

# EUGENE CITY COUNCIL

## AGENDA ITEM SUMMARY



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### Work Session: Core Campus – Application for Multiple-Unit Property Tax Exemption for Residential Property Located at 505 East Broadway (The Hub in Eugene)

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Meeting Date: May 29, 2013  
Department: Planning and Development  
[www.eugene-or.gov](http://www.eugene-or.gov)

Agenda Item: B  
Staff Contact: Amanda Nobel  
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#### **ISSUE STATEMENT**

The work session will be an opportunity for the council to hear about and discuss the Core Campus proposal to build student housing at 505 East Broadway (see Attachment A).

#### **BACKGROUND**

In January, the City of Eugene received a Multi-Unit Property Tax Exemption (MUPTE) application from Core Campus for a proposed student housing development (The Hub in Eugene) on East Broadway and Ferry Street.

The council is currently discussing potential revisions to the MUPTE program and enacted a temporary suspension of the program in February 2013. Since the Core Campus application was submitted prior to the suspension, the existing program rules have been applied to this review.

#### Project Overview

The Hub in Eugene would be a 12-story, \$44 million project: 197 apartments with on-site parking, nearby parking, and commercial retail space. The site, which was a former Chevron service station, has been vacant for eight years and is a brownfield site. Directly to the west is a Korean/Japanese restaurant (formerly a Dunkin Donuts). To the east is a Pizza Hut. Due north is a storage facility, and south, across Broadway, are eating establishments (including Burrito Boy) and offices.

The project will have 501 bedrooms; 4,430 square feet of retail space; 34 on-site parking spaces; and 88 surface parking spaces in a nearby lot. The building would be designed to achieve LEED certification and would include a green roof among other features. The first-floor commercial spaces, sales center, and lobby, will have a clear floor-to-ceiling glass storefront. The commercial space would front East Broadway.

The development will have onsite staff and security: six to eight full-time jobs and six part-time jobs. The full-time staff will consist of a property manager, an assistant manager, a leasing director, a leasing professional, a chief building engineer, a maintenance technician, and porters.

The proposed construction schedule would be 14-16 months long and provide an average of 120-150 construction jobs. If the MUPTE is approved, construction would begin in February/March 2014.

### Project Parking

The surface level secured parking on-site would be accessed from Ferry Street with a key card system. The parking will be fully enclosed as part of the architecture of the building and not readily apparent. A second parking area is proposed to be a surface parking lot nearby within ¼ mile at 901 Franklin. (See Attachment B for the location of the proposed surface parking.) The property is City-owned and currently used as surface parking. The City has been marketing this surplus property for sale since 2011. Core Campus has expressed an interest in leasing or acquiring the site.

### MUPTE Program

The MUPTE program is enabled by state legislation and designed to encourage higher density housing and redevelopment in the core area and along transit corridors. The objective strongly aligns with several of the pillars of Envision Eugene. Increasing the amount of multi-family housing in the downtown and along transit corridors helps reduce pressure on urban growth boundary (UGB) expansion and protects existing neighborhoods.

The program provides a 10-year property tax exemption on qualified new multi-unit housing investments that occur within a specific, targeted area, that meet program requirements, and that are reviewed and approved by the council. During the exemption period, property owners still pay taxes on the assessed value of the land and any commercial portions of the project, except those commercial improvements deemed by the council to be a public benefit and included in the exemption. In September 2011, the council added the option to exempt the commercial portion of a multi-unit housing project to the extent that the commercial property is required or considered to be a public benefit. The council amended Eugene's code provisions in November 2008, to assist both staff and the council in evaluating a MUPTE application with: 1) adoption of approval criteria and 2) direction to the City Manager to adopt a public benefit scoring system (described below).

Staff's review of the Core Campus MUPTE proposal is based on the current program requirements. As ideas and potential revisions to the MUPTE program have emerged from the City Council's discussions, staff have had conversations with the developer about the possibility of incorporating elements of the MUPTE revisions into proposed conditions of approval.

### Public Comments

A display advertisement was published in *The Register Guard* on May 4, 2013, soliciting comments for 30 days on the Core Campus MUPTE application. The period ends on June 3, 2013, at 5 p.m. All written comments received by staff through May 21 are included as Attachment C. The Downtown Neighborhood Association Steering Committee unanimously took a position of support

for the Core Campus project with specific points on safety for pedestrians and bicyclers (see Attachment D).

### Public Benefits

After reviewing the Core Campus application against the public benefit scoring criteria in the Standards and Guidelines, staff determined that the proposed development earned 290 points. (A minimum of 100 points is required for the City Manager to recommend that council approve an application.) Points were awarded for the project through the following benefits:

- *Density*: 50 points (10 points per unit in excess of the minimum code requirement; 50 point max)
- *Green Building Features and Quality of Building Materials*: 100 points for planned LEED certification
- *Accessibility*: 40 points (10 points per accessible unit)
- *Location*: 100 points for being located within the Downtown Plan Area

### Financial Analysis

The applicant demonstrated that the project as proposed could not be built but for the benefit of the tax exemption. Core Campus will need to provide 25 percent (\$11 million) of the project's financing in the form of equity, which is likely to come from an equity investor active in the nationwide market. 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. Core Campus has indicated that their equity investor will require a minimum rate of return of 8.96 percent in the first year. Without the MUPTE savings, The Hub is projected to generate a 4.7 percent first-year rate of return, which is insufficient to attract the required equity investment. The MUPTE tax exemption would lower annual operating costs by approximately \$450,000, which produces higher net operating income and results in a projected 8.7 percent first-year rate of return. (See Attachment E for more detailed financial analysis.)

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

The Hub in Eugene will continue to generate property tax revenue on the land. Staff estimates the property tax paid will be \$11,200 in year 1. After 10 years, the entire development will be taxable, estimated at \$620,000 in year 11. Core Campus states that the MUPTE is vital to the development and, if it is denied, the 12-story housing development will not be built. The chronically underdeveloped site is zoned C-2, community commercial for medium-density commercial. The surrounding area is a mix of fast food and small format motels. If the Core Campus project does not move forward, the property is likely to develop in a similar manner as the surrounding area, which would produce less value and tax revenue.

### Need for Tax Exemptions to Encourage Ground Floor Commercial

Core Campus proposes the potential inclusion of approximately 4,480 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 tenanting 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. Mixed-use construction adds complexity and cost. 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.

### Timing

June 10 is reserved for consideration of the Core Campus project. The City Manager's recommendation will be provided with the June 10 agenda item summary. This application was submitted on January 24. By state statute and code, if the council has not acted within 180 days from the application date, the application would be deemed approved.

### **RELATED CITY POLICIES**

Utilization of the MUPTE program to stimulate new multi-unit housing development addresses many goals for Eugene and downtown, including:

#### *Eugene Downtown Plan*

- Stimulate multi-unit housing in the downtown core and on the edges of downtown for a variety of income levels and ownership opportunities.
- 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.
- Facilitate dense development in the courthouse area and other sites between the core of the downtown and the river.

#### *Envision Eugene Pillars*

- Promote compact urban development and efficient transportation options.
  - Integrate new development and redevelopment in the downtown, in key transit corridors and in core commercial areas.
  - Meet the 20-year multi-family housing need within the existing Urban Growth Boundary.
  - Make compact urban development easier in the downtown, on key transit corridors, and in core commercial areas.
- Protect, Repair and Enhance Neighborhood Livability.
  - Implement the Opportunity Siting (OS) goal to facilitate higher density residential development on sites that are compatible with, and have the support of, nearby

residents. Implement a toolbox of incentives that support the achievement of OS outcomes.

*Regional Prosperity Economic Development Plan*

- Strategy 5: Identify as a Place to Thrive - Priority Next Step - Urban Vitality  
As we foster a creative economy, dynamic urban centers are an important asset. Eugene, Springfield and many of the smaller communities in the region recognize the importance of supporting and enhancing vitality in their city centers. Building downtowns as places to live, work and play will support the retention and expansion of the existing business community and be a significant asset to attract new investment. The Cities of Eugene and Springfield will continue to enhance their efforts to promote downtown vitality through development and redevelopment.

*City Council Goal of Sustainable Development*

- Increased downtown development

**COUNCIL OPTIONS**

The work session is an opportunity to provide information and receive feedback on the proposed Core Campus development. No formal action is requested.

**CITY MANAGER'S RECOMMENDATION**

The City Manager will use the feedback obtained at this work session to inform his recommendation on the Core Campus MUPTE application.

**SUGGESTED MOTION**

No motion necessary at this time.

**ATTACHMENTS**

- A. Location of Proposed Project and Project Rendering
- B. Location of Proposed Surface Parking: 901 Franklin
- C. Written Comment Received by Staff through May 21
- D. Email from DNA Chair with Results from Steering Committee Vote
- E. Financial Analysis

*A copy of the MUPTE application for Core Campus is available in the council office and online at [www.eugene-or.gov/downtownprojects](http://www.eugene-or.gov/downtownprojects).*

**FOR MORE INFORMATION**

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