

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



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

Meeting Date: June 17, 2013
Department: Planning and Development
www.eugene-or.gov

Agenda Item: A
Staff Contact: Amanda Nobel
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ISSUE STATEMENT

The City Council is asked to take action on the request for a Multiple-Unit Property Tax Exemption (MUPTE) by Core Campus for The Hub in Eugene project located at 505 East Broadway.

BACKGROUND

In January, the City of Eugene received a MUPTE application from Core Campus for a proposed student housing development (The Hub in Eugene) on East Broadway and Ferry Street. Council held work sessions on May 29 and June 10 to review and discuss the Core Campus proposal and written public comment.

Information Requested at the June 10 Work Session

At the June 10 work session, councilors made the following requests for information:

- Housing market information (Attachment A)
- If/then scenarios (Attachment B)
- Brownfield information: The property owners and prior user have ongoing and complicated negotiations. The site continues to be an open file with Department of Environmental Quality (DEQ). Some minimal remediation has already occurred including removal of the underground tanks. The cost of additional remediation may be somewhat limited but is as yet undetermined; the prior user bears responsibility for remediation costs. In its current state, ground floor residential is not allowed.

The Report and Recommendation of the Planning and Development Department is in Attachment C and includes the list of program defined public benefits and other benefits from the project. The resolutions for approval and denial are in Attachment D and E. Based on council discussion on the Core Campus proposal and potential revisions to the program in general, the approval resolution includes the public benefits as conditions:

- A. **Payment in Lieu of Affordable Housing.** A requirement of guaranteed payments to the City in excess of the land property tax due in years six through ten, totaling \$1,030,000, which the City could choose to apply to affordable housing. Continuation of the MUPTE would be conditioned on each of the guaranteed payments being paid. The project would

immediately stop receiving the MUPTE if Core Campus failed to make a guaranteed payment. For example, should Core Campus fail to make the proposed \$30,000 year six payment, Core Campus would not receive the tax exemption that year and would instead pay property taxes on the improved value to the site (estimated tax of \$520,600). Not paying property taxes would trigger default with the lender, which is a strong guarantee in itself that Core Campus would make the payments. Additionally, the guaranteed payments would survive should the property change hands; the new owner would be required to either make the payments to keep the MUPTE benefit active or, alternatively, begin paying full property taxes. A guarantee beyond the guaranteed payment language in the MUPTE resolution may not be necessary.

- B. A requirement to achieve **LEED Silver** certification;
- C. The provision of at least four **ADA accessible units**;
- D. **Bike and Pedestrian Safety**; and
- E. **Local hiring** plan with stated goals.

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 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 development will have onsite staff and security: six to eight full-time jobs and six part-time jobs. 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 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 within ¼ mile at 901 Franklin. (See the June 17 Agenda Item Summary, item B for more information.)

MUPTE Program

Council is 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. As ideas and potential revisions to the MUPTE program have emerged from the City Council's discussions, staff and the developer discussed the possibility of incorporating elements of the potential MUPTE revisions into proposed conditions of approval, such as affordable housing and local hiring.

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% (\$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 its equity investor will require a minimum rate of return of 8.96% in the first year. Without the MUPTE savings, The Hub is projected to generate a 4.7% 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% first year rate of return. (See Attachment F for the 10-year pro-forma with MUPTE.)

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 tax exemption 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. (Potential tax revenue under different development scenarios is included in Attachment B.)

Timing

This application was submitted on January 24. By state statute and code, if 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 take action on the MUPTE application for the proposed Core Campus project. Council has the following options:

- A. Adopt the resolution in Attachment D approving the tax exemption,
- B. Revise the resolution in Attachment D and approve the tax exemption, or
- C. Adopt the resolution in Attachment E denying the tax exemption.

CITY MANAGER'S RECOMMENDATION

The City Manager recommends option A.

SUGGESTED MOTION

Move to adopt the resolution in Attachment D, approving the tax exemption.

ATTACHMENTS

- A. Housing Market Analysis
- B. If/Then Scenarios
- C. Report and Recommendation of the Planning and Development Department
- D. Approval Resolution
- E. Denial Resolution
- F. Pro-forma with MUPTE

FOR MORE INFORMATION

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