

EUGENE URBAN RENEWAL AGENCY

AGENDA ITEM SUMMARY



Work Session: Selection of Development Proposal for 10th and Charnelton Site

Meeting Date: July 30, 2008
Department: Planning & Development
www.eugene-or.gov

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

ISSUE STATEMENT

A Request for Proposals (RFP) was issued in March 2008 for the sale and development of the 10th and Charnelton development site. The Urban Renewal Agency (URA) is asked to review the responses to the RFP and to direct the Agency Director to enter into exclusive negotiations with the preferred RFP respondent.

BACKGROUND

At a work session on July 14, 2008, staff presented information about the five proposals received in response to the RFP for the 10th and Charnelton site. In the materials presented, staff focused the analysis on the WG Development and Opus NWR Development proposals. Staff analyzed both proposals in terms of the Development Objectives approved by the Urban Renewal Agency as part of the RFP. Staff also considered the analysis from Johnson Gardner, financial consultant, which provided an assessment of development risks, in addition to comments from the Eugene Redevelopment and West Broadway advisory committees.

Based on that analysis, staff determined that both proposals addressed the development objectives in the RFP, and that the proposal from Opus was stronger in terms of market feasibility, financial feasibility, developer capacity and timeliness.

The URA discussion at the July 14 work session indicated a preference for the WG Development proposal, based on a number of factors including the mix of uses and the design. In response to questions regarding financial feasibility and possible phasing, the URA directed staff to request supplemental information on the proposal submitted by WG Development, as well as from Opus Development. The requests for supplemental information and the responses provided by the development teams are included as Attachments A and B. Additional information on the materials provided will be included in a staff presentation at the July 30 work session.

Staff has evaluated the supplemental information received from WG Development and Opus Development as well as the analysis from Johnson Gardner. Many of the questions identified by the URA regarding the financial feasibility, timeliness, and net financial cost/benefit of the WG proposal were addressed by the supplemental information presented.

In the initial memo from Johnson Gardner, "Assessment of Development Risks" (included in the Council packet of July 14, 2008), the projected office lease rate in the WG proposal was considered to be on the high end of lease rates for class "A" office space in downtown Eugene. Staff requested follow-up information to address concerns regarding revenue assumptions for the office space, which represents 32% of the total gross revenues of the project. The follow-up memo, "Supplemental Review of WG Development Proposal," is included as Attachment C. The memo indicates that lease rates assumed in the WG pro forma exceed the expected office market in 2011 by a significant amount.

Johnson Gardner and staff reviewed a set of comparable construction projects, and determined that the estimate of construction costs included in the WG proposal are at the middle of the range for comparable projects in the area, and appear to be within acceptable market expectations. WG provided a letter in support of the construction estimates as part of their response to the request for supplemental information.

The equity in the WG project appears strong. The supplemental information provided new detail on possible equity participants. The Jean Tate group is considering an investment that could represent as much as 25% of the total equity needed for the project. In addition, Pacific University, the identified anchor tenant, is apparently considering an equity position in the project.

The supplemental information submitted by Opus addresses the anticipated design refinements and provides more detail on the student residents and the financial participation requested from the City. No supplemental information was requested on the market and financial feasibility of the Opus proposal; the proposal appears very strong in terms of these development objectives. Both the assumptions of construction costs and projected revenues are within market expectations, in addition to other project feasibility and financing indicators.

Both the WG and Opus proposals satisfactorily address the development objectives in the RFP. Both proposals represent multi-story dense downtown developments. The Opus proposal appears stronger in terms of project feasibility specifically with respect to projected revenues. Both proposals appear to be well designed development projects, with a desirable mix of activities and architectural forms that would contribute to the vitality of downtown. In each case, the design addresses the goal of an active pedestrian realm, with high quality materials, elements of scale and architectural interest, and embedded parking. The development of either project would compliment other public and private investments in the area. Staff is committed to working with the development team and proposal selected by the URA; staff will also continue to work with the development team and proposal not selected to provide assistance with possible alternate sites downtown.

RELATED CITY POLICIES

Future development of the 10th and Charnelton site is consistent with the policies in the Eugene Downtown Plan, including:

- Downtown development shall support the urban qualities of density, vitality, livability and diversity to create a downtown, urban environment.

- Stimulate multi-unit housing in the downtown core and on the edges of downtown for a variety of income levels and ownership opportunities.
- 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.

Relevant Downtown Plan Implementation Strategies include the following:

- Promote multi-story, mixed-use structures downtown through financial incentives or code amendments.
- Encourage education-related development downtown, such as student housing and support services.

In addition, the proposed future development of the 10th and Charnelton site is responsive to the following Growth Management policies:

Policy 1: Support the existing Eugene Urban Growth Boundary by taking actions to increase density and use existing vacant 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.

Policy 10: Encourage the creation of transportation-efficient land use patterns and implementation of nodal development concepts.

Policy 14: Development shall be required to pay the full cost of extending infrastructure and services, except that the City will examine ways to subsidize the costs of providing infrastructure or offer other incentives that support higher-density infill, mixed use, and redevelopment.

AGENCY OPTIONS

1. Direct the Agency Director to a) enter into an exclusive negotiation period not to exceed 90 days with WG Development for the sale and development of the 10th and Charnelton development site; and b) return to the URA with terms of the sale and development for approval.
2. Direct the Agency Director to a) enter into an exclusive negotiation period not to exceed 90 days with Opus NWR Development L.L.C. for the sale and development of the 10th & Charnelton development site; and b) return to the URA with the terms of the sale and development for approval.
3. Defer selection of a proposal at this time and recommend next steps to the Agency Director.

AGENCY DIRECTOR'S RECOMMENDATION

Direct the Agency Director to a) enter into an exclusive negotiation period not to exceed 90 days with either WG Development or Opus NWR Development L.L.C. for the sale and development of the 10th and Charnelton development site; and b) return to the URA with the terms of the sale and development for approval.

SUGGESTED MOTION

Move to direct the Agency Director to a) enter into an exclusive negotiation period not to exceed 90 days with either WG Development or Opus NWR Development L.L.C. for the sale and development of the 10th and Charnelton development site, and b) return to the City Council, acting as the Urban Renewal Agency, with the proposed terms of the sale and development following the negotiation period.

ATTACHMENTS

- A. July 17, 2008, request for Supplemental Information from WG Development
- B. July 17, 2008, request for Supplemental Information from Opus NWR Development
- C. Supplemental Review of WG Development Proposal from Johnson Gardner

FOR MORE INFORMATION

Staff Contact: Nan Laurence
Telephone: 682-5340
Staff E-Mail: nan.laurence@ci.eugene.or.us



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July 17, 2008

Wally Graff
Nathan Philips
WG Development
541 Willamette Street, Suite 109
Eugene, OR 97401

Dear Wally and Nathan,

As you know, the Eugene Urban Renewal Agency met on Monday, July 14, 2008 to consider the proposals received in response to the Request for Proposals for the 10th and Charnelton Site. Based on their discussion, we request supplemental information on your proposal, in addition to the information requested on June 24 and submitted on June 30, 2008.

The issues are as follows:

1. Provide clarification and detail on the financial commitments you would ask the city to make as part of this project, including the alley improvements or off-site improvements, loans or grants, reductions in SDCs, and expectations around a downtown police patrol presence at the site.
2. Provide an updated purchase offer.
3. Clarify the need for a market feasibility analysis, and any City financial assistance required.
4. Clarify the issue of project phasing.
5. Provide additional information or revised images to convey the architectural design and materials, particularly on the first floor.
6. Provide additional information on project timing, including the possibility of an earlier start date.
7. Provide information on possible tenants.
8. Address the potential to convert the residential rental units to ownership units in the future.
9. Provide more detail regarding estimated costs and project financing and an updated project pro forma, if available.

We would like to receive the information by 5:00 PM Tuesday, July 22, 2008. If you have any questions, please contact me at 682-5340 or Denny Braud at 682-5536. Again, thank you for working with us on this project.

Sincerely,

Nan Laurence
Community Development Planner
Planning & Development Department

1. *Provide clarification and detail on the financial commitments you would ask the city to make as part of this project, including the alley improvements or off-site improvements, loans or grants, reductions in SDCs, and expectations around a downtown police patrol presence at the site.*

In order to provide room for street trees, limited parking, and more pedestrian friendly environment we propose to widen the east-west alley north of the project. We request the assistance of the City in facilitating the property line adjustment and assumption of the widened alley. We will pay the cost of the survey and document preparation and ask that the City waive the fees. In addition, if the City requires improvements such as resurfacing or regrading the portions of the alley other than the piece we will be vacating, we ask that the City pay the cost. We will pay the cost to construct the portion of the alley that is on the property we will be vacating.

Regarding loans, we ask that the City provide assistance to investigate the availability of a Downtown Revitalization Loan. The project feasibility is not contingent on receiving assistance of this nature. However, the additional funding made available through these vehicles will be used either to hedge interest rate fluctuations, if necessary, or for project enhancements such as, for example, increasing green construction elements, public art, plaza embellishments or other features that the City would consider to be in the public interest.

We are interested in including public art in the plaza area and anticipate a budget of \$25-50,000 for this purpose. We request City assistance in administering a competition among local artists for a grant to produce the public art.

In evaluating this project, our major tenant, Pacific University, expressed concerns about public safety in the neighborhood. By bringing more than 500 residents, graduate students, faculty and workers into the downtown area, we expect that this redevelopment will in itself help alleviate these concerns. However, in order to assist the City in addressing public safety concerns in the neighborhood, we have offered to provide a small kiosk within the building at no cost to the City. We ask that the City make use of this resource that is intended to provide a way station for police and redcap patrols in the neighborhood. We would like to see an increased police presence in the neighborhood but understand the severe constraints that exist regarding public safety resources in our community. Accordingly, an increased police presence is not a precondition of our proposal.

We are seeking a long term parking rental agreement with the City for space in the Broadway Place parking structure. We are not seeking preferential pricing or discounts other than those normally available.

We will be seeking Vertical Housing or Multiple Unit Property Tax reductions as are currently available. We are not asking for any special or additional property tax abatement. Furthermore, we would like to point out that the total projected tax base that our project will create is close to \$39 million. Our pro forma of June 30 states a total project cost of \$34.4 million. This does not include the value of the land which the City has stated is \$1.6 million and tenant improvements in excess of the allowance projected in the pro forma which we estimate to be at least an additional \$3.0 million. High end tenant improvements and personal property are not included in this estimate. Under either of the property tax adjustments that are available, our project will generate tax revenue that is greater than a purely residential project of equivalent value.

We are asking the City to document that it is delivering the property to us free of any environmental hazards or to pay any costs associated with abating hazards that exist.

2. *Provide an updated purchase offer.*

Our updated pro forma submitted on June 30 includes a budget of \$1,000,000 for permit and SDC fees and \$1 for the purchase of the land. We can reallocate that budget so that the land purchase price increases and the fees are reduced, if the City would prefer. While it is favorable for our purposes to pay more for fees and less for the land, it is not a precondition of our proposal. That is, we ask that the City cap the total of the sum of the cost of the land and the permit and SDC fees at \$1,000,001. If our allocation is not favorable from the perspective of the City, we are willing to adjust it accordingly. Based on the information that was available in the RFP responses, if the combination of land price and fees is compared, our proposal is requesting over \$400,000 less in public subsidy.

3. *Clarify the need for a market feasibility analysis, and any City financial assistance required.*

It has been more than six weeks since our proposal was publicly unveiled. During that time we have established a relationship with a commercial real estate broker, Jeff Elder of Evans, Elder and Brown; we have been approached by a variety of potential users of office and retail space; we have received many phone calls from investors interested in participating in the project; and we have carried out our own investigation of the residential and commercial office market. Based on all of these factors, we no longer plan to undertake a market feasibility analysis and are not seeking any financial assistance from the City for it.

4. *Clarify the issue of project phasing.*

For the same reasons that we will not undertake a formal a market feasibility study, we will not be phasing this project. Our breakeven analysis shows that with the strong demand that exists for the residential rental units and no office tenants other than our anchor Tenant, the project will breakeven. Because of the strength of our relationship with Pacific University, and their intention to become equity partners we are confident in their participation. The 0% vacancy rate that exists for downtown Class A office space indicates that we will be able to lease the remainder of the office space, but even if the leasing is sluggish we still breakeven. Furthermore, there are strong incentives not to phase the project. In the current commodities market, construction costs are rising faster than rents. Our analysis, based on the strength of the demand for the space we will be creating and the cost structure, is that the risk increases if we phase the project.

Breakeven Analysis at Reduced Occupancy

Revenue

Residential units at 85% occupancy	1,250,418
Office space at 40% occupancy (Pacific University only)	567,475
Café and other income	206,291
	<hr/>
	2,024,184

Less vacancy factor

60,726

Gross Income

1,963,458

Expenses

Operating Expenses 432,348

Debt Service

1,522,882

Total Expenses 1,955,230

Net Operating Income 8,228

5. *Provide additional information or revised images to convey the architectural design and materials, particularly on the first floor.*

Enhanced images are provided herewith that provide more architectural refinement and respond to several comments that were made by the council. For example, doors are added from the sidewalk into the office areas, the sidewalk environment is improved with more architectural detail and articulation, the plaza gates are refined, the plaza screen is changed to a green screen, the east elevation where the parking area abuts the sidewalk is redesigned, and the glass curtain wall system is replaced with brick veneer, pilasters and storefront glass.

6. *Provide additional information on project timing, including the possibility of an earlier start date.*

As we have stated above, delay is the developer's enemy in the current cost environment. Our plan is start the project immediately after we are selected. While we do not think a construction start date before the end of the year is feasible, we could start construction as early as the second quarter of 2009. The constraints that are largely out of our control are finalizing a purchase agreement and getting through the permitting process. With City assistance these tasks can be shortened, as proposed below. While the schedule shown is aggressive, we are confident that with the strength of the architectural and construction team we have assembled it is achievable.

<u>Task</u>	<u>Duration</u>	<u>Start Date</u>	<u>Completion Date</u>
Developer Selection	1d	Wed 7/30/08	Wed 7/30/08
Negotiate Development Agreement	4w	Thu 7/31/08	Wed 8/27/08
Design Programming	2w	Thu 8/28/08	Wed 9/10/08
Schematic Design	8w	Thu 9/11/08	Wed 11/5/08
Design Development	8w	Thu 11/6/08	Wed 12/31/08
Construction Documents	8w	Thu 1/1/09	Wed 2/25/09
Permit Process	12w	Thu 2/26/09	Wed 5/20/09
Construction	17mo	Thu 5/21/09	Wed 9/8/10
Occupancy	1d	Thu 9/9/10	Thu 9/9/10

7. *Provide information on possible tenants.*

We are very excited by our partnership with Pacific University on this project. Pacific was founded in 1849 as a place to provide educational opportunities to children who had been orphaned along the Oregon Trail or abandoned when their parents joined the California gold rush. Pacific has outgrown its Forest Grove campus and has embarked on a growth plan which includes locations in Portland, Hillsboro, and an expanded presence in Eugene. They have had a graduate program in Education in Eugene for more than 15 years. In addition, they plan to eventually expand their offerings here to include a health care education program. Concepts for this program that have been discussed with us include a baccalaureate program in nursing, a master program focused on training faculty for nursing education programs, and/or a physician's assistant program. Both Peace Health and McKenzie Willamette Hospitals have committed to hiring baccalaureate graduates if that program is developed. When these programs are started, Pacific is projected to more than double its space requirements in this building and will bring many more students and faculty into the downtown neighborhood.

Because they are outgrowing their current space, we have been looking all over the Eugene/Springfield area for a new location for them for several years. When we approached Pacific about participation in

this project, they surveyed their students and faculty to gauge the level of support for a downtown location. The survey revealed a strong preference for a downtown location that is bike friendly and where there is access to public transportation. Respondents reported that a downtown location is attractive due to the proximity to amenities such as restaurants, shops, the Hult Center and the Library. With its faculty and more than 200 graduate students, Pacific brings a desirable demographic to downtown with disposable income that can help revitalize the downtown retail sector.

Our market research has revealed that the vacancy rate for the Class A office space we plan to develop is near 0%. Tenant negotiations are a sensitive matter and cannot be conducted in the public sphere, for obvious reasons. However, we can say that we have had discussions with professionals and other downtown businesses that have expressed a strong interest in high quality office space. We have also been in discussions with a well established downtown restaurateur whose business plan fits well into our vision of the use of Café space we have planned. All of these tenants will bring additional people downtown and will create jobs for the residents of the neighborhood. We apologize for being vague here, but we operate in a competitive environment.

Concerning the residential tenants, we know that the vacancy rate in downtown is near zero and that there is strong demand for housing, including student housing. We expect this project to appeal to young professionals, graduate students, retirees, and others who seek the amenities of downtown, proximity to public transportation and the library, and the urban experience. Our residential floors will be reconfigured from our original proposal to include more two bedroom units because of the inquiries we have been receiving.

8. *Address the potential to convert the residential rental units to ownership units in the future.*

Conversion to ownership units is of great interest to us both as developers and as citizens of Eugene. Ownership units would increase the stability of the downtown population and help with the overall revitalization effort. We have been evaluating revising some construction methods such as floor systems so that conversion would be more feasible. The legal issues surrounding condominiums are challenging and conversion can be an attractive alternative to initial construction. Although it may appear that the current market conditions in Eugene would not favor adding more units to the inventory at this time, we have already been approached by interested buyers of condos in our downtown project. We plan to continue to evaluate ownership units as an immediate option as we move through the design process.

9. *Provide more detail regarding estimated costs and project financing and an updated project pro forma, if available.*

Project costs were developed for us by Meili Construction of Eugene. We have extensive experience with this local company. Based on the over \$100 million of construction we have done with them, we have gained a high degree of confidence in their cost estimates. We have attached here a letter affirming the estimates they provided to us which are used in our pro forma. There are many hard and soft costs in addition to the construction costs that are included in the pro forma we submitted on June 30. While we have continued to refine and examine the details of this project, we believe that the June 30 document accurately depicts the project from the perspective of the investor. As stated above, there are costs or values that are not included such as the land and the tenant improvements.

Project financing presents two distinct challenges: attracting investors and attracting lenders. Because of our track record of successful projects in Lane County, WG Development is well known to our group of investors, many of whom have participated in five or more projects with us. Our phone started

ringing the day our name appeared in the Register Guard and it hasn't stopped. Well known and respected real estate investor Jean Tate has made a widely publicized commitment to bring forward a group of investors she has put together to help with downtown redevelopment. We have met with Jean and members of her group to discuss this project. They have asked for the opportunity to participate in up to 25% of the required equity. There are other well respected investors in the community who have asked for a chance to participate who would prefer to not have their names in a public document. We already have a list of interested parties who have the ability and the willingness to invest more than we will need. Thus, we consider the equity raising phase of the financing plan to be effectively completed.

The other challenge of project financing is attracting lenders. Unlike the residential market, there are still lenders in the commercial market seeking strong projects. After all, they need to continue to lend money to stay in business. The indications we have from our lenders and others is that credit markets are expected to ease considerably after the first quarter of 2009, when we will be beginning construction, although there is as always a high degree of uncertainty about where interest rates will be. Pacific Continental Bank which has been the lender for many of our projects has evaluated our pro forma and provided the attached letter indicating strong interest in this project. The ability to get financing for a project like this one is based on the reputation and ability of the developer, the fundamentals of the project, and the market conditions. As indicated by PCB's letter, this project and our team meet the underwriting requirements of the commercial lenders. We do not anticipate difficulty attracting lenders to finance this excellent project.

SUMMARY

The WG Development proposal represents the best opportunity for the City of Eugene to successfully support downtown redevelopment on the 10th and Charnelton site.

Experience: Our track record of successful development projects demonstrates that we can complete the project on time and on budget. As a developer, we have the maturity and experience to know when to pursue a project and when to walk away. Every project we have undertaken has been successful and we see in the 10th and Charnelton project all of the elements necessary for success.

Ability: Our team possesses the skills necessary to develop this project. We have already demonstrated that we have the confidence of the local investor community by garnering commitments for all of the necessary equity. Our decades of experience in the construction industry have taught us the skills needed to successfully manage a construction project of this magnitude. The combination of uses in this project, residential and general office, is far less complex and challenging than the mix of clinical and surgery uses we have encountered in two of our last four projects. The marketing team we have assembled has a proven track record of leasing in our community.

Financial Strength: The financial capacity of the principals of WG Development is sufficient to fund and finance this project. However, because it is not our business plan to aggregate such a large percentage of our personal assets in one project, we will bring in outside investors, many of whom have a personal net worth much greater than ours. The combination of our resources and those of our investor group brings sufficient financial strength to the project to assure the capacity to weather any unforeseen storms and to bring it to a successful completion.

Viable Project: Our mixed use proposal fills an existing demand in the downtown for quality office space and additional housing as indicated by a vacancy rate of near 0% in both sectors.

Mixed Use: Downtown redevelopment and vitality is promoted by a mixed use project on the 10th and Charnelton site. Mixed use was identified by the West Broadway Advisory Committee and in the City's RFP as the preferred use. Community support for our concept is broad and deep. The Downtown Neighborhood Association invited us to their recent meeting to hear about our project and then voted unanimously to support our mixed use concept. The stakeholder group that the City assembled to review the RFP responses voted overwhelmingly in favor of our proposal.

Local Developer: WG Development is a local company with local investors using a local contractor and with a local architect on the design team. There is a strong sentiment in community for using a local developer on this project. The City will invest its resources and prestige in support of this project and the citizens are better served if the fruits of this investment stay in the community. As citizens of Eugene and downtown property and business owners, we are intimately familiar with the need for downtown redevelopment and have tailored our project to help promote the goals of our community.



10TH AVE.

10th & Charnelton
Eugene, Oregon

design proposal

WG

RTKL



10th & Charnelton
Eugene, Oregon

design proposal

10TH AVE.
AND OLIVE





10th & Charnelton
Eugene, Oregon

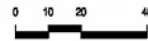
design proposal

10TH AVE. AND
CHARNELTON



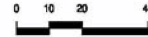


1 SOUTH ELEVATION





EAST ELEVATION



July 22, 2008

Wally Graff, Nathan Philips

WG Development

Dear Wally & Nathan –

As you know, our company prepared construction budget numbers for your proposal at the old Sears Building Site at 10th & Charnelton in Eugene. We were on the ground level with you in this process -- meeting with the architects and helping to select superstructure, skin, building materials and systems an attempt to accurately build a budget based on plans in a very preliminary stage.

I'd like to confirm our preliminary construction estimate as submitted on May 30, 2008 and detailed as follows:

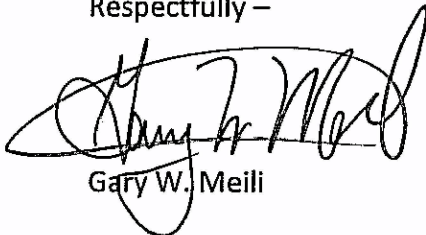
- Core & Shell Commercial Space – including underground Parking - \$123.50/SF (Approx \$12.5M)
- Apartment Living Units & Common Space - \$136.50/SF (Approx \$13.7M)
- Total Estimated Construction Budget = \$26.2M

These numbers are based on using a Post-Tensioned Slab at Commercial Floors, and Wood- Framed Structure on the Apartments Units above. Budgeted Mechanical & Electrical Systems at the Residential Units include wall heaters, simple continuous ducted ventilation, gas-fired central water heating boiler, and individual electric metering. All Commercial and Common spaces include fully ducted HVAC systems. Budgeted Interior Finishes are modest but durable, and the Exterior Skin was budgeted for a combination of brick, glass, and composite wood panel construction as noted on the plans. Due to the varying size and needs of Commercial Tenants, the cost for Tenant Infill at the Leased Commercial Space is also currently outside the above budget.

In addition to nearly 200 units of multifamily construction and renovation per year over the last 10 years, Meili Construction has completed a number of projects similar in scope and style to THIS project -- 2 of which are notable in the immediate Eugene-Springfield area – the Aurora Building on 11th & Oak in Eugene, and the Royal Building on 5th & Main in Springfield. The cost per foot of those 2 buildings as adjusted for inflation and scope would be very comparable to the estimated budget for this project.

Please feel to contact us if you have any questions or concerns, and thanks for your continued partnership with our firm.

Respectfully –



Gary W. Meili

July 23, 2008

Michael C. Sullivan
City of Eugene, Planning and Development
72 West Broadway
Eugene, OR 97401

RE: "10th and Charnelton" project

Dear Mr. Sullivan:

The Bank has had the opportunity to review the pro-forma prepared for the above project, as proposed by WG Development. At this time, the Bank is pleased with the content of this analysis, and anticipates moving forward with the developers as financing is sought.

As you would expect, there is additional as-yet-unavailable information upon which a final decision rests. Included in this list of necessary information is an appraisal of the proposed project, environmental assessments, requirements of the final ownership group and other underwriting information as may be required. Unless this additional due diligence results in unexpected outcomes, based on what has been presented to date, as well as our long term experience with the development team, this is a project in which the Bank anticipates having a strong interest.

As previously stated, the Bank looks forward to the opportunity to again be involved with the WG team.

Please feel free to contact me with any questions you may have.

Sincerely,



Erik L. Riechers
Vice President

ELR/er



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(541) 682-5572 FAX
www.ci.eugene-or.gov

July 17, 2008

John Bartell
Opus NWR Development, L.L.C.
1500 S.W. First Avenue, Suite 1100
P.O. Box 10638
Portland, OR 97201

Dear John,

As you know, the Eugene Urban Renewal Agency met on Monday, July 14, 2008 to consider the proposals received in response to the Request for Proposals for the 10th and Charnelton Site. Based on their discussion, we are providing the opportunity for you to further refine your proposal and respond to questions and issues that were raised at the Agency's meeting. The Agency's request for supplemental information on the proposal is in addition to the information requested on June 24.

Issues that you may want to consider addressing are as follows:

1. Further design refinements anticipated.
2. The demand for student housing, the support services provided to retain student residents, and the potential impact on the surrounding area.
3. Anticipated profile and any eligibility requirements for potential tenants.
4. The potential uses for the units during the summer months.
5. Detail regarding financial and other assistance that is being requested from the Agency.

We would like to receive the information by 5:00 PM Tuesday, July 22, 2008. If you have any questions, please contact me at 682-5340 or Denny Braud at 682-5536. Again, thank you for working with us on this project.

Sincerely,

Nan Laurence
Community Development Planner
Planning & Development Department

Opus NWR Development, L.L.C.

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Phone 503.916.8963 | Fax 503.916.8964

July 22, 2008

Nan Laurence
Community Development Planner
Planning & Development Department
City of Eugene
99 West 10th Avenue
Eugene, OR 97401

Re: 10th & Charnelton

Dear Nan,

This letter is written in response to your letter dated July 17, 2008. The responses are in the order they appear in your letter.

Further design refinements anticipated.

The current designs are conceptual. In the initial phases of a project's development conceptual designs are prepared. As the project moves through the development process the design is refined through schematic design, design development drawings and ultimately construction drawings.

The demand for student housing, the support services provided to retain student residents, and the potential impact on the surrounding area.

Campus Advantage was contracted to complete an extensive market analysis for the University of Oregon housing market. This analysis involved interviews with University and City of Eugene officials, as well as a focus group containing students and numerous intercept interviews on campus. The University directed Campus Advantage to the 2007 Housing Strategic Plan which outlines the University's desire to house 25% of all undergraduate students on campus by 2010. The plan also highlighted the unmet housing demand for approximately 2,400 beds. Campus Advantage identified 5,304 beds on-campus and 4217 beds in main off-campus properties. Based on the Fall 2007 Full-Time Enrollment of 16,870, Campus Advantage determined 7,349 students were unaccounted for in on and off-campus market. Therefore, a 500 bed property would capture 6.8% of students not identified in on-campus housing or popular off-campus properties.

It was also observed during the Campus Advantage market analysis that current housing offered to students was sub standard. Most properties are over 10 years old and contain

no amenities for students. These properties are run as conventional multi-family apartments and only one property offers a residence life program. The proposed project is an opportunity to provide students and the University of Oregon with desirable student housing.

Approximately 40% of students stay more than 1 year in similar student housing communities, according to Campus Advantage which manages over 30,000 student occupied rooms throughout the Nation. Students elect to stay based on their experience with the property manager, and the popularity of their housing among other students. Campus Advantage will operate a professional Residence Life program that focuses on creating a sense of community among the students, the surrounding community, and their peers. The program has three main focus areas:

- **Social Programming** – This component ensures that students enjoy living at the property and have ample opportunities to get to know their neighbors. This begins with special activities during the first week of classes and continues throughout the year. Community Assistants that live at the property will host events such as ice cream socials, game night, and other events that bring people together.
- **Student Development** – This aspect of the Residence Life program focuses on providing students with tools to be successful. This may include guest speakers on subjects such as dressing for a job interview, time management, personal safety, or wellness programs.
- **Community Involvement** – Students will have the opportunity to participate in a number of volunteer activities. This includes hosting blood drives for Red Cross, adopting a street, or conducting a fundraiser for local charities.

In addition to the Residence Life program, Campus Advantage prioritizes customer service for students. This includes 24-hour maintenance and security services, as well as community newsletters for students and parents. Staff from Campus Advantage will reach out to University officials and administrators to explore opportunities for enhanced communication and cooperation. Additionally, they will seek to develop co-vending opportunities with local businesses which benefit the students and the business.

The impact of the students on the surrounding area will be significant. There will be more bicycles on the bike route between downtown and the University. There will be more riders on public transit between downtown and the university. There will be more money spent downtown. The average college student will have \$6,500 per year in discretionary spending. 472 students have \$3,000,000 per year in discretionary spending power. There will be more people in the restaurants downtown. There will be more people on the street downtown. The lines at KIVA will be longer. There will be more cars in the Broadway Place garage and more revenue for the city's parking operations.

There will be more people in the library. Eventually, there will be more retailers downtown trying to get their share of that \$3,000,000 in annual spending. To quote the Johnson Gardner report the project “would increase the number of people living in the downtown area, increasing foot traffic at all hours. The student population would be regular users of the bus system and bicycle routes. They would make retail purchases at nearby stores, restaurants and entertainment venues.....the increased demand could lead to new retail enterprises.”

Anticipated profile and any eligibility requirements for potential tenants.

The proposed amenity package will make this project very desirable to all students, both undergraduate and graduate. Amenities such as furnished units, study rooms, individual leases and inclusive rent are attractive to parents and students, as confirmed by the UO focus group analysis. Additionally, Campus Advantage’s Residence Life program, while working with university officials and on-campus resources, will provide a sense of community by holding events that are customized to the profile of the residents.

Considering the proposed unit mix, the one and two bedroom units will be desirable for older students looking for more privacy, such as senior and graduate students. Younger students, including sophomores and juniors, will be the consumers for the four bedroom units as they enjoy socializing and are typically more tolerant of living with additional people.

All residents are required to pass a background check, including credit and criminal checks, prior to receiving approval of housing. Additionally, a guarantor is required for all applicants age 23 or younger. Guarantor information will be noted on the lease and verification of income as well as a credit check is conducted. Applicants 23 and older, without a Guarantor, are subject to credit check and income verification. Campus Advantage complies with all Fair Housing Act laws and does not discriminate. Additionally, anyone who meets the credit and background checks will be eligible to live at the new community whether or not they are students.

Potential uses for the units during the summer months.

The current plan is for the property to offer 12 month leases, therefore, there will be students occupying the property throughout the summer. This is a standard lease term for new student housing communities throughout the nation. On average, approximately 40% of students will stay at the property for more than 1 year. All leases will begin in September (1 week prior to classes beginning) and will expire 11.5 months later. This allows the property managers to clean and repair the property prior to new students moving in. Students that elect to renew their lease are allowed to stay during this two week period.

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July 22, 2008
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There are certain communities and markets that operate on a 9 month lease cycle – this could be an option for the project in Eugene. Under this scenario, Campus Advantage (the property manager) could host a number of different user groups, including a popular program known as “*Seniors in the Summer*” which allows senior citizens from southern states to escape the heat and stay at college campuses in the northern portion of the Country. The seniors often take continuing education courses at nearby universities and participate in community events. Other options for summer month uses include conferences, camp programs, or hosting special events, such as the Olympic trial visitors.

Detail regarding financial and other assistance that is being requested from the Agency.

All of the financial and other assistance requested from the Agency is called out in Section D-2 of our proposal. We expect to pay market rates for parking at Broadway Place. The requested ZipCar spaces do not have to be free but they do have to be designated, ZipCar only spaces. Expediting the permitting process is vital. Our request is for the city process permit applications promptly and vigorously until they are approved and the permits issued. The cap on city fees means that when we write checks to the city for permits, SDC’s and inspections we stop writing them once we have paid \$100,000. We understand that the MUPTE is only for the residential uses and that property taxes will have to be paid for the coffee shop (and any other retail or office users) and the land. We also understand that the north south alley was to be vacated for the ORI project and we request that it be vacated for this project.

If you would like any additional information or any further clarifications, please let me know.

Sincerely,

OPUS NWR DEVELOPMENT, LLC



John Bartell
Vice President



MEMORANDUM

DATE: July 21, 2008

TO: Community Development Department
City of Eugene

FROM: JOHNSON GARDNER

SUBJECT: Supplemental Review of WG Development Proposal

The City of Eugene asked Johnson Gardner to provide a more detailed review of the expected rents for the proposed developments at the 10th and Charnelton site.

In our memorandum from July 7, Johnson Gardner concluded that the expected rents in the Opus proposal are in step with the current rents in the Eugene market. The expected rents are comparable to the high end of apartments in Eugene, but the Opus rents include cable, all utilities, and furnishings. Taking into account the high level of services incorporated into the rents, the expected rents in the Opus proposal are comparable to existing rents at newer complexes.

The remainder of this memorandum focuses on the WG proposal and the expected rents shown in the financial data. WG Development submitted a proposal to the City of Eugene to build a 5-story mixed-use building at the 10th and Charnelton site. At the City's request, WG submitted revised financial data to the City on June 30th. Johnson Gardner found WG's expected rents to be optimistic.

- **Office Component.** The WG proposal expects to earn rents \$0.64 higher than existing office buildings downtown (in 2011 dollars), with rents adjusted to account for future dollars, comparable services, and parking.
- **Residential Component.** The expected rents in the WG proposal are higher than rents at existing premium apartments. On per-square foot basis, WG expects to rent its units for \$0.11 higher per square foot (in 2011 dollars).

This memorandum provides more detail supporting these conclusions. It has two parts: Commercial component and Residential component.

I. COMMERCIAL COMPONENT

The first two floors of WG's proposed development include 59,122 gross square feet of office space. The revised financial data show that WG expects rents to equal \$2.00 per gross square foot, triple net, with 16% common space load. Johnson Gardner finds the expected commercial rents to be quite aggressive for the Eugene market. In this section, we compare WG's expected rents to two buildings in downtown Eugene.

WG's pro forma does not explicitly state what dollar-year the financial figures are in. Johnson Gardner assumes the financial data is in 2011 dollars—the year the structure is due to be



completed. To compare the financial data in WG's proposal to current rents, we escalate current rents by 3% a year from 2008 to 2011.

10th and Mill

The office building at 10th and Mill is relatively new and is considered Class A office space. Two spaces are currently available, as sub-leases. The space is advertised at \$1.70 per square foot of rentable space, fully serviced. The building includes on-site surface parking, but parking spaces are not included in the rent figure. To compare this rent to the proposed WG rent, we make a few adjustments.

- **2011 dollars.** To convert the rent to 2011 dollars we inflate the figure by 3% over the three-year period, to \$1.86 per s.f.
- **Fully serviced vs. triple net.** Fully serviced office space means that the landlord pays for utilities and janitorial services. None of these are paid for with triple net rent. The cost of full service is estimated to be about \$0.50 per s.f. per month.¹

FIGURE 1. 10TH AND MILL BUILDING



After these adjustments are made the rent at 10th and Mill is significantly lower than WG's proposed rent:

- 10th and Mill in 2011 dollars: \$1.86/sf.
- WG in 2011 dollars, with full services added: \$2.50/sf.

701 High Street

This building is at the corner of 7th Avenue and High Street (see FIGURE 2). The owner is asking \$1.80 per gross square foot, fully serviced, and with 22 parking spaces. The owner intends to remodel to accommodate the new tenant. To compare this rent to the proposed WG rent, we make some adjustments.

- **2011 dollars.** To convert the rent to 2011 dollars we inflate the current rent by 3% over the three-year period, to \$1.97 per s.f.
- **Fully serviced vs. triple net.** Fully serviced office space means that the landlord pays for utilities and janitorial services. None of these are paid for with triple net rent. The cost of full service is about \$0.50 per s.f. per month.
- **Parking spaces.** The rent includes 22 parking spaces. Parking spaces in the downtown vary in price, but a mid-range monthly rent is \$55 per space, a \$1,210 value. If we

¹ The cost of full service can vary building to building, but based on conversations with commercial real estate brokers (Tim Campbell at Campbell Commercial Real Estate and John Erving at Evans Elder & Brown), \$0.50 per s.f. per month is a reasonable figure in downtown.



incorporate that value into the rent for the full building (11,099 s.f.), it equals \$0.11 per square foot per month of office space.

FIGURE 2. 701 HIGH STREET BUILDING



After these adjustments are made the rent at 701 High is significantly lower than WG's proposed rent:

- 701 High Street in 2011 dollars with the value of parking space removed: \$1.86/s.f.
- WG in 2011 dollars, with full services added: \$2.50/s.f.

The WG proposal expects to earn rents \$0.64 higher than existing buildings downtown, after rents are adjusted to account for future dollars, comparable services, and parking.

II. RESIDENTIAL COMPONENT

The WG proposal includes three floors of residential space, with a mix of 1-bedroom, 2-bedroom, and 3-bedroom apartments. The pro forma shows total revenue from residential rents would be \$1,471,080, which is equal to \$1.25 per gross square foot, or \$1.56 per net square foot. Johnson Gardner finds the expected residential rents to be high for the Eugene market. As evidence to support this conclusion, we compare the WG proposal to two existing high-end apartment complexes in Eugene: Broadway Place and Crescent Village.

WG's pro forma does not explicitly state what dollar-year the financial figures are in. Johnson Gardner assumes the financial data is in 2011 dollars—the year the structure is due to be completed. To compare the financial data to current rents, we escalate current rents at existing apartments by 3% a year from 2008 to 2011.

The WG proposal does not show detailed financial data about the residential. It only shows the number of units by number of bedrooms, total revenue, and revenue per square foot. To assess if the rents are reasonable, Johnson Gardner estimated rents on a per-unit basis, and compared those rents and per-square-foot rents. FIGURE 3 shows Johnson Gardner's estimated per-unit rents. We calculated the rents based on the total revenue figure and the mix of units.



FIGURE 3. ESTIMATED RENTS PER UNIT

Unit Type	Number of Units	Estimated Rent
1 Bedroom	60	\$1,165
2 Bedroom	2	\$1,490
3 Bedroom	21	\$2,367
Total	83	\$1,471,044

Note: Number of unit by type and total revenue from WG.
Per-unit rent estimated by Johnson Gardner.

Broadway Place was built in 1999 and is located one block away from the subject site. Broadway Place is a relatively high-end apartment complex, and its rents are at the high-end of the Eugene market. FIGURE 4 shows the average rents for 1 and 2-bedroom units at Broadway Place in today's dollars, and escalated to 2011 dollars. The rents in FIGURE 4 do not include parking—the complex charges \$45 per parking space, located at the base of the structure. The units include a washer and dryer, 9-foot to 12-foot ceilings, a private courtyard accessed by tenants only, walk-in closets, and some units include a balcony.

FIGURE 4. RENTS AT BROADWAY PLACE, 2008 AND 2011 DOLLARS

2008 Dollars			
Unit Type	Average S.F.	Average Rent	\$/S.F.
1Bed/1bath	705	\$955	\$1.35
2Bed/1bath	863	\$1,130	\$1.31
2Bed/2bath	1,060	\$1,345	\$1.27
Average	814	\$1,074	\$1.33
2011 Dollars			
Unit Type	Average S.F.	Average Rent	\$/S.F.
1Bed/1bath	705	\$1,044	\$1.48
2Bed/1bath	863	\$1,235	\$1.43
2Bed/2bath	1,060	\$1,470	\$1.39
Average	814	\$1,174	\$1.45

The expected rents in the WG proposal are higher than rents at Broadway Place. On per-square foot basis, WG expects to rent its units for \$0.11 higher per square foot (in 2011 dollars).

Crescent Village is a brand-new apartment complex on the north side of Eugene. It has two apartment buildings with retail on the ground floor. The first building was completed in October 2007 and the second was completed in the spring of 2008. FIGURE 5 shows the average rents for 1, 2, and 3-bedroom units in today's dollars and escalated to 2011 dollars. The rents in FIGURE 5 do not include parking—underground parking spaces start at \$60 per space. The units include a washer and dryer, balconies, and large closets. The interiors are high quality: the walls are well-insulated so tenants do not easily hear their neighbors; the finishes include granite countertops, wood floors in the kitchen, and marmoleum floors in the bathrooms.



FIGURE 5. RENTS AT CRESCENT VILLAGE, 2008 AND 2011 DOLLARS

2008 Dollars			
Unit Type	Average S.F.	Average Rent	\$/S.F.
1Bed/1bath	678	\$885	\$1.31
2Bed/1bath	885	\$1,121	\$1.27
3Bed/2bath	1,414	\$2,152	\$1.52
Average	859	\$1,161	\$1.33
2011 Dollars			
Unit Type	Average S.F.	Average Rent	\$/S.F.
1Bed/1bath	705	\$967	\$1.43
2Bed/1bath	863	\$1,225	\$1.38
2Bed/2bath	1,060	\$2,352	\$1.66
Average	810	\$1,268	\$1.45

The expected rents in the WG proposal are higher than rents at Crescent Village. On per-square foot basis, WG expects to rent its units for \$0.11 higher per square foot (in 2011 dollars).

FIGURE 6 compares rents at the proposed WG project to Broadway Place and Crescent Village. In order for WG to achieve the total rent shown in its pro forma, it will have to charge rents substantially greater than the existing premium apartments. FIGURE 6 shows that rents for the 3-bedroom units at the WG development are close to those at Crescent Village. It is important to note that the Crescent Village 3-bedroom units include 2 bathrooms. We do not know if the 3-bedroom units in the WG development have 1 or 2 bathrooms.

FIGURE 6. COMPARISON OF RENTS, 2011 DOLLARS

	WG	Broadway Place	Crescent Village
1Bed/1bath	\$1,165	\$1,044	\$967
2Bed/1bath	\$1,490	\$1,235	\$1,225
3Bed/2bath	\$2,367	n/a	\$2,352
Average \$/SF	\$1.56	\$1.45	\$1.45