

# EUGENE CITY COUNCIL AGENDA ITEM SUMMARY



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## Work Session: Capstone Collegiate Communities Student Housing Development Proposal

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Meeting Date: May 9, 2012  
Department: Planning and Development  
[www.eugene-or.gov](http://www.eugene-or.gov)

Agenda Item: A  
Staff Contact: Nan Laurence  
Contact Telephone Number: 541-682-5340

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### ISSUE STATEMENT

The work session will be an opportunity to take action on the request for a Multi-Unit Property Tax Exemption (MUPTE) by Capstone Collegiate Communities (Capstone) to build student housing on the former PeaceHealth clinic site.

### BACKGROUND

On March 12, the council held a work session to review the proposal received from Capstone regarding the student housing development and the planned public engagement opportunities. On April 9, the council reviewed the project and the public comments received to-date.

On April 23, the council held public hearings for both the right-of-way vacation and the MUPTE. On April 25, the council held a work session and discussed the proposed MUPTE and right-of-way vacation and public benefits that might result from the project. Based on council discussion on how to ensure the public benefits of the project, staff have included several conditions in the resolution to approve the MUPTE (Attachment A) including:

- A requirement of onsite management during the 10-year period of exemption,
- The creation and dedication of a bicycle/pedestrian path connecting with the existing route along 12th Avenue;
- A requirement to achieve Earth Advantage Silver certification;
- The provision of at least six Americans with Disabilities Act (ADA) accessible units; and
- The signing of a Memorandum of Understanding (MOU) between the City and Capstone which documents the issues and expectations that Capstone has committed to for the student housing project during and after construction.

Following the April 25 work session, Councilor George Brown requested that staff provide the financial analysis for Capstone's phased project approach, and the full 10-year return on investment projection. Attachment B provides a memorandum and the requested analysis.

### *Timing & Next Steps*

May 9 is reserved for action on the Capstone project. The council has 180 days from the date of MUPTE application (January 24) to take action on the MUPTE or it is deemed approved.

## **RELATED CITY POLICIES**

Encouraging housing in the downtown core 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.

## **COUNCIL OPTIONS**

The work session is an opportunity to take action on the MUPTE application for the proposed Capstone development.

## **CITY MANAGER'S RECOMMENDATION**

The City Manager recommends approval of the MUPTE based on the demonstration of need and the MUPTE public benefit criteria adopted by council and provided by the project.

## **SUGGESTED MOTION**

Move to adopt Resolution 5057, approving a MUPTE for property located in the vicinity of Olive Street and 13<sup>th</sup> Avenue.

## **ATTACHMENTS:**

- A. Resolution Approving the Property Tax Exemption
- B. MUPTE Pro forma Analysis
- C. Resolution Denying the Property Tax Exemption

## **FOR MORE INFORMATION**

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**RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION APPROVING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED IN THE VICINITY OF OLIVE STREET AND 13<sup>TH</sup> 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, *with at least six ADA accessible 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 12<sup>th</sup> 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.

Amendments made after the 4/25/12 Work Session are shown in legislative format.

**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 (*Including some or all of* 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. *Project Description:***

- 1.1 Phase 1 of the project shall consist of development of approximately ~~232~~ **230** units with a total of approximately 790 bedrooms, 603 structured parking spaces, and 48 surface parking spaces.
- 1.2 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.

- 1.3 ***At least 6 ADA accessible units will be included in either phase of the project.***
- 1.4 In no event will the total number of units for Phase 1 and Phase 2 exceed 375.
- 1.5 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 12<sup>th</sup> Avenue right-of-way shall be dedicated and the following public improvements shall be constructed:
  - 3.1 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;
  - 3.2 A bicycle crossing island at the intersection of West 12<sup>th</sup> Avenue and Olive Street that prohibits left turns for automobiles; and
  - 3.3 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. ***No later than 18 months after receiving a Certificate of Occupancy for each phase, the applicant must demonstrate award of Earth Advantage Silver Certification by submitting to the City's Planning and Development Department Earth Advantage certification documentation.***

6. *The applicant shall enter into a Memorandum of Understanding (“MOU”) with the City of Eugene which addresses the following issues:*
  - 6.1 *Coordinating with the Eugene Police Department’s expectations concerning courteous and safe behavior on the part of the residents.*
  - 6.2 *Minimizing parking impacts.*
  - 6.3 *Working with “Look Me In The Eye,” a disability advocacy organization, to identify opportunities to employ their clients as part of the housing development.*
  - 6.4 *Providing access to unused parking.*
  - 6.5 *Supporting alternative modes of transportation.*
  - 6.6 *Design and construction to include the use of qualified local contractors, suppliers and workers as much as possible; improvement of the existing sidewalks surrounding the project; expansion of circulation space and new streetscape elements; providing signage to improve enforcement of the prohibition of bikes and skateboards on the sidewalk near Olive Plaza; minimizing adverse impacts of the project on Olive Plaza during and after construction; and retention of as many existing street trees as possible.*
  - 6.7 *Applicant’s submittal of written semi-annual reports for the first two years detailing how the conditions in the MOU have been met.*
  
7. 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.



Amendments made after the 4/25/12 Work Session are shown in legislative format.

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

**The foregoing Resolution adopted and effective the \_\_\_\_ day of \_\_\_\_\_, 2012.**

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**AIC City Recorder**



City of Eugene  
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# MEMORANDUM

**Date:** May 4, 2012

**To:** Mayor Piercy and City Council

**From:** Denny Braud, Senior Development Analyst

**Subject:** Capstone Phased Project Financial Analysis

Following the April 25 Council work session, Councilor Brown requested the Capstone financial pro-forma analysis for the proposed phased project scenario, including the full ten-year return on investment projection. Capstone's MUPTE application submitted in January anticipated a non-phased scenario that included simultaneous development of the properties east and west of Olive Street (Original Project). Since the initial submittal, Capstone's due diligence on the project has informed two updates to the original pro-forma. The first update adjusted the pro-forma to include phasing the project (Phased Project). The second update to the pro-forma assumed the phased scenario with cost, revenue, and operating expense adjustments associated with the addition of tax lot 900 to the project footprint (Updated Phased Project).

As noted in the April 23 Agenda Item Summary, staff performed a financial analysis for the Original Project pro-forma and each of the phased pro-formas. Considering the range of unit counts and financial considerations for each of the potential scenarios, staff opted to present the financial analysis and conclusions based on the scenario that projected the highest potential return on investment (the Original Project), as the most conservative approach.

The following is a summary of the analysis of three project scenarios. The full ten-year projections for each scenario with and without MUPTE are included in Exhibits 1 through 3.

## Original Project (See Exhibit 1)

- Proposed developing full project in a single phase.
- Staff adjusted Capstone's projected tax exemption savings to more accurately reflect the projected assessed value.
- Without MUPTE, the return on investment is projected at 6% in year 1 and does not exceed 8% during the ten-year period.
- With MUPTE, the return on investment is projected to be 9% in year 1 and reaches 12% by year 10.
- Staff's analysis concludes that the projected return on investment without MUPTE is insufficient to attract the equity investment needed for the project.

### Phased Project (See Exhibit 2)

- Proposed developing the project in two phases, the first phase east of Olive Street and the second phase west of Olive Street.
- Staff adjusted Capstone's projected tax exemption savings to more accurately reflect the projected assessed value.
- Capstone updated the pro-forma to reflect the added project costs associated with phasing: approximately \$2.2 million.
- The added costs require Capstone to increase the loan amount by approximately \$2 million and to increase the equity contribution by approximately \$240,000.
- Without MUPTE, the return on investment is projected at 5% in year 1 and does not exceed 8% during the ten-year period.
- With MUPTE, the return on investment is projected to be 9% in year 1 and reaches 12% by year 10.
- Staff's analysis concludes that the projected return on investment without MUPTE is insufficient to attract the equity investment needed for the project.

### Updated Phased Project - With Tax Lot 900 (See Exhibit 3)

- Proposed developing the project in two phases, the first phase east of Olive Street and the second phase west of Olive Street.
- Expanded the project footprint to include tax lot 900.
- Staff adjusted Capstone's projected tax exemption savings to more accurately reflect the projected assessed value.
- Capstone updated the pro-forma to reflect the added project costs associated with revised construction cost estimates from a general contractor, design modifications, and cost related to the inclusion of tax lot 900: approximately \$6.4 million in total.
- The adjustments require Capstone to increase the loan amount by approximately \$4.5 million and increase the equity contribution by approximately \$1.9 million when compared to the Phased Project.
- Capstone updated the pro-forma to reflect the additional units possible from developing tax lot 900, including the increased revenue and increased operating costs associated with the additional units.
- Without MUPTE, the return on investment is projected at 6% in year 1 and does not exceed 8% during the ten-year period.
- With MUPTE, the return on investment is projected to be 9% in year 1 and reaches 12% by year 10.
- Staff's analysis concludes that the projected return on investment without MUPTE is insufficient to attract the equity investment needed for the project.

At this point in the progression of Capstone's due diligence, there has been no agreement reached regarding tax lot 900 and no current plan to acquire the property. Therefore, the most likely scenario is the Phased Project (Exhibit 2) that does not include tax lot 900. However, in any of the three scenarios, staff concludes that the tax exemption is needed to generate a return on investment sufficient to attract the required equity.

## EXHIBIT 1 – ORIGINAL PROJECT

### Sources

			<i>annual d/s</i>
Equity	\$27,176,000	30%	
Conventional Debt	<u>\$61,963,000</u>	70%	\$4,699,780
	\$89,139,000		

### Pro-Forma WITHOUT MUPTTE

The Original Project pro-forma below is derived from applying a standardized set of assumptions to the developers provided information. (The financial analysis was provided as Attachment F to the Agenda Item Summary for April 23 item number 4.)

<i>Without MUPTTE</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Income	\$ 9,946,200	\$ 10,045,700	\$ 10,146,200	\$ 10,247,700	\$ 10,350,200	\$ 10,453,700	\$ 10,558,200	\$ 10,663,800	\$ 10,770,400	\$ 10,878,100
- Vacancy (6%)	\$ 602,400	\$ 608,500	\$ 614,500	\$ 620,700	\$ 626,900	\$ 633,200	\$ 639,500	\$ 645,900	\$ 652,300	\$ 658,900
<b>= Effective Gross Rent</b>	\$ 9,343,800	\$ 9,437,200	\$ 9,531,700	\$ 9,627,000	\$ 9,723,300	\$ 9,820,500	\$ 9,918,700	\$ 10,017,900	\$ 10,118,100	\$ 10,219,200
- Operating Exp (32%)	\$ 2,990,000	\$ 3,019,900	\$ 3,050,100	\$ 3,080,600	\$ 3,111,400	\$ 3,142,500	\$ 3,174,000	\$ 3,205,700	\$ 3,237,700	\$ 3,270,100
<b>= NOI</b>	\$ 6,353,800	\$ 6,417,300	\$ 6,481,600	\$ 6,546,400	\$ 6,611,900	\$ 6,678,000	\$ 6,744,700	\$ 6,812,200	\$ 6,880,400	\$ 6,949,100
- Debt Service	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800
<b>= CF</b>	\$ 1,654,000	\$ 1,717,500	\$ 1,781,800	\$ 1,846,600	\$ 1,912,100	\$ 1,978,200	\$ 2,044,900	\$ 2,112,400	\$ 2,180,600	\$ 2,249,300
<b>Cash on Cash Return</b>	6%	6%	7%	7%	7%	7%	8%	8%	8%	8%
<b>Value</b>	\$87,639,000	\$ 88,514,000	\$ 89,401,000	\$ 90,295,000	\$ 91,199,000	\$ 92,110,000	\$ 93,030,000	\$ 93,961,000	\$ 94,902,000	\$ 95,850,000
DCR	1.35									

**ANALYSIS – Original Project**

The Original Project lacks the ability to attract the needed equity. Capstone has indicated that their primary investor will require a minimum return of 9%. Without the MUPTE savings, the Phased 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 MUPTE Original Project**

<i>With MUPTE</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Income	\$ 9,946,200	\$ 10,045,700	\$ 10,146,200	\$ 10,247,700	\$ 10,350,200	\$ 10,453,700	\$ 10,558,200	\$ 10,663,800	\$ 10,770,400	\$ 10,878,100
- Vacancy (6%)	\$ 602,400	\$ 608,500	\$ 614,500	\$ 620,700	\$ 626,900	\$ 633,200	\$ 639,500	\$ 645,900	\$ 652,300	\$ 658,900
<b>= Effective Gross Rent</b>	\$ 9,343,800	\$ 9,437,200	\$ 9,531,700	\$ 9,627,000	\$ 9,723,300	\$ 9,820,500	\$ 9,918,700	\$ 10,017,900	\$ 10,118,100	\$ 10,219,200
- Operating Exp (32%)	\$ 2,990,000	\$ 3,019,900	\$ 3,050,100	\$ 3,080,600	\$ 3,111,400	\$ 3,142,500	\$ 3,174,000	\$ 3,205,700	\$ 3,237,700	\$ 3,270,100
- Property Tax (saved by MUPTE)	\$ (846,000)	\$ (871,400)	\$ (897,500)	\$ (924,400)	\$ (952,100)	\$ (980,700)	\$ (1,010,100)	\$ (1,040,400)	\$ (1,071,600)	\$ (1,103,700)
<b>= NOI</b>	\$ 7,199,800	\$ 7,288,700	\$ 7,379,100	\$ 7,470,800	\$ 7,564,000	\$ 7,658,700	\$ 7,754,800	\$ 7,852,600	\$ 7,952,000	\$ 8,052,800
- Debt Service	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800	\$ 4,699,800
<b>= CF</b>	\$ 2,500,000	\$ 2,588,900	\$ 2,679,300	\$ 2,771,000	\$ 2,864,200	\$ 2,958,900	\$ 3,055,000	\$ 3,152,800	\$ 3,252,200	\$ 3,353,000
<b>Cash on Cash Return</b>	9%	10%	10%	10%	11%	11%	11%	12%	12%	12%
<b>Value</b>	\$99,308,000	\$ 100,534,000	\$ 101,781,000	\$ 103,046,000	\$ 104,331,000	\$ 105,637,000	\$ 106,963,000	\$ 108,312,000	\$ 109,683,000	\$ 111,073,000
DCR	1.53									

The Original Project 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.

## EXHIBIT 2 – PHASED PROJECT

### Sources

			<i>annual d/s</i>
Equity	\$27,414,000	30%	
Conventional Debt	<u>\$63,966,000</u>	70%	\$4,851,700
	\$91,380,000		

### Pro-Forma WITHOUT MUPTTE

The Phased Project pro-forma below is derived from applying a standardized set of assumptions to the developers provided information. (The assumptions are described in the financial analysis provided as Attachment F to the Agenda Item Summary for April 23 item number 4.)

<i>Without MUPTTE</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Income	\$ 9,946,200	\$ 10,045,700	\$ 10,146,200	\$ 10,247,700	\$ 10,350,200	\$ 10,453,700	\$ 10,558,200	\$ 10,663,800	\$ 10,770,400	\$ 10,878,100
- Vacancy (6%)	\$ 602,400	\$ 608,500	\$ 614,500	\$ 620,700	\$ 626,900	\$ 633,200	\$ 639,500	\$ 645,900	\$ 652,300	\$ 658,900
<b>= Effective Gross Rent</b>	\$ 9,343,800	\$ 9,437,200	\$ 9,531,700	\$ 9,627,000	\$ 9,723,300	\$ 9,820,500	\$ 9,918,700	\$ 10,017,900	\$ 10,118,100	\$ 10,219,200
- Operating Exp (32%)	\$ 2,990,000	\$ 3,019,900	\$ 3,050,100	\$ 3,080,600	\$ 3,111,400	\$ 3,142,500	\$ 3,174,000	\$ 3,205,700	\$ 3,237,700	\$ 3,270,100
<b>= NOI</b>	\$ 6,353,800	\$ 6,417,300	\$ 6,481,600	\$ 6,546,400	\$ 6,611,900	\$ 6,678,000	\$ 6,744,700	\$ 6,812,200	\$ 6,880,400	\$ 6,949,100
- Debt Service	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700
<b>= CF</b>	\$ 1,502,100	\$ 1,565,600	\$ 1,629,900	\$ 1,694,700	\$ 1,760,200	\$ 1,826,300	\$ 1,893,000	\$ 1,960,500	\$ 2,028,700	\$ 2,097,400
<b>Cash on Cash Return</b>	5%	6%	6%	6%	6%	7%	7%	7%	7%	8%
<b>Value</b>	\$ 87,639,000	\$ 88,514,000	\$ 89,401,000	\$ 90,295,000	\$ 91,199,000	\$ 92,110,000	\$ 93,030,000	\$ 93,961,000	\$ 94,902,000	\$ 95,850,000
DCR	1.31									

Exhibit 2 – Phased Project

### ANALYSIS – Phased Project

The Phased Project lacks the ability to attract the needed equity. Capstone has indicated that their primary investor will require a minimum return of 9%. Without the MUPTe savings, the Phased Project generates a 5% return, which is insufficient to attract the required \$27.4 million equity investment. The Cash on Cash only reaches 8% by year 10 in the absence of the MUPTe.

### Pro-Forma WITH MUPTe Phased Project

<i>With MUPTe</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Income	\$ 9,946,200	\$ 10,045,700	\$ 10,146,200	\$ 10,247,700	\$ 10,350,200	\$ 10,453,700	\$ 10,558,200	\$ 10,663,800	\$ 10,770,400	\$ 10,878,100
- Vacancy (6%)	\$ 602,400	\$ 608,500	\$ 614,500	\$ 620,700	\$ 626,900	\$ 633,200	\$ 639,500	\$ 645,900	\$ 652,300	\$ 658,900
<b>= Effective Gross Rent</b>	\$ 9,343,800	\$ 9,437,200	\$ 9,531,700	\$ 9,627,000	\$ 9,723,300	\$ 9,820,500	\$ 9,918,700	\$ 10,017,900	\$ 10,118,100	\$ 10,219,200
- Operating Exp (32%)	\$ 2,990,000	\$ 3,019,900	\$ 3,050,100	\$ 3,080,600	\$ 3,111,400	\$ 3,142,500	\$ 3,174,000	\$ 3,205,700	\$ 3,237,700	\$ 3,270,100
- Property Tax (saved by MUPTe)	\$ (846,000)	\$ (871,400)	\$ (897,500)	\$ (924,400)	\$ (952,100)	\$ (980,700)	\$ (1,010,100)	\$ (1,040,400)	\$ (1,071,600)	\$ (1,103,700)
<b>= NOI</b>	\$ 7,199,800	\$ 7,288,700	\$ 7,379,100	\$ 7,470,800	\$ 7,564,000	\$ 7,658,700	\$ 7,754,800	\$ 7,852,600	\$ 7,952,000	\$ 8,052,800
- Debt Service	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700	\$ 4,851,700
<b>= CF</b>	\$ 2,348,100	\$ 2,437,000	\$ 2,527,400	\$ 2,619,100	\$ 2,712,300	\$ 2,807,000	\$ 2,903,100	\$ 3,000,900	\$ 3,100,300	\$ 3,201,100
<b>Cash on Cash Return</b>	9%	9%	9%	10%	10%	10%	11%	11%	11%	12%
<b>Value</b>	\$ 99,308,000	\$ 100,534,000	\$ 101,781,000	\$ 103,046,000	\$ 104,331,000	\$ 105,637,000	\$ 106,963,000	\$ 108,312,000	\$ 109,683,000	\$ 111,073,000
DCR	1.48									

The Phased Project 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.

### EXHIBIT 3 – UPDATED PHASED PROJECT

The Updated Phased Project includes additional costs (revised construction cost estimates from a general contractor, design modifications, and cost related to the inclusion of tax lot 900) and revenue & expense from tax lot 900.

#### Sources

			<i>annual d/s</i>
Equity	\$29,351,000	30%	
Conventional Debt	<u>\$68,484,000</u>	70%	\$5,194,400
	\$97,835,000		

#### Pro-Forma WITHOUT MUPTE

The Updated Phased Project pro-forma below is derived from applying the standardized set of assumptions to the developers provided information.

<i>Without MUPTE</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Income	\$ 10,777,000	\$ 10,884,800	\$ 10,993,600	\$ 11,103,500	\$ 11,214,500	\$ 11,326,600	\$ 11,439,900	\$ 11,554,300	\$ 11,669,800	\$ 11,786,500
- Vacancy (6%)	\$ 653,000	\$ 659,000	\$ 666,000	\$ 673,000	\$ 679,000	\$ 686,000	\$ 693,000	\$ 700,000	\$ 707,000	\$ 714,000
<b>= Effective Gross Rent</b>	\$ 10,124,000	\$ 10,225,800	\$ 10,327,600	\$ 10,430,500	\$ 10,535,500	\$ 10,640,600	\$ 10,746,900	\$ 10,854,300	\$ 10,962,800	\$ 11,072,500
- Operating Exp (32%)	\$ 3,240,000	\$ 3,272,000	\$ 3,305,000	\$ 3,338,000	\$ 3,371,000	\$ 3,405,000	\$ 3,439,000	\$ 3,473,000	\$ 3,508,000	\$ 3,543,000
<b>= NOI</b>	\$ 6,884,000	\$ 6,953,800	\$ 7,022,600	\$ 7,092,500	\$ 7,164,500	\$ 7,235,600	\$ 7,307,900	\$ 7,381,300	\$ 7,454,800	\$ 7,529,500
- Debt Service	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400
<b>= CF</b>	\$ 1,689,600	\$ 1,759,400	\$ 1,828,200	\$ 1,898,100	\$ 1,970,100	\$ 2,041,200	\$ 2,113,500	\$ 2,186,900	\$ 2,260,400	\$ 2,335,100
<b>Cash on Cash Return</b>	6%	6%	6%	6%	7%	7%	7%	7%	8%	8%
<b>Value</b>	\$ 94,952,000	\$ 95,914,000	\$ 96,863,000	\$ 97,828,000	\$ 98,821,000	\$ 99,801,000	\$ 100,799,000	\$ 101,811,000	\$ 102,825,000	\$ 103,855,000
DCR	1.33									

Exhibit 3 – Updated Phased Project



**ANALYSIS – Updated Phased Project**

The Updated Phased Project lacks the ability to attract the needed equity. Capstone has indicated that their primary investor will require a minimum return of 9%. Without the MUPTE savings, the Updated Phased project generates a 6% return, which is insufficient to attract the required \$29 million equity investment. The Cash on Cash only reaches 8% by year 10 in the absence of the MUPTE.

**Pro-Forma – WITH MUPTE Updated Phased Project**

<i>With MUPTE</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Income	\$ 10,777,000	\$ 10,884,800	\$ 10,993,600	\$ 11,103,500	\$ 11,214,500	\$ 11,326,600	\$ 11,439,900	\$ 11,554,300	\$ 11,669,800	\$ 11,786,500
- Vacancy (6%)	\$ 653,000	\$ 659,000	\$ 666,000	\$ 673,000	\$ 679,000	\$ 686,000	\$ 693,000	\$ 700,000	\$ 707,000	\$ 714,000
<b>= Effective Gross Rent</b>	\$ 10,124,000	\$ 10,225,800	\$ 10,327,600	\$ 10,430,500	\$ 10,535,500	\$ 10,640,600	\$ 10,746,900	\$ 10,854,300	\$ 10,962,800	\$ 11,072,500
- Operating Exp (32%)	\$ 3,240,000	\$ 3,272,000	\$ 3,305,000	\$ 3,338,000	\$ 3,371,000	\$ 3,405,000	\$ 3,439,000	\$ 3,473,000	\$ 3,508,000	\$ 3,543,000
- Property Tax (saved by MUPTE)	\$ (925,000)	\$ (871,400)	\$ (871,400)	\$ (897,500)	\$ (924,400)	\$ (952,100)	\$ (980,700)	\$ (1,010,100)	\$ (1,040,400)	\$ (1,103,700)
<b>= NOI</b>	\$ 7,809,000	\$ 7,825,200	\$ 7,894,000	\$ 7,990,000	\$ 8,088,900	\$ 8,187,700	\$ 8,288,600	\$ 8,391,400	\$ 8,495,200	\$ 8,633,200
- Debt Service	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400	\$ 5,194,400
<b>= CF</b>	\$ 2,614,600	\$ 2,630,800	\$ 2,699,600	\$ 2,795,600	\$ 2,894,500	\$ 2,993,300	\$ 3,094,200	\$ 3,197,000	\$ 3,300,800	\$ 3,438,800
<b>Cash on Cash Return</b>	9%	9%	9%	10%	10%	10%	11%	11%	11%	12%
<b>Value</b>	\$107,710,000	\$107,934,000	\$108,883,000	\$110,207,000	\$111,571,000	\$112,934,000	\$114,326,000	\$115,743,000	\$117,175,000	\$119,079,000
DCR	1.50									

The Updated Phased Project pro-forma above shows that the project improves with the MUPTE. The Cash on Cash return is 9% in year 1 and reaches 12% by year 10. [The tax savings from MUPTE increased by \$79,000 is due to the income valuation increase of \$7.3 million. The method for calculating the tax savings is the same as described in the financial analysis provided as Attachment F to the Agenda Item Summary for April 23 item number 4.]

RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION DENYING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED IN THE VICINITY OF OLIVE STREET AND 13<sup>TH</sup> 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.**

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**AIC City Recorder**