 2007

Table II-5 summarizes the level of activity for completed projects and those under construction. The level of activity has been steady since 2002. As noted earlier, the year represents year of approval rather than year of completion. Of the 2,879 units, 1,932 are in Downtown, and 608 in the Tacoma Mall area.

Table II-5

Tacoma Tax Exemption Program
Units by Area and Year of Approval-Completed and Under Construction Projects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
56TH & STW	-	-	-	-	4	-	-	4	-	-	8	16
6TH AVE & PINE ST	16	-	-	-	-	-	4	-	4	-	16	40
DOWNTOWN	88	88	-	200	-	239	-	331	329	352	305	1,932
LOWER PORTLAND AV	-	-	-	-	-	-	-	-	-	12	-	12
MARTIN LUTHER KING	-	-	-	-	63	4	63	4	-	-	118	252
PROCTOR	-	-	-	-	-	-	-	-	-	-	-	-
STADIUM	-	-	-	-	-	-	7	-	-	-	-	7
TACOMA CENTRAL	-	-	-	12	-	-	-	-	-	-	-	12
TACOMA MALL	-	174	-	-	40	-	269	8	85	4	28	608
Total	104	262	-	212	107	243	343	347	418	368	475	2,879

Source: City of Tacoma, Department of Economic Development. As of January 2007

Table II-6 shows the total number of units completed and under construction by area. Of the 1,320 units in completed projects, 873 units are in the Downtown MUC and 282 in Tacoma Mall MUC. Together these two MUC’s represent 87.5% of completed units. Of the 1,559 units in projects under construction, 1,059 and in the Downtown MUC, and 326 are in the Tacoma Mall MUC. Together these two MUC’s represent 88.8% of units under construction. Downtown and Tacoma Mall are maintaining their shares of program activity.

Table II-6

Tacoma Tax Exemption Program
Summary of Units Completed and Under Construction Projects by Area

	Completed Projects	Under Construction	Total
56TH & STW	8	8	16
6TH AVE & PINE ST	24	16	40
DOWNTOWN	873	1,059	1,932
LOWER PORTLAND AVENUE	12	-	12
MARTIN LUTHER KING	102	150	252
PROCTOR	-	-	-
STADIUM	7	-	7
TACOMA CENTRAL	12	-	12
TACOMA MALL	282	326	608
Total	1,320	1,559	2,879

Source: City of Tacoma, Department of Economic Development. As of January 2007

The program is available for both rental and for-sale attached (condominiums, townhouses and fourplexes) housing. Table II-7 summarizes the number of condominium units as a percentage of total units for completed projects. As shown, condominium units have made up 29 percent of total units. Thirty-five percent of units in Downtown, the most active area, were condominium units. Only four of the mixed use centers have condominium projects under the program. Projects approved in 2006 show a much higher percentage of condominium units. Condominiums and townhouses have been increasingly popular, largely in response to the strong for-sale housing market as a result of low interest rates.

Table II-7

Tacoma Tax Exemption Program
Condo Units as Percent by Area and Year of Approval-Completed and Under Construction Projects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
56TH & STW					0.0%			0.0%			0.0%	0.0%
6TH AVE & PINE ST	0.0%						0.0%		0.0%		0.0%	0.0%
DOWNTOWN	31.8%	0.0%		0.0%		100.0%		16.9%	30.4%	17.6%	60.7%	34.7%
LOWER PORTLAND AVENUE										0.0%		0.0%
MARTIN LUTHER KING					0.0%	100.0%	42.9%	0.0%			100.0%	59.1%
PROCTOR												
STADIUM							100.0%					100.0%
TACOMA CENTRAL				0.0%								0.0%
TACOMA MALL		0.0%			0.0%		0.0%	0.0%	9.4%	0.0%	0.0%	1.3%
Total	26.9%	0.0%		0.0%	0.0%	100.0%	9.9%	16.1%	25.8%	16.8%	63.8%	29.0%

Source: City of Tacoma, Department of Economic Development. As of January 2007

Overall program activity can be summarized as follows:

1. The program has been very active with applications received for 139 projects totaling more than 5,800 units involved as either completed, under construction, approved, pending approval, approval expired, or cancelled.

2. The average size completed project has 42 units. The average size of projects for which the exemption expired was 99 units. In many cases, exemptions were approved for large projects, but construction was delayed beyond the three year period, and will require an applicant to reapply before a project can move forward.

3. Nine of the 14 designated areas have experienced program activity. Five centers have not experienced any activity: James Center, 38th and G, East 72nd and Portland, 72nd and Pacific, and Westgate. Lower Portland Avenue, Proctor, and Tacoma Central have had only one project each. These results are due to a variety of conditions: there are no available sites in many of these areas; market conditions are not strong enough to support housing development, suitable sites contain rental units that are occupied or have not been vacant for the required 12 months, or competing uses are sufficiently strong to limit opportunities for redevelopment.

4. Approved but expired projects represent almost the same number of units as completed projects and those under construction. Even with the benefits of the tax exemption program, many projects don’t meet the financial or market requirements to proceed. However, there were only three projects with 189 units whose eligibility expired since 2005.

5. Twenty-nine percent of units completed to date or under construction have been condominium units. Sixty-four percent of units approved in 2006 and completed or under construction are condominiums. For sale housing has been increasingly in demand with the continued low interest rates.

III. BENEFITS TO PROGRAM PARTICIPANTS

The current ten year property tax savings and revised eight and twelve year savings are shared by both developers and consumers of the affected housing. The impact of these benefits is considered in this section in both qualitative and quantitative terms for rental and for-sale housing, and for current and revised exemption periods.

DISCUSSION OF PROGRAM BENEFITS

The reduced property taxes resulting from the exempt value of improvements can be shared among consumers in the form of lower rents/prices, or developers in the form of increased project income. The purpose of the program is to stimulate new multifamily development in specific targeted areas. Development can be stimulated both by reducing prices, thereby increasing the demand for housing; and by reducing the cost of development, thereby providing financial incentive for developers.

The benefits experienced by program participants are described below:

Developer Income and Return. Development projects are not initiated unless the expected entrepreneurial return meets the rates for comparable risk investments. In many markets, returns are not sufficient to generate the necessary level of investment, and development does not occur. By reducing the cost of development and ongoing operations, a program like the tax exemption program can enhance the feasibility of development, thereby stimulating development.

Rent Savings. In a competitive market, rents are set at levels necessary to provide an adequate entrepreneurial return to the developer and the lender. Development cost savings beyond the amount necessary to provide that return will be passed on to renters in such a market.

Greater Housing Choice. Even if all the savings are necessary to meet feasibility thresholds, new housing development provides consumer benefits through increasing the number of choices in size, location, type, availability and quality of housing.

Lender Requirements. Development projects are usually financed with debt, and a project won't receive a loan if it doesn't pass underwriting standards for loan to value ratio or debt service coverage. By reducing the cost of operations or development, a program like the tax exemption program can reduce the loan to value ratio, increase the debt coverage ratio and reduce risk. Lenders are very supportive of the program and use it as a basis for qualifying loans.

Affordability to Purchaser. The purchaser of a tax exempt unit under the program receives the tax savings. The tax savings increase the disposable income that a purchaser will have available, and the loan amount available from lenders. For both reasons, housing is made more affordable and the ability of the buyer to either secure a higher mortgage loan or even qualify for a loan is improved.

Other specific benefits were identified in the previous evaluation of the program.

- Condominium development has been slowed in recent years by the cost and availability of liability insurance required of developers. While the Legislature acted recently to address the issue, there are still few insurance providers and the cost of insurance represents $10,000 to $30,000 per unit. The value of the tax savings can offset some of this cost.

- All development encounters increased cost due to unanticipated circumstances such as rising costs of construction materials. While contingency funds are identified in advance to cover such conditions, savings in taxes can offset shortfalls in those contingencies.

- There are sometimes front end development costs that can inhibit development. For example, the St. Helens Neighborhood may need as much as $23 million in street improvements and infrastructure upgrades, with $13 million of that potentially financed by a Local Improvement District (LID) taxing property owners in the district. The value of property tax savings can offset some or all of costs such as these.

RENTAL UNIT BENEFITS

An apartment project participating in the program will experience lower operating costs, and potential higher net income. The potential impact on rental rates is summarized in Table III-1. Two types of rental units are considered: a unit with average rents for the market area, and a higher amenity unit. The former unit is typical of the projects developed under the program in the Tacoma Mall area, while the latter is typical of a project like Metropolitan Towers Downtown. The average rent unit is assumed to be 700 square feet, while the high rent unit is assumed to be 1,000 square feet. Total development cost including land is estimated to be $180,000 and $295,000 for the two cases respectively. The amount of exempt improvement value is estimated to be $120,000 to $195,000 respectively, based on typical values from Pierce County Assessor records. Using the 2007 total tax levy rate to all taxing entities of $13.03 per $1,000 valuation, the annual tax savings per unit are calculated as shown.

Table III-1

Property Tax Exemption Program
Economic Benefits for Rental Projects

Base Case 10 Year Exemption

	Average Rent	High Rent
Unit Size (square feet)	700	1,000
Development Cost	180,000	295,000
Exempt Value	120,000	195,000
Annual Tax Savings* (@ $13.025/$1,000 Valuation)	1,560	2,535
Present Value 10 Year Savings (@ 6.5% discount rate)	11,217	18,227
Annual Foregone Rent		
Net Annual Impact	1,560	2,535
Required Monthly Rental Rate		
Without Program	1,023	1,911
With Program	893	1,700

* Total tax savings. Amount attributable to City taxes is $310 for average case and $503 for high case.

Base Case 8 Year Exemption

	Average Rent	High Rent
Unit Size (square feet)	700	1,000
Development Cost	180,000	295,000
Exempt Value	120,000	195,000
Annual Tax Savings* (@ $13.025/$1,000 Valuation)	1,560	2,535
Present Value 8 Year Savings (@ 6.5% discount rate)	9,500	15,438
Annual Foregone Rent		
Net Annual Impact	1,560	2,535
Required Monthly Rental Rate		
Without Program	1,023	1,911
With Program	893	1,700

* Total tax savings. Amount attributable to City taxes is $310 for average case and $503 for high case.

Base Case 12 Year Exemption with Affordable

	Average Rent	High Rent
Unit Size (square feet)	700	1,000
Development Cost	180,000	295,000
Exempt Value	120,000	195,000
Annual Tax Savings* (@ $13.025/$1,000 Valuation)	1,560	2,535
Present Value 12 Year Savings (@ 6.5% discount rate)	12,730	20,686
Annual Foregone Rent	(126)	(1,200)
Net Annual Impact	1,434	1,335
Required Monthly Rental Rate		
Without Program	1,023	1,911
With Program	904	1,800

* Total tax savings. Amount attributable to City taxes is $310 for average case and $503 for high case.

Table III-2

Property Tax Exemption Program
Economic Benefits for Condominium Projects

Base Case 10 Year Exemption	Average Price	High Price
Unit Size (square feet)	850	1,600
Development Cost	250,000	470,000
Exempt Value	165,000	315,000
Annual Tax Savings* (@ $13.0025/$1,000 Valuation	2,145	4,096
Present Value 10 Year Savings (@ 6.5% discount rate)	15,423	29,444
Foregone Sales Proceeds		
Net Impact	15,423	29,444
Affordable Price		
Without Program	260,827	610,556
With Program	276,250	640,000

* Total tax savings. Amount attributable to City taxes is $425 for average case and $813 for high case.

Base Case 8 Year Exemption	Average Price	High Price
Unit Size (square feet)	850	1,600
Development Cost	250,000	470,000
Exempt Value	165,000	315,000
Annual Tax Savings* (@ $13.0025/$1,000 Valuation	2,145	4,096
Present Value 8 Year Savings (@ 6.5% discount rate)	13,063	24,938
Foregone Sales Proceeds		
Net Impact	13,063	24,938
Affordable Price		
Without Program	260,827	610,556
With Program	273,890	635,494

* Total tax savings. Amount attributable to City taxes is $425 for average case and $813 for high case.

Base Case 12 Year Exemption with Af	Average Price	High Price
Unit Size (square feet)	850	1,600
Development Cost	250,000	470,000
Exempt Value	165,000	315,000
Annual Tax Savings* (@ $13.0025/$1,000 Valuation	2,145	4,096
Present Value 12 Year Savings (@ 6.5% discount rate)	17,504	33,416
Foregone Sales Proceeds	(16,150)	(54,400)
Net Impact	1,354	(20,984)
Affordable Price		
Without Program	260,827	610,556
With Program	262,181	589,572

* Total tax savings. Amount attributable to City taxes is $425 for average case and $813 for high case.

In the average rent case, the estimated annual tax savings is $1,560 per unit. In order to provide the same return to the developer, a unit developed without the program would have to rent for $1,023 per month rather than $893 for a unit developed with the program. In the high rent case, the estimated annual savings is $2,535 per unit. A unit developed without the program would have to rent for $1,700 per month rather than $1,911 for a unit developed with the program.

The impacts of the 8 and 12 year exemption are also shown in the table. The impact of the reduced 8 year exemption period can be viewed in two ways. First, the property tax savings are available for the likely initial holding period for a project and thus are still available to reduce development risk. However, the value of the lost savings in present value terms is significant: $1,717 for an average rent unit ($11,217 for a ten year exemption minus $9,500 for an eight year exemption).

The affordable rent for a three person household at 80 percent of median income is $1,183 for a three person and $1,050 for a two person household. Required rental rates are slightly above affordable rates for the average rent units. The value of the exemption is higher because of the longer period in the 12 year case. However there is also foregone income related to the affordability requirement. In the case of the average rent unit, the foregone impact is small because the difference between affordable rent and market rent is small. In the case of the high rent unit, the foregone rent is high and the net annual impact declines significantly. A developer is likely to proceed with an eight year exemption project, rather than a twelve year one.

CONDOMINIUM UNIT BENEFITS

A condominium project participating in the program currently offers ten years of reduced property tax payments for the purchaser. The purchaser can afford to buy a more desirable unit and will qualify for a higher loan (or perhaps any loan) on the purchase. The impact on potential purchase prices is summarized in Table III-2. Two types of units are considered: A unit with average price in the market, and a higher amenity unit. The former unit is typical of McCarver Villa units, while the latter is typical of the condominiums on Thea Foss Waterway. The units considered are 850 square feet in the average price case and 1,600 in the high price case. Total development costs including land are $250,000 and $470,000 respectively for the two cases. The amount of exempt improvement value is estimated at $165,000 and $315,000 respectively. Using the 2007 total tax levy rate to all entities of $13.03 per $1,000 valuation, the annual tax savings per unit is estimated and translated into a net present value assuming 6.5 percent interest. In the average price case, the value of the tax savings to the purchaser is $15,400 for ten years. A purchaser could afford to pay $276,000 for a unit developed under the program, compared to $260,000 for the same unit if it weren't developed under the program. In the case of the higher priced unit, the value of the tax savings is $29,400. A purchaser could afford to pay $640,000 for a unit developed under the program, compared to $610,000 for the same unit if it weren't developed under the program. In either case, the higher purchase price provides an adequate return on cost to the developer.

The impacts of the 8 and 12 year exemption cases are also shown in the table. The impact of the reduced 8 year exemption is lost savings in present value terms of $2,360 for an average rent unit ($15,423 for a ten year exemption minus $13,063 for an eight year exemption).

The affordable price for a 3 bedroom unit for households with 115% of median income is $230,000. The value of the 12 year exemption is higher because of the longer period. However there is also foregone income related to the affordability requirement. In the case of the average condominium unit, the foregone impact is small because the difference between affordable price and market price is small. In the case of the high value unit, the foregone sales value is high and the net annual impact declines significantly. The net impact of the 12 year exemption with affordable housing is actually negative. The benefit to the purchaser of the exemption is more than offset by the foregone income of the developer. A developer is likely to proceed with an eight year exemption project, rather than a twelve year one.

IV. MULTIFAMILY DEVELOPMENT TRENDS AND PROGRAM IMPACT

A major objective of the program is to stimulate new development that wouldn't otherwise have occurred. Multifamily development trends are examined in this section at the regional level and city level to look for evidence of such an effect.

REGIONAL DEVELOPMENT TRENDS

Building permit data for the four central Puget Sound counties (Pierce, King, Snohomish, and Kitsap) have been compared by Puget Sound Regional Council for the period 1990 to 2005. (Data for 2006 were provided by US Census Bureau reports. Data for Kitsap County was not available.) The number of permitted multifamily units is shown in Table IV-1 and shown graphically in Figure IV-1. All four counties experienced reduced multifamily development in the early 1990s. Both King and Snohomish Counties experienced significant increases in activity beginning in 1996, while development activity in Pierce County remained relatively flat through 2001. Activity declined in all four counties with the economic slowdown in the region beginning in 2000. Pierce County experienced increased activity in 2004, but decreased activity in 2005 and 2006. King and Snohomish Counties experienced increased activity during those years.

Table IV-1

Multifamily Development Trends
Central Puget Sound Counties-1990 to 2006

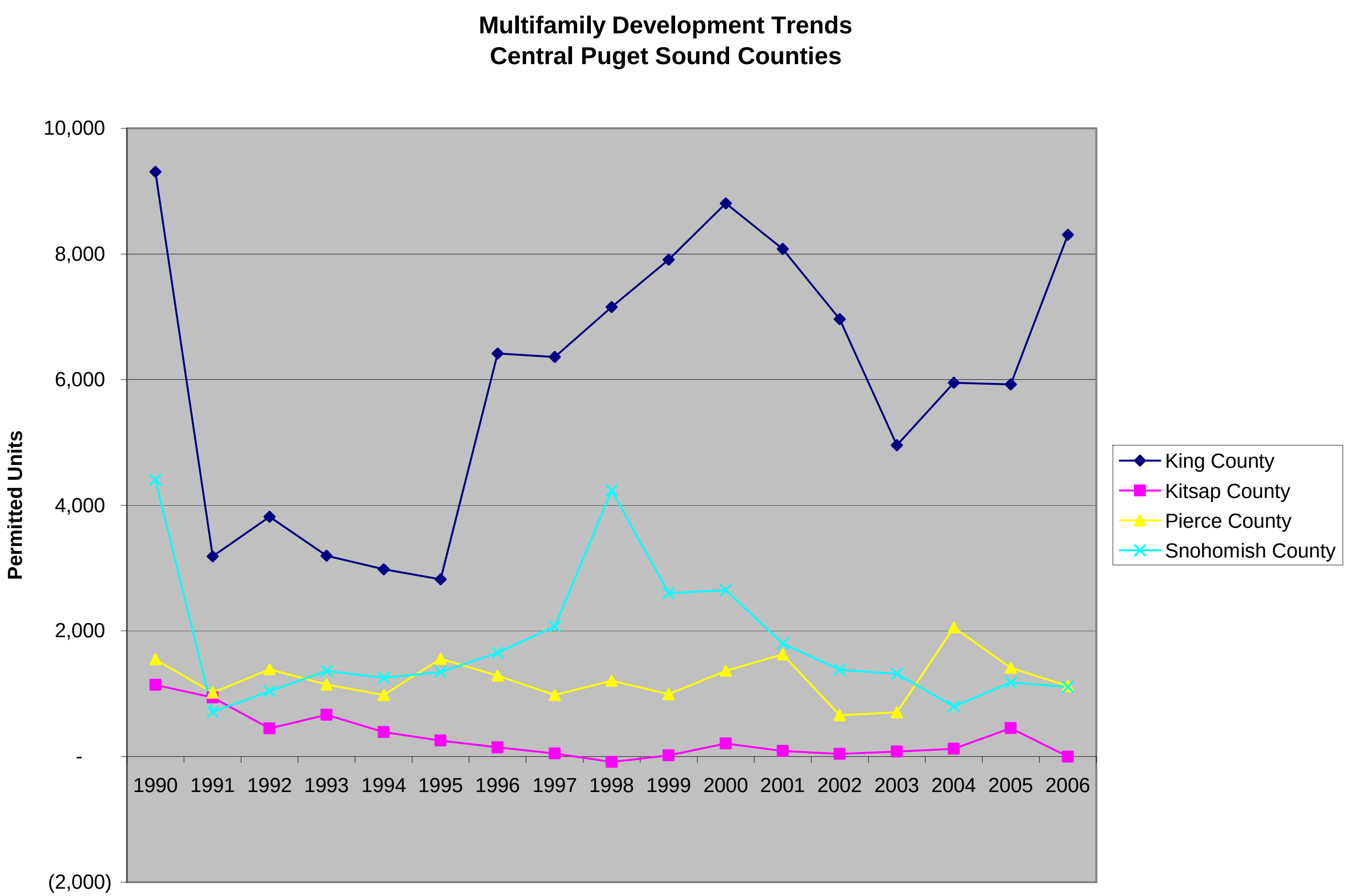
Permitted Units

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 *	Total
King County	9,307	3,184	3,816	3,195	2,980	2,821	6,416	6,361	7,153	7,908	8,802	8,081	6,959	4,956	5,951	5,923	8,305	102,118
Kitsap County	1,141	938	448	664	391	252	147	48	(87)	17	207	86	42	80	122	453	N/A	4,949
Pierce County	1,548	1,017	1,387	1,143	978	1,555	1,286	978	1,207	992	1,364	1,626	656	704	2,053	1,411	1,122	21,027
Snohomish County	4,405	709	1,041	1,360	1,251	1,347	1,653	2,070	4,234	2,602	2,645	1,800	1,382	1,316	797	1,178	1,105	30,895
Total	16,401	5,848	6,692	6,362	5,600	5,975	9,502	9,457	12,507	11,519	13,018	11,593	9,039	7,056	8,923	8,965	10,532	158,989

* 2006 Data from US Census Bureau, 2006 Building Permits. Data not available for Kitsap County.

Source: Puget Sound Regional Council, US Census Bureau.

Figure IV-1



Multifamily Development Trends
Central Puget Sound Counties
Permitted Units
10,000
8,000
6,000
4,000
2,000
-
(2,000)
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
King County
Kitsap County
Pierce County
Snohomish County

LOCAL DEVELOPMENT TRENDS

The numbers of completed units within and outside the mixed use centers are shown graphically in Figure IV-3. Development outside the mixed use areas occurred throughout the period, but development in the mixed use areas represented a larger share of total activity over time. Activity in the mixed use areas has been higher in each of the seven years beginning in 2000 than during any of the previous six years. These are the years in which program activity has been consistently strong while declining from the peak year 2002. The increase in activity lagged the initiation of the program by three years. Prior to that time, all program applications were required to be submitted in January through March of each year. While that activity in the mixed use centers has continued, the amount of activity outside the mixed use centers has fluctuated more dramatically over the period.

While the trends and influences are difficult to compare and isolate, there is evidence that the program contributed to multifamily development activity that might not otherwise have occurred.

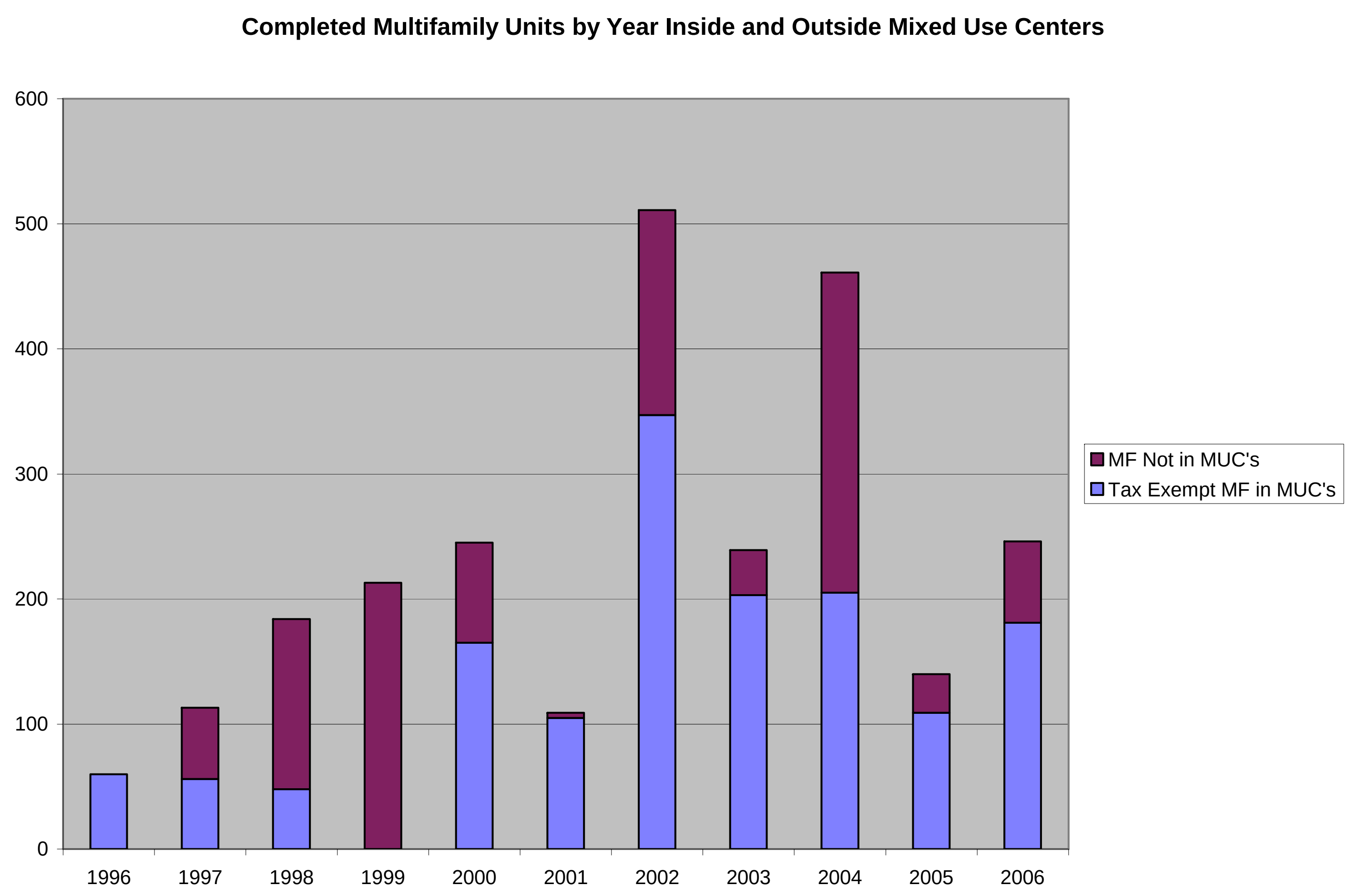
IMPACT OF PROGRAM

A variety of evidence suggests that the program has stimulated development that might not otherwise have occurred.

1. There has been a significant level of tax exempt program activity since its inception. Activity through 2003 occurred during a period when development activity in the county as a whole was relatively flat in comparison with King and Snohomish counties. The level of activity in the MUC's would not have been expected without the availability of the tax exemptions under the program. Since 2003, the level of program activity has followed the pattern of county-wide activity. The 1,932 units in completed projects and projects under construction in Downtown have almost met the City's goal of 2010 units by year 2010.

2. The theoretical economic benefits to developers and consumers are significant. There continue to be projects that don't proceed despite these benefits, however. While approvals for 17 projects with 1,674 units have expired since the beginning of the program, approvals for only three projects with 189 units expired during the past two years. Development conditions have improved since the 2005 study of the program, based on evidence through 2006.

Figure IV-2



Completed Multifamily Units by Year Inside and Outside Mixed Use Centers
600
500
400
300
200
100
0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
MF Not in MUC's
Tax Exempt MF in MUC's

While development conditions were strong through the end of 2006, a slowing in the real estate demand and a tightening in the credit markets for developers and purchasers is beginning to affect project feasibility in the summer of 2007. Developers of several condominium projects report that sales of completed units and pre-sales have slowed as new product reaches the market. This condition will likely be exacerbated by the crunch in credit markets. Foreclosures in subprime mortgages, higher risk loans to borrowers with low credit scores, have put pressure on all credit markets. This condition will be reflected in tightening of lending requirements and higher interest rates, particularly for jumbo mortgage loans, those over $417,000. The net impact will be to offset some of the stimulative effects of the tax exemption program.

Based on the limited evidence, we conclude that much of the development activity that has occurred under the program might not have occurred in the absence of the program. In order to test this conclusion, the impact of the program should be evaluated according to an assessment of feasibility given current development conditions. This issue is addressed in Section VI.

V. PROPERTY TAX IMPACT

As described in earlier sections, owners of apartments and condominiums developed under the program are exempt from property taxes on the value of housing improvements for ten years. Owners continue to pay taxes on the land value. It's possible to identify the amount of taxes paid by program participants, and to estimate the aggregate value of the tax exemption and the amount of property taxes that will be paid when the ten year period expires. These amounts are presented in this section.

PROPERTY TAX RATES

Owners are exempt from taxes on improvements by all taxing jurisdictions during the ten year period. The property tax rate in the City of Tacoma for 2007 taxes is shown in Table V-1.

Table V-1

Property Tax Rate in Tacoma – 2007

State	$2.2912/$1,000 Assessed Valuation
Pierce County	1.1779
Port of Tacoma	0.1856
City of Tacoma	2.5797
Emergency Medical Services	0.5000
Tacoma School District	5.5078
Metropolitan Park District	0.7603
Total	13.0025/$1,000 Assessed Valuation

Source: Pierce County Assessor

As shown, the total tax rate in the City was $13.0025 per $1,000 assessed value, of which $2.58 is the City levy. The largest component is the $5.51 levy by the Tacoma School District.

The tax rate has varied somewhat over past years as shown in Table V-2. The tax rate is determined by the budgets adopted by each jurisdiction, but is strongly affected by limitations on property tax collections. Collections by each jurisdiction are limited to a one percent increase over the previous year's collections plus collections on new construction. If the average valuation of existing property increases by more than one percent in a given year, the tax rate will be reduced. The limitation can only be lifted with voter approval.

Table V-2
Property Tax Rates in Tacoma 1996 – 2007

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
State	3.5534	3.5889	3.4509	3.3192	3.1806	2.9987	2.9160	2.9385	3.0260	2.9119	2.6388	2.2912
County	1.5731	1.6568	1.6479	1.7155	1.7591	1.7484	1.6773	1.6728	1.6137	1.5855	1.3835	1.1779
Port	0.1984	0.1842	0.1873	0.1859	0.1873	0.1788	0.1859	0.1840	0.1863	0.1863	0.1857	0.1856
City of Tacoma	3.9432	3.9277	3.8115	3.7452	3.7369	3.8401	3.6593	3.8989	3.8043	3.6656	2.9788	2.5797
EMS	0.3475	0.4200	0.4200	0.4200	0.4200	0.4191	0.3991	0.5000	0.4848	0.4688	0.4041	0.5000
Schools	7.4456	7.3400	7.7804	7.7864	7.9110	7.4775	7.2986	7.4232	7.4981	7.2800	6.5554	5.5078
Metropolitan Parks	1.1993	1.0789	1.0506	0.9407	1.1246	0.8728	0.9809	0.9772	0.9857	0.8512	0.8768	0.7603
Total	18.2605	18.1965	18.3486	18.1129	18.3195	17.5354	17.1171	17.5946	17.5990	16.9495	15.0231	13.0025

Source: Pierce County Assessor's Office

For purposes of estimating future tax payments, the tax rates are assumed to remain at current levels, but assessed values are assumed to increase at one percent per year.

TAXES PAID

Taxes paid on the land value for projects participating in the program can be identified from assessor data for each project. Taxes are considered for the period 1998 through 2007. Assessor data for years prior to 1998 is not available in electronic formats, and could not be used in this study. Further, the exempt value of improvements is not available in electronic format prior to 1999. In general, the first projects were approved in 1996, completed in 1997 and first appeared on the tax rolls in 1998. The taxes paid are shown by jurisdiction in Table V-3.

Table V-3

Property Tax Exemption Program

Taxes Paid on Land for Completed Projects

	2000	2001	2002	2003	2004	2005	2006	2007	Total
Assessed Valuation	1,753,000	2,609,300	4,086,200	5,267,025	9,771,700	12,550,100	18,728,100	29,635,400	
Taxes Paid to:									
State	5,576	7,825	11,915	15,477	29,569	36,545	49,420	67,901	224,229
County	3,084	4,562	6,854	8,811	15,769	19,899	25,910	34,907	119,795
Port	328	467	760	969	1,821	2,338	3,478	5,499	15,660
City of Tacoma	6,551	10,020	14,953	20,536	37,175	46,004	55,787	76,451	267,477
EMS	736	1,094	1,631	2,634	4,737	5,883	7,568	14,818	39,100
Schools	13,868	19,511	29,824	39,098	73,269	91,365	122,769	163,226	552,930
Metropolitan Parks	1,971	2,277	4,008	5,147	9,632	10,683	16,420	22,532	72,671
Total	32,114	45,755	69,944	92,671	171,972	212,717	281,353	385,334	1,291,861

Total taxes paid by program participants since the completion of each project totaled $1,292,000. The jurisdictions collecting the greatest amounts of taxes were the Tacoma School District and the City of Tacoma.

The assessed land value for properties included in both the 2006 and 2007 totals increased by 40.7% over the period. While this increase may not be sustainable over a longer period, it does suggest that the program contributes to higher land value than would otherwise be in evidence.

EXEMPT TAXES

The amount of exempt taxes can also be identified from assessor data. Assessor records show the value of improvements, but don't include that value in the total taxable value. Table V-4 summarizes the exempt taxes for completed projects.

Table V-4

Property Tax Exemption Program

Value of Exempt Taxes on Completed Projects

	2000	2001	2002	2003	2004	2005	2006	2007	Total
Assessed Valuation	6,321,600	14,371,100	23,042,900	23,989,100	60,809,900	67,143,600	80,749,050	101,478,200	
Exempt Taxes Foregone by:									
State	20,106	43,095	67,193	70,492	184,012	195,519	213,084	232,508	580,417
County	11,120	25,126	38,650	40,129	98,130	106,459	111,713	119,531	319,615
Port	1,184	2,570	4,284	4,414	11,330	12,509	14,997	18,830	36,290
City of Tacoma	23,623	55,186	84,321	93,531	231,341	246,123	240,536	261,787	734,126
EMS	2,655	6,023	9,196	11,995	29,481	31,475	32,630	50,739	90,825
Schools	50,010	107,460	168,181	178,076	455,957	488,808	529,339	558,921	1,448,492
Metropolitan Parks	7,109	12,543	22,603	23,442	59,941	57,154	70,799	77,154	182,792
Total	115,809	252,003	394,428	422,079	1,070,192	1,138,047	1,213,098	1,319,469	3,392,557

The tax exempt value of improvements increased to $101.5 million for 2007. The taxes that would have been collected if the value were taxable are $1.3 million in 2007 and $3.4 million over the life of the program to date. The amount of taxes that would have been collected by the City is $267,000 in 2007 and $734,000 since the beginning of the program.

The tax exempt value of improvements for the projects under construction and approved is estimated in Table V-5.

Table V-5

Property Tax Exemption Program

Estimated Value of Exempt Taxes on Projects under Construction or Approved

		Projects Und. Constr.	Approved Projects	U/C & Appr. Projects
Estimated Improvement Assessed Value		179,576,978	92,093,271	271,670,250
Annual Exempt Taxes Foregone by:	**$/$1000**			
State	2.2912	411,449	211,005	622,455
County	1.1779	211,523	108,476	319,999
Port	0.1856	33,322	17,089	50,411
City of Tacoma	2.5797	463,261	237,576	700,837
EMS	0.5000	89,788	46,047	135,835
Schools	5.5078	989,073	507,231	1,496,303
Metropolitan Parks	0.7603	136,532	70,018	206,550
Total	13.0025	2,334,948	1,197,442	3,532,390

* Building assessed value estimated as 2/3 of developer estimated cost.

The assessor has not yet placed a value on improvements that aren't complete. Based on our past experience, we estimated the value to be two-thirds of the cost estimates provided by the developers on the program application. The assessed improvement value for completed projects varied from 50 percent to 100 percent of reported estimated cost with most values within the range of 60 to 70 percent. As shown, the estimated assessed value of improvement upon completion is estimated to be $180 million for projects under construction and $92 million for approved projects. The annual value of exempt taxes is estimated to be $3.5 million. This is over twice the annual amount for completed projects.

Not all approved projects will be completed. However, the value of the exempt taxes will increase substantially over coming years as projects are completed.

FUTURE TAXES

Property tax payments will increase as the ten year exemption period for completed projects expires and the improvement value become taxable. Table V-6 summarizes the estimates of future tax payments over the period 2005 to 2019. Assessed value figures for land and improvements are assumed to increase at 1 percent per year. It's possible that values will increase at rates faster than average for the City and other taxing districts. If so, the effective value for program projects will grow at a rate greater than the one percent cap on property tax revenue increases. Evidence to date is inconclusive as to whether assessed values of program projects are increasing faster than other projects. The assessed improvement value for completed projects increased by 5.6% between 2005 and 2006 (for taxes in 2006 and 2007), within the range of increased values county-wide of 4.7%for condominiums and 7.1% for apartments.

It is assumed that projects under construction will be exempt for the period 2008 through 2017, and approved projects for the period 2009 through 2018. Land and improvement value for all completed, under construction, and approved projects is assumed to be taxable in 2019. The collections are shown graphically in Figure V-1.

As shown, tax payments will increase over the next decade with expiration of the exempt period for each project. With completion of all approved properties by the end of 2018, annual tax payments would increase to $6.1 million per year for all taxing jurisdictions. This amount would be reduced depending on how many of the approved projects are not initiated within three years.

It is also likely that properties adjacent to program properties will increase in value as a result of investment by program participants. Estimates of these effects were not within the scope of this study.

Table V-6

Tacoma Tax Exemption Program

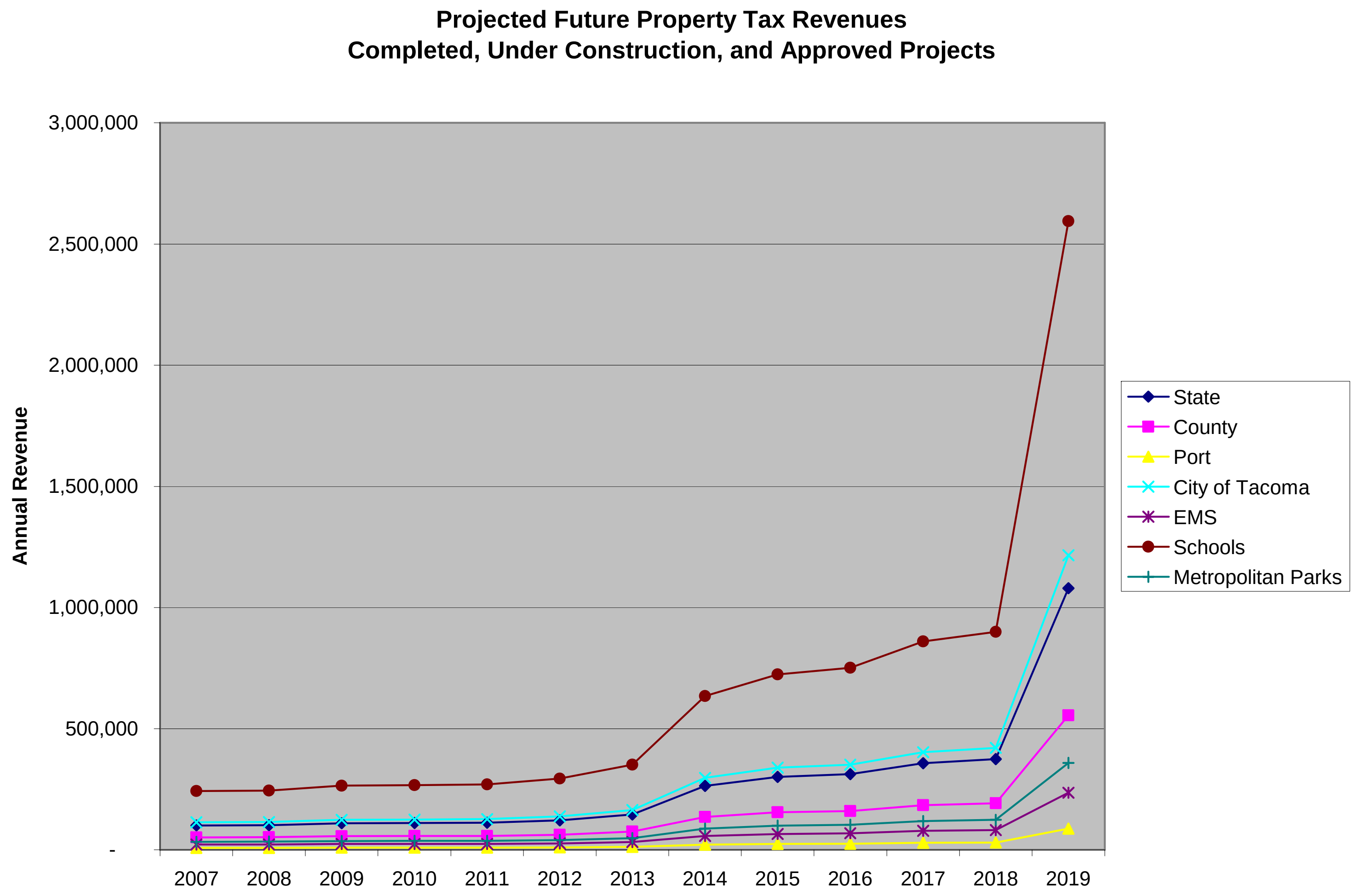
Projected Future Tax Payments for Completed, Under Construction, and Approved Projects

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assessed Valuation (000's)													
Completed Projects	23,416.1	23,650.3	27,044.0	27,314.4	27,587.6	31,721.5	41,922.2	93,153.3	109,249.7	113,808.2	133,471.9	140,338.0	141,741.3
Under Construction Project	13,273.2	13,405.9	13,540.0	13,675.4	13,812.1	13,950.3	14,089.8	14,230.7	14,373.0	14,516.7	14,661.9	14,808.5	217,308.4
Approved Projects	7,310.4	7,383.5	7,457.3	7,531.9	7,607.2	7,683.3	7,760.1	7,837.7	7,916.1	7,995.3	8,075.2	8,156.0	112,010.5
Total	43,999.7	44,439.7	48,041.3	48,521.7	49,006.9	53,355.1	63,772.2	115,221.7	131,538.8	136,320.2	156,209.0	163,302.4	471,060.3

Projected Tax Revenues-Completed Under Construction and Approved Projects

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
State	100,813	101,821	110,073	111,174	112,285	122,248	146,116	263,998	301,384	312,339	357,908	374,161	1,079,300
County	51,827	52,345	56,588	57,154	57,725	62,847	75,117	135,719	154,939	160,571	183,998	192,353	554,860
Port	8,165	8,246	8,914	9,004	9,094	9,900	11,833	21,380	24,408	25,295	28,986	30,302	87,409
City of Tacoma	113,507	114,643	123,934	125,173	126,425	137,642	164,515	297,241	339,335	351,670	402,978	421,277	1,215,210
EMS	22,000	22,220	24,021	24,261	24,503	26,678	31,886	57,611	65,769	68,160	78,104	81,651	235,530
Schools	242,341	244,765	264,602	267,248	269,920	293,869	351,244	634,617	724,488	750,823	860,367	899,436	2,594,502
Metropolitan Parks	33,453	33,787	36,526	36,891	37,260	40,566	48,486	87,603	100,009	103,644	118,765	124,158	358,146
Total	572,106	577,827	624,657	630,903	637,212	693,749	829,197	1,498,169	1,710,332	1,772,502	2,031,106	2,123,339	6,124,958

Figure V-1



Projected Future Property Tax Revenues
Completed, Under Construction, and Approved Projects
Annual Revenue
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
State
County
Port
City of Tacoma
EMS
Schools
Metropolitan Parks

VI. OTHER TAX REVENUES

In addition to the property taxes on land value and the ultimate property taxes on improvements, program participants contribute taxes through Retail Sales Tax and Business and Occupation (B&O) Tax on construction, Real Estate Excise Tax on condominium sales, and Retail Sales Tax on taxable purchases by residents in the developments.

ONE TIME TAXES ON CONSTRUCTION

Construction expenditures are subject to both retail sales tax and B&O tax. The construction value is taken from estimates on program applications. The value of completed projects and the associated tax payments are estimated to be as follows:

One-time Taxes on Construction		
Construction Value		130,565,000
Sales Tax on Construction	0.84%	1,096,746
B&O Tax on Construction	0.40%	522,260

ONE TIME TAXES ON CONDOMINIUM SALES

In addition, condominium sales are subject to the City's Real Estate Excise Tax. The average sales price is estimated conservatively, as $275,000 per unit. The total sales value and payment is estimated as follows:

One-time Taxes on Condominium Sales		
Units		378
Avg Sales Price	275,000	
Estimated Sale Price		103,950,000
Real Estate Excise Tax	0.50%	519,750

Additional real estate excise tax is collected each time a unit is resold (every seven years on average), as well as when sites are purchased and apartment buildings are sold.

ANNUAL TAXES ON RESIDENT PURCHASES

Residents of new units will make retail purchases. Using state-wide taxable sales data, the average per capita spending for retail trade and service sectors other than lodging was estimated to be $14,725 in 2005. Of that, $9,550 was taxable. The City's share of the retail sales tax is 0.84 percent after the State's administrative charges and the County share. Using these figures, and assuming an average household size of two, the estimated annual taxes on retail purchases is estimated to be as follows:

Annual Taxes on Resident Purchases		
Housing Units		1,329
Avg. Household Size		2
Total Population		2,658
Taxable Spending/Capita		9,550
Taxable Sales		25,383,900
Retail Sales Tax	0.84%	213,225

ANNUAL TAXES AND UTILITY CONSUMPTION

Residents of new and renovated units will consume utilities. Utility charges are subject to the City's utility tax. Power is taxed at a rate of 6 percent. Other utilities are taxed at 8 percent. An average rate of 7 percent is used in this analysis. Average utility expenditures for a two person household are updated by the US Bureau of Economic Analysis Consumer Expenditure Survey to be $2,500 per year. The annual utility tax is estimated to be:

Annual Utility Tax		
Housing Units		1,329
Avg. Ann. Utility Expense		2,500
Total Utility Expenses		3,322,500
Utility Tax	7.0%	232,575

PER CAPITA DISTRIBUTION FROM STATE

The State distributes gas tax, liquor tax, and criminal justice funds to cities on a per capita basis. The rate for 2006 was $36. The annual distribution attributable to the completed housing units is estimated to be:

Per Capita Distributions from State	
Housing Units	1,329
Avg. Household Size	2
Total Population	2,658
Distributions per Capita	36
Distributions	95,688

VII. FEASIBILITY ANALYSIS

The impact of the property tax exemption program is determined by whether development has occurred which otherwise wouldn't occur. Such is the case if the program allows a feasible project to be developed which is otherwise not feasible. The analysis described in this section addresses this issue for the current program and development regulations as well as the recent program changes and potential zoning changes. The section is organized in terms of:

Purpose and Method

Development Alternatives

Assumptions

Results and Conclusions

While the analysis addresses program changes such as the exemption period, it does not reflect the impact of changes to the reporting requirements.

PURPOSE AND METHOD

The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the cost of development to completed value to determine the entrepreneurial profit. Entrepreneurial profit is considered the compensation to a developer for incurring the risk of undertaking and completing a project. Entrepreneurial profit for any development plan is compared to a target rate to identify whether that option is feasible. A 15% rate is considered a typical rate falling within a range of 10% to 20%. Such a rate provides adequate incentive for a developer to assume the risk associated with development. While 15% is a preferred rate, 10% is considered a hurdle rate for this analysis. Entrepreneurial profit as percent of development cost is one measure of financial return. It shouldn't be confused with internal rate of return (IRR). A 10% entrepreneurial profit as percent of cost may be equivalent to an IRR of 20%.

The value of the completed development is estimated as the net sales proceeds in the case of a residential condominium project, or the capitalized value of the operating income in a stabilized year for a rental project. Developer cost is calculated as the sum of land acquisition, building construction, and soft costs.

DEVELOPMENT ALTERNATIVES

A series of alternatives are analyzed to reflect the impact of the program (no program, program with eight year exemption, and program with twelve years exemption and 20 affordable housing), rental versus ownership of units, classification of mixed use centers, and differing height alternatives. The mixed use center classification was presented as part of a market overview prepared as part of the City's Mixed Use Center review conducted by AHBL, Inc. (Property Counselors, City of Tacoma and Pierce Transit Mixed Use Development Center Opportunity Analysis, February 2007). Mixed Use Centers are classified as:

Established Market Areas where there is an existing proven market for new multifamily housing. This category includes Downtown Stadium and Tacoma Mall.

Emerging Market Areas where there is limited existing market activity but there are indications that the area is increasingly desirable. This category includes 6th and Pine, Proctor, Tacoma Central, Martin Luther King, 56th and South Tacoma Way, and Westgate.

Limited Market Area where there is limited market demand for the foreseeable future.

The physical development alternatives vary by height and type of construction:

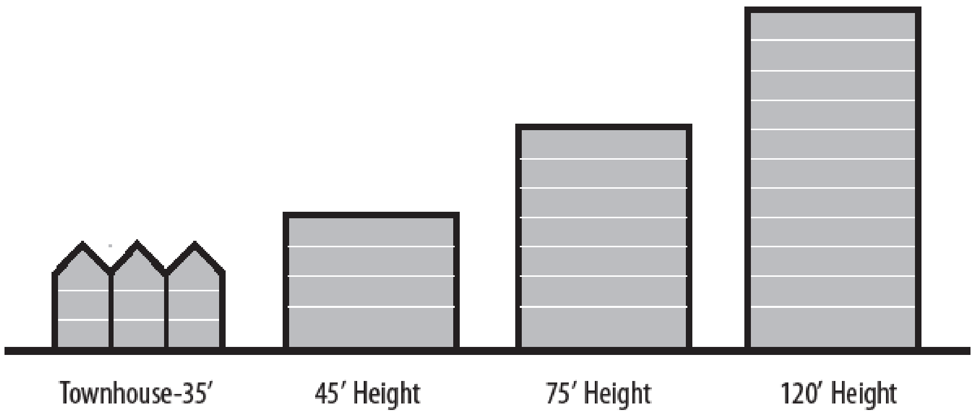
45' height is the existing height limit in most of the mixed use centers. Development is assumed to take the form of three floors of wood frame construction over one floor of underground parking and one floor of retail and above ground parking.

75' height is the height that allows many of the mid-rise buildings in downtown. Development is assumed to take the form of five floors of wood frame construction over one floor of underground parking and two floors of retail and above ground parking.

125' height is a development type that is occurring in parts of Downtown. Development is assumed to take the form of ten floors of concrete or steel residential construction over three floors of underground parking and two floors of retail and above ground parking.

Townhouses are three story attached structures with private garages.

The development alternatives are compared graphically below.



The characteristics of the four development types are summarized in Table VII-1.

Table VII-1
Comparison of Development Alternatives

	45' Height	75' Height	125' Height	Townhouses
Site Area (Square Feet)	10,000	10,000	10,000	10,000
Gross Building Area	34,000	50,000	100,000	13,000
Floor Area Ratio	3.4	5	10	1.3
Efficiency Rate-Residential	85.0%	85.0%	82.0%	100.0%
Net Building Area				
Residential	25,500	39,100	78,720	13,000
Retail	3,800	3,800	3,800	-
Dwelling Units	30	46	93	10
Parking (Stalls)				
Underground Structure	25	21	84	-
Aboveground Structure	15	40	40	10
Total	40	61	124	10

ASSUMPTIONS

There are a variety of assumptions that are important to the results. While many of the assumptions are constant across all cases, assumptions related to sales prices and rents are related to building height. All financial assumptions are summarized in Table VII-2.

Table VII-2
Feasibility Analysis Assumptions

	45' Height	75' Height	125' Height	Townhouses
Construction Cost				
Apartments Market (/ gr. sq. ft.)	105.00	120.00	185.00	105.00
Apartments Affordable (/gr. sq. ft.)	105.00	120.00	185.00	105.00
Condominiums Market (/gr. sq. ft.)	125.00	140.00	200.00	125.00
Condominiums Affordable (/gr. sq. ft.)	120.00	140.00	200.00	120.00
Retail (/gr. sq. ft.)	170.00	170.00	170.00	170.00
Underground Parking (/sp.)	27,300	27,300	35,100	
Aboveground Parking (/sp)	17,300	17,300	19,000	17,300
Soft Costs				
Apartments (% of constr.)	30.0%	30.0%	30.0%	30.0%
Condominiums (% of constr.)	40.0%	40.0%	40.0%	40.0%
Retail (% of constr.)	32.0%	32.0%	32.0%	32.0%
Land Price (/sq. ft.)				
Limited Market Areas	25.00	25.00	25.00	25.00
Emerging Market Areas	35.00	35.00	35.00	35.00
Established Market Areas	75.00	75.00	75.00	75.00
Rents				
Apartment Rent Affordable (/sq. ft./yr.)	14.40	14.40	14.40	14.40
Apartment Rent Market (sq. ft./yr.)				
Limited Market Areas	10.20	15.30	17.80	10.20
Emerging market Areas	11.50	17.80	20.40	11.50
Established Market Areas	12.75	20.40	25.50	12.75
Apartment Parking Rent (/sp/mo.)				
Established Market Areas	50.00	50.00	50.00	50.00
Retail Rent ($/sf/yr Net)				
Limited Market Areas	18.00	18.00	20.00	
Emerging Market Areas	18.00	18.00	20.00	
Established Market Areas	18.00	18.00	20.00	
Apartment Exp. (/sq. ft./yr.)	5.00	6.60	7.80	5.00
Capitalization Rate				
Apartments	6.5%	6.5%	6.5%	6.5%
Retail	7.5%	7.5%	7.5%	7.5%
Condo Sales Price				
Condo Sales Price Affordable (/sq. ft.)	230.00	230.00	230.00	230.00
Condo Sales Price Market (/sq. ft.				
Limited Market Areas	150.00	250.00	300.00	150.00
Emerging Market Areas	225.00	325.00	375.00	225.00
Established Market Areas	325.00	375.00	450.00	300.00
Condo Sales Costs (% of Price)	8.0%	8.0%	8.0%	8.0%

Construction costs reflect today's prices. Rents and sales prices reflect estimated market conditions within the three classifications of mixed use centers, but may not reflect a protracted slowdown in condominium sales.

Land prices are identified for the base cases and assumed at the same level for each alternative. The implicit assumption is that any increased value resulting form the higher density accrues to the project and not the land. Assumed prices vary from $25 per square foot to $75 per square foot. The low end price reflects the cost of assembling one or more single family lots and demolishing the existing structures. At the high end, the price reflects some recent sales in the Downtown.

The parameters for the affordable housing are based on affordable rents of $1,000 for a two bedroom unit at 80% of median income, and $230,000 for a 1,000 square foot condominium at 115% of median income.

Operating expenses are assumed to be lower for the tax exemption cases, and potential sales prices are higher.

As noted earlier, the analysis does not reflect the impact of changes to the reporting requirements, nor does it reflect recent changes in the development conditions describes in Section IV.

RESULTS AND CONCLUSIONS

The results of the analysis can be expressed in terms of absolute feasibility – meeting the target rate or not – or in terms of the increased performance of alternatives in comparison with the base cases. A particular case is considered feasible if the developer profit falls within the acceptable range of 10% or greater as highlighted in Table VII-3. The results for the various alternatives can be expressed simply as follows:

> If the developer return exceeds the 10% hurdle rate without the use of the program, the analysis indicates that the program may not be necessary to stimulate development. The alternatives where this is true are indicated in yellow in the table.
>
> If the developer return exceeds 10% with the exemption but not without it, the analysis indicates that the program is still necessary to provide an incentive. The alternatives where this is true are indicated in green in the table.
>
> If the developer return doesn't exceed 10% for the eight or twelve year exemption periods, projects are not feasible under current conditions even with the program. The alternatives where this is true are indicated in red in the table.

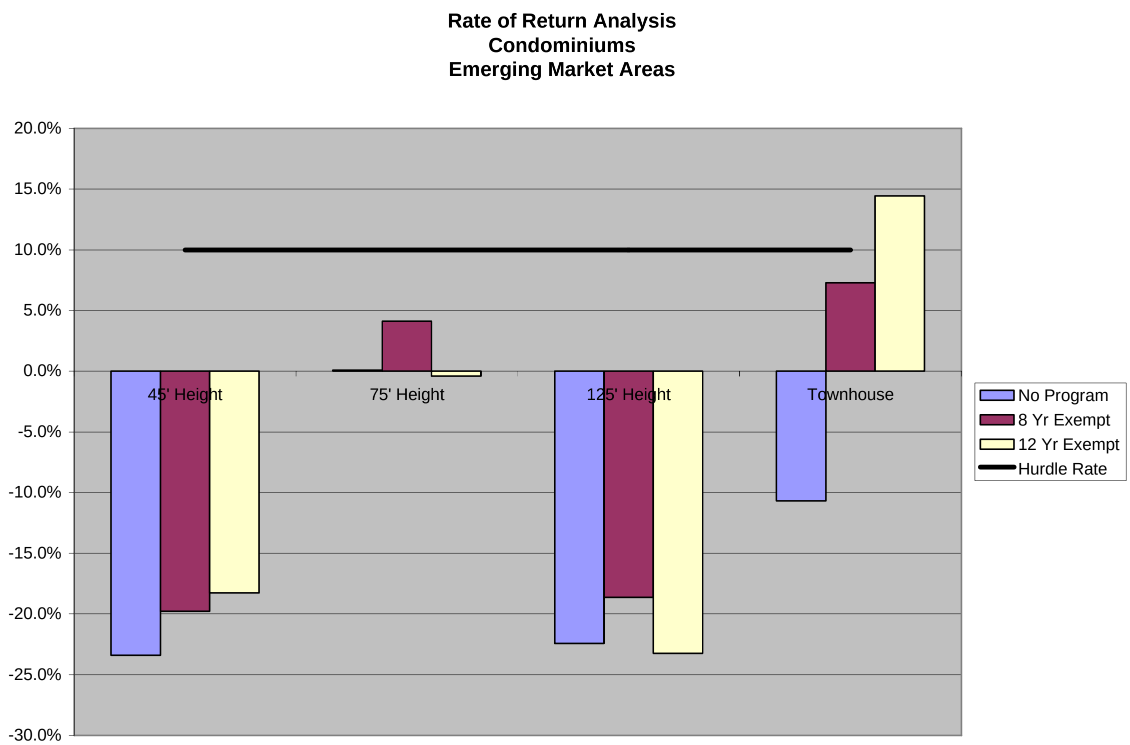
Table VII-3
Comparison of Feasibility Results
Entrepreneurial Profit as % of Development Cost*

APARTMENTS					75' Height	
	No Program	8 Yr Exempt	12 Yr Exempt	No Program	8 Yr Exempt	12 Yr Exempt
Limited Market Areas	-58.2%	-49.4%	-49.4%	-41.9%	-32.1%	-33.2%
Emerging Market Areas	-51.1%	-42.5%	-42.5%	-27.8%	-18.1%	-22.1%
Established Market Areas	-41.4%	-33.3%	-34.4%	-10.4%	4.0%	-3.9%
		125' Height			Townhouse	
	No Program	8 Yr Exempt	12 Yr Exempt	No Program	8 Yr Exempt	12 Yr Exempt
Limited Market Areas	-58.6%	-48.8%	-51.1%	-45.9%	-45.9%	-2.4%
Emerging Market Areas	-48.3%	-38.5%	-43.0%	-47.0%	-34.8%	-34.8%
Established Market Areas	-24.9%	-15.3%	-24.5%	-54.0%	-20.1%	-20.9%
CONDOMINIUMS		45' Height			75' Height	
	No Program	8 Yr Exempt	12 Yr Exempt	No Program	8 Yr Exempt	12 Yr Exempt
Limited Market Areas	-46.2%	-42.5%	-41.1%	-19.4%	-15.4%	-15.5%
Emerging Market Areas	-23.4%	-19.8%	-18.3%	0.1%	4.1%	-0.4%
Established Market Areas	1.6%	5.0%	0.9%	7.7%	11.6%	4.6%
		125' Height			Townhouse	
	No Program	8 Yr Exempt	12 Yr Exempt	No Program	8 Yr Exempt	12 Yr Exempt
Limited Market Areas	-35.4%	-31.6%	-33.2%	-40.0%	-35.0%	-33.1%
Emerging Market Areas	-22.4%	-18.6%	-23.2%	-10.7%	7.3%	14.4%
Established Market Areas	-12.2%	-8.1%	-15.7%	5.5%	9.7%	6.4%

Yellow	Tax exemption not required for feasibility.
Green	Tax exemption necessary for feasibility.
Red	Projects not feasible under current conditions even with program.

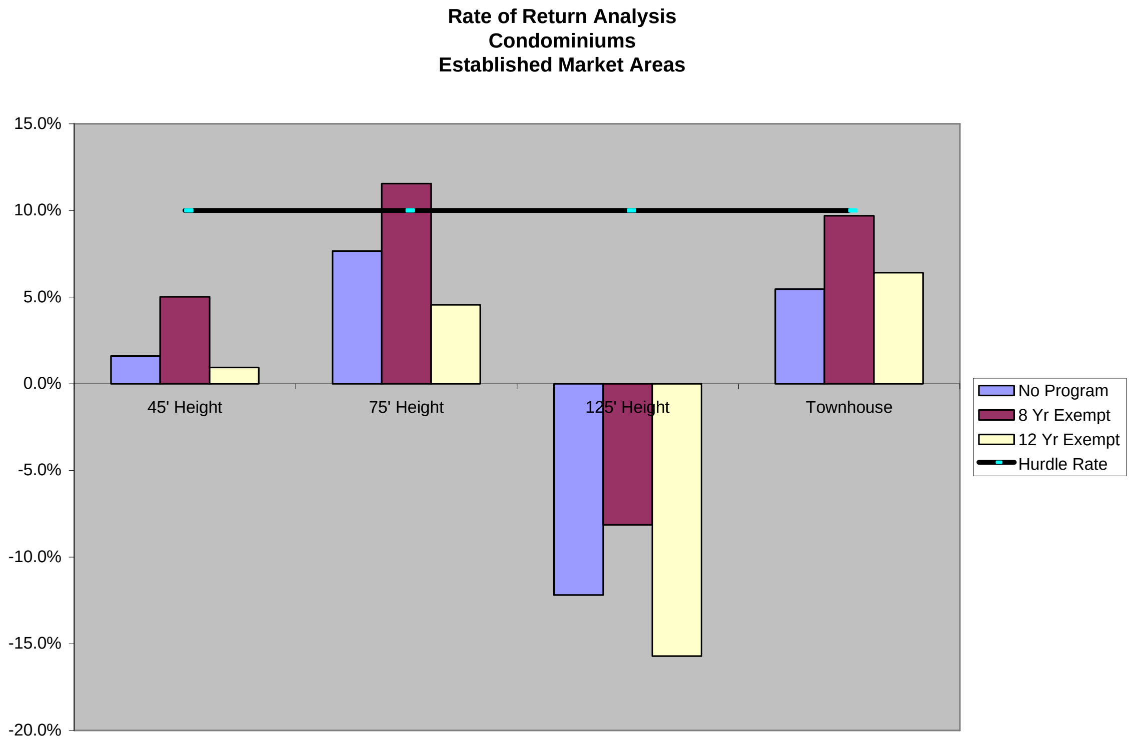
The results are shown graphically in Figures VII-1 and VII-2. The rates of return on cost are compared to a 10% hurdle rate in the figures.

Figure VII-1



Rate of Return Analysis
Condominiums
Emerging Market Areas
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
-25.0%
-30.0%
45' Height
75' Height
125' Height
Townhouse
No Program
8 Yr Exempt
12 Yr Exempt
Hurdle Rate

Figure VII-2



The results can be further summarized as follows:

1. Apartment project returns are less than 10% for all cases. The program provisions do not provide adequate incentives to overcome current weak development conditions.
2. Condos project returns in the 45' height cases also fall short of the 10% hurdle, even with use of the program. The established market areas are the only cases where the return is even positive.
3. Condos project returns in the 75' height cases fall short of the 10% hurdle in all cases except with use of the 8 year exemption in the established market areas.
4. Condos project returns in the 125' height cases are negative in all market areas even with use of the program. The premiums for prices in taller buildings aren't sufficient to justify the higher costs of construction.
5. The Townhouse project returns exceed the 10% hurdle for the 12 year exemption in the emerging market areas. Market prices don't exceed affordable prices, so there is no income loss for providing affordable units.

In summary, the analysis indicates that the tax exemption program is necessary but not sufficient for feasible development for all building alternatives and market areas. The results reflect the worsening of development conditions since the end of 2006, the end date for the program activity figures presented in this report. Even this conclusion should be tempered by two considerations. First, the 10% hurdle rate is at the low end of the feasible range and may not be adequate if more profitable development opportunities are available elsewhere. Second, with recent problems in the credit markets, higher hurdle rates may be necessary to secure project financing.

VIII. COMPARISON WITH TAX EXEMPTION PROGRAMS IN OTHER COMMUNITIES

The multifamily residential property tax exemption program is available to other cities in the State of Washington with a population over 15,000 (30,000 prior to the recent changes) or the largest city in a county planning under the State's Growth Management Act (GMA). Similar programs are also available in Oregon cities. Table VIII-1 provides a comparison of the features of seven programs in Washington and Oregon evaluated in the 2005 study. The similarities and differences are repeated below together with some comments on the current status of the programs in some communities.

STATED PURPOSE

The purpose of the programs in all cities is to stimulate multifamily development. The Washington cities use the program to further the mandates of GMA. The City of Seattle has further stated objectives regarding mixed income development and worker housing.

The City of Portland has currently placed a moratorium on the program subject to redefining the objectives and program requirements. Program changes that are being considered are changes in affordability limits, requiring additional public benefits, and limitations on the total amount of foregone revenue that will be approved.

GEOGRAPHIC TARGETING

The geographic scope of the programs varies. All programs, with the exception of Seattle's, are available in the downtown area of each city. Tacoma and Seattle both make the program available in diverse areas throughout the cities. Eugene makes the program available along main transit corridors in support of transit oriented development (TOD). As described in Section II, Tacoma also has a stated purpose of encouraging higher densities to support transit use.

Seattle recently completed an analysis of its program and staff recommended that two geographic areas be added.

EXEMPTIONS

Exemptions were available for 10 years under all the programs. As noted, future projects will be eligible for eight or twelve year exemption periods. Further, the exemption is not available for land or non-residential improvements. The City of Auburn specifies a

Table VIII-1
Comparison or Property Tax Exemption Programs

	Seattle, WA	Tacoma, WA	Everett, WA	Auburn, WA	Vancouver, WA	Portland, OR	Eugene, OR
Purpose	Implements Growth Management Act. Promotes mixed-income and workforce housing	Accommodates population growth, encourages new investment and provide additional multifamily housing Include reference to GMA	Attract additional housing to the urban center to increase the number of residents.	Encourage residential development in the downtown core; assist in directing future growth; meet GMA requirements	Stimulate occupied multi family homes for downtown redevelopment.	Increase Multi-family housing in core areas	Encourages new multi-family housing (5 units or more) in the core area and along mass transit corridors
Geographic targeting	Yes, 17 target areas	14 mixed use centers	Urban Center	Downtown core	Primarily downtown	Central City of URA's	Core area and Transit Oriented Development
Exemption	New, added or rehabbed residential units in residential or mixed use buildings (with 50% residential space). Land and nonresidential space is not exempt	New, added or rehabbed residential units. But not Land, nonresidential space and existing occupied residential units.	10 years – improvements only. Land continues to be taxed	10-year exemption on new residential units with a minimum investment value of at least $200,000	New, or rehabbed residential units in residential or mixed use buildings. Land and non-residential space is not exempt.	10-year exemption on New residential development or conversion from nonresidential to residential use. Land not exempt. Commercial not exempt	10 years – improvements only. Land continues to be taxed
Minimum Number of Units	Minimum of 4 units	Minimum of 4 units	Minimum of 20 units	Minimum of 30 units	Minimum of 4 units	Minimum of 10 units	Minimum of 5 units
Public Benefits	Yes	None	None other than the housing	None	New residents living in downtown	Yes, public benefit options and requirements	Yes, must be documented
Affordability Requirement	Yes for rentals • 30% of units at or below 70% MFI or • 25% at or below 65% • 20% at or below 60 MFI Yes for condos • 100 % of FHA mortgage limit • Buyers income at or below 80%	No	No	None	Encouraged but not required	Rental projects: 20% of units affordable to HHs at or below 60% MFI Condos: Price cap at 95% FHA mortgage limit Buyer income limit of 100% MFI/family of four	No
Other	Affordable units must have same level of fixtures and quality of finish as higher (???) City has "right of first offer to purchase multifamily rental projects for the duration of exemption plus one year If housing demolished for new construction, replacement housing provisions	No displacement of existing tenants allowed. Vacant apartment buildings must be unoccupied for 1 year.	No displacement of existing tenants allowed. Vacant apartment buildings must be unoccupied for 1 year.	Other			Local provisions added to protect historic and potentially historic structures. Applicant will respond to some quality guidelines – designed to promote higher quality development.
Monitoring of Public Benefit Compliance	ANNUAL REPORTING ON AFFORDABILITY AND REPLACEMENT HOUSING	No	No	Annual compliance review	Annual Compliance Review	Yes, annual reporting on affordability	Monitored at the time of completion
Financial Feasibility Test	No	NO	No	No	Reviewed By Redevelopment Authority	Must show less than 10% IRR with exemption for length of exemption	Proformas is considered by City Council at the time of exemption.
Financial Monitoring	No	No	No	No	No	No	No

Source: City of Tacoma

Minimum improvement value of $200,000 up from $150,000 per unit during the previous evaluation.

MINIMUM NUMBER OF UNITS

Seattle, Tacoma, and Vancouver have the lowest minimum, the four unit requirement allowed by State statutes. Auburn and Everett have higher minimums. Portland and Eugene have limits of ten and five units, respectively. The tax exemption programs are reported to be important tools for stimulating redevelopment, particularly in downtown areas.

PUBLIC BENEFITS

The Oregon cities and Seattle have additional public benefit requirements. Examples of such benefits are public open space, daycare facilities, LEED certification and affordable housing.

AFFORDABILITY REQUIREMENTS

Seattle and Portland have affordability requirements, but the other cities do not. As shown, Seattle and Portland require that specified percentages of units be affordable by households with incomes under the median income for that County.

Seattle requires that income be less than 80 percent of median. Further, the maximum price is set at the FHA mortgage limit. The staff recommendations call for increases in the allowable sales prices and rents

OTHER REQUIREMENTS

As shown in the table, there are a variety of other requirements, many of them specified in the Washington statutes. Other notable requirements are quality guidelines in Eugene and Seattle, and Seattle's right of first refusal to repurchase projects during the exemption period.

FEASIBILITY TEST

Vancouver, Portland and Eugene review development proformas, and Portland restricts the project's rate of return.

MONITORING

Vancouver, Auburn, and Portland provide annual comprehensive reviews upon completion. Tacoma and Everett have no formal reviews other than insuring that the tax exempted property continues to provide the housing for which it was exempted.

SUMMARY

Tacoma has the oldest and most active of the programs in Washington. Portland has had a multifamily tax exemption program since 1975 with an estimated 5,000 housing units benefiting. Currently the program receives two or three requests per year. Other cities in Washington are considering establishing such programs. The recent changes to the program expand the eligibility for cities to participate from a minimum population of 30,000 to 15,000. With nearby cities implementing the Property Tax Exemption program, it may be necessary for Tacoma to retain the program generally in some form in order to stay competitive with the surrounding communities.

Tacoma's program generally follows the State statute. Programs in all cities were initiated in response to housing market conditions specific to their areas. Tacoma and the Washington cities other than Seattle were interested in stimulating all types of multifamily housing, particularly market rate housing. Cities like Seattle and Portland that were already experiencing strong demand for market rate housing focused their program efforts on housing for households with incomes below median income.

IX. PROGRAM RECOMMENDATIONS

OVERVIEW

The City's goal of attracting multifamily housing to its mixed use center areas is being met in some centers while not in others. Based on the discussion in Section IV and VII, we conclude that much of the new development in the past would not have occurred without the Property Tax Exemption Program. Thus, most of the exempt taxes on improvement value would not have been available to taxing jurisdictions either with or without the program. Development conditions have improved since the 2005 study of the program, based on evidence through 2006. With recent changes in the credit markets, current development conditions are not nearly as strong. Given these conditions, major changes to the program are not justified at this time. These and related recommendations are presented in this section.

Overall, it continues to be true that while some of the development might have occurred in the future as real estate markets matured, in either case the revenues would not be available for several years. With the Property Tax Exemption program the new value will be on the tax rolls at predictable times. We believe that the program has been successful and will generate long-term tax benefits to the City and other taxing jurisdictions.

RECOMMENDED CHANGES

Acknowledging the benefits of the program, it's still appropriate to consider potential changes. Our recommendations regarding several potential changes are summarized in Table IX-1 and discussed in the remainder of this section.

1. Program Eligibility

   The feasibility analysis indicates that not all types of projects in all MUC's need to make use of the program. We recommend that:

   a. No additional restrictions be placed on rental projects in any of the MUC's

   b. No additional restrictions be placed on condominium projects in any of the MUC's in the Limited or Emerging Market categories.

   c. No additional restrictions be placed on those projects in any of the MUC's in the Established Market categories. Projects in these MUC's, particularly those less than 75' in height, may become feasible without the program as market and credit conditions improve. A regular update of the feasibility analysis can identify when these conditions are achieved.

Table IX-1
Recommended Program Features by Mixed use Center Classification

	MUC Classification		
	Limited Market	**Emerging Market**	**Established Market**
Mixed Use Centers	38th and G	Proctor	Downtown
	Lower Portland Avenue	6th and Pine	Stadium
	72nd and Pacific	Tacoma Central	Tacoma Mall
	72nd and Portland	James Center	
		56th and So. Tacoma	
		Martin Luther King	
		Westgate	
Program Eligibility			
Apartments	Eligible	Eligible	Eligible
Condominiums			
< 75'	Eligible	Eligible	Eligible
> 75'	Eligible	Eligible	Eligible
Allowable Exemption Period			
8 Years	Available	Available	Available
12 Years with 20% Affordable Housing	Available	Available	Available
Requirement for 12 Month Vacancy	Eliminate	Eliminate	Eliminate
Design Review	Part of City-wide	Part of City-wide	Part of City-wide
Financial Reporting	As required by Statute	As required by Statute	As required by Statute
Public Benefits			
Crime Free Training and Design	Encouraged	Encouraged	Encouraged
Prevailing Wage	Not Required	Not Required	Not Required
LEAP/HUB	Not Required	Not Required	Not Required
Others	Not Required	Not Required	Not Required

2. Affordability Requirements

The property tax exemption program can be used to build affordable housing but was not set up specifically for that purpose. As noted in the 2005 analysis, the program was used for the 40-unit affordable senior housing project at 1205 11th Street & MLK. Affordable housing developers have other, generally more valuable, incentives for affordable housing, and are forced to choose between those incentives and accessing the property tax exemption program. These programs include total property tax exemption for affordable housing for households with incomes less than 50 percent of median income and have State housing trust fund money investment, and total property tax exemption for affordable housing serving special needs populations and providing services. The multifamily property tax exemption program could be modified to require that a certain percentage of units be affordable to residents with incomes below specified levels. In many projects, units may already meet affordability thresholds, particularly smaller units or those on lower floors or on the back side of the building. A requirement such as Seattle's that affordable units meet the same quality standards as other units, might mean that such units wouldn't meet the affordable requirements. Generally, if a unit is required to meet the same quality standard as a market rate unit but rent for a lower amount, there will be a reduced incentive to the developer. As a result, there will be fewer housing opportunities under the program for all households, whether low, medium or higher incomes. Adding an affordability requirement to the tax exemption program may not further the City's objective of stimulating housing of all types and household incomes. However, an affordability incentive or incentives would be appropriate and may be required for mixed income development to occur.

The new State statute reduces the available exemption period to eight years, but allows for a longer exemption period of 12 years for projects including 20% affordable units. The feasibility analysis indicated that a project built to 75' in established market areas, while not feasible under current conditions, would achieve a higher return with an eight year exemption period than one with affordable housing units and a twelve year period. If these results are true in the future, the City could require that an eligible project must provide the 20% affordable housing component.

We recommend that the program include the affordable housing option for all projects.

3. Requirement for 12 month Vacancy to Demolish Existing Housing

   The recent legislation removes the requirement that a structure be vacant for 12 months before a project is eligible for the program. This requirement provides an extra burden on a project in terms of lost time and interim revenues. We recommend that the requirement be eliminated in all cases.

4. Require Prevailing Wages

   The City has received requests that all benefiting projects be required to pay prevailing wages as defined by union wage scales. Most multifamily construction is not subject to these requirements. There is no consensus on the impact of such requirements. A paper by researchers at the Berkeley Program on Housing and Urban Policy, and supported by a grant from the US Department of Housing and Urban Development (Sarah Dunn, John M. Quigley, and Larry A. Rosenthal, *The Effect of Prevailing Wage Requirements on the Cost of Low Income Housing*, October 2005) addressed the specific issue of housing. Using one statistical method, the researchers concluded that "prevailing wage requirements increased the cost of housing construction by 9% to 11%." Using a second model, the estimated increases were higher.

   An issues brief by the Fiscal Policy Institution (*The Economic Development Benefits of Prevailing Wages*, May 2006) references studies with different conclusions. In summary, the authors of the brief state that "Prevailing wage does not raise overall costs since higher construction wages are usually offset by greater productivity, better technologies, and other employer savings."

Any requirement that increases the cost of construction would offset the development stimulus of reduced taxes. Such a change could reduce the desirability of the program and reduce production of multifamily housing in designated areas. We recommend no change in this policy given the current credit market conditions. The requirement for prevailing wages could be required later as one of several options for program eligibility for condominium projects at a 75' height in the Established Market areas.

5. Design Review

   A concern has been expressed to require that eligible projects undergo design review in order to receive the tax benefit. The City now requires that the projects meet the same standards as other multifamily projects. The City is conducting an overall evaluation of design review which should reach Council in the spring of 2008. A design review program for all properties would not penalize tax exemption program projects, although it would contribute to higher development costs.

6. Requirement for HUB/LEAP

   Participation in programs such as Historically Underutilized Businesses (HUB) and Local Employment and Apprenticeship Program (LEAP) represent both existing and potential requirements in Tacoma. The net effect of requiring such features or programs would be to impose unfamiliar elements on developers or to mandate costs that couldn't be recovered fully through higher rents and sales prices, thereby offsetting all or a portion of the tax benefit. Requirements such as these are not justifiable given current development conditions. In the future, such provisions could be considered for those MUC's and development types (for example, 75' wood frame projects) that are approaching feasibility without the exemption program.

7. Requirements for Crime Free Multifamily Housing Training or Crime Prevention through Environmental Design

   These programs could pay for themselves if they are truly effective. If they aren't, any requirements will simply increase the cost of housing. The training program would likely not place an unusual burden on projects. Participation in CEPTD is recommended as part of a city-wide design review program. More specifically, the "Defensible Space" approach of CPTED principles to multi-family housing development should be adopted.

8. Requirements to Share Financial Information

   The new State Statute requires that the City report annually on the cost of each unit of housing produced under the program. This cost can be reconciled with the sales tax collections on construction by the City. Requirements for income verification will place a burden on owners and renters, but are a necessary price for the benefit received. No additional financial information should be required.

8. Limits on Density or Spacing of Projects

   The question has been raised regarding potential limits on the number or spacing of units produced under the program for any geographic area. Given the underlying goals of the program to encourage development that meets the cities density targets under the Growth Management Act, there is no obvious rationale for imposing maximum limits on density. These same goals provide a justification for minimum densities. The feasibility analysis indicates that additional incentives may be necessary to make some of the higher density development types feasible. The property tax exemption may not be adequate as a stimulus to development above 75' even with improved development conditions.

9. Impacts on Taxing Jurisdictions

   The analysis in Section V documents the amount of tax revenue foregone by jurisdictions as a result of tax exemptions. To the extent that the development would not have occurred in the absence of the program, the revenue is not really lost. However those jurisdictions that have increased demands for service do experience some adverse financial impact in the short term. In particular, the school district may need to educate additional students. While the student generation factors are lower for multifamily units, there is still an impact. This effect is one of the issues that the City of Portland is considering in changes to their program.

   City staff collected data from the school district regarding the number of students living in tax exempt units. As of May 9, 2006, there were an estimated 147 students in 1,247 units (0.11 students per unit). Applying the same ratio to the number of completed units in 2007, the cumulative estimated number of students this year would be 156. According to the District's 2006/2007 budget, the average cost per student funded by local taxes was $2,320. Applying that cost factor, the estimated cost to the district of serving students from the tax exempt units is $361,000. As shown in Table V-3, the property taxes paid to the district on land in the exempt projects in 2007 are estimated to be $163,000. The shortfall is approximately $200,000. The amount of foregone tax by the district in 2007 as shown in Table V-4 was $559,000, significantly greater than the net cost to the district. There will be a shortfall to the district during the ten year exemption period, but there will be a significant surplus when the exemption period expires.

APPENDICES

1. PROGRAM ACTIVITY DETAIL

2. LOCATION OF TAX EXEMPT MULTI-FAMILY PROJECTS

Stadium, Martin Luther King, Downtown and Lower Portland Avenue MUC's

6th Avenue & Pine and Tacoma Central MUC's

Tacoma Mall and 56th & South Tacoma Way MUC's

KEY	PROJECT	STATUS	STATUSDATE	YEAR ADD	APTCOST	CONDOCOST	# APTS	# CONDO	MUC
1	Armani Investments LLC	Completed	8/31/2004	2002	175,000	-	4	-	MARTIN LUTHER KIN
2	Awesome Investment	Expired	12/4/2000	2000	1,250,000	-	8	-	DOWNTOWN
3	Broadview Condos	Construction		2004	-	18,500,000	-	100	DOWNTOWN
4	Broadway 5 LLC	Completed	5/24/2002	1999	635,000	-	10	-	DOWNTOWN
5	Broadway Associates 1	Completed		2004	11,500,000	-	100	-	DOWNTOWN
6	Broadway Center Investors	Canceled		2002	1,400,000	-	8	-	DOWNTOWN
7	Charles R. Johnson II	Canceled		2004	800,000	-	8	-	DOWNTOWN
8	Cherry Orchard LLC	Completed	1/28/2005	2004	500,000	-	8	-	TACOMA MALL
9	Claude and Claire Remy	Construction		2004	3,600,000	-	55	-	TACOMA MALL
10	Commencement Place (Conservat	Completed	5/21/1998	1997	2,850,000	-	48	-	DOWNTOWN
11	Conservatory Place	Completed	11/21/1997	1997	2,350,000	-	40	-	DOWNTOWN
12	Crest Condos	Completed	7/29/2003	2001	-	600,000	-	4	DOWNTOWN
13	Dobler Investements	Canceled 0		1997	2,000,000	-	40	-	TACOMA MALL
14	Dobler Investments	Completed	1/24/2002	1997	4,095,000	-	91	-	TACOMA MALL
15	Dobler Investments	Canceled		1997	1,305,000	-	29	-	TACOMA MALL
16	Dobler Limited Partnership	Completed	1/14/2004	2002	950,000	-	15	-	TACOMA MALL
17	Dobler/School Land	Completed	10/5/2000	2000	2,300,000	-	40	-	TACOMA MALL
18	DRK Development	Completed	1/7/2001	1999	480,000	-	12	-	TACOMA CENTRAL
19	Fawcett LLC	Expired		2001	15,500,000	-	65	-	DOWNTOWN
20	Foss Devel. LLC	Expired		2001	35,000,000	-	50	-	DOWNTOWN
21	Foss Waterway Development Auth.	Expired		2001	20,000,000	-	174	-	DOWNTOWN
22	Foss Waterway Development Auth.	Expired		2001	25,000,000	-	150	-	DOWNTOWN
23	Foss Ww Dev Auth/Foss Dev LLC	Expired		2001	17,000,000	-	25	-	DOWNTOWN
24	Fotheringham	Completed	1/11/2005	2004	360,000	-	4	-	6TH AVE & PINE ST
25	Garden Villa Apartments	Completed	2/16/2000	1997	4,320,000	-	83	-	TACOMA MALL
27	Jeffery Davis	Completed	4/15/2003	2002	250,000	-	4	-	6TH AVE & PINE ST
28	Joe and Linda Turner	Completed	1/13/2004	2002	350,000	-	6	-	TACOMA MALL
29	Marcourt	Completed	8/1/2005	2003	-	1,750,000	-	14	DOWNTOWN
30	Mark and Jodie Lawson	Construction		2004	720,000	-	8	-	TACOMA MALL
31	Matthew and Juli Graham	Completed	10/15/2004	2002	400,000	-	8	-	TACOMA MALL
32	MDC 435 So. Fawcett	Completed	12/18/1996	1996	2,900,000	-	60	-	DOWNTOWN
33	Merit Bldg	Expired		2003	1,400,000	-	35	-	DOWNTOWN
34	Metropolitan Towers	Completed 0		1999	13,500,000	-	150	-	DOWNTOWN
35	Metropolitan Towers I, LLC	Expired		2001	5,700,000	-	60	-	DOWNTOWN
36	Musica	Completed	8/15/2006	2003	350,000	-	10	-	MARTIN LUTHER KIN
37	New Look, LLC	Completed	6/14/2001	2000	6,000,000	-	49	-	MARTIN LUTHER KIN
38	O'Connor & Associates	Completed	7/8/2005	2003	3,000,000	-	21	-	DOWNTOWN
39	Oak Street Apartments	Completed	7/29/1997	1996	400,000	-	16	-	6TH AVE & PINE ST
40	Overlook (Phase 1, same loccation.	Completed	11/27/2000	1996	-	1,600,000	-	28	DOWNTOWN

KEY	PROJECT	STATUS	STATUSDATE	YEAR ADD	APTCOST	CONDOCOST	# APTS	# CONDO	MUC
40	Overlook (Phase 1, same loccation.	Completed	11/27/2000	1996	-	1,600,000	-	28	DOWNTOWN
41	Overlook (Phase II)	Completed	3/16/2006	2003	-	6,300,000	-	42	DOWNTOWN
42	Overlook (Two phases, same locati	Expired	11/27/2000	1999	2,750,000	-	36	-	STADIUM
43	Pioneer Cay Developing LLC	Approved	4/20/2004	2004	15,000,000	-	70	-	DOWNTOWN
44	Popish, Natalie A./Bob Mickey	Completed	2/25/2003	2002	200,000	-	5	-	TACOMA MALL
45	Pulliam	Expired		2003	375,000	-	4	-	6TH AVE & PINE ST
46	Remy 1	Canceled		2004	800,000	-	10	-	TACOMA MALL
47	Simon Marten, LLC	Completed	6/14/2001	2000	100,000	-	4	-	56TH & STW
48	Stadium Condos	Completed	12/9/2003	2002	-	1,000,000	-	7	STADIUM
49	Stadium Way Condos (Powell)	Completed	12/10/2006	2003	2,500,000	-	8	-	DOWNTOWN
50	Stewart-Simon	Completed	1/14/2004	2003	300,000	-	4	-	56TH & STW
51	Subdivisions West	Completed	1/11/2005	2004	500,000	-	6	-	TACOMA MALL
52	Sun Ranch Partners	Expired	11/30/1999	1999	1,500,000	-	28	-	DOWNTOWN
53	Sun Ranch Partners	Completed	12/9/2005	2003	1,850,000	-	30	-	DOWNTOWN
54	Talen	Completed	12/7/2006	2003	455,000	-	8	-	TACOMA MALL
55	Team Tacoma	Expired	10/5/2000	2000	16,000,000	-	245	-	DOWNTOWN
56	Team Tacoma	Expired	10/5/2000	2000	12,000,000	-	174	-	DOWNTOWN
57	Team Tacoma III, LLC	Completed	11/22/2002	2001	-	35,500,000	-	235	DOWNTOWN
58	The Delin	Completed	6/28/2001	1999	2,500,000	-	40	-	DOWNTOWN
59	The Dock	Canceled	1/25/2001	1998	220,000	-	5	-	DOWNTOWN
60	Theater Triangle LLC	Completed		2003	7,000,000	-	26	-	DOWNTOWN
61	TM Apex	Constructic	11/14/2006	2002	7,500,000	-	70	-	TACOMA MALL
62	TM Apex	Constructic	11/14/2006	2002	16,500,000	-	165	-	TACOMA MALL
63	V & G Services, LLC	Completed	11/1/2000	2000	130,000	-	14	-	MARTIN LUTHER KIN
64	Vision One, Phase I	Constructic	4/29/2003	2003	31,500,000	-	190	-	DOWNTOWN
65	Vision One, Phase II	Approved	4/29/2003	2003	43,500,000	-	260	-	DOWNTOWN
66	Vision One, LLC (The Place)	Expired	8/1/2000	2000	25,000,000	-	300	-	DOWNTOWN
68	William Riley	Expired	8/24/1999	1999	1,250,000	-	20	-	TACOMA MALL
69	Wilsonian Partners, L.L.C.	Expired		2001	14,000,000	-	182	-	DOWNTOWN
70	Wright Park Condos	Completed	6/30/2002	2001	-	500,000	-	4	MARTIN LUTHER KIN
71	Yakima Vista, Phase 1	Completed		2002	-	5,500,000	-	27	MARTIN LUTHER KIN
72	Court 17, LLC	Constructic	12/7/2004	2004	9,400,000	-	129	-	DOWNTOWN
73	Home Options, Inc., on S 45th St	Approved	10/26/2004	2004	750,000	-	8	-	TACOMA MALL
74	Home Options, Inc., on S Alder St	Canceled		2004	750,000	-	8	-	TACOMA MALL
75	Yakima Vista, Phase 2	Construction		2002	5,500,000	-	32	-	MARTIN LUTHER KIN
76	Yakima Vista, Phase 3	Expired	6/27/1905	2002	5,500,000	-	118	-	MARTIN LUTHER KIN
77	New Urban Properties	Constructic	2/22/2005	2005	16,750,000	-	52	-	DOWNTOWN
78	Tacoma Rennaissance	Approved	3/15/2005	2005	8,500,000	-	53	-	DOWNTOWN
79	Catapult - Bridge Condos	Approved	2/22/2005	2005	18,100,000	-	58	-	DOWNTOWN
80	Delin II (Condos & Apartments)	Approved	1/25/2005	2005	1,100,000	4,200,000	9	30	DOWNTOWN

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82	Vision Investments (15th & Yakima)	Cancelled		2005	1,000,000	-	14	-	MARTIN LUTHER KIN
83	Tracer and Associates LLC	Approved	3/22/2005	2005	483,000	-	5	-	MARTIN LUTHER KIN
84	Metropolitan 245 St Helens Ave	Approved	3/22/2005	2005	9,600,000	-	80	-	DOWNTOWN
85	Pacific Property Group	Completed	3/15/2006	2005	-	365,000	-	4	DOWNTOWN
86	Vision Investments (4049 Puget So	Approved	9/19/2006	2005	600,000	-	6	-	TACOMA MALL
87	Jeffrey Edwards / Puget Sound Ave	Approved	5/10/2005	2005	925,000	-	10	-	TACOMA MALL
88	Wet Fly	Approved	4/19/2005	2005	1,300,000	-	12	-	TACOMA MALL
89	Greg Whitman	Approved	5/17/2005	2005	1,080,000	-	10	-	TACOMA MALL
90	Mark Lawson / 4048 Warner	Approved	6/7/2005	2005	850,000	-	7	-	TACOMA MALL
91	Mark Lawson / S 45th St	Approved	6/7/2005	2005	850,000	-	7	-	TACOMA MALL
92	Jetco	Approved	3/15/2005	2005	420,000	-	4	-	TACOMA MALL
93	Proctor Partners	Canceled		2005	1,900,000	-	6	-	PROCTOR
94	Tacoma Townhomes, LLC	Completed		2005	1,200,000	-	12	-	LOWER PORTLAND /
95	Stadium District Development LLC	Construction		2005	2,612,000	-	20	-	DOWNTOWN
96	Condos on Jefferson	Completed	10/17/2006	2005	-	1,700,000	-	13	DOWNTOWN
103	245 Metropolitan	Construction		2005	9,600,000	-	80	-	DOWNTOWN
117	D & R Apartment Inv., LLC	Construction		2006	-	4,500,000	-	35	DOWNTOWN
118	Thea Foss Holdings	Construction		2005	27,836,910	6,663,090	188	45	DOWNTOWN
119	Carol and Brian Laird	Approved	8/23/2005	2005	540,000	-	4	-	DOWNTOWN
120	Camelia Court LLC	Approved	8/2/2005	2005	1,000,000	-	12	-	TACOMA MALL
121	Ally Ray Enterprises	Completed		2005	350,000	-	4	-	TACOMA MALL
122	Sodo Tacoma LLC/City Steps	Construction		2006	-	5,200,000	-	40	MARTIN LUTHER KIN
123	Mark Lawson	Construction		2006	2,000,000	-	16	-	6TH AVE & PINE ST
125	Gary Schelhammer	Approved	2/14/2006	2006	600,000	-	4	-	DOWNTOWN
126	John Bays	Approved	2/28/2006	2006	-	650,000	-	6	TACOMA MALL
128	Wet Fly Investments LLC	Completed	6/30/2006	2006	500,000	-	4	-	TACOMA MALL
129	Wet Fly Investments LLC	Completed	6/30/2006	2006	500,000	-	4	-	TACOMA MALL
130	Barry Nilsen	Approved	4/11/2006	2006	-	1,050,000	-	7	DOWNTOWN
132	Chris & Linda Curran	Approved	4/11/2006	2006	-	1,500,000	-	8	DOWNTOWN
133	505 Broadway Assoc. LLC	Construction		2006	-	25,000,000	-	50	DOWNTOWN
134	Gary Beckham	Canceled		2006	450,000	-	4	-	TACOMA MALL
135	Fountain Park LLC	Construction		2006	-	18,000,000	-	78	MARTIN LUTHER KIN
136	Fountain Park LLC	Construction		2006	-	25,000,000	-	54	DOWNTOWN
138	Troika Development	Approved	4/25/2006	2006	-	1,200,000	-	4	TACOMA MALL
139	2300 Yakima Inc. I	Construction		2006	-	3,700,000	-	9	DOWNTOWN
140	2300 Yakima Inc. II	Construction		2006	-	3,700,000	-	14	DOWNTOWN
142	2300 Yakima Inc. III	Construction		2006	-	4,500,000	-	17	DOWNTOWN
143	9th Street LLC	Approved	2/14/2006	2006	1,750,000	-	17	-	MARTIN LUTHER KIN
144	Fountain Park LLC	Construction		2006	-	2,500,000	-	6	DOWNTOWN
145	Vision Investments LLC (4301 S Al	Construction		2004	-	750,000	-	8	TACOMA MALL

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146	Big Sky Montana LLC	Approved	3/7/2006	2006	500,000	-	4	-	TACOMA MALL
147	Barry Nilsen	Approved	3/7/2006	2006	-	6,000,000	-	27	DOWNTOWN
148	Michael Robinson	Approved	5/16/2006	2006	1,500,000	-	14	-	TACOMA MALL
149	Cherry Orchard	Construction		2006	900,000	-	8	-	TACOMA MALL
150	Ron Billock	Construction		2006	440,000	-	4	-	TACOMA MALL
151	Justin Calkins	Construction		2006	440,000	-	4	-	TACOMA MALL
152	Caleb Shamp	Construction		2006	440,000	-	4	-	TACOMA MALL
153	Llewelyn Townhomes	Approved	8/12/2006	2006	600,000	-	4	-	MARTIN LUTHER KIN
154	John Bays	Approved	8/12/2006	2006	500,000	-	4	-	TACOMA MALL
155	Seawest Investments	Approved	8/12/2006	2006	10,000,000	-	272	-	TACOMA MALL
156	Villagio II	Construction		2006	14,750,000	-	120	-	DOWNTOWN
157	Cherry Orchard	Construction		2006	850,000	-	8	-	56TH & STW
158	Mark Vanderbilt	Approved	9/19/2006	2006	1,000,000	-	8	-	TACOMA MALL
159	Vision Investments (3210 43rd)	Approved	9/19/2006	2006	920,000	-	7	-	TACOMA MALL
160	Vision Investments (4033 Puget So	Approved	9/19/2006	2006	1,800,000	-	14	-	TACOMA MALL
161	Mark Lawson	Approved	10/24/2006	2006	800,000	-	8	-	TACOMA MALL
162	Mark Lawson	Approved	10/24/2006	2006	800,000	-	8	-	TACOMA MALL
163	Big Sky Montana	Approved	10/31/2006	2006	2,000,000	-	20	-	TACOMA MALL
164	Yakima Villas	Approved	11/7/2006	2006	-	3,600,000	-	20	DOWNTOWN
165	Frank & Hampton	Approved	11/7/2006	2006	1,000,000	-	10	-	MARTIN LUTHER KIN
166	Pinnacle Construction & Developme	Approved	11/7/2006	2006	-	1,165,000	-	6	DOWNTOWN