

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Action: Adoption of Resolution 5054 Approving a Multiple-Unit Property Tax Exemption for Residential Property Located at Willamette and Broadway (858 Pearl St., LLC/Park Place Apartments)

Meeting Date: January 23, 2012
Department: Planning and Development
www.eugene-or.gov

Agenda Item: 6
Staff Contact: Amanda Nobel
Contact Telephone Number: 541-682-5535

ISSUE STATEMENT

The council is asked to consider approval of a Multiple-Unit Property Tax Exemption (MUPTE) for 858 Pearl Street, LLC's Park Place Apartments project located at 877 East Park Street (the former City of Eugene Public Works Engineering building). The resolution for approval is in Attachment A.

BACKGROUND

In 1975, the Oregon legislature adopted the enabling statutes for the MUPTE and Transit Oriented District Tax Exemption Program. Since that time, both the State statutes and Eugene's implementation ordinance has been amended. The council most recently amended the sunset date and shrank the boundary in September 2011. Also at that time, the council added the option to exempt the commercial portion of a multi-unit housing project to the extent that the commercial property is required or considered to be a public benefit. The council amended Eugene's code provisions in November 2008, to assist both staff and the council in evaluating a MUPTE application with: 1) adoption of approval criteria and 2) direction to the City Manager to adopt a public benefit scoring system (described below).

The City sold the property to the developer in 2011, for \$1 million to create downtown housing. 858 Pearl Street, LLC proposes to renovate an existing building to create Park Place Apartments, with 24 apartments. (See Attachment B for the Report and Recommendation of the Planning and Development Director and Attachment C for an image of the building.) The project would have four stories (18,240 square feet), 28 bedrooms, and lease 30 off-site, City-owned parking spaces for the residents. The building is not a city landmark nor is it on the National Historic Register.

Public Comments

A display advertisement was published in *The Register-Guard* on December 20, 2011, soliciting comments for 30 days. The period ended on January 19, 2012. As of the writing of this agenda item summary, no comments have been received in response to the ad. If comments are submitted on or before January 19, staff will report that information to the council on January 23. The applicant did provide an email indicating support for the project from the Downtown Neighborhood Association Chair, included in Attachment D.

Public Benefits

After reviewing the Park Place Apartments application against the public benefit scoring criteria in the Standards and Guidelines, staff determined that the proposed development earned 150 points. (A minimum of 100 points is required for the City Manager to recommend that the council approve an application.) Points were awarded for the project through the following benefits:

- *Density*: 50 points (10 points per unit in excess of the minimum code requirement; 50-point max)
- *Location*: 100 points for being located within the Downtown Plan Area

Impact and Need for Tax Exemptions to Encourage Housing

The City and other local taxing districts forgo revenue when property is exempted from taxes. Broadway Lofts will continue to generate property tax revenue on the land. The submitted application estimates the land property tax at \$4,500. After 10 years, the entire development will be taxable, generating an estimated \$37,500 in year 11. The MUPTE is vital to the development and, if it is denied, the property could not be converted to a housing use.

Financial Analysis

The applicant demonstrated that the project as proposed could not be built but for the benefit of the tax exemption. Staff and the Loan Advisory Committee reviewed the pro-forma and confirmed this conclusion. (See Attachment E for more information.)

Timing

This application was submitted on November 30, 2011. The City Manager has 90 days (until February 28) to make a recommendation to the council. If the council has not acted in 180 days, the application is deemed approved.

RELATED CITY POLICIES

MUPTE is enabled by state statute. The City of Eugene has participated in the MUPTE program since 1978. Encouraging housing in the core area is consistent with numerous adopted planning and policy documents. Examples include:

Growth Management Policies

- Policy 1 Support the existing Eugene Urban Growth Boundary by taking actions to increase density and use on existing vacant land and under-used land within the boundary more efficiently.
- Policy 2 Encourage in-fill, mixed-use, redevelopment, and higher density development.
- Policy 3 Encourage a mix of business and residential uses downtown using incentives and zoning.

West University Refinement Plan

- V.9 The City will encourage residential uses in all parts of the plan area.
- V.11 The City and the neighborhood shall study ways to encourage a variety or mix of structure types providing both owner and rental opportunities and appealing to a diverse population.

Additionally, the MUPTE program is consistent with the current Envision Eugene work and, specifically, the “Promote compact urban development and efficient transportation options” pillar.

COUNCIL OPTIONS

The council may approve the exemption, deny the exemption, or delay approval in order to request additional information from the developer.

CITY MANAGER’S RECOMMENDATION

The City Manager recommends approving the exemption based on a demonstration of need and that the applicant scored 150 public benefit points, which exceeds the 100-point threshold for support.

SUGGESTED MOTION

Move to adopt Resolution 5054 approving a multiple-unit property tax exemption for residential property located at 877 East Park Street.

ATTACHMENTS

- A. Resolution Approving the Property Tax Exemption
- B. Report & Recommendation of the Planning and Development Director
- C. Image of the Current Site
- D. Email from DNA Chair Indicating Support
- E. Financial Analysis

A copy of the MUPTE application for Park Place Apartments is available in the council office for review.

FOR MORE INFORMATION

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E-mail: amanda.nobel@ci.eugene.or.us

Resolution to Approve

A RESOLUTION APPROVING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED AT 877 EAST PARK STREET, EUGENE, OREGON (858 Pearl St., LLC/Applicant).

The City Council of the City of Eugene finds that:

A. 858 Pearl St., LLC is the owner of real property located at 877 East Park Street, Eugene, Oregon, more particularly described in Exhibit A attached to this Resolution, and has submitted an application pursuant to the City’s Multiple-Unit Property Tax Exemption Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to the rehabilitation of the existing building to include residential units.

B. The project, known as Park Place Apartments, consists of the development of ten studio units; ten one-bedroom units; and four two-bedroom units, for a total of 24 residential units.

C. The project is located within the boundaries of the downtown area as described in subsection (2) of Section 2.945 of the Eugene Code, 1971.

D. The project could not financially be built “but for” the tax exemption.

E. The applicant solicited comments from city-recognized affected neighborhood associations.

F. The requirements in the Standards and Guidelines for Multiple-Unit Housing Property Tax Exemptions adopted by Administrative Order Nos. 53-09-01-F and 53-11-05 related to proximity to historic resources have been satisfied.

G. The applicant has complied with the provisions of the Standards and Guidelines as described in the Report and Recommendation attached as Exhibit B to this Resolution which was prepared by the Executive Director of the Planning and Development Department (“the Executive Director”) as designee of the City Manager.

H. The project will be completed on or before January 1, 2022, and the owner has agreed to include in the construction one or more public benefits.

I. The proposed project will be at the time of completion, in conformance with all local plans and planning regulations, including special or district-wide plans developed and adopted pursuant to ORS chapters 195, 196, 197, 215 and 227, that are applicable at the time the application is approved.

J. The project is not designed for, and will not be used as transient accommodations.

K. Granting the application is in the public interest. In making this determination, the City Council has considered the number of points awarded to the project based on the public benefit scoring system contained in the Standards and Guidelines.

L. The Report and Recommendation attached as Exhibit B recommends that the application be approved and the exemption granted. In making that recommendation, the Executive Director found that the applicant submitted all required materials, documents and fees as set forth in Section 2.945 of the Eugene Code, 1971, and the Standards and Guidelines, and the applicant is in compliance with the policies contained therein.

NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EUGENE, a Municipal Corporation of the State of Oregon, as follows:

Section 1. Based upon the above findings which are adopted, and the City Council's review of the Executive Director's Report and Recommendation which is attached as Exhibit B, the City Council approves the application of 858 Pearl St., LLC for an ad valorem property tax exemption under the City's Multiple-Unit Property Tax Exemption Program for the rehabilitation of the existing building located at 877 East Park Street, Eugene, Oregon, more particularly described in Exhibit A, to include residential units, subject to the following conditions:

1. The project shall consist of the development of ten studio units; ten one-bedroom units; and four two-bedroom units, for a total of 24 residential units.
2. The project shall be completed on or before January 1, 2022.
3. The project shall be in conformance with all local plans and planning regulations, including special or district-wide plans developed and adopted pursuant to ORS Chapters 195, 196, 197, 215 and 227.

Section 2. The residential units to be constructed on the property described in Section 1 above (100% of the increase in value of the building) is declared exempt from local ad valorem property taxation beginning July 1 of the year following issuance of a Certificate of Occupancy and continuing for a continuous period of ten years unless earlier terminated in accordance with the provisions of Section 2.947 of the Eugene Code, 1971.

Section 3. The City Manager, or the Manager's designee, is requested to forward a copy of this Resolution to the applicant within ten days, and to cause a copy of this Resolution to be filed with the Lane County Assessor on or before April 1, 2012.

Section 4. This Resolution shall become effective immediately upon its adoption.

The foregoing Resolution adopted and effective the ____ day of January, 2012.

Deputy City Recorder

Resolution Exhibit A – Property Legal Description

Real property in the County of Lane, State of Oregon, described as follows:

BEGINNING AT THE NORTHEAST CORNER OF LOT 5, IN BLOCK 12 OF MULLIGAN'S DONATION TO LANE COUNTY, AS PLATTED AND RECORDED IN BOOK A, PAGE 122, LANE COUNTY OREGON PLAT RECORDS, IN LANE COUNTY, OREGON, AND RUNNING THENCE SOUTH 40 FEET, MORE OR LESS, TO THE SOUTHEAST CORNER OF THE NORTH HALF OF SAID LOT, THENCE WEST 114 FEET, MORE OR LESS, THROUGH THE CENTER OF SAID LOT, TO THE PRESENT LINE OF PARK STREET, THENCE NORTH 40 FEET, MORE OR LESS, TO A POINT DUE WEST OF THE BEGINNING POINT, AND THENCE EAST 114 FEET TO THE PLACE OF BEGINNING, IN EUGENE, LANE COUNTY, OREGON.

NOTE: This legal description was created prior to January 01, 2008.

Tax Parcel Number: 0262491

**REPORT AND RECOMMENDATION
of the Planning & Development Department**

Park Place Apartments Application for Multiple-Unit Property Tax Exemption

The Executive Director of the Planning & Development Department of the City of Eugene Finds that:

1. 858 Pearl St., LLC is the owner of real property located at 877 East Park Street, Eugene, Oregon (Assessor's Map 17-03-31-14; Tax Lot 02700). 858 Pearl St., LLC submitted an application pursuant to the City's Multiple-Unit Property Tax Exemption Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to the rehabilitation of the existing building to include residential units.
2. As the City Manager's designee, I have reviewed the application and find that:
 - 2.1 The project will provide ten studio units, ten 1-bedroom units, and four 2-bedroom units for a total of 24 residential units.
 - 2.2 Construction is expected to be complete on or before January 1, 2022.
 - 2.3 The project is located in the downtown area described in subsection (2) of Section 2.945 of the Eugene Code, 1971.
 - 2.4 The applicant has submitted all materials, documents and fees required by the City as set forth in Section 2.945 of the Eugene Code, 1971, and the Standards and Guidelines for Multiple-Unit Housing Property Tax Exemptions adopted by Administrative Order No. 53-09-01-F and 53-11-05.
 - 2.5 The applicant responded to the public benefit criteria as follows:
 - 2.5.1 Public Benefits:
 - Density. The project will be built in the C-3 zone and has no minimum or maximum for residential units. This project exceeds the minimum density by 24 units.
 - Green Building Features. Park Place Apartments will not use LEED or Earth Advantage.
 - Mixed Income. The project will not include housing dedicated to controlled income.
 - Homeownership. No units are designated for home ownership.

- Accessibility. None of the units will be ADA accessible.
- Historic Sensitivity. The project is not immediately adjacent or contiguous to an historic structure.
- Location. The project is located in the Downtown Plan Area.
- Parking. The project is not located in a RPP zone.

2.5.2 Longevity of Public Benefits. All of the public benefits listed above will extend beyond the period of the tax exemption.

2.5.3 Points Awarded. The applicant has been awarded 150 public benefit points.

2.6 The applicant demonstrated that the project as proposed could not be built but for the benefit of the tax exemption. City staff and the City's Loan Advisory Committee reviewed the pro-forma and confirmed this conclusion.

2.7 A presentation concerning the Broadway Lofts project was given to the Downtown Neighborhood Association on November 16, 2011. The Association Chair wrote an email indicating support for the project.

3. A display ad soliciting recommendations or comments from the public regarding this project was published in the Register-Guard on December 20, 2011. The period for comment will expire on January 19, 2012. As of the date of this Report and Recommendation, no comments have been received in response to the ad. If comments are submitted on or before January 19, 2012, staff will report that information to Council on January 23.

Therefore, based upon the above findings, the project is, or will be at the time of completion, in conformance with all applicable local plans and provisions of the Eugene Code, 1971, planning regulations, the Metropolitan Area General Plan, and the criteria set forth in the City's adopted Standards and Guidelines, and I recommend that the application be approved.

Dated this 12 day of January, 2012.



 Executive Director, AIC
 Planning & Development Department

Image of the Current Site



Email from DNA Chair indicating support

From: Eugene DNA [mailto:dna.eugene@gmail.com]
Sent: Thursday, November 17, 2011 4:01 PM
To: Michael Roberts
Subject: Thanks!

Hi Mike--

That was a terrific presentation at the DNA meeting last night. Folks were excited to hear about your projects and imagine the positive influences they will have on Downtown.

In small group discussion after you left, the idea came up that it might be pretty neat to have you folks-- and the other current developers with projects underway-- participate in one of the galleries during a Friday Artwalk.

Probably the idea would be to have each developer present in a different month. The presentation could involve models, schematics, blueprints, or ...?

This is still in brainstorm phase, not likely to happen real soon. Still, I hope you can give this some thought and let me know if you might be interested in something along these lines. No point in going forward if it seems unworkable.

David

Financial Analysis

The Pro-Forma for Park Place Apartments (below) shows three key reasons that the project would not be built without MUPTE. First, the debt coverage ratio (Net Operating Income (NOI) divided by debt service) is 1.12, below the amount needed to qualify for conventional financing. (The common bank preference is for 1.25 or higher.) Second, the perceived risk is high demonstrated by the Cash on Cash return (Cash Flow divided by the equity that is invested by the developer) well below the market-expected 10% to 15% level. The Cash on Cash only reaches 3% by year 10. Third, the project valuation is below the amount needed to qualify for conventional financing. (The value is determined by NOI divided by the capitalization rate.) At project stabilization, the projected value of the property is \$2.5 million. The loan to value would be 91%, instead of 75% or lower needed to qualify for bank financing.

Sources

EQ	\$ 1,473,160	39%
Conventional Debt	\$ 2,293,359	61%
Total project	\$ 3,766,519	

The City sold the property to the developer for \$1 million - \$700,000 cash and \$300,000 on a note to be repaid upon reaching 14% return. For purposes of this analysis, the \$300,000 is included as part of the equity.

Pro-Forma

<i>Without MUPTE</i>	Year 1	Year 2	Year 10
Rent Income	\$ 269,568	\$ 272,264	\$ 294,823
- Vacancy (5%)	\$ 13,478	\$ 13,613	\$ 14,741
= Effective Gross Rent	\$ 256,090	\$ 258,650	\$ 280,081
- Operating Exp (25%)	\$ 67,392	\$ 68,066	\$ 73,706
= NOI	\$ 188,698	\$ 190,585	\$ 206,376
- Debt Service	\$ 168,999	\$ 168,999	\$ 168,999
= CF	\$ 19,699	\$ 21,586	\$ 37,377
Cash on Cash Return	1%	1%	3%
Value	\$ 2,516,000	\$ 2,541,000	\$ 2,752,000
dsc	1.12		

The pro-forma uses conservative assumptions for property value growth and market assumptions for vacancy and operating expenses. The model assumes that assessed property values increase by 2% per

year. The vacancy rate is assumed at 5% of rental income and operating expenses are estimated at 25% of rental income, both standard assumptions in financial underwriting. The financial information is based on projections prior to financing, tenancing, and construction. The cap rate was 7.5%.

With MUPTE	Year 1	Year 2	Year 10
Rent Income	\$ 269,568	\$ 272,264	\$ 294,823
- Vacancy (5%)	\$ 13,478	\$ 13,613	\$ 14,741
= Effective Gross Rent	\$ 256,090	\$ 258,650	\$ 280,081
- Operating Exp	\$ 67,392	\$ 68,066	\$ 73,706
- Property Tax (saved by MUPTE)	\$ (30,795)	\$ (31,411)	\$ (36,803)
= NOI	\$ 219,493	\$ 221,996	\$ 243,179
- Debt Service	\$ 168,999	\$ 168,999	\$ 168,999
= CF	\$ 50,494	\$ 52,997	\$ 74,180
Cash on Cash Return	3%	4%	5%
Value	\$ 2,927,000	\$ 2,960,000	\$ 3,242,000
dsc	1.30		

The Pro-Forma above shows that the project improves with the MUPTE. The debt service coverage is 1.3. The Cash on Cash return reaches 5% by year 10. The project valuation is 78% loan to value.