

Evaluation Approach

The intent of this study is to provide an explanation for where and why the MFTE program succeeds. This study segments MFTE-eligible cities based on market characteristics to determine the conditions under which the MFTE program is viable based on regulatory restrictions or market conditions for a set of development scenarios. The study utilizes minimum MFTE requirements under state law for this analysis. This research includes three components, as follows.

1. Policy Analysis

The adopted zoning and development regulations in each MFTE-eligible city were evaluated to determine if the modeled development scenarios are permitted in MFTE target areas. Scenarios that are not permitted under current land use regulations, and thus would never be developed regardless of MFTE, are considered non-viable and are not tested with financial modeling or further analysis. Cities with no adopted MFTE program are excluded from further analysis.

2. MFTE Baseline Analysis

Pro forma feasibility models were built for each development type and used to estimate feasibility across a range of market price levels and site acquisition costs without an MFTE and under 8-year and 12-year exemptions. Each development was modeled to conform to MFTE minimum requirements under state law. This analysis reveals the degree to which market conditions support multifamily development across jurisdictions, and the relative impact of MFTE under ranging market conditions.

3. Expected vs. Observed Results

The list of jurisdictions with potentially feasible development scenarios is compared to the list of jurisdictions that have experienced MFTE development. There are cases where actual MFTE development has occurred where it is not expected, or not occurred where expected based on this analysis. These more complicated cases are examined in greater detail, including under both 8-year and 12-year exemptions. Considerations in this more detailed phase include any more stringent requirements the City has added over the State minimum MFTE program requirements.

Development Scenarios Studied

Development feasibility varies for different development types in different jurisdictions. Property tax exemptions on improvements may have a greater impact on some development types than others. This study evaluated eight development types to understand the range of feasibility for eligible development products in eligible cities. Four are rental scenarios, and four are for-sale scenarios. Each development type was modeled without MFTE, under an 8-year exemption, and under a 12-year exemption. This is a planning-level analysis, and simplified metrics for building costs and characteristics are used to account for wide variation in real world conditions. The eight types evaluated in this study are as follows:

For-rent:

- Low-rise multifamily (apartment) buildings of three stories or less
- Midrise multifamily (apartments 5-7 stories)
- Midrise mixed-use (4-6 stories of apartments over 1 story of commercial)
- Highrise mixed-use (7+ stories over 1 story of commercial)

For-Sale/Owner-Occupied:

- Townhomes in a four-plex or greater (for-sale)
- Midrise multifamily (condominium apartments 5-7 stories)
- Midrise mixed-use (4-6 stories of condominium apartments over 1 story of commercial)
- Highrise mixed-use (7+ stories of condominium apartments over 1 story of commercial)

One development program was prepared for each development scenario model, and variations in development intensity or number of units were not included as sensitivities in this analysis. While the development programs were based in actual prototypical developments, variations in development program could further impact feasibility.

The townhouse models used in this study assume the construction of parking spaces, as these spaces are typically part of the same structure and therefore are not separate from the construction of the dwelling unit. Moreover, townhouse construction often occurs in zones that do not allow some of the higher-density products included in the study. All other multifamily models do not include parking, as most MFTE multifamily development to-date has occurred in cities that have no minimum parking requirements in primary multifamily areas. Those developers who choose to provide parking with incur additional costs that may impact project feasibility.

Data Sources

Data sources for lease rates and sales prices include CoStar and Zillow. Model assumptions used within the market analysis were informed by data collected from CoStar, Building Journal, CBRE, NCREIF, American Housing Survey, HUD and interviews with property managers. Additionally, property tax levy rates were identified for participating jurisdictions.