

**Email from DNA Chair
with Results from Steering Committee Vote**

From: David Mandelblatt [<mailto:dmandelblatt@yahoo.com>]
Sent: Friday, March 01, 2013 4:32 PM
To: *Eugene Mayor, City Council, and City Manager
Subject: Downtown Neighborhood Association re: Core Campus

On Wednesday evening, Feb. 27, the DNA Steering Committee unanimously passed the following motion:

I move that the DNA Steering Committee take a position of support for the proposed Core Campus student housing project at 515 E. Broadway with the following understandings:

1. All Traffic Impact Analysis work done must include thorough examination of impact on bicycle and pedestrian traffic as well as automobile traffic. "Automobile" includes public transportation.
2. Safety concerns shall be addressed and mitigated.
3. Enhanced opportunities for pedestrian and bicycle traffic shall be included as part of the "Public Benefit" requirement of the MUPTE.

Our greatest concern about the project is safety issues that could arise for pedestrians and bicycles. Keeping in mind that this project intentionally plans to have pretty limited parking opportunities, with the expectation that it will encourage pedestrian and bike traffic, a Traffic Impact study has to include those aspects. We know that it is not common practice, but feel that this project uniquely needs the extra scrutiny.

In fact, given Envision Eugene and sustainability goals that the city has set, it is hard to imagine that inclusion of non-motorized traffic wouldn't be an automatic consideration in all future TIAs.

Given, also, the MUPTE requirement for a project to add something to the community, the Neighborhood Association has looked carefully at the kinds of things that would make the most sense from our point of view. Clearly enhancing opportunities for bike and pedestrian traffic would meet the criteria at the same time as responding to our concerns about safety.

Thank you for considering the DNA viewpoint on this.

Sincerely,

David

David Mandelblatt
Co-chair, Downtown Neighborhood Association
dmandelblatt@yahoo.com

Rents & Vacancy

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

Residential rents from \$1.83 - \$2.23 per square foot per month (based on unit type)

Commercial rent \$2.08 per square foot per month

Parking \$65 per space

Miscellaneous (vending, fees, & cleaning) at 6% of residential income

The pro-forma uses market assumptions for vacancy of 5%. An 1% annual income escalation rate is used.

Operating Expenses

For most multi-family projects, the standard assumption for operating expenses is 25% to 30%. Operating expenses assumed for the proposed Core Campus 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, hot tub, and furnished units. Information from a local appraiser indicates an acceptable range up to 35%. An 1% annual operating expense escalation rate is assumed.

Debt & Interest Rate

Debt service is based on a 30-year fixed loan at 5.75%.

Return & Value

Without the MUPTE savings, the year 1 return on equity is forecasted to be 4.7% (Cash on Cash). The projected market value for the completed project is \$42.9 million, as determined by the Net Operating Income (NOI) divided by the capitalization rate. The estimated capitalization rate is 7% based on information from a local appraiser who indicated an acceptable range up to and including 7.25%.

ANALYSIS

The without MUPTE pro-forma appears to fall short of qualifying for the needed debt (with debt coverage ratio of 1.21 and loan-to-value of 77%). Additionally, 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. Core Campus has indicated that their primary investor will require a minimum first year return of 8.96%. Without the MUPTE savings, the project generates a 4.7% first year return, which is insufficient to attract the required \$11 million equity investment. The Cash on Cash only reaches 7.2% by year 10 in the absence of the MUPTE.

Pro-Forma With The MUPTE

With MUPTE	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Income	\$ 4,649,100	\$ 4,695,600	\$ 4,742,500	\$ 4,790,000	\$ 4,837,900	\$ 4,886,200	\$ 4,935,100	\$ 4,984,500	\$ 5,034,300	\$ 5,084,600
- Vacancy	\$ 232,500	\$ 234,800	\$ 237,100	\$ 239,500	\$ 241,900	\$ 244,300	\$ 246,700	\$ 249,200	\$ 251,700	\$ 254,200
= Effective Gross Rent	\$ 4,416,600	\$ 4,460,800	\$ 4,505,400	\$ 4,550,500	\$ 4,596,000	\$ 4,641,900	\$ 4,688,400	\$ 4,735,300	\$ 4,782,600	\$ 4,830,400
- Operating Exp	\$ 1,413,300	\$ 1,427,500	\$ 1,441,700	\$ 1,456,200	\$ 1,470,700	\$ 1,485,400	\$ 1,500,300	\$ 1,515,300	\$ 1,530,400	\$ 1,545,700
- Property Tax (saved by MUPTE)	\$ (449,000)	\$ (462,500)	\$ (476,400)	\$ (490,700)	\$ (505,400)	\$ (520,600)	\$ (536,200)	\$ (552,300)	\$ (568,900)	\$ (586,000)
= NOI	\$ 3,452,300	\$ 3,495,800	\$ 3,540,100	\$ 3,585,000	\$ 3,630,700	\$ 3,677,100	\$ 3,724,300	\$ 3,772,300	\$ 3,821,100	\$ 3,870,700
- Debt Service	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522	\$ 2,491,522
= CF	\$ 960,778	\$ 1,004,278	\$ 1,048,578	\$ 1,093,478	\$ 1,139,178	\$ 1,185,578	\$ 1,232,778	\$ 1,280,778	\$ 1,329,578	\$ 1,379,178
Cash on Cash Return	8.7%	9.1%	9.5%	9.9%	10.4%	10.8%	11.2%	11.6%	12.1%	12.5%
Value	\$49,319,000	\$49,940,000	\$50,573,000	\$51,214,000	\$51,867,000	\$52,530,000	\$53,204,000	\$53,890,000	\$54,587,000	\$55,296,000
DCR	1.39									

The pro-forma above shows the impact of the MUPTE. The Cash on Cash return reaches 8.7% in year 1 and 12.5% in year 10. **The average return for the project over the ten-year period is 10.6%.** This is within the market expectation for Cash on Cash return. The project valuation is 67% loan to value.

Tax Savings Calculation

The property tax savings from the MUPTE 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 = \$44,034,000 X 0.5898 = \$25,971,300

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

Land Property Tax = \$11,200

The land property tax must be subtracted out from the total tax because the MUPTE only applies to the value of the new improvements. The estimated property tax for the land is \$11,200, which was estimated by the current assessed value of the land (\$639,816).

The estimated property tax savings from the MUPTE in year 1 is \$450,000.

The property tax estimate is based on two key assumptions:

1. The current tax rate stays the same for the 10 year period.
2. Assessed value increases annually by 3%, which would mean that there is no significant change in the way assessed value is calculated; also the property will be reassessed when the exemption expires.

Core Campus states in the application that the MUPTE also allows for higher quality finishes and building to LEED standard. Examples of the finishes include stainless steel appliances and granite counter tops, which allow the project to position itself for the possibility of converting the structure to a non-student focus in the future as added flexibility and to mitigate vacancy risk. (Shared walls between bedrooms can be removed to provide larger master suites and reduce the bedroom count to accommodate a more typical market rate renter.) Construction is steel and concrete (\$140 per square foot hard costs building only; \$130 per square foot hard costs building and parking).