City of Bellevue Multifamily Tax Exemption Program Technical Analysis

October 31, 2025

BERK
STRATEGY ▪ ANALYSIS ▪ COMMUNICATIONS

2200 Sixth Avenue, Suite 1000
Seattle, Washington 98121
P (206) 324-8760
www.berkconsulting.com

"Helping Communities and Organizations Create Their Best Futures"

Founded in 1988, our passion is working in the public interest, helping public and nonprofit agencies address complex challenges and position themselves for success.

Project Team

Madalina Calen · Project Manager

Ariel Hsieh · Lead Analyst

Kevin Ramsey · Strategic Advisor

Cover photo source: W[REPORT], Windermere Real Estate

Executive Summary

The City of Bellevue is undertaking a comprehensive update to its Multifamily Tax Exemption (MFTE) program to align with new mandatory affordable housing requirements, expand program scope, and incentivize deeper affordability. This technical analysis, conducted by BERK, evaluated three proposed MFTE scenarios against a mandatory affordability baseline to determine their impact on financial feasibility across low-rise, mid-rise, and high-rise prototypes.

Background and Analysis Scope

The existing MFTE program provides a 12-year property tax exemption in exchange for setting aside 20% of units for households at 80% of Area Median Income (AMI). Bellevue allows MFTE units to "stack" with other affordability programs so that one unit can satisfy two different requirements, but the overlapping units must be 15% deeper in affordability.

The proposed updates seek to create a more effective incentive structure, adding additional options for flexibility particularly in areas subject to the new mandatory affordable housing requirements[1] introduced through the Wilburton Land Use Code Amendment (LUCA).

The analysis focused on three scenarios described below:

Scenario	*Description*	*City's Rationale*
12-Year MFTE "Supercharger" Program	Modifies the existing 12-year program by removing the deeper affordability requirement for units that "stack" with mandatory requirements (maintaining 20% at 80% AMI)	Responds to Bellevue City Council direction to include an option that allows MFTE to stack with mandatory affordability requirements without a reduction in AMI levels and to developer feedback resulting from the Wilburton LUCA process[2].
New 8-Year MFTE Program Option	A new, shorter option (8 years) aligned with the 10% mandatory set-aside, tested for deeper affordability levels (50% to 65% AMI)	Creates an additional option for developers that aligns well with mandatory requirements and results in deeper affordability.
12-Year MFTE Program Extension	Analyzes the financial viability of extending the "Supercharger" exemption for an additional 12 years (total 24 years) at 80% AMI or less	Responds to interest from Bellevue City Council and developers. May increase overall participation in MFTE and help preserve affordability over time.

[1] On-site performance option requires developers to set aside 10%, 7% or 5% of units affordable at 80%, 60%, and 50% AMI, respectively.

[2] The MFTE "Supercharger" was proposed by the Eastside Housing Roundtable.

BERK used a pro forma analysis approach to help the City understand the likelihood of developers building multifamily and affordable housing under the different "Supercharger" and new 8-year option scenarios. The pro forma model is static and compares the expected return of a development to the expected development costs at a specific point in time, rather than cash flows and expenses over multiple years. The pro forma analysis uses a residual land value (RLV) metric, which measures the maximum amount a developer can afford to pay for land and still earn the required level of profit. A project is considered feasible if it can afford to pay at least the current market rate for land. BERK's analysis measured the RLV per square foot impact of each MFTE scenario relative to the RLV per square foot achieved under the new mandatory affordability baseline.

BERK conducted a separate analysis outside of the pro forma model to estimate the impact of the 12-year MFTE program extension scenario. The analysis looked at whether over time the lost revenue which is the difference between the market rent a developer could be charging and the restricted rent they must charge for the affordable units under the MFTE program outpaces the growth in the property tax exemption. The analysis compared the net revenue impact with and without the extension.

BERK's analysis focused on measuring the impact of MFTE changes on development feasibility. As such, this study does not mention the fiscal cost of these changes or their impact on meeting affordable housing needs in the City of Bellevue, which remain important policy considerations for MFTE.

Key Findings on Financial Feasibility

The pro forma analysis demonstrates that both the 12-Year "Supercharger" and the 8-year program options improve the financial feasibility of multifamily development compared to the mandatory performance baseline, with the greatest impact seen on mid-rise and high-rise prototypes.

- The 12-Year "Supercharger" increases RLV per square foot by $86 for mixed use mid-rise prototypes and by $215 for high-rise prototypes. The "Supercharger" can be an impactful option for boosting financial feasibility with the mandatory affordable housing program and removing stacking complexity.
- The new 8-year option increases RLV per square foot by $113 for mixed use mid-rise prototypes and by $283 for high-rise prototypes. This option provides a powerful incentive, even at deeper affordability levels.

Implementing these changes recognizes the need to reduce barriers amidst a challenging development environment and is therefore likely to expand program participation and increase the overall supply of affordable units in Bellevue. Additionally, both MFTE options would incentivize developers to select the performance option to satisfy the mandatory program compliance (as opposed to the payment option). The new 8-year option can be particularly effective as a tool to encourage a deeper level of affordability.

The analysis of the 12-year extension for the mid-rise prototype shows that while the property tax exemption continues to provide a benefit, the financial gain is highly sensitive to the required affordability level in the extension period.

- At 80% AMI, the Net Present Value (NPV) of the net revenue impact in years 13-24 is approximately $4.0 million.
- The NPV benefit drops by roughly $500,000 for every 5% decrease in AMI required (e.g., at 60% AMI, the NPV benefit drops to $1.9 million).

The results of the 12-year extension are highly sensitive to key economic assumptions, such as the market-rate annual rent growth and the rent depreciation rate for older units, for which data availability was limited. For instance, a 0.1% percentage point increase in the market rent growth rate decreases the net revenue impact by approximately 4.4% ($175,000).

Contents

Introduction

Background

The City of Bellevue adopted its Multifamily Tax Exemption (MFTE) program in 2015. The MFTE program is a voluntary affordable housing incentive for new multifamily rental development. It provides a 12-year exemption from property taxes paid on the housing portion of qualifying projects in exchange for setting aside 20% of the units for income-eligible households for those 12 years. Since the adoption, the City updated the program to align with legislative changes, developer needs, and affordable housing goals. In 2021, for example, the program was expanded to cover all areas zoned for multi-family use and establish the 80% of Area Median Income (AMI) baseline across the city.

The City of Bellevue is now considering further revisions to its Multi-Family Tax Exemption (MFTE) code. To support this effort, the City of Bellevue contracted with BERK to conduct a technical analysis of potential program modifications. BERK evaluated three distinct MFTE program scenarios to identify options that best meet the City's needs while ensuring feasible implementation. This report details the program options analyzed, explains the analytical approach—including key inputs and assumptions—and presents the findings of that analysis.

Methods

BERK conducted a financial feasibility analysis to test how different MFTE program changes will impact the financial feasibility of a range of development types. BERK worked with the City of Bellevue to define three different policy options – referred to as scenarios in this report – and three hypothetical prototypes that could be built in Bellevue. BERK used a pro forma analysis approach to help the City understand the likelihood of developers building multifamily and affordable housing under the different MFTE program scenarios. The pro forma tool models how changes to revenues or costs related to development, including affordable housing requirements, parking, interest rates, and rents, affect the financial feasibility of potential development projects. A detailed summary of the scenarios, development prototypes, methods, inputs, and assumptions is provided in the *Analysis Approach* chapter of this report.

Data for the financial feasibility analysis was gathered from public and private sources including CoStar, CBRE, the City of Bellevue, ARCH, the King County Assessor and past pro forma modeling conducted for the Wilburton and HOMA LUCA.

Three virtual workshops with market-rate and affordable housing developers and other stakeholders were held in collaboration with the City to solicit quantitative and qualitative input, guidance, and feedback on the feasibility analysis. The purpose of each workshop was as follows:

- Workshop #1: to provide an overview of analysis methods, solicit data on model inputs, and validate assumptions.
- Workshop #2: to present preliminary analysis results and receive feedback.
- Workshop #3: to present final analysis findings and recommendations.

Report Organization

The rest of this report is organized as follows:

- **Policy Context.** An overview of the City of Bellevue existing MFTE program and the policy context for the 2025 MFTE code update.
- **Analysis Approach.** Describes the policy scenarios and development prototypes and provides details on methodology, inputs, and assumptions used.
- **Analysis Findings.** Summarizes the findings of the financial analysis for each policy scenario.

Policy Context

This section of the report provides an overview of Bellevue's existing MFTE program and the policy context for the 2025 MFTE code update.

Bellevue's Existing MFTE Program

The City of Bellevue currently offers a 12-year MFTE program which provides a 12-year tax abatement on the value of qualifying residential improvements for projects that offer 20% of units as affordable to households earning up to 80% AMI. Additionally:

- Any units under 320 square feet must be affordable at the 50% AMI level.
- If fewer than 15% of the units have two or more bedrooms, the requirements shift to either 25% of units at 80% AMI or 20% of units at 70% AMI (studios and 1-BRs) and 80% AMI (2-BRs and larger).
- If the project also benefits from land use incentives, double counted units must have a deeper affordability level of 15% (i.e., 65% AMI vs. 80% AMI).

The program was first adopted in June 2015 and was limited to specific areas, such as Bel-Red Downtown, Eastgate, Crossroads Village, and Wilburton. In June 2021, the Bellevue City Council approved an update to the program that:

- Expanded its geographic scope to include all areas of the city where multifamily development is permitted.
- Simplified the affordability requirements and raised them to 80% of the Area Median Income to encourage additional participation
- Introduced rent stabilization for tenants participating in the program.

To date, the MFTE program resulted in the creation of 253 affordable units across six projects. Another four projects that would result in an additional 141 affordable units are in varying stages of the application process.

Since July 2021, the last major program update, 7 out of 9 rental projects (excluding 100% affordable and age-restricted properties) have used the MFTE program, representing a participation rate of 78%.

2025 MFTE Code Update

The City of Bellevue is now considering additional updates to its Multifamily Tax Exemption program, prompted by the following:

State authorizations for expanded program scope

Washington's 2021 Senate Bill 5287 implemented significant state-level changes to MFTE. The City of Bellevue is exploring expanding the MFTE program scope through:

- Adding a new 20-year property tax exemption to encourage the development of permanently affordable homeownership projects.
- Expanding the MFTE program to incentivize the conversion of nonresidential buildings into multifamily housing.
- Creating a 12-year extension for existing projects that continue to meet affordability requirements.

Alignment with mandatory inclusionary zoning proposals

Bellevue introduced new mandatory affordable housing requirements through the Wilburton Land Use Code Amendment (LUCA). In Wilburton, developers have two main options to comply with the mandatory affordable requirements: they can either build affordable housing on-site through the performance option (which requires 10%, 7% or 5% of units to be affordable at 80%, 60%, and 50% AMI, respectively) or pay a fee per square foot through the payment option.

The City of Bellevue is exploring two options to align the MFTE with mandatory affordability requirements:

- A 12-year "Supercharger" program which would require a 20% set-aside at 80% AMI with no deeper affordability level required. The Supercharger program was proposed by the Eastside Housing Roundtable and received support from Bellevue City Council.
- A new 8-year option which can be aligned with the mandatory affordability requirements for AMI levels below 80% AMI to incentivize deeper affordability.

Administrative Updates

The MFTE program will coordinate with Development Services and ARCH on the director's rule for Wilburton regarding affordable housing standards and match this language where appropriate. The MFTE application process is also likely to be shifted earlier in the project lifecycle to align with the mandatory affordability compliance timeline.

Update Goals

The goals of this update according to the City of Bellevue are to:

- **Address City policy and planning goals**
  - Expand the number of projects that can use the MFTE program and increase overall awareness of the program.
  - Evaluate mechanisms to incentivize deeper affordability and create more affordable units.
- **Address requested changes in Wilburton**

- Clarify and optimize how MFTE will interact with the new mandatory affordable housing requirements in Wilburton.

- **Assess existing program and potential changes**
  - Assess the impact of MFTE to date.
  - Anchor recommendations in a technical analysis of MFTE costs and benefits, including the effects of new stacking rules and tax shift elements.

Analysis Approach

This section of the report describes the policy scenarios and development prototypes and provides details on methodology, inputs, and assumptions used.

Scenarios

BERK analyzed **three scenarios**: 1) a 12-year MFTE "Supercharger" program that removes the deeper affordability requirement for stacked units, 2) a new 8-year MFTE program option that can be aligned with the 10% set aside proposed for mandatory affordability requirements, and 3) a new 12-year extension option to the existing 12-year program. These scenarios are described in more detail below.

The 12-Year MFTE Supercharger and new 8-year MFTE programs are compared to one or both of the following **baselines** that model development feasibility for a project that selects not to use MFTE or selects to use the existing 12-year MFTE program:

- **Mandatory affordability – performance option:** this baseline assumes projects are subject to only the mandatory affordable requirement.
- **Existing 12-year MFTE program:** this baseline assumes projects are subject to the mandatory affordable requirement and opt in to the existing 12-year MFTE program under the current stacking rules. When MFTE overlaps with other affordability programs Bellevue allows MFTE units to "stack" so that one unit can satisfy two different requirements, but the overlapping units must be 15% deeper in affordability.

In both baseline scenarios, we assume that a developer would provide only the required number of affordable units and not make use of the density bonus.

12-Year MFTE "Supercharger" Program

The "Supercharger" scenario analyzes a modification to the existing 12-year MFTE program that removes the 15% deeper affordability requirement. The analysis focuses on testing the impact of this MFTE program change on residential development in Wilburton, where developers may set aside 10% of units for households earning up to 80% AMI to meet the mandatory performance requirement. *Exhibit 1* shows the length of affordability, set aside and affordability level for the "Supercharger" compared to the two baselines.

Exhibit 1: 12-Year MFTE "Supercharger" Program and Comparison Baselines

	Baseline		Scenario
Parameter	**Mandatory Affordability (Performance) Only**	**Existing 12-Year MFTE Program**	**12-Year MFTE Supercharger**
Length of Affordability	Permanent	12 years*	12 Years*
Affordability Requirement	10% at 80% AMI	10% at 80% AMI **plus** 10% at 65% AMI	20% at 80% AMI

Source: City of Bellevue, 2025.
Note: It is assumed under both the existing 12-year MFTE program baseline and the 12-Year MFTE "Supercharger" scenario that MFTE overlaps with the mandatory affordability requirements. Therefore, 10% of the units will remain permanently affordable even after the end of the MFTE program, while the other 10% will be released at market rent.

New 8-Year MFTE Program Option

This scenario analyzes a proposed new 8-year MFTE program which would be offered in addition to the existing 12-year MFTE program and aligns with the City's mandatory affordable program requirement of 10% of the units affordable at 80% AMI. The analysis for this scenario tested deeper affordability levels than the baseline mandatory affordable requirements to determine the levels that would incentivize participation in both programs. *Exhibit 2* shows the length of affordability, set aside and affordability level for the new 8-year option compared to the mandatory affordability baseline.

Exhibit 2: New 8-Year MFTE Option Program and Comparison Baseline

	Baseline	Scenario
Parameter	**Mandatory Affordability (Performance)**	**New 8-Year MFTE Option**
Length of Affordability	Permanent	8 Years*
Affordability Requirement	10% at 80% AMI	10% at 50% to 65% AMI

Source: City of Bellevue, 2025.
Note: Under the new 8-year MFTE program option, it is assumed MFTE overlaps with the mandatory affordability requirements. Therefore, after the end of the MFTE program, the 10% of units at 50 to 65% AMI will be released at 80% AMI and remain permanently affordable.

12-Year MFTE Program Extension

In this scenario, developers receiving exemption under the proposed 12-Year MFTE "Supercharger" program will have the option to extend the exemption period for 12 more years. This scenario assumes that during the extension period 20% of units are required to have affordable rents at a level of AMI of 80% or below.

Exhibit 3 shows the length of affordability, set aside and affordability level for the 12-year extension option compared to the mandatory affordability baseline.

Exhibit 3: 12-Year MFTE Program Extension and Comparison Baseline

	Baseline	Scenario: Supercharger with 12-Year Extension	
Parameter	**Mandatory Affordability (Performance)**	**Years 1-12**	**Year 13-24**
Length of Affordability	Permanent	24 Years	
Affordability Requirement	10% at 80% AMI	20% at 80%	10% at 80% AMI **plus** 10% at 80% AMI or less

Source: City of Bellevue, 2025.
Note: Under the Supercharger with 12-year extension scenario, it is assumed MFTE overlaps with the mandatory affordability requirements. Therefore, 10% of the units will remain permanently affordable even after the end of the MFTE program, while the other 10% will be released at market rent.

Development Prototypes

BERK worked with City of Bellevue staff to create three hypothetical prototypes on hypothetical sites. These prototypes are based on recent financial feasibility analysis completed for the City of Bellevue Wilburton and HOMA Land Use Code Amendment (LUCA). These prototypes are assumed to consist entirely of dwelling units intended for rent (versus sale) since market-rate developers using the MFTE program tend to build rental housing. *Exhibit 4* on the following page shows the prototypes and input assumptions about each prototype that are used in the analysis.

- **Low-rise:** This prototype is envisioned as a low-rise building with only residential uses.
- **Mixed use Mid-rise:** This prototype is envisioned as a mid-rise building consisting of residential uses with ground floor active uses, assumed to be retail.
- **Mixed use High-rise:** This prototype is envisioned as a high-rise tower consisting mostly of a mix of residential uses with ground floor active uses, assumed to be retail.

Exhibit 4: Development Prototypes and Input Assumptions

Inputs	Prototype 1: Low-rise	Prototype 2: Mixed Use Mid-rise	Prototype 3: Mixed Use High-rise	Unit of Measurement
Development Inputs				
Site Size	225,000	90,000	45,000	square feet
Built Square Feet (excluding parking)	188,370	216,000	263,250	square feet
Net Floor Area	161,000	183,600	223,763	square feet
Residential	161,000	168,300	206,550	square feet
Retail	0	15,300	17,213	square feet
Base Floor Area Ratio	1.00	2.50	6.00	
Maximum Floor Area Ratio	1.00	6.00	Unlimited	
Above Grade Floor Count	3	6	13	floors
Residential	3	5.5	12	floors
Retail	0	0.5	1	floors
Unit Configuration				
Total Units	122	211	259	number of units
Studio	0%	15%	15%	of total units
1 BR	50%	50%	50%	of total units
2 BR	45%	30%	30%	of total units
3 BR	5%	5%	5%	of total units
Average unit size (net)				
Studio	650	550	550	square feet
1 BR	800	700	700	square feet
2 BR	1,100	1,000	1,000	square feet
3 BR	1,300	1,250	1,250	square feet
Parking				
Parking Type	Surface	Structured	Structured	
Parking Stalls	122	199	262	number of stalls
Parking Stall Size (gross)				
Surface	300	n/a	n/a	square feet
Structured	n/a	325	325	square feet

Source: City of Bellevue, 2025.

Methodology

Pro Forma Analysis

This study uses a pro forma model to assess the impact of the "Supercharger" and the new 8-year option scenarios on development feasibility. The goal of the pro forma analysis is to understand and compare the magnitude and directionality of impact of the different scenarios on a range of development types, rather than measure the feasibility of a specific project. The pro forma model is static and compares the expected return of a development to the expected development costs at a specific point in time, rather than cash flows and expenses over multiple years. The analysis does not take into consideration changes in income over time due to differences in growth rates between market rate rents, affordable rents, expenses and property taxes, outside of certain annualized assumptions described below.

The residual land value (RLV) measures the land budget a developer would be left with after accounting for potential development costs and revenues. RLV is expressed in dollars per square foot of land associated with the site on which development is modeled, calculated as follows:

(1) *Net operating income (gross potential income less vacancy and credit loss and operating expenses)*

(2) *Divided by the rate of return on development (capitalization rate)*

(3) *Less development costs (excluding site acquisition)*

(4) *Equals resources (dollars) left to purchase land, or RLV.*

In summary, RLV calculates how much a project could pay for land and still earn the required level of profit. Feasibility is evaluated by comparing the residual land value to an estimate of current market land values. A project is considered feasible if it can afford to pay at least the current market rate for land.

Additional Analysis

BERK conducted a separate analysis outside of the pro forma model to estimate the impact of the 12-year MFTE program extension scenario. The analysis looked at whether over time the lost revenue which is the difference between the market rent a developer could be charging and the restricted rent they must charge for the affordable units under the MFTE program outpaces the growth in the property tax exemption. For this purpose, we estimated the net revenue impact as follows:

(1) *Rent difference (market rents minus MFTE rents)*

(2) *Less the multi-family property tax exemption*

The analysis compared the net revenue impact with and without the extension. Since the analysis looked at revenue cash flow over time, BERK calculated the Net Present Value (NPV) of the net revenue impact. The analysis was conducted only for the mid-rise prototype.

Inputs and Assumptions

Inputs and assumptions presented in this section have been informed by various public and private sources and finalized following conversations with City staff and feedback from stakeholders received during the workshops.

Pro Forma Analysis

Residential Rents

Exhibit 5 shows average monthly market rents and a subset of affordable rents (80% AMI and 60% AMI) used in the pro forma analysis. Market rents are based on two main sources: CoStar data for multifamily buildings and City of Bellevue data for existing MFTE projects. We summarized the property-level data by building type and unit size to come up with an average rent for each prototype. Affordable rents are based on ARCH 2025 Income and Rent Limits and adjusted for expense allowances (such as utilities, renter's insurance etc.).

Exhibit 5. Monthly Market and Affordable Rents Used in Feasibility Analysis

	Low-rise	Mid-rise	High-rise
Market Rents			
Studio	n/a	$2,558	$2,695
1 BR	$2,760	$2,800	$2,800
2 BR	$3,465	$3,800	$3,800
3 BR	$3,900	$4,500	$4,500
80% AMI Affordable Rents			
Studio	$2,022	$2,022	$2,022
1 BR	$2,147	$2,147	$2,147
2 BR	$2,570	$2,570	$2,570
3 BR	$2,951	$2,951	$2,951
60% AMI Affordable Rents			
Studio	$1,473	$1,473	$1,473
1 BR	$1,557	$1,557	$1,557
2 BR	$1,863	$1,863	$1,863
3 BR	$2,134	$2,134	$2,134

Sources: City of Bellevue, 2025; CoStar, 2025.

Exhibit 6 illustrates the monthly rent difference between market rent and two specific affordable rent levels: 80% AMI and 60% AMI, broken down by building type and unit type. The rent difference generally increases with unit size, from studios to 3-bedroom units. When comparing market rents with 80% AMI rents:

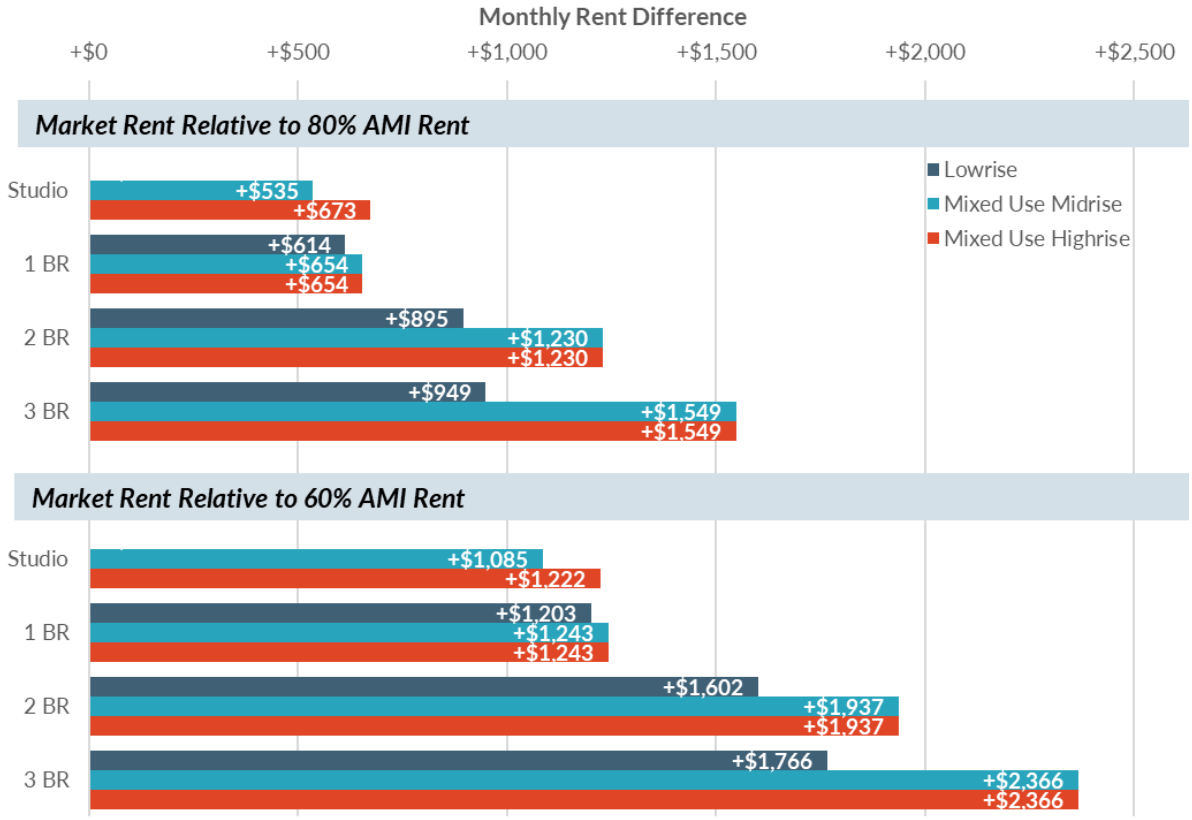
- The greatest difference is seen in the 3 BR units for mixed use mid-rise and mixed use high-rise, both at $1,549.

- For Studio and 1-BR units, mixed use high-rise tends to have the largest gap ($673 and $654, respectively), while for 2 BR and 3 BR units, the differences are closer across all building types, peaking around $1,230 for 2 BR and $1,549 for 3 BR.

When comparing market rents with 80% AMI rents:

- The most substantial difference is found in the 3 BR units for both mixed use mid-rise and mixed use high-rise units, both reaching $2,366.
- The gap is notably larger for the mixed use midrise and mixed use high-rise buildings compared to the low-rise buildings, especially for 2 BR and 3 BR units. For example, the 3 BR low-rise difference is $1,766, which is over $600 less than the mid-rise/high-rise difference.

Exhibit 6. Monthly Market and Affordable Rents Difference



Sources: City of Bellevue, 2025; CoStar, 2025.

Other Revenues and Operating Expenses

Exhibit 7 presents vacancy rates, parking rents, retail rents, and operating expense assumptions used in the pro forma analysis. Some of these assumptions differ between market rent units and affordable units, but they are the same across all prototypes. Operating expenses are estimated on a per unit (for residential) or per square foot (for retail) basis plus an additional $80,000 per year for administration of the mandatory affordable program performance requirements and an additional $40,000 for MFTE administration expenses when the MFTE program requires additional units compared to the mandatory performance requirement.

Exhibit 7. Other Revenue and Operating Expenses Inputs

Parameter	Market Rent Units	Affordable Units
Credit and Vacancy Loss: Residential	7%	7%
Credit and Vacancy Loss: Retail	20%	20%
Credit and Vacancy Loss: Parking	10%	10%
Annual Residential Rent Growth	3.3%	3.0%
Parking Rent: Surface (per stall/month)	$50	$35
Parking Rent: Structured (per stall/month)	$200	$140
Operating Expenses: Residential (per unit/year)	$11,500	$11,500
Mandatory Affordable Program Operating Expenses	-	$80,000
MFTE Operating Expenses (per year)	-	$40,000
Retail Market Rent (per sf/year)	$50	
Property Tax Rate (per $1,000 Assessed Value)	$7.33	
Operating Expenses: Retail (per sf/year)	$9	

Sources: City of Bellevue, 2025; CoStar, 2025; City of Bellevue: Wilburton Land Use Code Amendment (LUCA) Economic Analysis, May 17, 2024; City of Bellevue Housing Economic Policy analysis Phase II Financial Feasibility Analysis, August 8, 2024; Stakeholder feedback received through the workshops organized for this study.

Development Costs

Cost inputs include building hard costs, parking construction costs, soft costs, contingency, and financing metrics, such as loan interest rate and loan to cost ratio (*Exhibit 8*). Construction hard costs and parking costs are based on 2024 feasibility analysis conducted for the Wilburton and LUCA HOMA and adjusted to 2025 dollars using the Mortenson Construction Cost Index for the Seattle Metropolitan Area[3]. Hard costs range from $240 to $435 per square foot depending on the prototype. Soft costs are estimated as 20% of hard costs and parking costs for all prototypes while contingency is set at 5%, as informed by discussions with stakeholders during the workshops for this study. The capitalization rate is informed by CBRE's Cap Rate Survey H1 2025[4].

[3] https://www.mortenson.com/content/dam/mortenson/global-assets/archive/files/campaigns/recurring/cost-index/2025-q1/construction-cost-index-seattle-q1-2025.pdf.coredownload.inline.pdf

[4] https://mktgdocs.cbre.com/2299/66507da2-c11d-460e-95f0-d7a28fa70364-223501952/US_H1-2025_Cap_Rate_Survey_SEC.pdf

Exhibit 8. Development Costs Inputs

Parameter	Low-rise	Mid-rise	High-rise
Hard Costs (per sf)	$240	$300	$435
Parking Costs: Surface (per stall)	$5,130	n/a	n/a
Parking Costs: Structured (per stall)	n/a	$84,799	$84,799
Soft Costs (% of hard and parking costs)		20%	
Contingency (% of hard and parking costs)		5%	
Interest Rate (annual)		7.5%	
Loan-to-cost		55%	
Capitalization Rate		4.75%	

Sources: City of Bellevue: Wilburton Land Use Code Amendment (LUCA) Economic Analysis, May 17, 2024; City of Bellevue Housing Economic Policy analysis Phase II Financial Feasibility Analysis, August 8, 2024; Mortenson, 2025; CBRE, 2025; Stakeholder feedback received through the workshops organized for this study.

Annualized Assumptions

The pro forma model includes several costs and benefits that have been annualized over the duration of the MFTE program (given the pro forma is a static model representing one year of operations):

- **Entrance Loss to Rental Revenue**: Cost of leasing out MFTE units before the property tax exemption period begins. This assumes all MFTE units are leased within one year from when the exemption period begins.
- **Exit Loss to Rental Revenue**: Cost of continuing leases for MFTE units after the exemption period ends. This assumes all MFTE units vacate within one year from when the exemption period ends.
- **Exit Rental Assistance**: Cost of providing rental assistance for tenants in units that are converted from affordable to market-rate units when the exemption period ends. This is calculated as one month's rent at the rent level at the end of the MFTE exemption period.
- **Lease Concession Benefit**: Benefit of not giving out lease concessions for MFTE units. This assumes that market-rate units receive a 2-week lease concession.

Additional Analysis

Modeling the 12-year MFTE extension required projecting several dynamic factors over time, specifically: future market rent increases, the effect of building age on rent, and the rate of property tax bill growth. These assumptions are shown in *Exhibit 9**Error! Reference source not found.*** and summarized below.

Exhibit 9. 12-Year MFTE Extension Scenario Inputs

Parameter	Value
Market Rent Annual Growth	3.3%
Annual Rent Depreciation Rate	Year 1: 0% Year 2-9: 0.3% Year 10-18: 0% Year 19-24: 0.7%
Property Tax Exemption Increase	1%

Sources: CoStar, 2025; Federal Reserve Bank of Cleveland, 2016; BERK, 2025.

Market Rent Annual Growth

This represents the annual growth rate in market rents over time. The 3.3% annual growth rate is based on CoStar projections of market rent for Bellevue from 2025 to 2030. This is roughly the same as the historic growth in rents between 2022 and 2025 (3.2%) but lower than the historic growth in rents between 2010 and 2019 (3.8%).

Annual Rent Depreciation Rate

This represents the change in rent as building age increases, holding constant other basic characteristics such as the number of rooms and the type of structure. CoStar's historic rent data for Bellevue by building age was insufficient (too few properties) to show a trend and could not be used to derive a reliable rent depreciation rate. BERK also analyzed the U.S. Census Bureau data on the median rent of rental housing units based on the year the structure was built for the City of Bellevue. While this data displays a pattern for the change in rent with building age, it is not possible to differentiate between multi-family and single-family housing or control for changes in rents that may happen due to improvements or renovations.

The depreciation rate in *Exhibit 9**Error! Reference source not found.*** is sourced from a research study conducted by the Federal Reserve Bank of Cleveland[5] and is specific to multi-family buildings nationwide. The study uses a unique and confidential data set from the Bureau of Labor Statistics (BLS) as part of their program to measure rent inflation for the CPI. The data set covers over 30,000 thousand rental units from 1998 to 2009 and controls for:

- Unobserved quality: two units might have the same age, floor plan, location, etc., and thus be observationally equivalent but have completely different unobserved quality because of differences in for example, kitchen cabinets, flooring, and general upkeep, and
- Sample selection: rental homes can be torn down, redeveloped, or converted to owner-occupied housing.

[5] Joshua Gallin and Randal J. Verbrugge, Panel Data Estimates of Age-Rent Profiles for Rental Housing, Federal Reserve Bank of Cleveland, December 2016.

Property Tax Exemption Increase

Property taxes for individual properties can change over time due to shifts in the property's assessed value and changes in the local tax rate, also known as the levy rate. Numerous factors influence both components, making the future tax amount difficult to predict. *Exhibit 10* shows the change in assessed value and taxes for a middle value single-family residential property from 2019 and 2025 and illustrates a high level of volatility in growth rates.

Exhibit 10. City of Bellevue Median Residential Value and Tax Change

Tax Year	Median Assessed Value	Change	Taxes	Change
2019	$941,000	-	$7,727.39	-
2020	$936,000	-0.5%	$8,149.42	5.5%
2021	$961,000	2.7%	$8,501.08	4.3%
2022	$1,107,000	15.2%	$9,077.92	6.8%
2023	$1,577,000	42.5%	$11,149.33	22.8%
2024	$1,304,000	-17.3%	$10,182.73	-8.7%
2025	$1,524,000	16.9%	$11,164.79	9.6%

Source: King County, 2025.

Analysis Findings

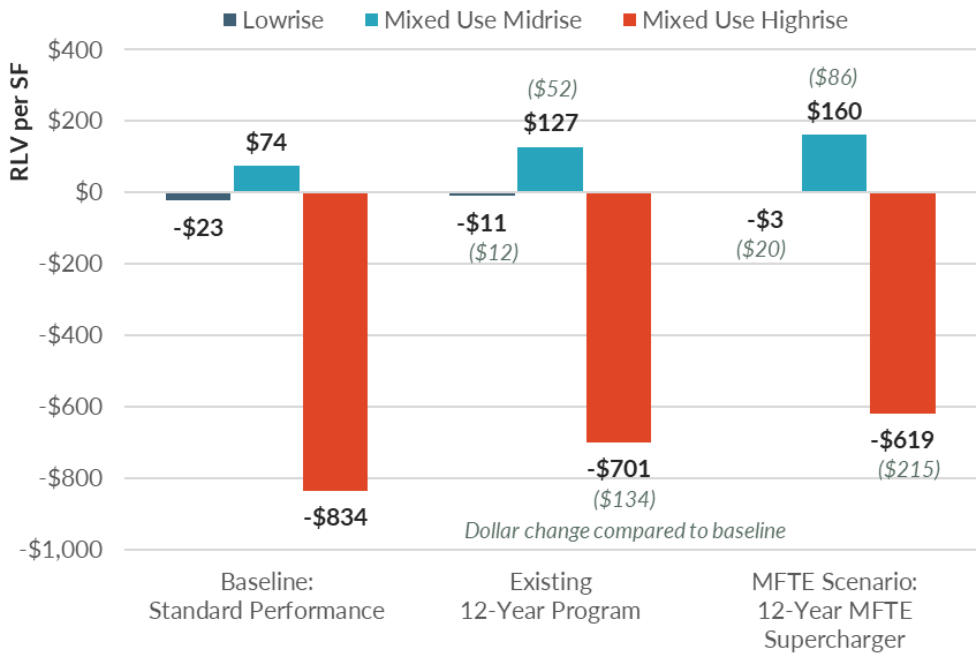
This section of the report presents the results of the pro forma analysis and the additional analysis of the 12-year MFTE program extension scenario.

Pro Forma Analysis

12-Year MFTE "Supercharger" Program

Exhibit 11 shows the 12-year MFTE Supercharger improves development feasibility for all prototypes when compared to the baseline and the existing 12-year program. The high-rise and mid-rise prototypes demonstrate the greatest benefit from the MFTE scenario. RLV per sf for mid-rise increases from $74 in the baseline to $127 under the existing 12-year program, and finally to $160 under the proposed "Supercharger" scenario. While for the high-rise prototype the RLV per sf remains negative at -$619, the "Supercharger" provides a significant improvement compared to the baseline (an increase by $215).

Exhibit 11. 12-Year MFTE Supercharger Residual Land Value per SF Results



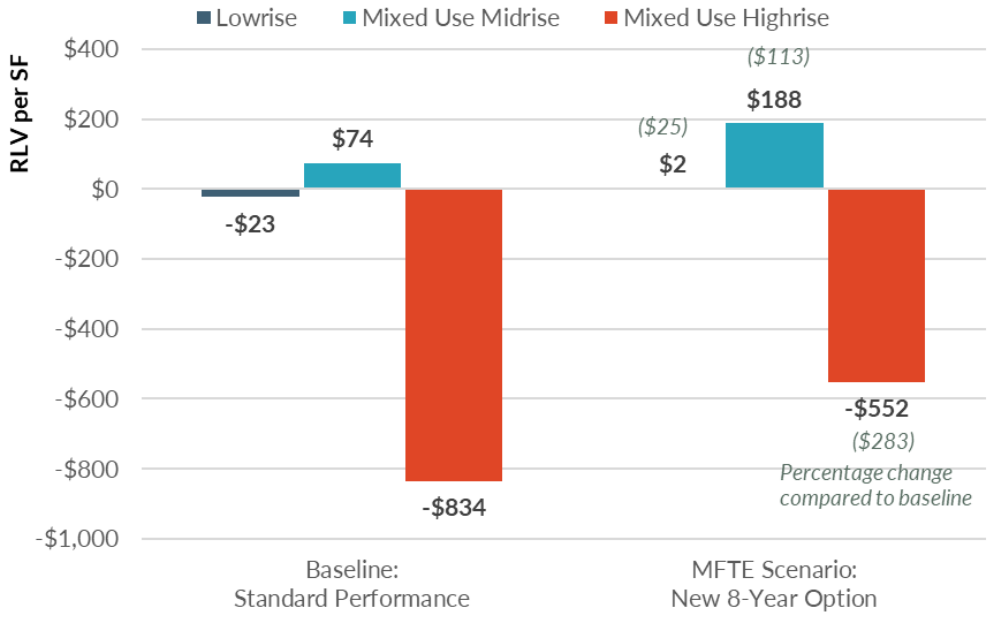
Source: BERK, 2025.

New 8-Year MFTE Program Option

The new 8-Year option improves development feasibility for all prototypes when compared to the baseline performance requirement as shown in *Exhibit 12*. The most significant impact is for the high-rise and mid-rise prototypes. For the latter, RLV per square foot increases from $74 in the baseline to $188 under the new 8-Year option, representing a $113 increase. The low-rise prototype has a negative RLV in the baseline but achieves a positive RLV of $2 with the new 8-year option. Lastly, the high-rise prototype RLV remains negative but increases by $283 with the new 8-year MFTE option.

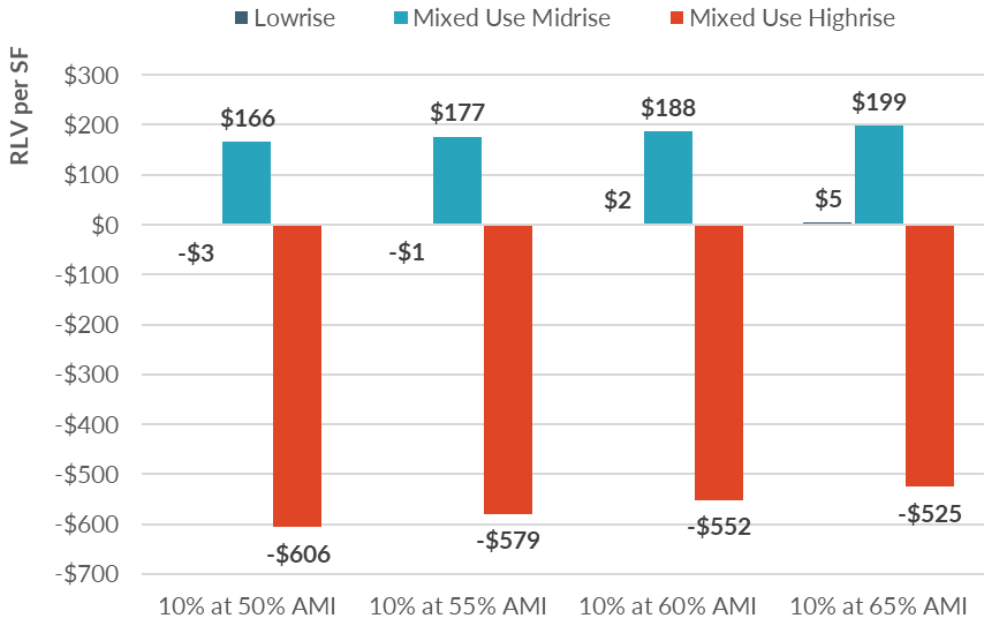
When testing different affordability levels for the new 8-Year option, RLV increases by $3 for the low-rise prototype, $11 for the mid-rise prototype, and $27 for the high-rise prototype for every 5% in affordability level (*Exhibit 13*).

Exhibit 12. New 8-Year MFTE Program Option Residual Land Value per SF Results



Source: BERK, 2025.

Exhibit 13. New 8-Year MFTE Program Option Residual Land Value per SF Results for Different Affordability Levels



Source: BERK, 2025.

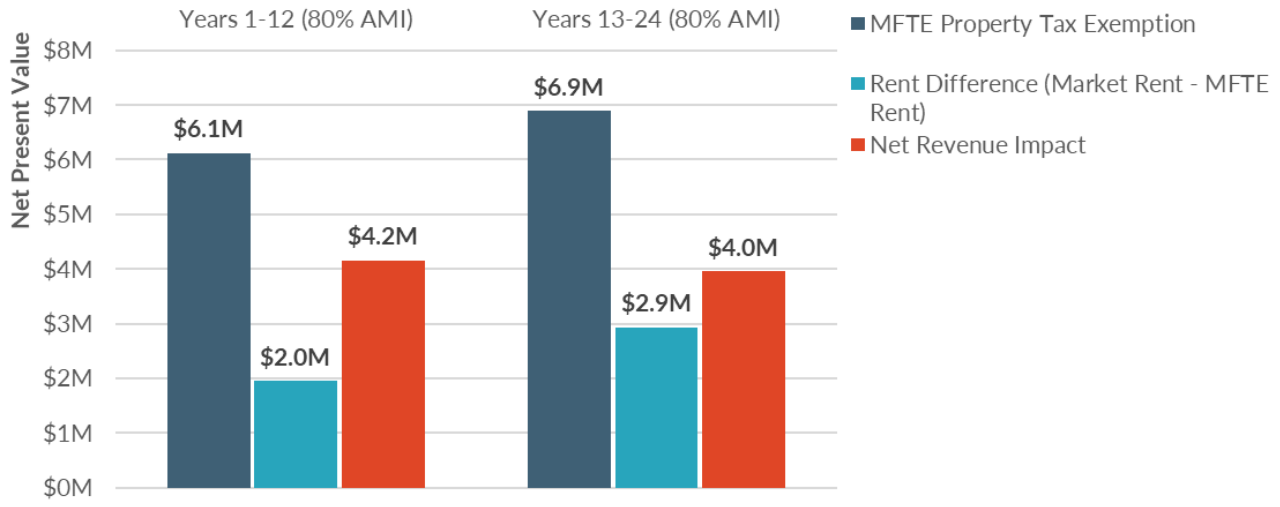
The pro forma analysis supports the City's proposed revisions to leverage the MTE program as a tool for improving development feasibility. Both the 12-year "Supercharger" and the new 8-year option successfully improve the financial feasibility of all three prototypical developments. Implementing these

changes recognizes the need to reduce barriers amidst a challenging development environment and adds additional options for flexibility in areas subject to mandatory affordable requirements. Additionally, both MFTE options would incentivize developers to select the performance option to satisfy the mandatory program compliance (as opposed to the payment option). The new 8-year option can be particularly effective as a tool to encourage a deeper level of affordability.

Additional Analysis

BERK estimated the NPV net revenue impact of MFTE for a mid-rise hypothetical development in years 1-12 and years 13-24 for a developer who selects the 12-year MFTE Supercharger compared to the mandatory performance baseline. Using the baseline inputs, the NPV of the net revenue benefit of MFTE for the mid-rise prototype is approximately $200,000 lower in years 13-24 compared to years 1-12 if the affordability level of MFTE units remains at 80% (*Exhibit 14*).

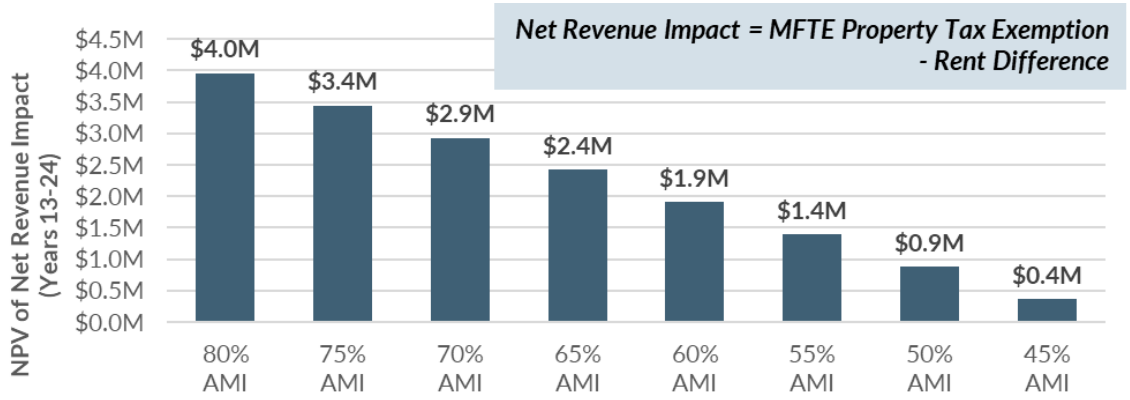
Exhibit 14. 12-Year MFTE Program Extension Net Revenue Impact Results (80% AMI)



Source: BERK, 2025.

The benefit of MFTE in years 13-24 decreases by approximately $500,000 for every 5% decrease in AMI for the affordability of MFTE units (*Exhibit 15*).

Exhibit 15. 12-Year MFTE Program Extension Net Revenue Impact Results for Different Affordability Levels



Source: BERK, 2025.

Sensitivity Analysis

Given the limited data availability to inform key assumptions for the 12-year MFTE program extension scenario, BERK conducted sensitivity testing to illustrate how susceptible the results are to variations in these assumptions.

- **Rent Depreciation Rate:** For every 0.1% percentage point increase in the market rent depreciation rate, there is a 4.5% increase (or ~$178,000) in the net revenue impact of the 12-year extension.
- **Market-Rate Annual Rent Growth:** For every 0.1% percentage point increase in the market rent growth rate, there is a 4.4% decrease (or ~$175,000) in the net revenue impact of the 12-year extension.
- **Property tax exemption increase:** For every 0.1% percentage point increase in the property tax growth rate, there is a 2.9% increase (or ~$117,000) in the net revenue impact of the 12-year extension.

The sensitivity analysis suggests that the effectiveness of the 12-year MFTE program extension and the opportunity to require deeper AMI levels can vary considerably from property to property.