ECOnorthwest

Attachment A

DATE:	August 17, 2026
TO:	Sharon Lumbantobing and Brad Medrud, City of Tumwater
FROM:	Erik Bagwell and Mackenzie Visser, ECOnorthwest
SUBJECT:	Tumwater MFTE Program Evaluation – Task 2 Memo

Introduction

The City of Tumwater retained ECOnorthwest to evaluate the effectiveness of its Multi-Family Tax Exemption (MFTE) program and to make recommendations regarding program continuation, program design, and geographic expansion. The City currently offers both an 8-year and a 12-year property tax exemption on the value of new multi-family housing improvements within two designated target areas (Brewery District and Capitol Blvd Corridor). Two other target areas (Littlerock Road subarea and Tumwater Town Center) only allow projects to receive the 12-year exemption, consistent with Chapter 3.30 of the Tumwater Municipal Code and Chapter 84.14 RCW. Under the 12-year exemption, participating projects must set aside units affordable to households earning between 80% and 115% of Area Median Income (AMI); the 8-year exemption carries no affordability set-aside.

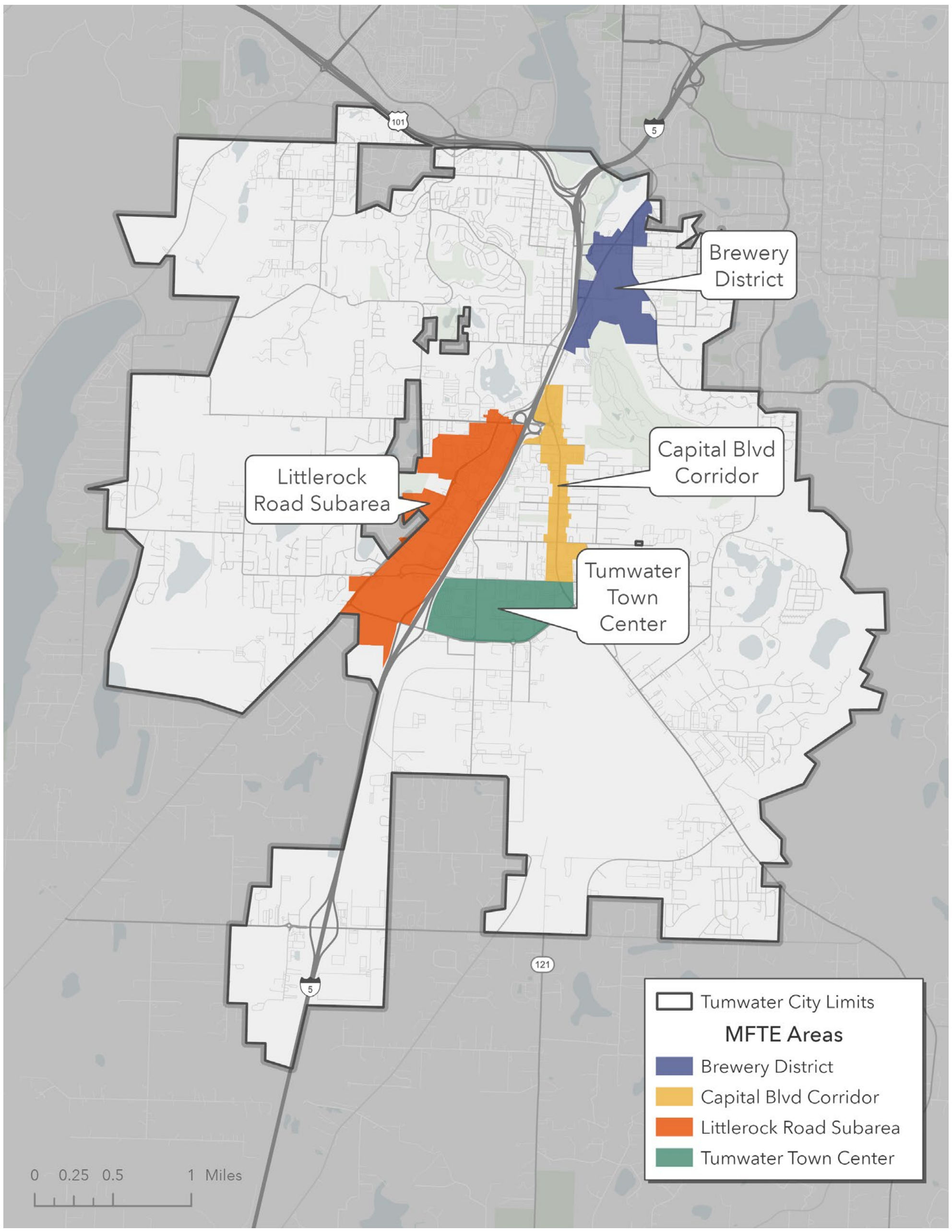
This memo summarizes ECOnorthwest's preliminary market and financial feasibility findings from Task 2 of the MFTE program evaluation. The central policy question is whether is whether the current 12-year MFTE structure — which pairs a longer exemption term with an affordability set-aside — is achieving genuine affordability in Tumwater, or whether it functions principally as a production incentive for market-rate housing. As discussed below, the answer depends heavily on how Tumwater's market rents compare to HUD-defined affordable rents at the AMI levels the program targets.

This memo presents ECOnorthwest's preliminary findings on (1) current market rents relative to HUD-defined affordability thresholds, (2) the residual land value (RLV) feasibility of representative housing prototypes under market-rate conditions, and (3) how the 8-year and 12-year MFTE programs, including potential recalibrations of the 12-year set-aside, affect that feasibility. It closes with preliminary recommendations, open policy questions, and next steps, including a brief update on the parallel affordable housing landscape scan being conducted alongside this analysis.

MFTE Geography

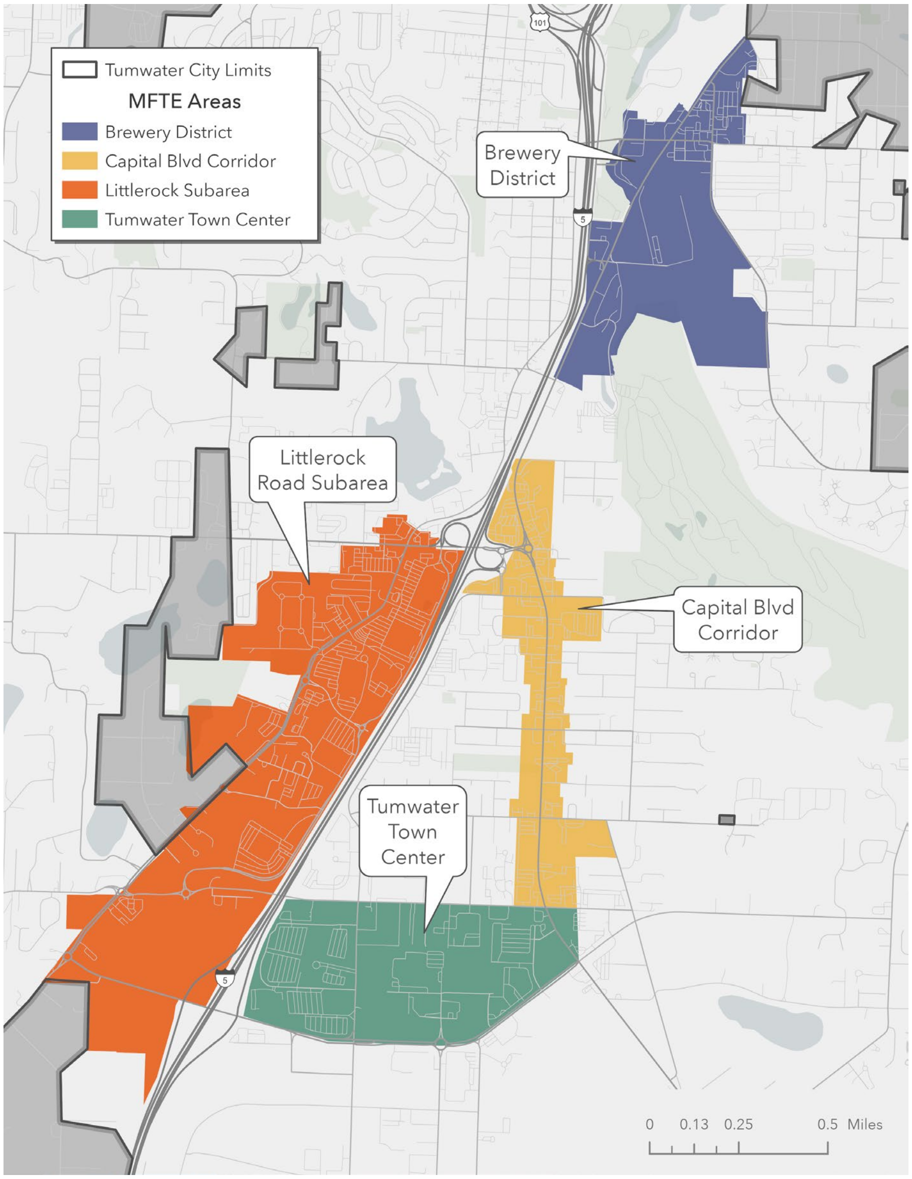
Tumwater's MFTE program is not citywide. Chapter 3.30 TMC designates four residential target areas within which a project must be located to qualify for either the 8-year or the 12-year exemption: the Brewery District, the Capital Blvd Corridor, the Littlerock Road Subarea, and the Tumwater Town Center (Exhibit 1). These target areas were selected because they sit within, or immediately adjacent to, Tumwater's established commercial and mixed-use corridors along the Capitol Boulevard (Blvd)/Interstate 5 spine and the historic brewery core — places the City has determined lack sufficient, desirable, and convenient housing relative to their existing commercial, transit, and infrastructure capacity. Exhibit 2 shows the same four target areas at a closer extent, illustrating how closely they track the City's commercial cores and the parcels immediately surrounding it.

Exhibit 1. Tumwater's MFTE Residential Target Areas (Citywide)



Source: City of Tumwater; Tumwater Municipal Code Chapter 3.30.

Exhibit 2. Tumwater's MFTE Residential Target Areas (Close Extent)



Source: City of Tumwater; Tumwater Municipal Code Chapter 3.30.

Why Areas Qualify for the 8-Year Exemption

Under TMC 3.30.040(A)(1), the **8-year exemption is available only in two of the four target areas: the Capital Blvd Corridor and the Brewery District.** The City limited the shorter-term exemption to these two areas based on the subarea planning processes for each district, both of which determined that more residential uses in these areas would support commercial/mixed use development. Because no affordability set-aside applies to the 8-year exemption, it functions purely as a production incentive: the City is using it to encourage multi-family development to locate in the districts it considers best positioned to absorb new density quickly, without asking developers to accept a rent restriction in exchange.

Why Areas Qualify for the 12-Year Exemption

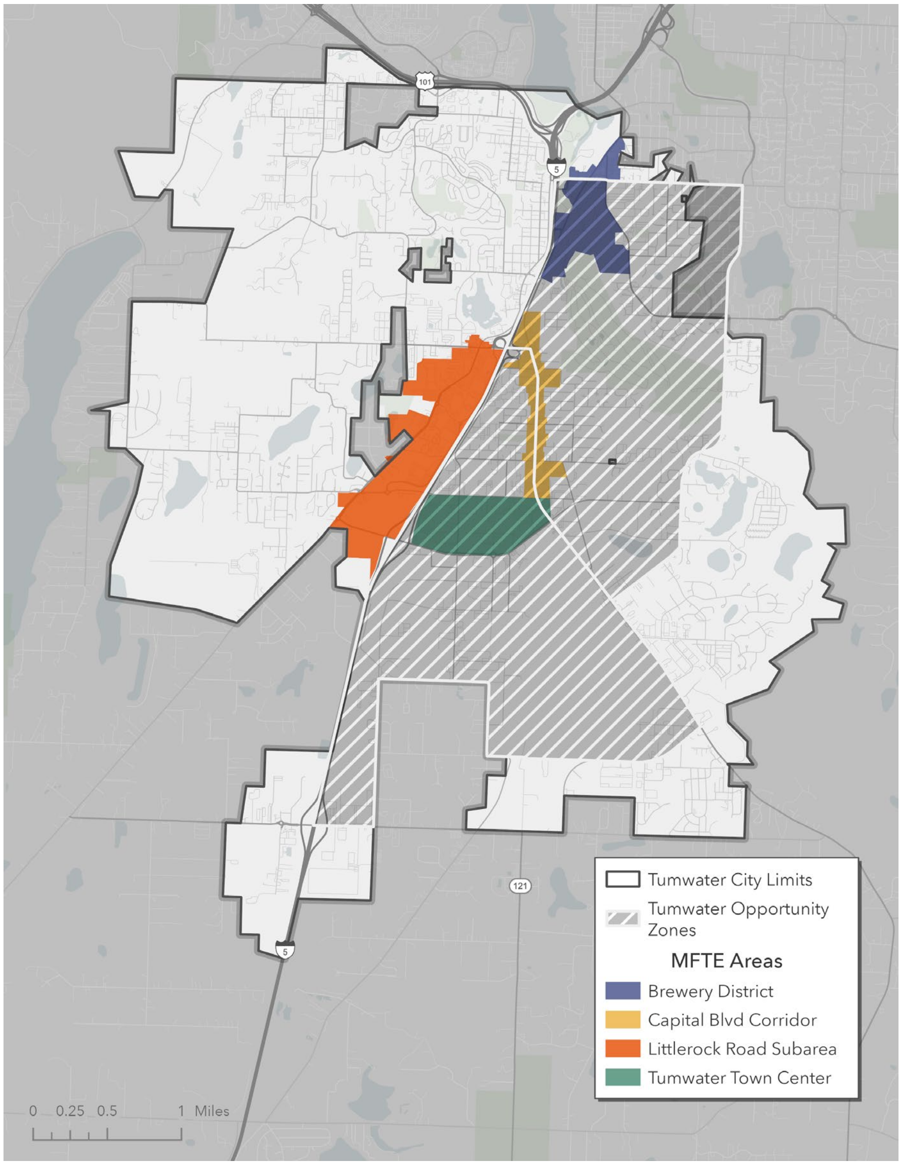
The **12-year exemption is available in all four target areas** — the Capital Blvd Corridor, the Brewery District, the Tumwater Town Center, and the Littlerock Road Subarea — but only if the applicant commits to renting or selling at least 20% of the units as affordable housing to moderate-income households (generally, 80% to 115% of AMI, or up to 150% of AMI in high-cost areas), per TMC 3.30.040(A)(2). The additional four years of exemption, relative to the 8-year term, is the City's trade for that affordability commitment. The 12-year exemption also has a broader geographic reach — extending into the Tumwater Town Center and the Littlerock Road Subarea, which the 8-year exemption does not reach. In fiscal year 2018-19, Tumwater's City Council committed to exploring multiple options to boost housing and affordable housing supply—including expanded housing types, smaller lot sizes, density/height incentives, and the 12-year MFTE expansion—recognizing no single approach would be enough.

As discussed later in this memo, whether that 20% set-aside is currently producing rents meaningfully below what Tumwater's market already charges — as opposed to functioning as a de facto extension of the 8-year exemption's production incentive — is a central question for this evaluation (see the Analysis section, below).

Tumwater's Opportunity Zones and MFTE Financial Feasibility

Part of Tumwater also sits inside a federal Opportunity Zone — a federal program that gives investors a tax break on their profits (capital gains taxes) if they put that money into a fund that develops property in the designated zone. As Exhibit 3 shows, this Opportunity Zone overlaps with most of the City's MFTE areas, including the Brewery District, Capital Blvd Corridor, and Tumwater Town Center. That means many of the same parcels are eligible for both incentives at once.

Exhibit 3. Tumwater's Opportunity Zones and MFTE Target Areas



Source: City of Tumwater; Washington State Department of Commerce.

MFTE and the Opportunity Zone program can help a project's finances in two different ways. MFTE lowers a project's ongoing costs by reducing its property tax bill. The Opportunity Zone program is a federal tax incentive that encourages investors to put capital gains earned elsewhere into projects located within designated Opportunity Zones. For example, an investor who realizes a $1 million gain from selling stock, real estate, or a business could invest that money in a qualifying development in Tumwater's Opportunity Zone. If the investor holds that Opportunity Zone investment for at least 10 years and it grows from $1 million to $1.5 million, the investor may generally exclude the additional $500,000 gain from federal capital gains tax.

The Opportunity Zone program doesn't reduce a project's costs at all. Instead, the tax benefit increases what the investor keeps after taxes. Because the investor is receiving some of the financial benefit through tax savings, the project itself does not have to generate quite as high a return to make the investment attractive. In effect, this enables an investor to accept a smaller return on a project than they otherwise would, which works in the same direction as an MFTE exemption: both make it easier for a project to pencil out.

In simple terms, MFTE improves the economics of the building by lowering property taxes; Opportunity Zone financing can improve the economics for the investor by lowering taxes on the investor's gain. The two incentives can potentially be used together when a project and its investors meet the requirements of both programs.

This could be most useful for the prototypes that don't quite pencil out even with an MFTE exemption alone, such as townhomes and the larger 3-story and 5-story buildings. Opportunity Zone financing could help close some of that remaining gap — but only for qualifying projects located in an Opportunity Zone and investors who have capital gains to reinvest and are willing to use the required Opportunity Zone investment structure.

It won't be available for every project or developer in Tumwater, but it could be a helpful complement to MFTE. One thing worth considering is that Tumwater's current Opportunity Zone designation runs only through the end of 2028. The federal government is redrawing zone boundaries statewide in 2026, with new maps taking effect January 1, 2027 — around the same time Tumwater's current MFTE application window is set to close (December 31, 2026). The City may want to confirm the parcels in Exhibit 3 are still inside a designated zone once the new map is finalized.

Multifamily Housing Development

MFTE Projects

Since the program's inception in 2017, six projects totaling 687 units have received conditional or final approval under the MFTE program, including 573 market-rate units and 114 affordable units. Three projects, with a total of 346 units, have received their Final Certificate; the remaining three, with a total of 341 units, hold Conditional Certificates only. All 114 affordable units approved to date come from the 12-year exemption because the 8-year tax exemption program does not have an affordability set-aside.

The six approved projects split evenly by exemption type, but not by scale. The three 8-year projects — 350 North Street SE Apartments (27 units, Brewery District), Craft District Apartments (95 units, Brewery District), and The Rookery (6 units, Capitol Blvd Corridor) — together account for 125 units, all market-rate. The three 12-year projects — Rockwell Place (114 units), Kingswood Apartments (181 units), and Yorkshire Apartments (240 units) — are all located in the Littlerock Road Subarea and together account for 562 units, including all 114 affordable units approved citywide (Exhibit 4).

Exhibit 4. Units by Target Area

TARGET AREAS	ALL UNITS	MARKET RATE UNITS	AFFORDABLE UNITS
Eight- and Twelve-Year Options			
Brewery District	119	119	0
Capitol Corridor	6	6	0
Twelve-Year Option Only with 20% Affordable			
Littlerock Subarea	562	448	114
Town Center	0	0	0
Total	687	573	114

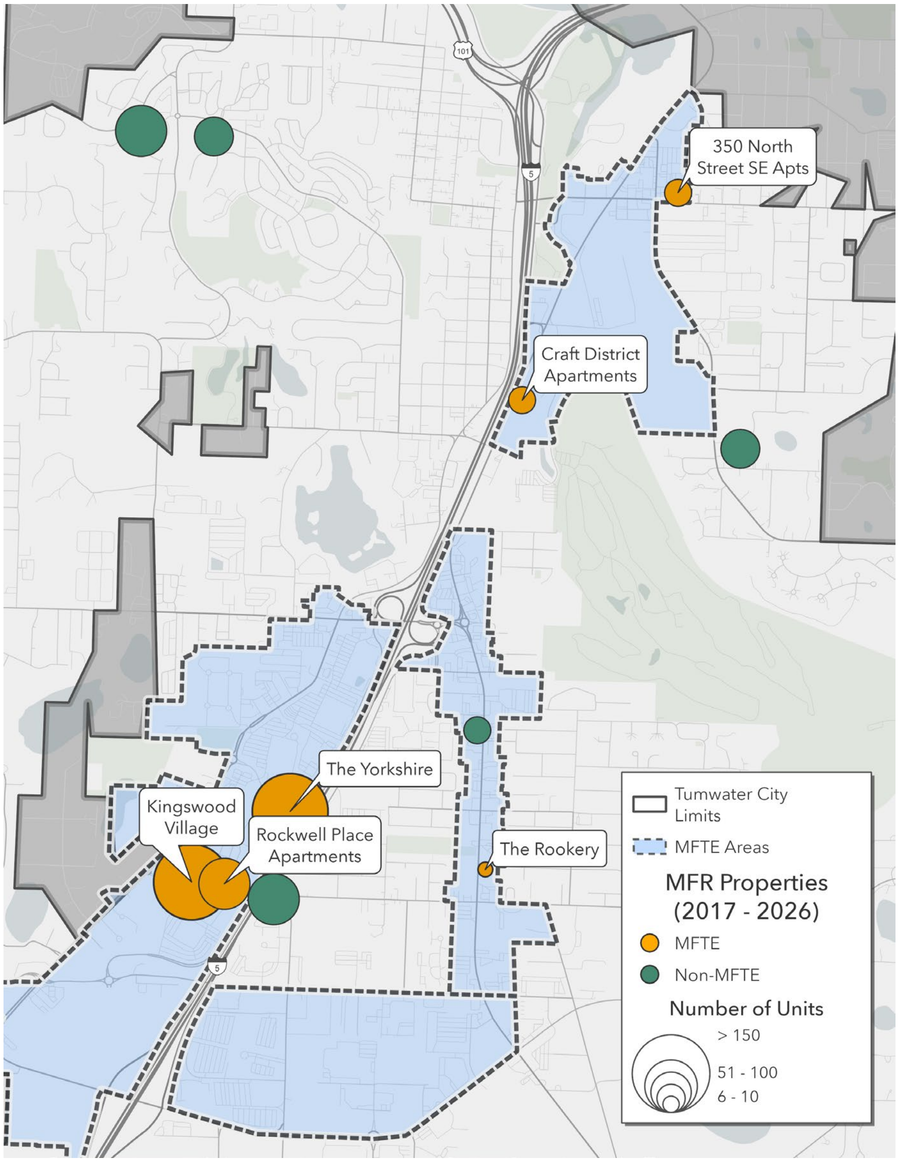
Source: City of Tumwater, data as of February 2026.

This pattern gives the Littlerock Road Subarea the clearest concentration of MFTE activity in the City: it accounts for 562 of the 687 approved units (82%), and for all 114 affordable units, even though it is only one of the four designated target areas. The Brewery District accounts for 119 units (17%), and the Capitol Blvd Corridor accounts for just 6 units (1%). The Town Center Area has not seen any approved MFTE projects to date. As the Exhibit 5 map shows, the MFTE-enrolled projects (orange) cluster tightly along two nodes of the Capitol Blvd Corridor: the Kingswood Village/Rockwell Place/Yorkshire cluster in the Littlerock Road Subarea, and the Craft District/350 North Street pairing near the Brewery District, with The Rookery as an isolated, small-scale outlier along the corridor further south.

Non-MFTE Projects

Non-MFTE multifamily development has been less numerous and, in most cases, smaller in scale than the MFTE-enrolled projects (Exhibit 5). The largest concentration of non-MFTE development since 2017 is in the northwest part of the City, well outside any of the four MFTE target areas, where some projects — including the two largest non-MFTE properties on the map, each exceeding 50 units — have been built with no exemption at all. All told, more MFTE multifamily units have been created since 2017 than non-MFTE multifamily units. This is an indication that since the adoption of MFTE in Tumwater, it has successfully spurred multifamily housing development in areas where it might not otherwise have occurred.

Exhibit 5. MFTE and Non-MFTE Projects by Unit Size



Source: CoStar and City of Tumwater, ECOnorthwest analysis 2026

Methodology

Prototypes

ECOnorthwest tested five prototypes reflective of recent and feasible multi-family construction types in Tumwater: townhomes (6 units), a smaller 3-story wood-frame building (27 units), a larger 3-story wood-frame building (114 units), a 5-story wood-frame building (190 units), and a 5-story building with tuck-under parking (171 units). Each prototype was modeled using current market-rate rents, typical operating expenses, and construction costs, consistent with the RLV methodology described below.

PROTOTYPE	COMPARABLE PROPERTIES
Townhomes	
3-Story Wood Frame (small lot)	

3-Story Wood Frame (large lot)	
5-Story Wood Frame (surface or tuck-under parking)	

Source: CoStar, 2026. Note: The 5-story wood frame is the Kingswood Village. The 3-story wood frame (larger scale) is Rockwell Place Apartments, 3-story wood frame (smaller scale) is the 350 North Apartments, and the Townhomes are the Forest Park Townhomes. All are located in Tumwater, Washington.

Analysis Approach

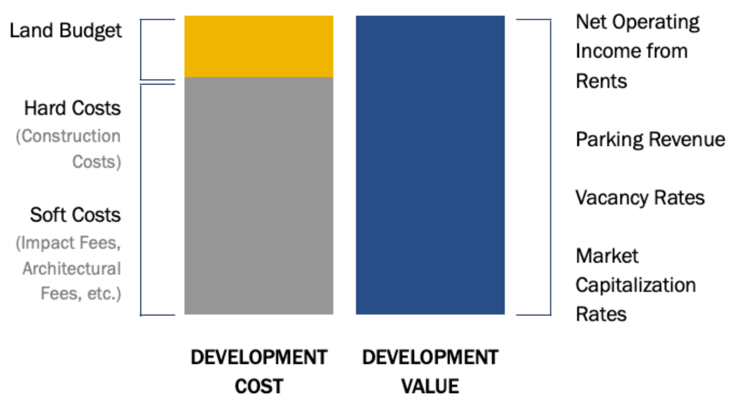
To estimate the financial feasibility of the prototypes across these parcels, ECOnorthwest employed a common method called a *residual land value (RLV) analysis*.

RLV estimates how much a developer could afford to pay for land after accounting for the expected value of the completed development and the costs of building it. The RLV is a useful metric for assessing the impacts of new policy requirements and accompanying development incentives because these policies principally affect land value, especially in the short run. An advantage of the RLV approach is that it does not rely on land prices as an input. Using RLV as an output allows us to identify the land budget for a development project and compare the land budget to actual land prices in the market today. The prototypes described above were analyzed using this RLV approach. For each of the prototypes, the RLV methodology compared the amount available to purchase land with and without tax exemptions. This approach provides a strong indicator of the relative likelihood of feasibility, rather than an absolute measure of return to a specific investor or developer. If the amount a project can afford to pay for land is comparable to or greater than market land prices, the project is more likely to be financially feasible.

HOW DOES THE RESIDUAL LAND VALUE METHOD WORK?

Exhibits 3 and 4 summarize the residual land value method by illustrating two example developments, one that is likely feasible and the other that is likely infeasible. In both scenarios, the right column (shown in blue) illustrates the total value that comes from the project (derived from rental revenue less any operating expenses and vacancy costs). The left column (shown primarily in grey) shows the total costs to build the project, both the hard construction costs and the soft costs such as design and fees.

Exhibit 1. Positive Land Budget

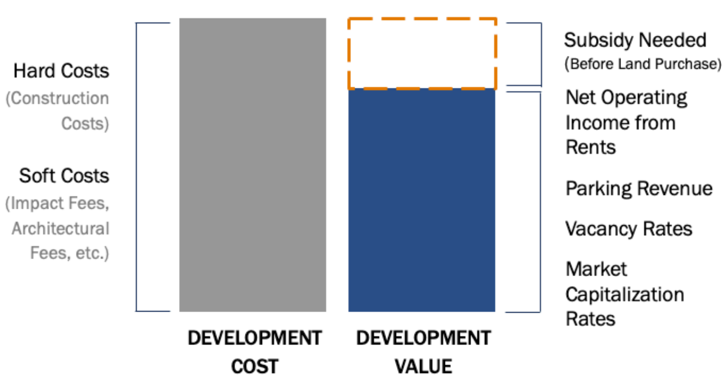


Source: ECOnorthwest

In this graphic, the development value (blue column) is greater than the cost (grey column), so there is budget to buy land (shown in yellow).

A positive land budget means that a proposed development project is likely to be feasible (contingent on the price for which the land is being offered).

Exhibit 2. Negative Land Budget



Source: ECOnorthwest

For a development that is not feasible, the development cost (grey column) exceeds the value (blue column), so a subsidy is needed to get the project to a positive land budget (shown in a dashed outline). A land budget below $0 means a proposed development project is not feasible, absent offsetting subsidies or incentives that can cover the difference.

Analysis

Market Rents Relative to AMI

One of the most consequential preliminary findings from this analysis is that current market rents in Tumwater fall below HUD-defined affordable rents at every unit size (Exhibit 5). This is because HUD's Area Median Income figure for Tumwater is drawn from the broader Olympia-Lacey-Tumwater region, which includes higher-income areas than Tumwater itself. As a result, the income — and therefore the rent — that HUD considers "affordable" at a given percentage of AMI is higher than what Tumwater's own market already charges. For example, 100% of AMI for a one-person household in Tumwater is roughly $85,000 per year; at a standard 30%-of-income rent burden, that translates to an affordable rent of $2,150 per month for a studio. The actual market rent for a new-construction studio in Tumwater, by comparison, is $1,550 per month — about 72% of AMI.

Exhibit 3. Market Rates Are Below 100% AMI

Source: CoStar; ECOnorthwest analysis. Rents shown for new construction built 2020 to 2026.

Expressed as a share of AMI, current Tumwater average market rents for new construction run from approximately 72% of AMI for studios up to 77% of AMI for 3-bedroom units (Exhibit 5). This means that across all unit types, the market has already been producing units with rents below the Tumwater's 12-year MFTE program's affordability set-aside is designed to target (80% to 115% of AMI).

This is a key finding because the 12-year MFTE's 80–115% AMI set-aside band sits above where Tumwater's market rents already land. This means that a project can satisfy the affordable unit set-aside requirement while charging rents at or near what it would charge anyway. In other words, the 12-year exemption's affordability requirement is not, under current market conditions, requiring meaningfully below-market rents — it is effectively subsidizing market-rate units.

Naturally Occurring Affordable Housing

Older buildings in Tumwater already provide a meaningful source of affordability without any public subsidy. Average asking rents rise steadily with a building's age of construction: rents in buildings built in the 2020s are roughly double the rents in Tumwater's oldest surviving multi-family stock (Exhibit 6). This pattern — sometimes called "naturally occurring affordable housing," or NOAH — reflects the fact that older buildings, which may have fewer amenities or need renovation, simply cannot command the rents that newer construction can. The City may want to consider how to preserve this stock as part of its broader affordable housing strategy, since it currently provides affordability at a scale the MFTE program alone does not.

Exhibit 4. Older Properties Are a Source of Affordable Housing

Source: CoStar; ECOnorthwest analysis. Tumwater data; rents are not adjusted for unit size or bedroom count.

Land Costs and Feasibility Under Market-Rate Development (No MFTE)

Without a tax exemption, most types of market-rate housing cannot generate enough value for developers to afford current land prices (Exhibit 7). Observed land costs for vacant and underutilized parcels in Tumwater run approximately between $8 and $14 per square foot; the median cost across all overall land transactions is considerably higher, ranging from roughly $40 to $59 per square foot depending on prototype. Only the smaller 3-story wood-frame prototype (27 units) comes reasonably close to clearing the lower end of that range under market-rate rents alone, while the townhomes and larger 3-story and 5-story prototypes fall well short.

Exhibit 5. Market-Rate Development Is Feasible If Developers Find Discounted Land

Source: ECOnorthwest analysis; CoStar.

It is worth noting that the highest density prototype tested (5-story with Tuck Under Parking; 171 units) is also the type least likely to be built by a typical Tumwater developer today: a project of that density is usually developed by larger, well capitalized developers. Most current development activity in Tumwater is occurring at a smaller scale (less than 50 units), built by local developers who are familiar with the market and this type of product. This may help explain why Tumwater has not seen the same pace or scale of multi-family development as neighboring Lacey. Factors such as available land and lower market rents make the returns less attractive to investors or make securing financing a challenge.

Effect of the 8-Year MFTE

The 8-year MFTE exemption — which carries no affordability set-aside — meaningfully expands the land budget across every prototype tested by removing property tax as an operating cost (Exhibit 8). This moves several prototypes much closer to, or above, observed vacant and underutilized land costs, though the largest prototypes still fall short of the median overall land cost in most cases. Because it carries no affordability requirement, the 8-year exemption is best understood as a pure production incentive: it makes more parcels financially viable for market-rate development without attempting to layer in deeper affordability.

Exhibit 6. The 8-Year Program Improves Feasibility

Source: ECOnorthwest analysis; CoStar.

Effect of the 12-Year MFTE (Current Program)

Comparing the 8-year and 12-year exemptions directly (Exhibit 9) shows that the current 12-year program has a similar — in most cases slightly larger — impact on the land budget than the 8-year exemption, despite requiring an affordability set-aside. This is a direct consequence of the AMI mismatch described above. The 12-year program requires some units to be affordable to households earning 80-115% AMI. However, the maximum rents allowed at these income levels are already close to or above current market rents in Tumwater. As a result, a developer may be able to meet the affordability requirement without reducing the rents. The developer then receives four additional years of property tax exemption compared with the 8-year program. A financially sophisticated developer and property manager would generally prefer the 12-year exemption over the 8-year exemption under these conditions — not because it delivers deeper affordability, but because it provides a larger tax benefit without requiring a comparable reduction in rents. Tumwater may currently be giving four more years of tax exemption without receiving much additional affordability in return but is helping to increase the supply of newly constructed housing.

Exhibit 7. The 12-Year Program Has a Similar Impact as the 8-Year

Source: ECOnorthwest analysis; CoStar.

Recalibrating the 12-Year MFTE

ECOnorthwest tested two illustrative recalibrations of the 12-year program's affordability requirement to explore this trade-off directly: requiring 20% of units at 80% AMI and requiring 20% of units at 70% AMI (Exhibit 10). The 80% AMI scenario is only modestly more binding than the current program in most prototypes — land budgets are nearly identical to the current 12-year program for the 3-story and 5-story wood-frame prototypes, because 80% AMI is still close to current market rents. The 70% AMI scenario is meaningfully more binding: land budgets fall noticeably across every prototype, and for townhomes, the required affordability set-aside would produce a negative land budget, meaning that prototype would not be feasible at all under that deeper affordability requirement.

Exhibit 8. Calibrating the 12-Year Depends on the Policy Goals of the City

Source: ECOnorthwest analysis; CoStar.

This analysis confirms that the City faces a genuine trade-off. Recalibrating the 12-year MFTE to require deeper affordability (e.g., 70% AMI) would reduce the land budget available to developers, particularly for smaller prototypes, while a shallower recalibration (e.g., 80% AMI) would preserve most of the program's current production benefit but would not, by itself, produce much deeper affordability than the market already provides.

Key Preliminary Findings

- **AMI mismatch:** HUD's Area Median Income for Tumwater is drawn from the broader Olympia-Lacey-Tumwater region, which includes higher-income areas. As a result, HUD-defined "affordable" rents (e.g., roughly $2,150/month for a studio at 100% AMI) exceed what Tumwater's market actually charges (roughly $1,550/month), with market rents running approximately 72% to 77% of AMI across unit types.
- **MFTE has helped increase multifamily housing production.** Since 2017, more multifamily housing units have been built with MFTE than those that are outside of the designated MFTE target areas.
- **The 12-year MFTE's 80–115% AMI band is effectively a market-rate subsidy:** because Tumwater market rents already sit around 75% of AMI, the current set-aside requirement locks in units at or near market rate. This provides little to no additional affordability benefit while still granting the full 12-year exemption — a dynamic that can be characterized as effectively a giveaway under current market conditions.

- **The 8-year MFTE is more efficient for pure production:** it removes property tax as an operating cost and meaningfully expands the land budget across every prototype tested, opening up more parcels to feasible development, without requiring (or relying on) an affordability set-aside that current market rents would not meaningfully bind.
- **The 12-year and 8-year programs currently have a similar impact on feasibility:** in most prototypes the 12-year program supports a land budget as large as or larger than the 8-year program, despite its affordability requirement — underscoring that the set-aside is not currently a binding constraint relative to market rents.
- **Recalibrating the 12-year program is possible but must be calibrated carefully:** a shallower set-aside (20% of units at 80% AMI) is only modestly more binding than the current program; a deeper set-aside (20% of units at 70% AMI) meaningfully reduces the land budget across every prototype and would make the townhome prototype infeasible outright.
- **Feasibility varies significantly by prototype:** only the smaller 3-story wood-frame building (27 units) comes close to viable land budgets under market-rate rents alone; townhomes and larger 3-story and 5-story prototypes cannot support land costs above roughly $6–$9 per square foot, well below observed land prices.
- **Naturally occurring affordable housing is a significant existing asset:** older buildings in Tumwater rent for substantially less than new construction — roughly half as much — and do so without any public subsidy, suggesting preservation strategies may complement MFTE-driven new production.
- **An institutional investor gap may help explain Tumwater's slower development pace relative to Lacey:** the largest prototype tested (171 units) generally requires institutional equity, and there is limited evidence of institutional investor interest in Tumwater specifically. This may be due to return expectations, land availability, and other jurisdictions benefiting more from JBLM housing demand.

Findings & Recommendations

Taken together, these preliminary findings point to a policy choice. The current MFTE structure cannot simultaneously maximize housing production and achieve deeper affordability, because the 12-year program's existing set-aside is not binding relative to today's market rents. The City must decide whether it wants to use the MFTE program primarily to incentivize housing production — in which case the 8-year exemption (or a recalibrated 12-year exemption with a shallow set-aside) is the more efficient tool — or whether it wants to use the 12-year program to achieve genuinely deeper affordability, in which case the set-aside would need to be recalibrated to a lower AMI threshold (such as 70% AMI) with a clear understanding that doing so will reduce the land budget available to developers and could reduce participation, particularly among smaller prototypes.

ECOnorthwest's preliminary recommendation is that the City treat production and deep affordability as two distinct problems requiring two distinct tools, rather than expecting the MFTE program alone to solve both:

- **To increase production:** the 8-year MFTE (or a 12-year exemption recalibrated to a shallow set-aside, such as 80% AMI) is the more efficient vehicle for expanding the number of parcels where multi-family development is financially feasible, since it does not impose a rent restriction that the market is not already meeting.
- **To achieve deeper affordability:** MFTE alone — even recalibrated to 70% AMI — is unlikely to be sufficient to produce units affordable to lower-income households (e.g., 60% AMI) at meaningful scale. The City should expect to pair MFTE with additional tools (e.g., direct subsidy or land contributions) if it wants to reach that depth of affordability, consistent with the parallel affordable housing landscape scan project to, then it should consider other tools beyond MFTE. These tools could include direct subsidies, such as City funding that helps pay a portion of a project's development costs, or land contributions, such as providing publicly owned land at no or reduced cost. These tools reduce the amount of money a project must recover through rents, making it possible to provide housing at lower rent levels than MFTE can generally achieve on its own.

ECOnorthwest will further quantify this trade-off in Task 3, which will model additional sensitivity scenarios at 80% and 60% AMI set asides to give the City a clearer picture of the feasibility consequences of different affordability depths before finalizing program recommendations.