

EUGENE CITY COUNCIL AGENDA ITEM SUMMARY



Public Hearing: Multi-Unit Property Tax Exemption for Student Housing Project

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

Agenda Item: 4
Staff Contact: Amanda Nobel
Contact Telephone Number: 541-682-5535

ISSUE STATEMENT

The public is invited to provide comment on whether the council should approve a Multi-Unit Property Tax Exemption (MUPTE) for the Olive & 13th Student Housing project proposed by Capstone Collegiate Communities (currently the PeaceHealth clinic site and surrounding lots). The resolutions for approval and denial are in Attachments A and B.

BACKGROUND

In 1975, the Oregon legislature adopted the enabling statutes for the MUPTE program. Since that time, both the State statutes and Eugene's implementation ordinance have been amended. The council most recently extended the sunset date and reduced 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 use is required or considered to be a public benefit. The council amended Eugene's code provisions in November 2008, to assist both staff and 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).

Project

Capstone plans to remove the existing structures and build a five-story student housing development with structured and surface parking and one commercial space. Phase 1 is between Olive and Willamette from just north of 12th to 13th avenues. Phase 2 is between Charnelton and Olive from 12th to 13th avenues. (The Report and Recommendation of the Planning and Development Director is Attachment C and includes the list of program defined public benefits and other benefits from the project. See Attachment D for images of the project. A map of existing downtown housing is Attachment E.) The development would include embedded parking, which means the parking structures will be surrounded by the housing units on three sides and open to the alley on the fourth side. The project will have between 359 and 375 units, up to 5,000 square feet of commercial space; approximately 1,000 structured parking spaces; and up to 48 surface parking spaces. Entrance to the development would be with key card through secured private courtyards located off the public pedestrian and bike paths. The existing buildings that would be demolished are not city landmarks nor are they on the National Historic Register.

The proposed schedule is to begin construction of Phase 1 in June 2012, open Fall 2013, and begin construction of Phase 2 in Spring 2013, open in Fall 2014. Services and amenities include roommate

matching, fully furnished units; interior common areas for gathering, office/computers, gaming; and exterior common areas for small pools, bocce ball, and other recreation space. The development will have onsite staff: five full-time jobs and 12 – 15 part-time jobs. The full-time staff will consist of a manager, assistant manager, leasing director, maintenance supervisor, and assistant maintenance supervisor. Safety measures include comprehensive video camera monitoring of all public spaces in the complex; on-site courtesy officers to patrol the complex and adjacent areas several times each night; and strict lease provisions prohibiting illegal use of drugs and alcohol as well as excessive noise and other disruptive behavior. The resolution includes the provision of project management as a requirement for approval.

Capstone also submitted an application for a right-of-way and alley vacations. Their proposal is to transfer ownership of (vacate) the east/west right-of-way (West 12th Avenue, which functions as an alley) and a portion of the north/south right-of-way (Willamette Alley) from the City to the developer. The east/west right-of-way would be realigned, improved, and rededicated to provide an enhanced bike path between Olive and Willamette streets. Capstone and LTD have agreed to a new bus stop, on Willamette Street south of 12th Avenue, which would serve Capstone residents conveniently.

Public Benefits

After reviewing the Capstone application against the public benefit scoring criteria in the Standards and Guidelines, staff determined that the proposed development earned 210 points. Points were awarded for the project through the following benefits:

- *Density*: 50 points (10 pts per unit in excess of the minimum code requirement; 50 point max)
- *Location*: 100 points for being located within the Downtown Plan Area
- *ADA units*: 60 points (10 pts per accessible unit)

The applicant indicates that LEED silver certification will be attempted with a minimum of Earth Advantage Silver. However, the project is not at a stage to complete the scoring worksheets for either, so no points were added for green building elements.

Financial Analysis

The applicant demonstrated that the project as proposed could not be built but for the benefit of the tax exemption. The financing for the project will be required to meet a specific Loan-to-Value underwriting criteria which is expected to be 70 percent. The Loan-to-Value assumption is consistent with today's tighter real estate lending standards. For this large scale project, Capstone will need to provide 30 percent (\$27 million) of the project's financing in the form of equity. Unlike typical MUPTE projects financed with local equity, the proposed scale of the Capstone development will require institutional sources of equity to be attracted to the project. Additionally, the proposed project will require the investor to assume some risk from the major redevelopment costs associated with the site and from the rate of absorption of the large number of proposed units brought into the local student housing market.

Capstone has indicated that their primary equity investor (Kayne Anderson Real Estate Advisors) will require a minimum rate of return of nine percent in the first year. Without the MUPTE savings, the project is projected to generate a six percent rate of return, which is insufficient to attract the required equity investment. (Capstone's originally submitted pro-forma forecasted a 3.2 percent return on investment without MUPTE. With a more accurate tax savings figure, the projected return on investment without MUPTE has been adjusted to six percent; see Attachment F for more detailed

financial analysis.) The MUPTE tax exemption lowers annual operating costs by approximately \$846,000, which produces higher net operating income and results in a projected nine percent Cash on Cash rate of return. Staff and the Loan Advisory Committee reviewed the pro-forma, including assumptions regarding lease rates, operating costs, capitalization rate, lender underwriting criteria, interest rate assumption, and market expected rate of return. The Committee confirmed the financial assumptions used in the analysis and unanimously concluded that the tax exemption is needed to generate a return on investment sufficient to attract the required equity investment.

Tax Impact

Olive & 13th Student Housing will generate property tax revenue on the land. Staff estimates the property tax paid will be \$100,000 in year 1. After ten years, the entire development will be taxable, generating an estimated \$1.2 million in year 11. If the project does not move forward, tax revenue will be minimal on the chronically underdeveloped site. (See Attachment G for the estimated allocation of tax payment for this project.)

Need for Tax Exemptions to Encourage Ground Floor Commercial

Capstone proposes the potential inclusion of up to 5,000 square feet of ground floor commercial space. The ground floor commercial use is considered to provide public benefit as commercial/retail uses in this area will support downtown vitality, and the opportunity for project residents and others in the area to easily walk to the proposed commercial/retail services. There are risks associated with tenancing ground floor commercial at lease rates that can support the cost of constructing the space. Additionally, mixing uses within one building typically adds construction costs related to building code requirements. Allowing the MUPTE to include the ground floor commercial/retail space will improve the financial feasibility of incorporating the space into the project and stimulate a desired form of mixed-use development.

Right-of-Way & Alley Vacation

As part of the redevelopment of the site, the applicant proposes to realign and improve the public bicycle and pedestrian connection through the site, between Olive and Willamette Streets. The new public path will be within a 20-foot-wide right-of-way that the applicant proposes to dedicate just south of the existing West 12th Avenue right-of-way. The applicant proposes to vacate the existing West 12th Avenue right-of-way to facilitate redevelopment of the site and realignment of the bicycle and pedestrian connection. The new right-of-way as proposed would not be open to vehicular use. The MUPTE resolution contains the necessary requirement to ensure that the proposed realignment of the public bicycle and pedestrian connection maintains the public interest.

The applicant agreed to provide these improvements. All improvements will be subject to a more detailed review for design elements during the Privately-Engineered Public Improvement (PEPI) permit process, in which the applicant pays for all associated engineering, construction, and inspection costs related to construction of improvements for public areas. The design will be subject to the City Engineer's approval. As part of the PEPI permit process, the improvement cost will need to be bonded prior to issuance of the complete structure building permit for the housing north of the right-of-way to be vacated. (The AIS for the public hearing on the vacation contains more detail.)

Public Comments

A display advertisement was published in *The Register Guard* on February 5, 2012, soliciting comments for 30 days. The comment period ended on March 6, 2012, however, staff continued to collect all

comments. Written comments submitted through April 16 are available in a binder in the council office. (Six new comments were added since the April 9 work session.) The applicant attended two Downtown Neighborhood Association (DNA) meetings (January 25 and March 26). A letter from the DNA is included in Attachment H, which indicates support for the project with stated reservations and recommendations.

The City, several neighborhood associations, and other organizations conducted additional public engagement:

- City Club on March 11 at Cozmic Pizza
- Jefferson Westside Neighborhood association on March 13 at the Vets' Club
- City Open House on March 14 at the Atrium Building
- Sustainability Commission reviewed the project on April 4 and plans to submit a letter to council before the April 25 work session

Timing

This application was submitted on January 24, 2012. If the council has not acted in 180 days, the application is deemed approved. Work sessions on this project are scheduled for April 25 and May 9.

April 9 Work Session Follow-Up Information

The following is provided as follow-up information to the April 9 work session:

- Economic impact of the project (Attachment I)
- Portland's tax exemption program (Attachment J)
- Additional information requested (Attachment K)

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.

Eugene Downtown Plan

- Build upon downtown's role as the center for government, commerce, education and culture in the city and the region.
- Downtown development shall support the urban qualities of density, vitality, livability and diversity to create a downtown, urban environment.
- Actively pursue public/private development opportunities to achieve the vision for an active, vital, growing downtown.

- Use downtown development tools and incentives to encourage development that provides character and density downtown.
- Stimulate multi-unit housing in the downtown core and on the edges of downtown for a variety of income levels and ownership opportunities.
- Enhance functional designs for streets, sidewalks and related public improvements with carefully chosen design elements, including materials, alignments, plantings and streetscape elements.

Envision Eugene

- Provide ample economic opportunities for all community members
- Provide affordable housing for all income levels
- Plan for climate change and energy uncertainty
- Promote compact urban development and efficient transportation options
- Protect, repair, and enhance neighborhood livability
- Protect, restore, and enhance natural resources
- Provide for adaptable, flexible, and collaborative implementation

Eugene Counts

Increased downtown development is one of the desired outcomes identified under the Council Goal of Sustainable Development. 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

None. Public hearing only.

CITY MANAGER’S RECOMMENDATION

None. Public hearing only.

SUGGESTED MOTION

None. Public hearing only.

ATTACHMENTS

- A. Resolution Approving the Property Tax Exemption
- B. Resolution Denying the Property Tax Exemption
- C. Report & Recommendation of the Planning and Development Director
- D. Image of the Project Location and Proposed Development
- E. Map of Existing Downtown Housing
- F. Financial Analysis
- G. Estimated Allocation Tax Payment
- H. Statement from Downtown Neighborhood Association
- I. Economic Impact of Project

- J. Portland's Housing Tax Exemption Program
- K. Other Information Requested at the April 9 Work Session

A copy of the MUPTE application for Olive & 13th Student Housing is available in the council office for review.

FOR MORE INFORMATION

Staff Contact: Amanda Nobel Flannery

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

RESOLUTION NO. _____

A RESOLUTION APPROVING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED IN THE VICINITY OF OLIVE STREET AND 13TH AVENUE, EUGENE, OREGON. (Applicant: Capstone Collegiate Communities, Inc.)

The City Council of the City of Eugene finds that:

A. PeaceHealth, located at 123 International Way in Springfield, Oregon, is the owner of real property located between Olive and Willamette Streets from just north of 12th to 13th Avenues and between Charnelton and Olive Streets from 12th to 13th Avenues, Eugene, Oregon (Assessor’s Map 17-03-31-42; Tax Lots 700, 800, 1000, 1100, 1200, 1600, 1700, 1800, 1900, 2000, 2100, 2200, 2300, and 2400), and David R. Lyons Revocable Trust, located at 433 Spyglass Drive, Eugene, Oregon, is the owner of real property located at 1210 and 1212 Willamette Street, Eugene, Oregon (Assessor’s Map 17-03-31-42; Tax Lot 900) (“the property”).

B. Capstone Collegiate Communities, Inc., (“the applicant”) located at 431 Office Park Drive in Birmingham, Alabama, intends to purchase the property, 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 residential units and possible commercial space to be constructed on the property.

C. The project will be constructed in two phases and is proposed to consist of the development of between 350 and 375 residential units. In addition, the project will include structured and surface parking spaces, and may include commercial space. On-site resident management and courtesy officers will be provided as described in Section 1, paragraph 2 below.

D. As part of the redevelopment of the site, the applicant proposes to realign and improve the public bicycle and pedestrian connection through the site, between Olive and Willamette Streets. The new public path will be within a 20-foot wide right-of-way that the applicant proposes to dedicate just south of the existing West 12th Avenue right-of-way. The applicant proposes to vacate the existing West 12th Avenue right-of-way to facilitate redevelopment of the site and realignment of the bicycle and pedestrian connection. The new right-of-way will not be open to vehicular use. To ensure that the proposed realignment of the public bicycle and pedestrian connection maintains the public interest, the applicant has agreed to the following:

The proposed 20-foot wide right-of-way will be dedicated and the following public improvements will be constructed:

- (1) A 10-foot wide two-way bicycle facility that is clear of obstructions and separated from pedestrians, within the new 20-foot right-of-way;
- (2) A bicycle crossing island at the intersection of West 12th Avenue and Olive Street that prohibits left turns for automobiles; and
- (3) A replacement crosswalk within Willamette Street that aligns the proposed bicycle connection through the site with the existing bicycle way east of Willamette Street.

All improvements will be subject to a more detailed review for design elements during the Privately-Engineered Public Improvement (PEPI) permit process, for which the applicant will pay all associated engineering, construction, and inspection costs. The design will be subject to the City Engineer's approval. As part of the PEPI permit process, the improvement cost will need to be bonded prior to issuance of the complete structure building permit for the housing north of the right-of-way to be vacated.

E. 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.

F. The project could not financially be built "but for" the tax exemption.

G. The applicant solicited comments from city-recognized the affected neighborhood association.

H. 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.

I. The applicant has complied with the provisions of the Standards and Guidelines as described in the Report and Recommendation attached as Exhibit A 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.

J. 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.

K. The proposed project will 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, that are applicable at the time the application is approved.

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

M. 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.

N. The Report and Recommendation 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 of the Planning and Development Department's Report and Recommendation which is attached as Exhibit A, the City Council approves the application of Capstone Collegiate Communities, Inc. for an ad valorem property tax exemption under the City's Multiple-Unit Property Tax Exemption Program for the residential units to be constructed on real property located between Olive and Willamette Streets from just north of 12th to 13th Avenues and between Charnelton and Olive Streets from 12th to 13th Avenues, Eugene, Oregon (Assessor's Map 17-03-31-42; Tax Lots 700, 800, 900, 1000, 1100, 1200, 1600, 1700, 1800, 1900, 2000, 2100, 2200, 2300, and 2400), subject to the following conditions:

- 1.** Phase 1 of the project shall consist of development of approximately 232 units with a total of approximately 790 bedrooms, 603 structured parking spaces, and 48 surface parking spaces.

Phase 2 of the project shall consist of development of approximately 142 units with a total of approximately 514 bedrooms and 430 structured parking spaces. Phase 2 of the project must be completed within 36 months of the issuance of the Certificate of Occupancy for Phase 1 in order to be eligible for the multiple unit

property tax exemption granted by this Resolution. If Phase 2 is not completed within 36 months, the property owners may reapply for the tax exemption.

In no event will the total number of units for Phase 1 and Phase 2 exceed 375.

Ground floor commercial space may be included in either phase of the project. If such commercial space is included, it shall be eligible for the tax exemption up to 5,000 square feet.

2. On-site management is required. On-site management functions shall include:
 - 2.1 Maintaining leasing, property/resident management office on-site that is staffed during normal working hours;
 - 2.2 Have at least one employee residing on-site;
 - 2.3 Have on-site one or more courtesy managers making nightly property inspections; and
 - 2.4 Providing information to residents about the sensitivities of neighboring properties, including Olive Plaza, as part of the lease documents.

3. As part of Phase 1, a 20-foot wide right-of-way south of the existing West 12th Avenue right-of-way shall be dedicated and the following public improvements shall be constructed:
 - (1) A 10-foot wide two-way bicycle facility that is clear of obstructions and separated from pedestrians, within the new 20-foot right-of-way;
 - (2) A bicycle crossing island at the intersection of West 12th Avenue and Olive Street that prohibits left turns for automobiles; and
 - (3) A replacement crosswalk within Willamette Street that aligns the proposed bicycle connection through the site with the existing bicycle way east of Willamette Street.

4. Both phases of the project shall be completed on or before January 1, 2022.

5. 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. Subject to the conditions in Section 1 of this Resolution, 100% of the residential units and commercial space (up to 5,000 square feet) described in Section 1 are declared exempt from local ad valorem property taxation beginning July 1 of the year following issuance of a Certificate of Occupancy for each phase 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 applicants within ten days, and to cause a copy of this Resolution to be filed with the Lane County Assessor on or before April 1, 2013.

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

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

AIC City Recorder

RESOLUTION NO. _____

A RESOLUTION DENYING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED IN THE VICINITY OF OLIVE STREET AND 13TH AVENUE, EUGENE, OREGON. (Applicant: Capstone Collegiate Communities, Inc.)

The City Council of the City of Eugene finds that:

A. PeaceHealth, located at 123 International Way in Springfield, Oregon, is the owner of real property located between Olive and Willamette Streets from just north of 12th to 13th Avenues and between Charnelton and Olive Streets from 12th to 13th Avenues, Eugene, Oregon (Assessor’s Map 17-03-31-42; Tax Lots 700, 800, 1000, 1100, 1200, 1600, 1700, 1800, 1900, 2000, 2100, 2200, 2300, and 2400), and David R. Lyons Revocable Trust, located at 433 Spyglass Drive, Eugene, Oregon, is the owner of real property located at 1210 and 1212 Willamette Street, Eugene, Oregon (Assessor’s Map 17-03-31-42; Tax Lot 900) (“the property”).

B. Capstone Collegiate Communities, Inc., (“the applicant”) located at 431 Office Park Drive in Birmingham, Alabama, intends to purchase the property, 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 residential units and possible commercial space to be constructed on the property.

C. The proposed project would be constructed in two phases and is proposed to consist of the development of between 350 and 375 residential units. In addition, the project would include structured and surface parking spaces, and might include commercial space. On-site resident management and courtesy officers would be provided.

D. 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.

E. The Report and Recommendation of the Executive Director of the Planning and Development Department (“the Executive Director”) as designee of the City Manager attached as Exhibit A to this Resolution 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.

F. Notwithstanding the recommendation to approve the application, the City Council has determined that granting the application is not in the public interest.

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. Having considered the above findings and the Report and Recommendation of the Executive Director attached as Exhibit A, the City Council finds that it would not be in the public interest to grant the application of Capstone Collegiate Communities, Inc., for an ad valorem property tax exemption under the City's Multiple-Unit Property Tax Exemption Program for the residential units and commercial space to be constructed on the property (Assessor's Map 17-03-31-42; Tax Lots 700, 800, 900, 1000, 1100, 1200, 1600, 1700, 1800, 1900, 2000, 2100, 2200, 2300, and 2400). Therefore, the application is denied.

Section 2. The City Manager, or the Manager's designee, is requested to forward a copy of this Resolution to the applicant within ten days.

Section 3. This Resolution shall become effective immediately upon its adoption.

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

AIC City Recorder



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MEMORANDUM

Date: April 18, 2011
To: Jon Ruiz, City Manager
From: Sarah J. Medary, Interim Executive Director 
Subject: Report & Recommendation – Capstone MUPTe Application

As you know, the City has an established procedure for processing and approving all Multi-Unit Property Tax Exemptions (MUPTe). One step in that process is the formal report and recommendation provided by the Executive Director of Planning and Development. The Capstone proposal is significant for the community and for the services we provide in Planning and Development, and this is the first time in 18 months that I have attached an additional memo to the MUPTe report and recommendation.

In January 2010, I had an opportunity to hear Joseph Cortright, a Portland-based economist, speak at the Eugene Area Chamber of Commerce's Economic Forecast. I still have the notes hanging on my bulletin board as a reminder of his thoughts on creating urban vitality and what he considered to be the "City Vitals" – talent, innovation, connections and distinctiveness. These themes are well integrated into the Regional Economic Prosperity Plan where we clearly identify the connections between attracting and developing a creative, knowledge-based workforce. The joint elected officials agreed that "creating and maintaining a competitive workforce that meets emerging industry needs will stimulate business development and highlight the region's vitality and appeal."

Attracting talent to Eugene, Oregon is made easier by an abundance of top notch educational opportunities and a natural environment that rivals any location in the world. Retaining talent is more challenging. It is especially challenging to keep young, creative professionals who may not have found a way to connect to and build community in Eugene. As noted in Mr. Cortright's speech, this demographic is drawn to areas with strong urban vitality. While Eugene will never be Portland, we can build on the strengths that we have, as the reverse is also true - Portland will never be Eugene.

These thoughts and themes relate to the proposed student housing in downtown. In order to meet our regional goals, I believe we need to continue building strong connections between the City and the University and the students and the community. Inviting and integrating this group of residents into our downtown can create new opportunities for downtown residents and businesses. If a student has lived in the downtown for four years, I speculate they will be more likely to continue living and working in the urban core. This helps meet our goals of attracting talent and building a creative economy while also building density in one of our most important core commercial areas – downtown.

While the rest of this memo and the report will focus on the merits of this project and the MUPTe recommendation, I want to emphasize the need for a continued emphasis on creating and maintaining a diverse mix of housing in the downtown. If approved, this project represents the next step, not the end of the journey.

The proposed student housing development represents a significant investment in the downtown and an opportunity to realize important goals for the community as envisioned in many current planning efforts. Capstone proposes to redevelop a severely underutilized site of over five acres downtown, which includes demolishing an existing building, removing hazardous materials, updating the utilities, and improving the infrastructure in and around the site. The new 5-story development would provide over 350 housing units, commercial space, and structured parking. It would potentially bring over 1,000 new residents to our downtown.

All MUPTÉ applications are carefully reviewed by staff and the City's Loan Advisory Committee. In order to earn a positive recommendation, they are expected to earn at least 100 points of public benefit criteria as established by City Council. They must also show that the project would not otherwise happen without the tax exemption. The Capstone application scored 210 points in public benefit. As it has been noted, however, the scale of the Capstone student housing proposal is different than most of our typical MUPTÉ applications and the development team's efforts to provide community benefit have gone beyond the scoring criteria.

The application process, review and recommended conditions also allow for many community concerns and ideas to be addressed. In order to reach the best outcomes for this development, we have listened to many community members and collected their comments and ideas for the proposal. Through conversations, open houses, public comments, and meetings, important issues concerning management, transportation, design and construction were surfaced. Some of those concerns are due to direct project impacts while others are related to the overall impacts of dense housing in and around the University and downtown. There have been many good discussions about ways to maximize the community benefits of the project. The attached report details the commitments the applicant has made, including, but not limited to:

- Robust on-site management;
- Bike path improvements across site;
- Bike parking above required amounts;
- A new bus stop to serve this site;
- Sidewalk improvements and tree preservation;
- Actions to mitigate impact on Olive Plaza residents; and
- Focus on hiring locally.

The conversations regarding community benefits are ongoing. One of the concerns that is not addressed in the MUPTÉ, but is directly tied to the implementation work of Envision Eugene, is the need for area planning in the University neighborhoods and transition areas between neighborhoods and core commercial areas. I believe this is a City responsibility and was clearly identified before Capstone's proposal for the downtown site. In addition, the transportation impact analysis could reveal additional measures needed or desired by the neighboring residents and/or businesses. There will be an opportunity to address those measures as part of the building permit process. Lastly, Capstone is continuing to work with neighbors such as Olive Plaza to not only minimize impacts, but also contribute positively to their environment. Staff will provide updates about all of these items at the April 25 work session.

After careful consideration of the MUPTÉ application, the input of the public, the additional community benefit commitments, and this project's alignment with our goals, I recommend approval of the tax exemption. Development incentives are investments made by the community. It is important to focus these investments on projects that meet multiple goals and advance long term visions. I believe the Capstone project meets this standard.

Report & Recommendation of the Planning & Development Department

Olive & 13th Student Housing Application for Multiple-Unit Property Tax Exemption

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

1. Capstone Collegiate Communities (Capstone) intends to purchase the real property located between Olive and Willamette from just north of 12th to 13th Avenues and between Charnelton and Olive from 12th to 13th Avenues, Eugene, Oregon (Assessor's Map17-03-31-42; Tax Lots 700, 800, 900, 1000, 1100, 1200, 1600, 1700, 1800, 1900, 2000, 2100, 2200, 2300, and 2400). Capstone 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 residential units to be constructed on the property.

2. As the City Manager's designee, I have reviewed the application and find that:

2.1 The project will be constructed in two phases. Phase 1 will include approximately 232 units with a total of approximately 790 bedrooms, 600 structured parking spaces and 48 surface parking spaces. Phase 2 will include approximately 142 units with a total of approximately 514 bedrooms and 430 structured parking spaces. The overall number of units will be between 350 and 375. The project may also include approximately 5,000 square feet of ground floor commercial space.

The project will include a new bicycle/pedestrian path that connects with the existing path along 12th Avenue. Additional details on the path are in Section 2.6.2.

Onsite management will be required during the MUPTe period even if the project is sold and Capstone is not retained as manager. Onsite management functions will include but are not limited to:

- 2.1.1 Maintaining leasing, property/resident management office onsite that is staffed by full-time and part-time managers during normal working hours;
- 2.1.2 Having one or more employees residing onsite;
- 2.1.3 Having onsite courtesy managers making nightly property inspections; and
- 2.1.4 Providing information to residents about the sensitivities of neighboring properties, including Olive Plaza, as part of the lease documents.

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 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 has 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. Since the minimum density is zero, the applicant was awarded 50 points, the maximum allowed.
- Green Building Features. At a minimum, Capstone plans to qualify for Earth Advantage Silver, with LEED Silver Certification as the goal.
- Mixed Income. The project will not include housing dedicated to controlled income.
- Homeownership. No units are designated for home ownership.
- Accessibility. A minimum of six units will be ADA accessible.
- Historic Sensitivity. The project is adjacent to the Florence Apartments, a primary ranked historical structure at 1272 Willamette Street, and in the vicinity of the Kennell Ellis Building which is a City of Eugene Historic Landmark at 1280 Willamette Street. The project does not physically alter either of these structures and will be setback from these existing buildings by an alley and a proposed driveway access.
- Location. The project is located in the Downtown Plan Area.
- Parking. The project is not located in a Residential Parking Program 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 210 public benefit points. (The building documents are not far enough along at this time to complete either the Earth Advantage or LEED worksheets; as a result, no points were awarded in the Green Building Features category. The applicant did not seek public benefit points for historic sensitivity.)

2.6 Other Benefits Provided by the Project. Based on the comments heard at council work sessions and the public engagement opportunities, a number of issues or possible concerns emerged. Below are the relevant issues and Capstone's responses, which provide additional benefits.

2.6.1 Management and Coordination with EPD. In addition to providing on-site management for the project, including live-in managers and courtesy officers, Capstone has agreed to coordinate closely with Eugene Police Department (EPD) to promote pro-social, courteous, and safe behavior on the part of the residents. This coordination will include:

- 2.6.1.1 Meeting with EPD Crime Prevention Unit regarding successful strategies utilized in other parts of our community, including Crime Prevention Through Environmental Design and crime victim awareness strategies, and to discuss opportunities for support from Crime Prevention Unit and any enforcement actions taken.
 - 2.6.1.2 Working with EPD to align renter code of conduct with social host regulations.
 - 2.6.1.3 Working with EPD to develop a protocol for responding to nearby residents and surrounding property owner complaints on a timely basis.
- 2.6.2 Bike Path. Capstone has agreed to create and dedicate a bicycle/pedestrian path connecting with the existing route along 12th Avenue. This facility is designed specifically to promote connectivity, create a straighter alignment, and improve the crossing at Willamette and Olive Streets to ensure safe and convenient movement for pedestrians and bicycles. The bike path will include a 10-foot wide two-way bicycle facility that is clear of obstructions and separated from pedestrians, within the new 20-foot right-of-way; a bicycle crossing island at the intersection of West 12th Avenue and Olive Street that prohibits left turns for automobiles; and a replacement crosswalk within Willamette Street that aligns the proposed bicycle connection through the site with the existing bicycle way east of Willamette Street. In addition, Capstone has agreed to provide signage to improve enforcement of the prohibition of bikes and skateboards on the sidewalk near Olive Plaza.
- 2.6.3 Neighborhood Impact. Capstone has agreed to:
- 2.6.3.1 Work closely with Olive Plaza. Capstone is in the process of negotiating a letter committing them to an agreed upon level of mitigation and assistance for during and after construction.
 - 2.6.3.2 Work with Look Me In The Eye, a disability advocacy organization, to identify opportunities to employ their clients as part of the housing development.
 - 2.6.3.3 Work to provide additional parking at market rates for general public use or for Olive Plaza, if the surface and structured parking is not fully utilized by the project.
- 2.6.4 Support for "Alt" Modes. Capstone has agreed to:
- 2.6.4.1 Include more bike parking and secured storage than required by code, in addition to a shared public car facility (such as "WeCar") and one electric vehicle charging station. Capstone will promote these alternative modes to the residents of the development. Capstone will present the additional bike parking for City of Eugene staff review.
 - 2.6.4.2 Construct a new bus stop on Willamette Street located south of the 12th Avenue crossing at Willamette Street. The sheltered bus stop location will be integrated with the new student buildings. This stop is anticipated to minimize the impact upon the downtown station which has been a concern

of Olive Plaza residents. The design of the stop will be coordinated with LTD and City of Eugene staff.

2.6.5 Design and Construction. Capstone has agreed to:

2.6.5.1 Improve the existing sidewalks surrounding the project to provide for a more inviting pedestrian environment. Capstone will expand the circulation space, and will work with City of Eugene staff to see if expansion of the existing right-of-way is desired in this location.

2.6.5.2 Create a sidewalk design that incorporates strategic tree and root pruning to enable retaining as many trees within Olive Street and 13th Avenue rights-of-way as possible. The trees within the right-of-way are in the process of review with the City arborist with specific pruning and care instructions to be established to minimize the impact to the trees. In the case an existing tree is required to be removed then it will be replaced with a like species.

2.6.5.3 Consistent with Capstone policy, encourage the use of local contractors, suppliers, and workers for the project as much as possible.

- 2.7 The financial information Capstone submitted in their application is based on projections prior to finalizing financing, construction, and tenancing. This analysis is based on the conservative approach that the project is built at one time. (Phasing would increase the cost of the project due to mobilization, lost economies of scale, and increased design and other soft costs; and reduce the return on investment.)

The financial assumptions included in Capstone's MUPTE application pro-forma have been analyzed and adjusted as necessary to more accurately reflect the expected financial performance of the project. Of particular note, the projected tax savings in Capstone's pro-forma were overstated by their assumption that the full construction value of the project would be used for tax assessment purposes. The changed property ratio used in assessing real property would result in a lower taxable value and lower tax savings than projected in their pro-forma. The result of this adjustment is an increased projected return on investment in the "without MUPTE" scenario. Capstone's originally submitted pro-forma forecasted a 3.2% return on investment without MUPTE. With the more accurate tax savings figure, the projected return on investment without MUPTE has been adjusted to 6%. There are no adjustments made that result in a lowering of the projected return.

The applicant demonstrated that the project as proposed could not be built but for the benefit of the tax exemption. The financing for the project will be required to meet a specific Loan-to-Value underwriting criteria which is expected to be 70%. The Loan-to-Value assumption appears to be consistent with today's tighter real estate lending standards. For this large scale project, Capstone will need to provide 30% (\$27 million) of the project's financing in the form of equity. Unlike typical MUPTE projects financed with local equity, the proposed scale of the Capstone development will require institutional sources of equity to be attracted to the project. Additionally, the proposed project will require the investor to

assume some risk from the major redevelopment costs associated with the site and from the rate of absorption of the large number of proposed units brought into the local student housing market.


Capstone has indicated that their primary equity investor (Kayne Anderson Real Estate Advisors) will require a minimum rate of return of 9% in the first year. Without the MUPTE savings, the project is projected to generate a 6% rate of return, which is insufficient to attract the required equity investment. The MUPTE tax exemption lowers annual operating costs by approximately \$846,000, which produces higher net operating income and results in a projected 9% Cash on Cash rate of return. Staff and the Loan Advisory Committee reviewed the pro-forma, including assumptions regarding lease rates, operating costs, capitalization rate, lender underwriting criteria, interest rate assumption, and market expected rate of return. The Committee confirmed the financial assumptions used in the analysis and unanimously concluded that the tax exemption is needed to generate a return on investment sufficient to attract the required equity investment.

2.8 Presentations concerning the Olive & 13th Student Housing project were given to the Downtown Neighborhood Association on January 25 and March 26. The Association submitted a letter indicating support for the project with stated reservations and recommendations.

3. A display ad soliciting recommendations or comments from the public regarding this project was published in the Register-Guard on February 5, 2012. The 30-day period for comment expired on March 6, 2012 at 5pm. Staff received 29 written comments within that period. Additional comments were submitted to staff or directly to City Council after the official comment period. All comments received as of April 13 were provided to City Council with the materials for the April 23 Public Hearing.

Therefore, based upon the above findings, the proposed project is 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.

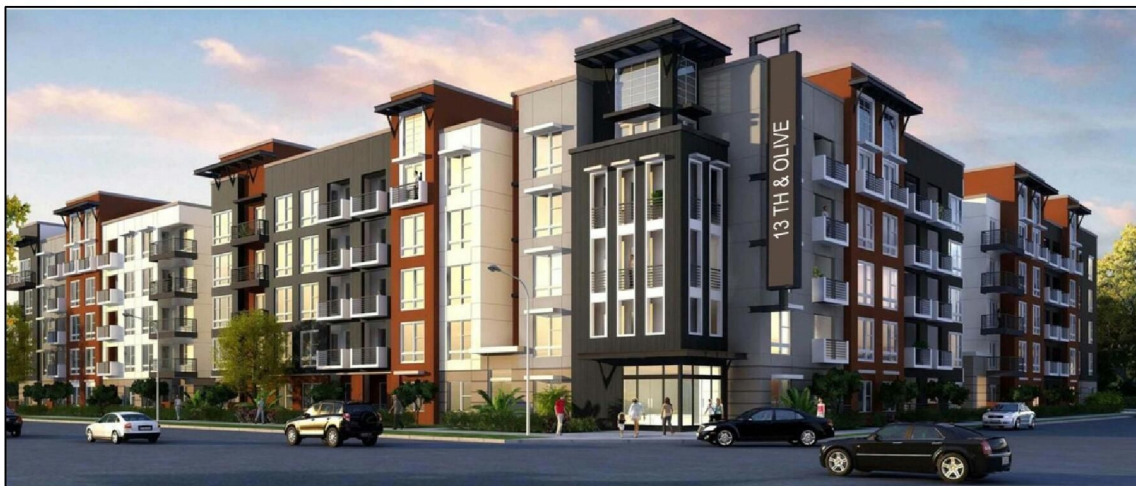
Dated this 20 day of April, 2012.



Sarah J. Medary
Executive Director, AIC
Planning & Development Department



Image of the Current Site & Proposed Development



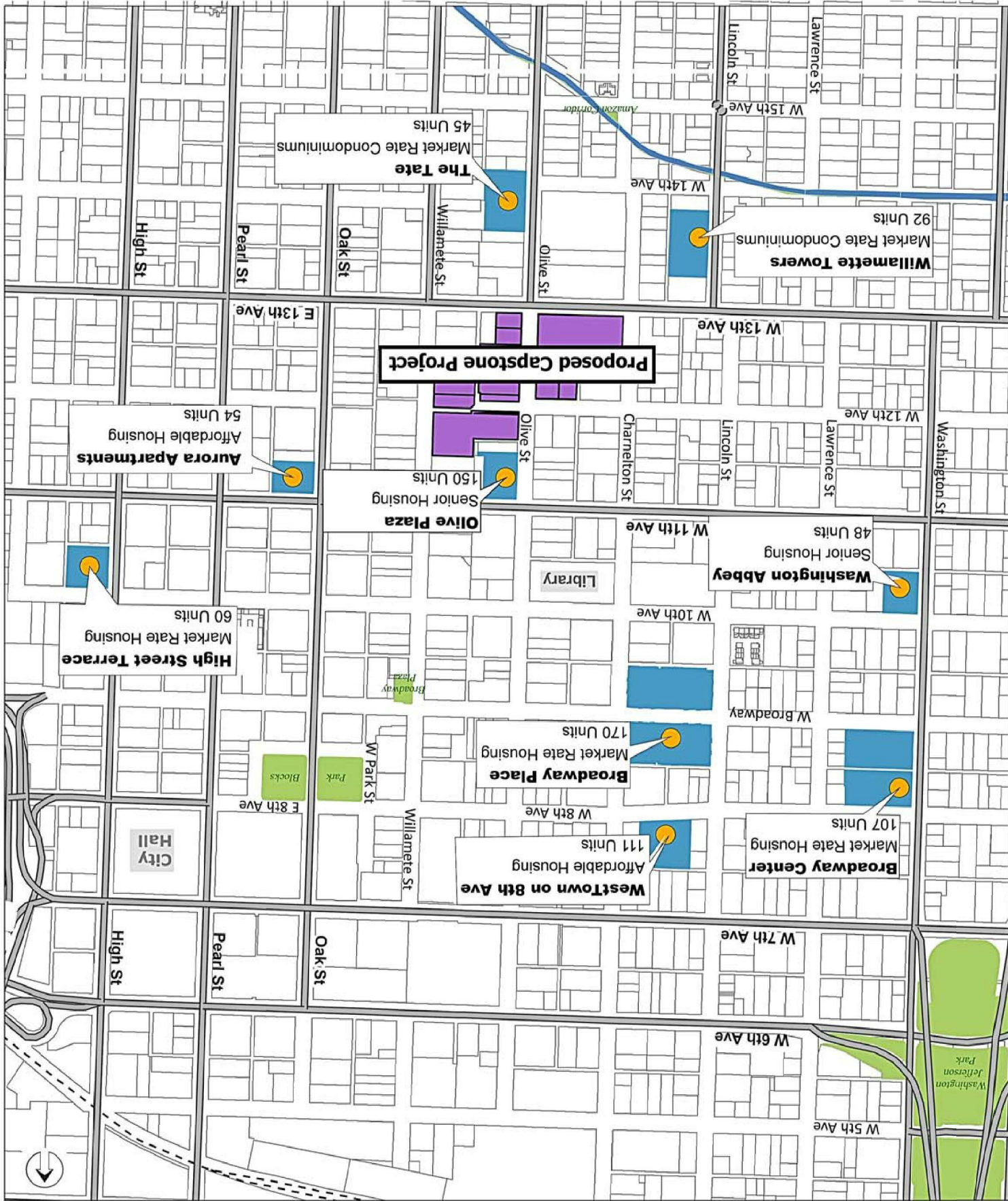


April 19, 2012
Caution: This map is based on imprecise source data, subject to change and for general reference only?

0 1000 Feet

Existing Housing
Proposed Capstone Project

Attachment E
Map of Existing Downtown Housing



Financial Analysis

The financial information Capstone submitted in their application is based on projections prior to finalizing financing, construction, and tenanting. This analysis is based on the conservative approach that the project is built at one time. (Phasing would increase the cost of the project due to mobilization, lost economies of scale, and increased design and other soft costs; and reduce the return on investment.)

The financial assumptions included in Capstone’s MUPTE application pro-forma have been analyzed and adjusted as necessary to more accurately reflect the expected financial performance of the project. Of particular note, the projected tax savings in Capstone’s pro-forma were overstated by their assumption that the full construction value of the project would be used for tax assessment purposes. The changed property ratio used in assessing real property would result in a lower taxable value and lower tax savings than projected in their pro-forma. The result of this adjustment is an increased projected return on investment in the “without MUPTE” scenario. Capstone’s originally submitted pro-forma forecasted a 3.2% return on investment without MUPTE. With the more accurate tax savings figure, the projected return on investment without MUPTE has been adjusted to 6%. There are no adjustments made that result in a lowering of the projected return.

Sources

	Total Cost		Annual debt service
Equity	\$	27,176,000	30%
Conventional Debt	\$	61,963,000	70%
Total project	\$	89,139,000	\$4,699,780

The \$27 million in equity is anticipated to come primarily from Kayne Anderson Capital Advisors, a firm that provides private real estate equity principally in off-campus student housing properties located in close proximity to large universities. A minimum of 9% return (Cash on Cash) is needed in year 1 to secure the proposed equity investment.

Capstone plans to use conventional bank construction financing, with the permanent, take-out financing anticipated from Fannie Mae’s Dedicated Student Housing program. Underwriting for the permanent financing is based on a maximum 75% loan-to-value and minimum 1.30 debt service coverage ratio. Additionally, the project must be near a campus with student enrollment of 10,000 (50% full-time), be within two miles of campus or on a university sanctioned public transportation line, have 12-month leases with parental guaranties, and not be on university-owned land nor offer food service. Based on Capstone’s experience financing similar projects, they project that the project will be underwritten at 70% loan-to-value.

Standard underwriting criteria for similar projects typically require one parking space per bedroom. Capstone originally proposed 0.9 spaces per bedroom. Further discussions with their

lender have yielded a negotiated reduction to 0.8 spaces per bedroom based on other project features, such as proximity to the transit line.

Pro-Forma

The pro-forma in this memo is derived from applying market-based assumptions (described below) to the information provided by the developer.

<i>Without MUPTE</i>	Year 1	Year 2	Year 10
Income	\$ 9,946,200	\$ 10,045,700	\$ 10,878,100
- Vacancy (6%)	\$ 602,400	\$ 608,500	\$ 658,900
= Effective Gross Rent	\$ 9,343,800	\$ 9,437,200	\$ 10,219,200
- Operating Exp (32%)	\$ 2,990,000	\$ 3,019,900	\$ 3,270,100
= NOI	\$ 6,353,800	\$ 6,417,300	\$ 6,949,100
- Debt Service	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800
= CF	\$ 1,654,000	\$ 1,717,500	\$ 2,249,300
Cash on Cash Return	6%	6%	8%
Value	\$ 87,639,000	\$ 88,514,000	\$ 95,850,000
DCR	1.35		

Rents & Vacancy

Income for the pro-forma is based on the following:

- Residential rents from \$1.48 - \$1.88 per square foot per month (based on unit type)
- Commercial rent \$1.50 per square foot per month
- Parking \$35 per month per space
- Miscellaneous (vending, fees, & cleaning) at 2% of residential income

The pro-forma uses market assumptions for vacancy: 5% for residential and commercial income and 30% for parking. The vacancy rate of 6% is the blended average for all income. An 1% annual escalation rate is used for the income.

Operating Expenses

For most multi-family projects, the standard assumption for operating expenses is 25% to 30%. Operating expenses assumed for the proposed Capstone project are estimated at 32% of effective gross rental income. Slightly higher operating cost are expected from enhanced on-site management personnel costs and the operation and maintenance costs associated with higher than standard amenities such as open space, structured parking, pools, and furnished units. An 1% annual operating expense escalation rate is assumed.

Debt & Interest Rate

Debt service is based on a 30-year fixed loan at 6.5% from Fannie Mae. The City’s financial advisor at Western Financial Group confirmed that the interest rate assumption is reasonable

based on a recent comparable student housing project financed by Fannie Mae and on the hedge needed to account for estimating a rate two years from now. Banking industry representatives on the City's Loan Advisory Committee also confirmed that the interest rate assumption is reasonable.

Return & Value

Without the MUPTE savings, the year 1 return on equity is forecasted to be 6% (Cash on Cash). The projected market value for the completed project is \$87.6 million, as determined by the Net Operating Income (NOI) divided by the capitalization rate. The estimated capitalization rate is 7.25% based on information from a local appraiser who indicated an acceptable range up to and including 7.5%.

ANALYSIS

Although the without MUPTE pro-forma seems to qualify for debt (with adequate debt coverage ratio of 1.35 and loan-to-value of 71%), the project lacks the ability to attract the needed equity. The proposed project will require the investor to assume some risk from the major redevelopment costs associated with the site and from the rate of absorption of the large number of proposed units brought into the local student housing market. Capstone has indicated that their primary investor will require a minimum return of 9%. Without the MUPTE savings, the project generates a 6% return, which is insufficient to attract the required \$27 million equity investment. The Cash on Cash only reaches 8% by year 10 in the absence of the MUPTE.

Pro-Forma With The MUPTE

<i>With MUPTE</i>	Year 1	Year 2	Year 10
Income	\$ 9,946,200	\$ 10,045,700	\$ 10,878,100
- Vacancy (6%)	\$ 602,400	\$ 608,400	\$ 658,800
= Effective Gross Rent	\$ 9,343,800	\$ 9,437,300	\$ 10,219,300
- Operating Exp (32%)	\$ 2,990,000	\$ 3,019,900	\$ 3,270,100
- Property Tax (saved by MUPTE)	\$ (846,000)	\$ (871,400)	\$ (1,103,700)
= NOI	\$ 7,199,800	\$ 7,288,800	\$ 8,052,900
- Debt Service	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800
= CF	\$ 2,500,000	\$ 2,589,000	\$ 3,353,100
Cash on Cash Return	9%	10%	12%
Value	\$ 99,308,000	\$ 100,535,000	\$ 111,074,000
DCR	1.53		

The pro-forma above shows that the project improves with the MUPTE. The Cash on Cash return reaches 9% in year 1 and 12% by year 10, consistent with long-term expectations for multi-family housing investments. The project valuation is 62% loan to value.

Tax Savings Calculation

The MUPTE property tax savings shown above is calculated from the estimated value of the project:

$$\text{Assessed Value} \times \text{Tax rate} - \text{Land Property Tax} = \text{MUPTE Savings}$$

Assessed Value = Value X Changed Property Ratio = \$87,639,000 X 0.5938 = \$52,039,100

Tax Rate = \$18.18 per \$1,000 in assessed value

Land Property Tax = \$100,000

The land property tax must be subtracted from the total because the MUPTE only applies to the value of the improvements. The estimated property tax for the land is \$100,000 (\$25.80/square foot, which is on the conservative side of land assessed values in the area).

Disclaimers:

- The current tax rate is used for the 10 year period, although the rate will likely change each year.
- Assessed value increases annually by 3% for the 10 year period, which assumes there is no significant change in the way assessed value is calculated; also the property will be reassessed when the exemption expires.

Capstone estimated the taxes in their application for year 1 at \$1.6 million without the MUPTE and \$147,000 for the land (a savings of \$1,453,000 if the MUPTE is approved). For financing purposes, Capstone uses the full value of the project (instead of estimating the assessed value) to estimate property taxes. They did not include the changed property ratio. (As shown above in the Pro-forma With MUPTE, staff estimates the MUPTE savings for year 1 at \$846,000.)

Since submitting their application in January, Capstone's due diligence on the project has led to fine tuning costs based on additional information and phasing construction of the east and west blocks. The impact is that the project cost increases to as much as \$97 million. The additional costs are the result of replicated mobilization and design costs and the loss of materials and labor economies of scale associated with a larger project. The result of a higher cost, phased project is increased equity and additional debt, and, ultimately, a reduced Cash on Cash return. Staff used the original non-phased pro-forma for the analysis, as it is more conservative.

Estimated Allocation of Tax Payment

Below is the estimated allocation of tax payment. The dollar amounts are calculated using staff's estimate of property tax based on the pro-forma valuation derived from applying a standardized set of assumptions (described in the "Financial Analysis" attachment) to the information provided by Capstone.

Allocation of Tax Payment to Overlapping Taxing Jurisdictions

Estimate, Net of Discounts and Delinquencies based on 2012 tax rate

Taxing District	Rate per \$1,000 AV	Rate as a %	Land ONLY	Improvements ONLY
<u>City of Eugene</u>				
General Taxes	6.8991	38%	\$ 38,000	\$ 302,000
Downtown Urban Renewal	0.1764	1%	\$ 1,000	\$ 8,000
Riverfront Urban Renewal	0.0824	0%	\$ -	\$ 4,000
Bonds (I & II) ***	1.139	6%	\$ 6,000	\$ 50,000
<u>Other Jurisdictions (incl. taxes & bonds)</u>				
School District 4j	7.4256	41%	\$ 41,000	\$ 325,000
Lane Community College	0.8679	5%	\$ 5,000	\$ 38,000
Lane ESD	0.2199	1%	\$ 1,000	\$ 10,000
Lane County	1.3732	8%	\$ 8,000	\$ 60,000
Total Consolidated Rate	18.1835	100%	\$ 100,000	\$ 795,000

AV = Assessed Value

* The estimated property tax revenue on the improvements is \$795,000. The estimated property tax savings for the Capstone pro-forma is \$846,000. The difference between the two amounts is the county-wide collection rate of 94%. Ultimately, the question is how much revenue the city (and others) is giving up. That is determined by the county-wide collection rate. If the developer chooses to pay their taxes on 11/15, they get a 3% discount right off the top. The rest of the collection rate is made up of delinquent payers. Capstone tax payments would be deposited into the County unsegregated tax account that is shared by all jurisdictions in the County; the City gets a proportionate share of that based on the taxes levied that year.

** All but one tax lot was tax exempt last year. The taxable property owed just under \$5,000.

*** The impact on bonds from exempting property taxes on the improvements is a higher tax rate for everyone (so that the same amount is collected to pay the bonds in any case).

The estimated property tax is calculated from the estimated value of the project:

$$(\text{Assessed Value} \times \text{Tax rate} - \text{Land Property Tax}) \times \text{collection rate} = \text{Est. Forgone Tax Rev.}$$

Assessed Value = Value X Changed Property Ratio = \$87,639,000 X 0.5938 = \$52,039,100

Tax Rate = \$18.18 per \$1,000 in assessed value

Land Property Tax = \$100,000

Collection Rate = County-wide collection rate = 94%

Disclaimers:

- The current tax rate is used for the 10 year period, although the rate will likely change each year.
- Assessed value increases annually by 3% for the 10 year period, which assumes there is no significant change in the way assessed value is calculated; also the property will be reappraised when the exemption expires

Statement from Downtown Neighborhood Association

Introduction

The Capstone student housing project, proposed for the site of the former Peace Health clinic on 13th and Olive, is on the southern border of the Downtown Neighborhood. It has the potential for dramatic impact, both positive and negative, on the Eugene Downtown community, and on the city as a whole. The Downtown Neighborhood Association has taken considerable interest in this project as we have tried to “Get To Yes” in a positive approach to appropriate urban and neighborhood development. The following is a summary of our efforts to understand the implications of the Capstone project, identify obstacles, and seek to find ways to overcome those obstacles.

Please note: We are not addressing the specific issue of whether or not it is appropriate to use a MUPTE tool as means of achieving this project. We have instead focused on the merits of the project itself; MUPTE is a decision best left to experts in the field. DNA’s “expertise” is limited to caring, knowledge and understanding of the neighborhood and of our neighbors.

What DNA has done to understand the Capstone Project proposal

- Two Downtown Neighborhood Association general meetings. Estimated total attendance of the meetings: 110.
- Community Forum with City Club of Eugene. Estimated attendance: 150.
- Meetings with Steve Master and Capstone representatives. Members of the DNA Steering Committee were frequently participants in these meetings.
- Contacts with Olive Plaza residents, the neighbors adjacent to the proposed project, in addition to the two general meetings. Most of these neighbors are seniors who are extremely concerned about the possible consequences of this project on the quality of their lives.
- Several meetings with individual citizens, both Downtown neighbors and non-neighbors.
- Meetings, discussions, and email exchanges with city staff
- Lengthy discussion of the Capstone project by the DNA Steering Committee.
- Meetings and discussions with some City Council members and Mayor Piercy.
- As of April 13: 325 emails received on the subject.

What we’ve learned

Downtown Neighbors’ concerns can be sorted into the following general categories:

Impact on the Neighborhood

- 1200 new residents all at one time is a huge change for a neighborhood currently with 2500 residents.
- These new residents are monocultural in the sense that they are all students. Downtown neighbors would very much prefer mixed housing to maintain neighborhood diversity. (Contrary to the thoughts of a local journalist, Downtown is not a monoculture of seniors!)

Transportation

- Buses: Will the quality of LTD service be maintained, even though there will be such increased demand?
- Cars: How can we discourage the use of automobiles?

- Parking: Does there need to be such a large parking structure? How to deal with problems caused by additional on-street parking (Olive Plaza caregivers need a place to park as near to the building as possible)

Good Neighbor Behavior:

- Use of local labor in the construction
- Noise and dust during construction
- Any increased noise or air quality complaints need to be dealt with in a timely manner.
- Cooperation and sensitivity between students and neighbors
- Ban on bicycles and skateboards on the sidewalks

Long Term Management:

- What happens to the quality of management and supervision of the apartments if and when Capstone sells them to another owner?

Public Safety:

- Will there be adequate police coverage?
- Will there be additional night-time staffing available from EPD?

Current status

Impact on the Neighborhood:

- Capstone has indicated that there will be a phase-in plan; not all 1200 students will be brought into the neighborhood in the same year. A longer “getting used to” time between current Downtown residents and our new student neighbors will be helpful, although it doesn’t completely address the question.
- Capstone has also indicated the possibility (but not likelihood) that Phase Two might not be constructed. If a second building for student use is not constructed, the property could be put to some other use by another developer.
- There has been no conversation at this time about the potential uses of the 1000 car garage in case there is no second building constructed, leaving a maximum of 700 student residents from the phase 1 development..

Transportation:

- An additional LTD bus stop will be located on Willamette Street just south of the 12th Street bike path. This will relieve crowding at the LTD station and add convenience for Capstone student residents.
- LTD is discussing how to provide additional service to meet the needs of hundreds of new Downtown residents.
- Student residents’ use of cars will be discouraged by the severe limit of campus parking.
- Capstone will improve the 12th Street bicycle path.
- Capstone has agreed to set aside a to-be-determined number of parking spaces in their ample parking structure, based on actual vacancy, for reduced cost or free-of-cost use by Olive Plaza caregivers, or other local neighbors.
- Capstone has agreed to house a WeCar car share vehicle
- They will provide one bike parking slot per bed, as well as ample sheltered short-term bike parking for guests.

Good Neighbor Behavior:

- Capstone is interviewing local contractors. Almost certainly most of the workers will be local, regardless of the contractor.
- Capstone has pledged to follow all city codes related to noise and air quality. They have also said that they will try to be sensitive about starting noisy construction later than 7AM if possible.
- Capstone has agreed to a program of systematic communication with Olive Plaza about the construction process so as to keep them updated.
- Capstone has agreed to a program of quarterly communications with Olive Plaza residents to ensure that there is two-way positive communication; the focus will be on “known or potential noise or other nuisance issues with the operations of the student housing community upon Olive Plaza.” (per written document, available upon request from DNA or Steve Master.)
- A member of the project staff will serve on the DNA Steering Committee. This will encourage further communication and accountability for all parties.
- “Good Neighbor” information will be provided by Capstone management to all residents of the project; this will be done in concert with the Downtown Neighborhood Association.

Long Term Management:

- Although Capstone indicates that it is unlikely that any future purchaser of the project would have less rigorous management, Downtown Neighborhood Association remains quite concerned about this issue.

Public Safety:

- Police Chief Kerns has answered DNA’s specific inquiry, saying he is confident that EPD can meet the challenges that may be presented by the project.

Conclusion

On March 28 the Downtown Neighborhood Association Steering Committee voted 6-1 to support the Capstone project with reservations. Although DNA wants to support enthusiastically the construction of the Capstone Project, we continue to have concerns. In order to address our reservations, we offer the following:

Recommendations to the City Council

- Consider a building code or ordinance to require 24/7, professional management and supervision (what Capstone calls “Courtesy” officers) of any building with more than a specified number of residents.
- Provide for a safe, direct bicycle/pedestrian link between the University and downtown (probably on 13th Avenue, since 12th is neither very safe nor direct).
- Negotiate with Capstone for the provision of an on-site Bike Share station.
- Provide restricted or reserved on-street parking for Olive Plaza caregivers and/or residents.
- Consider multiple family housing a priority in future Downtown development.

Submitted for Eugene City Council consideration by David Mandelblatt, Chair, Downtown Neighborhood Association, with approval of the DNA Steering Committee

Economic Impact

The City anticipates that the economic impact from the Capstone project will be in three main areas:

1. Tax impacts. The land will be taxed during the MUPTE period, and the land plus the improvements will be taxed after the project is complete and the MUPTE period expires. The estimated property tax paid on the land for year 1 is \$100,000. The estimated property tax for the entire development is \$1.2 million in year 11. If the project does not move forward, tax revenue will be minimal on the chronically underdeveloped site.
2. Construction jobs and secondary benefit. Capstone estimates that 380 construction jobs will be created to construct the project. Based on estimates from Tim Duy, Senior Director of the Oregon Economic Forum, construction jobs generate a multiplier in the ratio of 1.84. In other words, an increase in construction spending of \$100 will yield a net impact on the regional economy of \$184.

The mean hourly wage of all Eugene's occupations is \$20.11 an hour. An average of construction jobs' wages in the Eugene-Springfield MSA is about \$22.09 per hour, which is approximately 9% higher than the local, average job. Construction is about 3% of the local labor force. This project could be a partial counterweight for the continued sluggishness in residential/commercial construction as construction lost 200 jobs in 2011.

Capstone has not made the final selection of the general contractor at this time. Capstone policy is to encourage the use of local contractors, suppliers, and workers for the project as much as possible. It is anticipated the general contractor will use a high percentage of qualified local and area subs, suppliers and workers.

3. Resident discretionary spending for downtown. Students spend discretionary funds in the community where they live. The University of Oregon's estimate for the purpose of calculating livings costs assumes approximately \$250 per student per month; the national estimate of monthly student discretionary spending is about \$350. At the lower estimate, the residents of the Capstone project could spend up to \$3.7 million per year. At least a portion of that could be spent downtown and may not otherwise occur if the project was located outside of downtown.
4. On-site permanent jobs. Capstone estimates five to seven permanent and fifteen to eighteen part-time operations jobs (including three professional courtesy officers), with approximately \$500,000 spent on local services on an annual basis.

Portland's Housing Tax Exemption Program

Program Summary

Portland, Oregon – New Multiple-Unit Housing (NMUH) Property Tax Abatement

- Established in 1975. Authorized under ORS 307, the same statutes that authorize the Eugene MUPTE program.
- Must have 10 or more dwelling units.
- Tax exemption for up to 10 years.
- From 2005-2009, there was a moratorium that limited applications to only projects that were 100% affordable.
- Application must include cash flow analysis and calculate an internal rate of return (IRR) on the project to demonstrate that the abatement is required to achieve economic feasibility.
- All rental projects containing more than 15 units must include at least 15% of the units for rent at rates that are affordable and restricted to households earning 80% or less of the area median income. An Extended Use Agreement (EUA) is signed that requires a 15-year affordability period.
- For ownership housing, the exemption is only available at an initial purchase price not exceeding 95% of the FHA mortgage maximum and must be sold to a household earning no more than 100% of the area median income.
- Project must meet one of the following public benefits:
 - Open space available to the general public
 - Day care facilities
 - Permanent dedications for public use
 - LEED Silver
 - 20% of the rental units have 3 or more bedrooms
 - 25% of the rental units are affordable to households at 80% MFI
 - Other public benefits approved by Portland Housing Bureau and City Council
- The City Council reviews and approves applications following a public hearing.
- If the anticipated IRR for the project exemption period exceeds 10%, the Portland Housing Bureau shall recommend that the application be denied.
- Tax exemption recipients are required to submit financial data on an annual basis to verify the project's IRR. Projects that exceed a 10% IRR are subject to an "Accrued Payment Liability" (APL).
- The EUA (15-year affordability period) is terminated at the end of 10 years if the project does not exceed a 10% IRR during the exemption period.
- If the 10-year IRR is greater than 10%, then the EUA (15-year affordability period) shall be maintained or the owner will be required to pay the APL.

- The amount of the APL is (1) the net present value (using 10% discount rate) of the difference between the project's actual annual cash flows over the exemption period and the proforma projected cash flows for the project that would provide a 10 percent IRR for the exemption period, or (2) equal to the maximum amount of property taxes that would have been assessed if no exemption had been granted, whichever is less.
- If the owner elects to not pay the APL, the EUA (15-year affordability period) will be maintained on the number of units required to reduce the net present value of the project's cash flows by an amount equal to the APL.
- The NMUH program is currently under review with the goal of implementing changes in July 2012. Some new concepts being considered include:
 - Program cap of \$1 million in foregone tax revenue annually.
 - 20% of units to meet affordability requirements
 - Add accessibility of units and location considerations to public benefit requirements
 - Define types of commercial uses within housing project that would be eligible for the exemption

Other Information Requested at the April 9 Work Session

1. *How much is Capstone paying for the property?*
The City is not involved with the property sale. Capstone's budget indicated a land cost of \$6.6 million from the MUPTE application. This amount does not include the purchase of lot 900, which is still under negotiations.
2. *What is the total cost of Phase I only?*
The estimated cost of Phase I is \$52 million.
3. *Provide more information on Capstone's retention of property ownership or management.*
Their current business model is to maintain management but not ownership. Capstone currently manages 19 developments with a total of 11,144 beds.
4. *Will Capstone use local contractor, subcontractors, suppliers, and workers?*
Capstone has not made the final selection of the general contractor at this time. Capstone policy is to encourage the use of local contractors, suppliers, and workers for the project as much as possible. It is anticipated the general contractor will use a high percentage of qualified local and area subs, suppliers and workers.
5. *What happens to the MUPTE if the bank lowers the interest rate on Capstone's loan?*
Capstone plans to use conventional bank construction financing, with the permanent, take-out financing anticipated from Fannie Mae's Dedicated Student Housing program. The pro-forma debt service is based on a 30-year fixed loan at 6.5%. The City's financial advisor at Western Financial Group confirmed that the interest rate assumption is reasonable based on the current market and on the hedge needed to account for estimating a rate two years from now. He cited a recent student housing project financed by Fannie Mae whose rate, adjusted to taxable was 7.5%. Additionally, the City's Loan Advisory Committee includes two bank representatives who confirmed the interest rate estimate. Holding all other aspects of the project constant, the Capstone interest rate would need to fall by 250 basis points from today's level (to 5%) to have the project generate 9% return needed to attract the equity without the MUPTE savings.
6. *How do we verify the "but for" requirement in the MUPTE analysis?*
The theory behind MUPTE is that multi-unit housing development is desired in the targeted area and that the development would not occur "but for" the granting of the exemption. The tax exemption is a tool used to off-set real financial obstacles associated with developing multi-unit housing in the core. The obstacles could be related to lease rates insufficient to support new construction, higher land cost, higher construction cost resulting from multi-story construction and higher quality urban design, parking constraints, code requirements, and environmental conditions related to prior uses. As property taxes are a major operating expense in a development project, the property tax exemption provided by the MUPTE program can play a significant role in improving Net Operating Income. The MUPTE can

help create opportunities for financing and return-on-investment that are not otherwise achievable in core area multi-unit development.

For each application, the developer provides financial information to demonstrate that the project as proposed could not be built but for the benefit of the tax exemption. Staff and the Loan Advisory Committee review the pro-forma and evaluate this conclusion. Specifically, we analyze assumptions regarding lease rates, operating expense, capitalization rate, lender underwriting criteria, interest rate assumption, market expected rate of return, and construction cost to assure that they are within the standards of this marketplace.

The general issues for projects are being able to qualify for the needed debt and attract the needed equity. For debt, the issue is having sufficient loan-to-value and debt coverage ratio. For equity, the issue is having sufficient cash-on-cash return. Please see Attachment F of the April 23 public hearing AIS for information on the Capstone “but for.”

7. *Will the parking structure floors be flat?*
No; the floors will be sloped or ramped.

8. *Did previous capstone projects in other communities have a version of MUPTE?*
Yes; Capstone has used incentives that resemble the MUPTE program but vary by locality. For example, Capstone’s project in Tempe, Arizona received an eight year tax benefit.

9. *Why are they adding a bus stop on Willamette?*
By adding the stop here, residents will have easy access to bus routes #28 and #76 that travel down Willamette and provide access from the project site directly to the U of O. In addition, residents will have access to the EMX line at the LTD station.

10. *Will there be a police substation? What will be the coordination with EPD?*
The location of a substation is a decision to be made by the Eugene Police Department (EPD). Capstone has agreed to coordinate closely with EPD to promote pro-social, courteous, and safe behavior on the part of the residents. This coordination will include:

- Meeting with EPD Crime Prevention Unit regarding successful strategies utilized in other parts of our community, including Crime Prevention Through Environmental Design and crime victim awareness strategies, and to discuss opportunities for support from Crime Prevention Unit and any enforcement actions taken.
- Working with EPD to align renter code of conduct with social host regulations.
- Working with EPD to develop a protocol for responding to nearby residents and surrounding property owner complaints on a timely basis.

11. *If phase 2 is not built, how will that impact the MUPTE?*
The approval resolution is written to enable the project to be constructed in two phases. The resolution includes the specific number of units for each phase. If phase 2 is not built, then the MUPTE would be limited to Phase 1, and no MUPTE would be granted for Phase 2.

12. *Are there incentives to not bringing a car?*

Yes. There is a planned LTD bus stop incorporated in the project which would include a sheltered bus stop integrated into the building. There are plans for a shared car facility (such as “WeCar”) and more bicycle parking and secured storage than required by code. Capstone is proposing to charge for parking (\$35 per space per month, \$420 annually).

13. *Can you describe the bike parking in more detail?*

A large portion of the ground floor of the parking structure is dedicated to covered and secured bike storage located directly off of the 12th Avenue bike path. The opportunity exists to increase the storage capacity in this area with hanging methods of bike storage, in addition to other locations for bike parking off the north/south vacated alley, and in upper stories of the parking garage.

14. *What are the U of O’s enrollment projections?*

Current enrollment is 24,400. The U of O has experienced enrollment increases of approximately 4% per year over the past three years, which translates to approximately 1,000 additional students per year. Current projections expect enrollment to level off in 2014 slightly above current enrollment.

15. *What is the current rental housing vacancy rate? Student housing vacancy rate?*

In general, apartment vacancy rates in the area have remained relatively low at approximately 4%. There is no current data available that is specific to student housing vacancy rates in Eugene.

However, the draft recommendation for Envision Eugene projects a 20-year demand for 6,301 residential units on medium/high density residential land or commercial land. The Envision Eugene estimate for additional student housing units over the next 20 years is 1,300 units. Based on recent information, U of O assumes a student population increase of 4,500 over the next 20 years, 1,250 of which they plan to accommodate in UO (campus) housing. That leaves 3,250 students to account for. Average persons per unit in student-type housing is estimated at somewhere between 2.5 and 3. Assuming a “lowest case” average of 2.5 persons per unit, up to an additional 1,300 units may be needed somewhere off-campus.

Some percentage of these students will be grad students, older students with families, people commuting from outside Eugene who will not be looking for typical student housing. However, this could be a reasonable “upper limit” for additional student housing need.

16. *What student beds will be coming on line, MUPTE and non MUPTE?*

The City’s Building and Permit Services currently has active building permits for 364 multi-family units, located in different areas of the community. One MUPTE project with 100 units (138 beds) was recently completed (approved in 2011) on 17th & Pearl, which may have some student residents.

17. *What are the U of O’s dorm construction plans?*

Based on information from the U of O, there are currently roughly 19,000 university undergraduate and graduate student renters in the Eugene and Springfield communities. University residence halls are designed to complement and enhance student academic

experience and are opportunities for personal and educational growth. The University currently houses 3,800 students in its residence halls. That number will increase by 450 to 4,250 when the Global Scholars Hall opens this fall. Over the next ten years the University plans to increase residence hall space by another 800 beds. The University has set a goal of being able to house 25% of the undergraduate student population. The University's top priority is to house all of the first-year students that desire university housing. In addition, the University wants to offer housing to interested upper class students. However, the University's projects must a) be self-supporting, as there is no central subsidy, and b) coordinate all campus construction through the Oregon University System and the legislature, who establish limits on borrowing based on best practices for government financing. Therefore, future U of O construction projects will possibly compete with state provided bonded projects from across the state and the other six state universities when limits on binding capacity are reached.