



Eugene City Council

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AMENDED AGENDA EUGENE CITY COUNCIL

October 17, 2018

12:00 p.m. MEETING OF THE EUGENE CITY COUNCIL
Harris Hall, 125 East 8th Avenue
Eugene, Oregon 97401

**Meeting of October 17, 2018;
Her Honor Mayor Lucy Vinis Presiding**

Councilors

Mike Clark, President
Greg Evans
Emily Semple
Jennifer Yeh

Betty Taylor, Vice President
Chris Pryor
Claire Syrett
Alan Zelenka

Note: This agenda has been amended to reflect the postponement of the Police Commission Annual Report to October 31 and the addition of Item 2.

12:00 p.m. MEETING OF THE EUGENE CITY COUNCIL
Harris Hall, 125 East 8th Avenue
Eugene, Oregon 97401

Mayor: *I call the October 17, 2018, meeting of the Eugene City Council to order.*

1. WORK SESSION: Gordon Lofts – Application for Multiple-Unit Property Tax Exemption for Mixed-Use Property Located at 6th Avenue and Pearl Street

City Council President: *I move to adopt the resolution in Attachment G to approve the tax exemption.*

Call for vote.

2. DISCUSSION: Temporary Day Center and Dusk-To-Dawn Pilot

Adjourn.

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EUGENE CITY COUNCIL AGENDA ITEM SUMMARY



Work Session and Possible Action: Gordon Lofts – Application for Multiple-Unit Property Tax Exemption for Mixed-Use Property Located at 6th Avenue and Pearl Street

Meeting Date: October 17, 2018
Department: Planning and Development
www.eugene-or.gov

Agenda Item: 1
Staff Contact: Amanda Nobel Flannery
Contact Telephone Number: 541-682-5535

ISSUE STATEMENT

Council is asked to consider the request for a Multi-Unit Property Tax Exemption (MUPTE) for the Gordon Lofts project, located at the northwest corner of 6th Avenue and Pearl Street. This is part of the Obie Companies' 5th Street Market Expansion.

BACKGROUND

The City received a MUPTE application in June from Obie Companies/Gordon Lofts LLC for a proposed mixed-use, multi-unit housing development (Gordon Lofts).

Program Background

MUPTE is an incentive program to encourage high-quality, multi-unit downtown housing—especially in areas well served by public transit. Both rental housing and multi-unit housing for home ownership are eligible; student housing is ineligible. Enabled by state law, 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 City Council. During the exemption period, property owners still pay taxes on the assessed value of the land and any existing improvements on the property. Council can deem commercial portions of a project to be a public benefit and include them as part of the exemption along with the residential portion.

In 2015, after a two-and-a-half-year review, council revised the MUPTE program criteria, process and boundary. See Attachment A for a summary of changes to the program criteria and the process diagram.

Review Panel

The 2015 MUPTE update established a Review Panel, tasked with providing a third-party review of individual applications for the City Manager. The Review Panel is made up of two at-large representatives selected by neighborhood association boards, two representatives selected by the board of the neighborhood association in which the proposed project is located, and six technical professionals selected by the City Manager from the following six groups: architects/green

building specialists; building trades unions; developers; environmental professionals; public health professionals; and human rights representatives.

Project Overview

Gordon Lofts is a proposed seven-story, \$34 million mixed-use project with six floors of housing units and ground-floor commercial space. The property is owned by Lane County, includes two tax lots, and currently serves as a surface parking lot. Council approved the vacation of two unimproved alleys on the site on July 24, 2018. Obie Companies plans to submit a land use application later this month, which would allow Gordon Lofts to be on its own parcel via a serial property line adjustment process. The property will remain under County ownership and Obie Companies will have a 99-year lease. Gordon Lofts is part of a larger development that includes a hotel and commercial building. The development will be handled as three separate builds, all with independent financial tracking. See Attachment B for a map of the Gordon Lofts project site.

The project is about 115,000 square feet, divided amongst the seven floors. About 10,000 square feet is proposed for ground floor commercial. The remaining will be comprised of 127 residential units (5 two-bedroom, 53 one-bedroom, and 69 studios). Obie Companies is requesting that the commercial component be considered as part of the tax exemption.

Required Public Benefits

The Review Panel considered the project application, including compliance with program criteria and the independent consultant's financial review, during three meetings held on August 23, September 10, and September 20, 2018. The Review Panel concluded that the project meets the Required Public Benefit criteria. Attachment C contains the Review Panel's conclusions and recommendation to the City Manager. The Report and Recommendation in Attachment D provides a summary of the project and the Required Public Benefits.

- *Compact Urban Development.* The project parcel is in the C-2 Community Commercial Zone, which has no minimum density requirements for a mixed use project. The proposed project has a density of 254 units per net acre.
- *Green Building Features.* The project will utilize the City of Eugene Building and Permit Services pathway in order to exceed the 10 percent energy efficiency MUPTE required benchmark. If council approves the MUPTE, Obie Companies will be required to submit an energy model with the permit application and a commissioning report due 18 months after the Certificate of Occupancy is issued to validate energy performance.
- *Local Economic Impact Plan.* Obie Companies has a plan for an estimated 71 percent of the project's dollar volume of professional services and construction contracts to be local to Lane County. Their identified likely general contractor is Andersen Construction. Obie Companies will be required to promote open competitive opportunities for Minority, Women, and Emerging Small Businesses and to comply with wage, tax, and licensing laws. Obie Companies will a) provide the City with a list of all contractors, b) require that each contractor provide an affidavit attesting to not having any unpaid judgments for construction debt, including unpaid wages, and to being in compliance with Oregon tax laws, c) post information about the City's Rights Assistance Program in English and Spanish

on the job site during construction of the project, and d) after construction, provide a report of the home city or zip code of all the construction labor workers.

- *Moderate-Income Housing Contribution.* Obie Companies will contribute to moderate-income housing in the community by paying a moderate-income housing fee equal to 10 percent of the total exemption benefit for the 10-year benefit. Obie Companies intends to pay this fee upfront with a 5 percent discount (estimated total fee of approximately \$400,000). This fee is intended to help support moderate-income housing projects in the community.
- *Project Design and Compatibility.* The project design is designed to contribute to its downtown Eugene context. The development is designed for the human scale, will add a needed mix of uses, promote active transportation modes, support a more vibrant pedestrian realm, and increase safety through additional activity and “eyes on the street.”
- *Historic and Existing Housing Sensitivity.* The project site does not have existing housing. The site is adjacent to three buildings that meet the MUPTE definition of “historic locale.” None of the three properties are part of the project and are unaffected by it.
- *Project Need.* PNW Economics, an independent real estate consultant firm, provided a review of the financial information and pro-forma, including assumptions regarding rents, vacancy rates, operating costs, lender underwriting criteria, interest rates, and reasonable rate of return. (See Attachment E for the analysis.) The consultant tested the financial assumptions used in the analysis and concluded that the project would not be viable without the availability of the exemption, using the reasonable assumptions outlined and that MUPTE is critical to the success of the project from a financial feasibility perspective. The Review Panel noted that Project Need involves many variables that are hard to predict. The Review Panel concluded that project need was demonstrated in the application. The majority of the panel members agreed that a 10-year exemption was warranted. Two panel members agreed that only a three-year exemption was warranted and submitted a minority report that is included in Attachment C.

Tax Impact

Gordon Lofts will generate property tax revenue on the land. The estimated property tax paid will be approximately \$6,500 in year 1. During the exemption period, the total taxes to be paid on the land would be approximately \$75,000 and the total estimated forgone revenue would be approximately \$4.3 million. After ten years, the entire development will be taxable, estimated at \$490,000 in year eleven.

Need for Tax Exemptions to Encourage New Ground Floor Commercial

The applicant requested an exemption on the proposed new commercial space located on the ground floor. The commercial ground floor improves the quality of the streetscape, by creating a higher likelihood of achieving vibrant street-level activity than an all-residential alternative. It improves the quality of the apartments, by raising them away from direct interaction with the sidewalk. It also creates a more interesting building, giving more people ways of interacting with it. 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 and timing issues related to building code requirements. Allowing the

MUPTE to include the newly constructed commercial space will improve the financial feasibility of incorporating the space into the project and stimulate a desired form of mixed-use development. The Panel recommends that the exemption include the commercial component of the building.

Public Comments

A display advertisement was published in *The Register-Guard* on July 14, 2018, soliciting comments for 30 days. The period ended on August 13, 2018, at 5 p.m. One comment came was received after the 5 p.m. deadline. No additional comments have been received since August 13. All written comments received by staff through August 13 are included as Attachment F.

MUPTE requires applicants to contact the relevant neighborhood association to share project information and seek input. Jenny Ulum and Casey Barrett, of Obie Companies, attended the March 28, 2018 Downtown Neighborhood Association general meeting and presented the proposal.

Timing

The initial application was submitted on June 14, 2018, and deemed complete on July 11, 2018. The MUPTE ordinance requires the City Manager to provide council with his recommendation no later than 135 days after the application was submitted, which would be by November 23 for the Gordon Lofts application. By State statute and code, if council has not acted within 180 days from the application date, the application is deemed approved, which would be January 7, 2019, for the Gordon Lofts application. If the MUPTE is approved, construction would begin early next year with a proposed construction schedule of approximately 18-24 months.

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

- 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 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.
- In July 2017, council adopted the Envision Eugene Urban Growth Boundary package. As part of that package, the City is taking a programmatic approach to achieving 1,003 additional multi-family units downtown. The MUPTE program development incentive is the primary tool to achieving these homes.

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

Eugene Climate & Energy Action Plan

- Increase density around the urban core and along high-capacity transit corridors

COUNCIL OPTIONS

1. Approve the exemption as presented in the resolution in Attachment G.
2. Approve the exemption with amended conditions.
3. Direct the City Manager to bring back a resolution denying the exemption because one or more specified criteria are not met.
4. Take no action at this work session.

CITY MANAGER'S RECOMMENDATION

Based on the MUPTE Review Panel conclusions, the independent financial consultant analysis, and the quality of the project and contribution it could make to downtown vibrancy and the City's planning goals, the City Manager recommends approval of the MUPTE with the terms and conditions in the resolution (Attachment G).

SUGGESTED MOTION

Move to adopt the resolution in Attachment G to approve the tax exemption.

ATTACHMENTS

- A. Summary of 2015 MUPTE Program Changes & Process Diagram
- B. Map of Gordon Lofts Project Site
- C. MUPTE Review Panel Conclusions
- D. Report and Recommendation of the Planning and Development Director
- E. Independent Financial Consultant Analysis
- F. Written Comment Received by Staff through August 13
- G. Resolution Approving the Property Tax Exemption

A copy of the Gordon Lofts MUPTE application is available in the council office and online at www.eugene-or.gov/3281/MUPTE-Applications

FOR MORE INFORMATION

Staff Contact: Amanda Nobel Flannery
Telephone: 541-682-5535
E-mail: anobel@eugene-or.gov

Summary of 2015 MUPTE Program Changes & Process Diagram

MUPTE Program

MUPTE is an incentive program to encourage high quality, multi-unit downtown housing especially in areas well served by public transit. Both rental housing and multi-unit housing for home ownership are eligible; student housing is ineligible. Enabled by state law, 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 council. The objective strongly aligns with several of the pillars of Envision Eugene. Increasing the amount of multi-family housing in the downtown helps reduce pressure on urban growth boundary (UGB) expansion and protects existing neighborhoods, and takes advantage of existing infrastructure.

During the exemption period, property owners still pay taxes on the assessed value of the land and any existing improvements on the property. Council can deem commercial portions of a project to be a public benefit and include them as part of the exemption along with the residential portion.

In 2015, after a two-and-a-half year review, council revised the program criteria, process, and boundary. The program changes:

- Removed student housing as an eligible project type
- Increased the required energy efficiency
- Required higher quality design, with design at approval attached to the resolution
- Expanded neighborhood involvement
- Added a moderate-income housing contribution
- Added local economic impact plan
- Added demonstrated project need reviewed by an independent financial consultant
- Added a community member third-party review (MUPTE Review Panel described below)

See below for the process diagram and boundary map. The Required Public Benefit criteria are:

- Compact Urban Development
- Green Building Features (*ensuring building energy performance is 10% above code*)
- Local Economic Impact Plan (*including support for local businesses, minority and women business enterprises, and ensuring compliance with laws*)
- Moderate-Income Housing Contribution
- Project Design and Compatibility (*including scale, form, and quality of the building; mixture of project elements; relationship to the street and surrounding uses; and parking and circulation*)
- Historic and Existing Housing Sensitivity
- Project Need

MUPTE Review Panel

The 2015 MUPTE update established a Review Panel, tasked with providing a third-party review of individual applications for the City Manager. The Review Panel:

- Reviews the project applications, including the consultant's review of the project's financial projections.

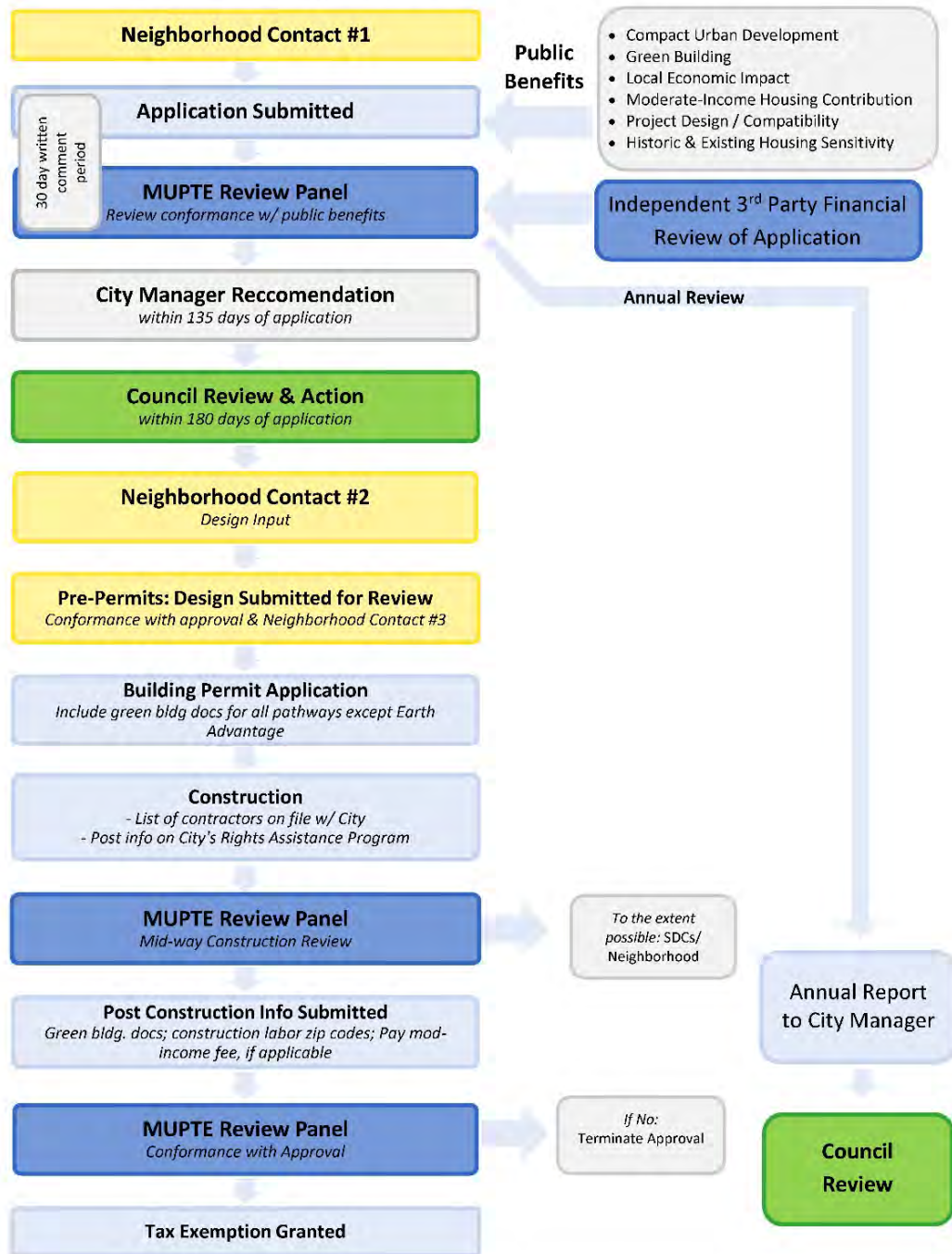
- Reviews the applicant's conformance with the Required Public Benefits and making recommendations regarding approval/denial of the tax exemption to the City Manager.
- Reviews the project's conformance with approval requirements midway through construction, at completion of construction, and during the exemption period.
- Assists the City Manager in preparing an Annual Report on progress of the approved projects, program volume cap, and reporting documentation.

The Review Panel consists of two at-large neighborhood representatives selected by neighborhood association boards, an additional two representatives selected by the board of the neighborhood association in which the proposed project is located, and six technical professionals selected by the City Manager from the following six groups: architects/green building specialists; building trades union; developers; environmental professionals; public health professionals; and human rights representatives. Prior Review Panel reports can be found at www.eugene-or.gov/MUPTE

MUPTE Boundary



MUPTE Application & Review Process



Annually:

- Moderate-income housing: Pay fee in years 3 – 10 or update lease rates on mod-income units & submit docs.
- BPS pathway energy usage, if applicable.

NOT FOR
CONSTRUCTION

EUGENE MARKET DISTRICT
6TH AVENUE AND PEARL STREET, EUGENE, OR

Oble Companies

REVISION	DATE	PROJECT NUMBER

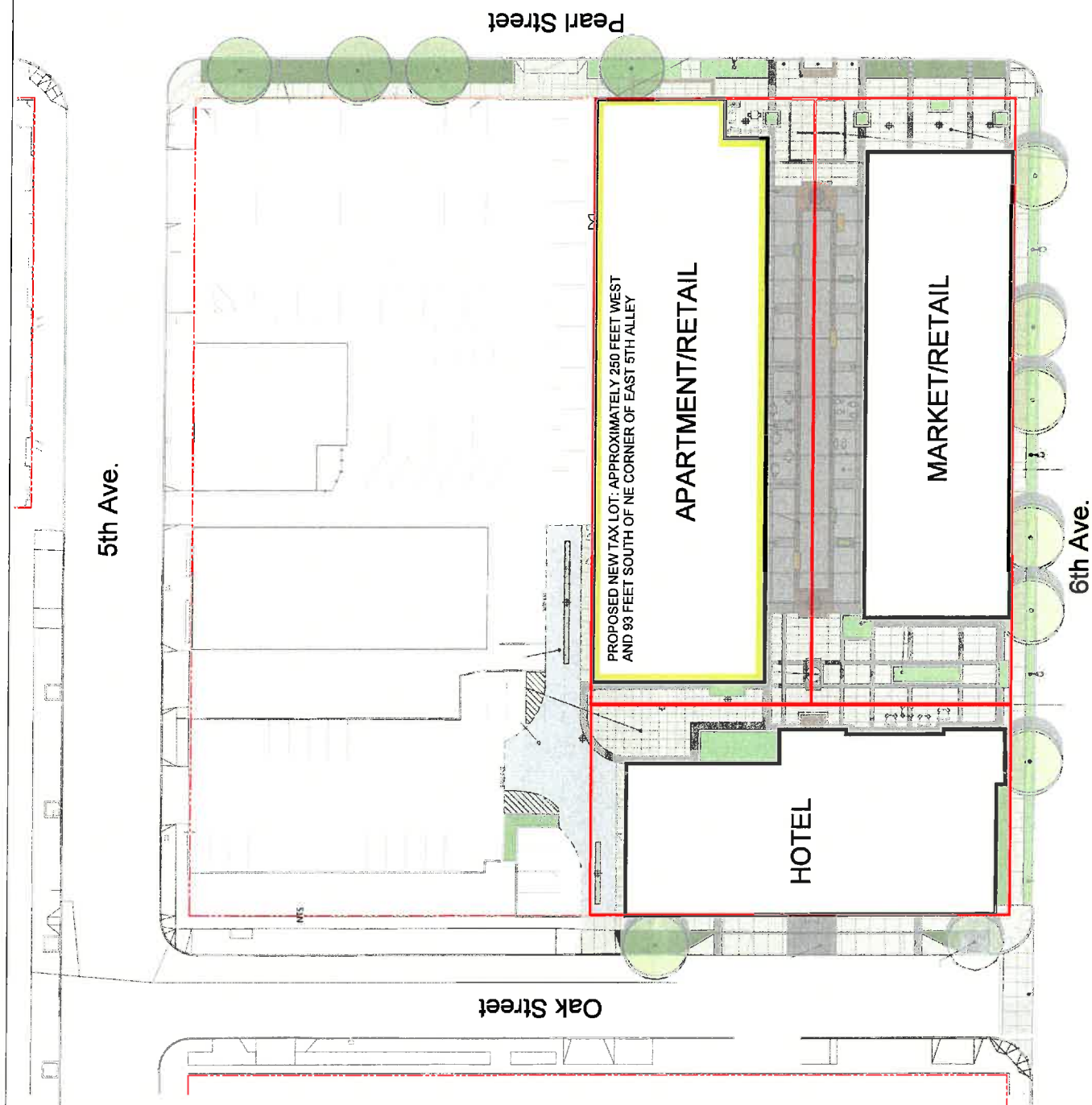
SCHEMATIC SITE
PLAN

SD SET

DATE: 1/26/2018
PROJECT NUMBER: 1771500

L1.00

After Alleys Vacated & Tax Lots Redrawn



MUPTE Review Panel Conclusions*Gordon Lofts*

General Requirements	
Overall	Concerns
<p>The Panel agreed that the Project meets the general requirement criteria, including:</p> <ul style="list-style-type: none"> • The proposed project is not student housing, has 5 or more units, and is within the boundary. • The required neighborhood engagement for this point in the process was met with the applicant presenting the proposed project to the Downtown Neighborhood Association. 	None.

REQUIRED PUBLIC BENEFITS

1. Compact Urban Development	
Overall	Concerns
<p>The Panel agreed that the proposed project meets the minimum density required by the MUPTE program. The project is currently zoned as C-2 Community Commercial, which requires at least 50 housing units per acre or, if mixed use, no minimum density. Gordon Lofts proposal includes 127 dwelling units, which would result in 254 units per net acre. It also has commercial on the ground floor, which makes it mixed use.</p>	None.

2. Green Building Features	
Overall	Concerns
<p>In order to achieve the green building public benefit threshold of performing at least 10% more efficiently than the Oregon Energy Efficiency Specialty Code, the applicant chose the City of Eugene Building and Permit Services pathway. The Panel agreed that the application materials included what was necessary and noted that the project, if approved and constructed would need to meet the energy efficiency and green building documentation requirements set out in the program (energy model at permit application and commissioning report 18 months after Certificate of Occupancy).</p>	None.

3. Local Economic Impact Plan	
<i>Local Conditions</i>	
Overall	Concerns
The Panel agreed that the applicant provided a plan that adequately demonstrates how the applicant will ensure that more than 50% of dollar volume of professional services and construction costs will be local to Lane County.	None.
<i>Minority and Women Business Enterprises</i>	
Overall	Concerns
The Panel agreed that the applicant provided a plan that adequately describes how they will provide an equitable opportunity for minority and women business enterprises to compete for development related contracts.	None.
<i>Compliance with Laws</i>	
Overall	Concerns
The Panel agreed that the applicant provided a plan that adequately describes how they intend to ensure that all parties involved, including contractors and subcontractors, will comply with wage, tax, and licensing laws.	None.

4. Moderate-Income Housing Contribution	
Overall	Concerns
The Panel agreed that the applicant plans to meet the moderate-income housing contribution requirement by paying the fee. They will also pay this fee upfront, allowing for a 5% discount in the total fee.	None.

5. Project Design and Compatibility	
Overall	Concerns
<p>The Panel discussed the project's overall design elements and agreed that the applicant provided a narrative and accompanying graphics that adequately demonstrate how the project addresses the basic design principles, including:</p> <ul style="list-style-type: none"> • Scale, form, and quality of building • Mixture of project elements • Relationship to the street and surrounding uses 	<p>Although the application meets City requirements for parking and circulation, several panel members expressed particular concerns about adequate parking given the removal of available parking with the possible increased demand for parking as a result of the development.</p> <p>The applicant's plan for parking: they manage 500 spaces and will enhance enforcement of</p>

The panel also discussed the applicant's proposed plan for bicycles, parking and circulation.	these lots. They will lease additional spaces across the street from the County (estimated 75 spaces). They will offer valet services for Gordon Lofts residents and anticipate residents with less than average car usage (e.g. utilizing car sharing services).
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6. Historic and Existing Housing Sensitivity	
Overall	Concerns
The Panel agreed that the project does not impact historic locales or existing housing.	None.

7. Project Need	
Overall	Concerns
Overall, the Panel concluded that the exemption is needed for the project. Based on PNW Economics' analysis, the majority concluded that the project demonstrates need for a 10-year MUPTE. Two Panel members questioned some of the assumptions and figures in PNW Economics' analysis, and concluded that a 3-year MUPTE would be appropriate for this project.	It was challenging for this committee to confirm the many assumptions and data within the pro-forma and the consultant's pro-forma analysis, for items such as rents, lease-up period, loan duration and amortization, contingencies, etc. In some light, the project clearly demonstrates financial need, yet in other light less so, based on the varying assumptions that could be made for all of the numbers.

Commercial Exemption	
Overall	Concerns
The Panel concluded that the commercial portion of the building provides a public benefit to the community in its contribution to the urban environment and should be included in the exemption. Additionally, the market for retail downtown has not been strong. The Panel noted that the exemption will support the ground floor retail in this project as the retail market stabilizes.	None.

Overall majority recommendation to City Manager: Provide ten-year MUPTE and include the commercial portion of the project in the exemption.

TO: Eugene City Manager
RE: **Gordon Lofts MUPTE Minority Report**
FROM: Lloyd Helikson, Bill Aspegren
At Large Neighborhood Members, Eugene MUPTE Review Panel

The above listed members of the Eugene MUPTE Review Panel voted against granting a ten year MUPTE for the Gordon Lofts Project, but would have agreed to a three year MUPTE. This minority report focuses on the financial issue of whether the project could be built without the benefit of MUPTE, as expressed in the opinion of these members.

Summary

The attached Tables 1-8 provide the data supporting the conclusions in this report. The following charts from Tables 1,3, and 6 summarize the information that led to the three-year MUPTE recommendation for the Gordon Lofts project:

Gordon Lofts Adjusted Construction Budget Without MUPTE		
\$34,000,000	Total Project Cost	Application p. 38
\$378,636	Less Moderate Housing Fee	Application p. 38
\$2,055,424	Less 10% Limitation on Construction Contingencies	II. General Analysis H.
\$31,565,940	Adjusted Total Project Cost	
\$7,000,000	Less Equity (down payment)	Application p. 38
\$24,565,940	Adjusted Construction Loan Amount	

Debt Service (Principle & Interest) 30 Year Amortization at 6% Interest	
\$147,285	Monthly Payments from Amortization Table
\$1,767,423	Annual Debt Service – Monthly Payments x 12

After reviewing the PNW pro formas, several areas were adjusted:

\$24,714	Retail Lease Income	See II. General C.
\$10,368	Real Estate Tax Discount	See II. General D.

First year vacancy rate and apartment expenses were also adjusted. See II. General E & F.

The PNW consultant reviewing the Gordon Lofts application defined the following requirements indicating the project had reached financial viability. (see III. Conclusions Based Upon Modifications to Consultant's Revised Pro Formas):

6% cash on cash, cash flow return defined as Net Operating Income (NOI) divided by Equity (\$7,000,000)

1.20 Debt Service Coverage Ratio (DCR) defined as NOI divided by Annual Debt Service.

The consultant approved the use of cash on cash, cash flow return and cash-on-cash return on equity as evaluation criteria.

The consultant identified “Amenity Income” in the Gordon Lofts application as a key to viability of the project, stating it was “implausibly high”. See II. General G. The following chart shows the impact of full, half and no amenity income, without MUPTE, including all adjustments previously noted (30 year amortization, no housing fee, 5% 1st yr vacancy, adjusted retail income; property tax discount, and 10% limitation on hard cost construction contingencies).

Amenity Income	Portion	Source	NOI	Cash Flow Return	Return on Equity	DCR	MUPTE Need
\$563,211	Full	Table 1	\$2,375,182	Year 1: 8.7%	Year 1: 13%	1.30	MUPTE not needed
\$281,606	Half	Table 3	\$2,107,657	Year 1: 4.9% Year 2: 6.6%	Year 1: 9.2% Year 2: 11.1%	1.20	no or 1 yr MUPTE
\$0	None	Table 6	\$1,840,132	Year 4: 4.4% Year 5: 5.3% Year 6: 6.2%	Year 4: 9.5% Year 5: 10.8% Year 6: 12.0%	1.20	3 or 5 yr MUPTE

Even without any limitation on contingencies, the half amenity income scenario without MUPTE results in a need for no more than a **3 year MUPTE**:

Amenity Income	Portion	Source	NOI	Cash Flow Return	Return on Equity	DCR	MUPTE Need
\$281,606	Half	Table 5	\$2,097,289	Year 3: 5.3% Year 4: 6.3%	Year 2: 9.3% Year 3: 10.5%	1.20	1 or 3 yr MUPTE

I. Standards for MUPTE Panel Review

Eugene’s MUPTE ordinance provides: “No exemption may be approved * * * unless all of the following criteria are met: * * * (b) The proposal could not financially be built ‘but for’ the tax exemption. The burden is on the applicant to demonstrate that absent the exemption, the project would not be financially viable * * *.” EC 2.946(2).

“The applicant must demonstrate that the project as proposed could not be built but for the benefit of the tax exemption. The applicant must submit documentation, including a ten-year pro-forma and an analysis of the projected ten-year cash-on-cash rate of return for the proposed project.” R-2.945-C(4) (Administrative Order 53-18-03-F).

The City Manager is required to “retain an independent outside professional consultant to review the project’s financial pro-forma * * *.” EC2.945(4). The consultant has responsibility “to review the project’s financial proforma and report results to the Project Review Panel.” R-2. 945-E (3). The MUPTE review panel has responsibility “to review the application and the independent consultant’s conclusions” and to “make a recommendation to the city manager about whether the application meets the criteria in section 2.946.” The City retained PNW Economics as the Consultant for the Gordon Lofts MUPTE application.

II. General Analysis

A. Analysis Should Use 30 Rather than 25 Year Amortization

The application indicated use of 30 year “amortization” (p. 43). The debt service amounts used in the application, however, were based upon 25 year amortization. The application says nothing about the “term” of the loan (length in years).

The consultant stated that the applicant assumes a 25 year “term,” but says nothing about “amortization” (Report at 13). At the panel meeting the Consultant acknowledged that “amortization” is different than “term” of the loan, and that use of 30 rather than 25 year “amortization,” as opposed to “term,” should not impact the interest rate.

To justify a 30 year amortization, the consultant later cited a project in Independence, Oregon, which assumed a 5.5% interest rate and 30 year amortization. 9/11/18 Memo at 7. The consultant opined that the Gordon Lofts project was different because 1) it will be on leased land, 2) rates have increased and 3) Obie Companies lack the track record of the developer for the Independence project. The consultant then asserted that “a 25-year amortization and 6.0% annual rate is a *reasonable* assumption for Obie Companies under the circumstances.” These factors may justify a 6% interest rate, but they do not necessarily justify a shorter amortization period. The consultant did not say that a 30-year amortization would be unreasonable, or that a bank would require 25 rather than 30 year amortization.

A bank receives somewhat more interest on a loan with 30 versus 25 year amortization. A project is more likely to be successful from the bank’s perspective, with adequate DCR, if it has less debt service associated with a 30 versus 25 year amortization. It is thus unclear why a bank would require a 25 rather than 30 year amortization for the same term loan.

Conventional private commercial real estate loans can have terms of 5, 7 or 10 years, etc., but are often amortized at 25 or 30 years. The Olive Lofts MUPTE application projected a 10 year loan term amortized over 30 years. The last three MUPTE applications approved by the City, including Olive Lofts, used 30 year rather than 25 year amortization.¹

Use of 30 rather than 25 year amortization for the same term loan decreases the annual debt service (principal and interest payments on the debt), projecting significantly more cash on cash, cash flow return. The consultant stated “All things equal, a 30-year term for debt would decrease annual debt service by order of magnitude observed in the question and would generally enhance cash flow and cash-on-cash return under all scenarios.” 8/29/18 Memo at 1.

Ten year property tax exemption applications should be evaluated using the longest amortization period available so as to fairly analyze whether the project could be built without the exemption. A shorter amortization period makes the project appear less financially viable since it increases the debt service. MUPTE applications should be considered using 30 rather than 25 year amortization.

¹ Olive Lofts Application at 24 (“30-year amortization, rate adjustments at 5 years, balloon payment at 10 years.”); Core Campus MUPTE Agenda Item at 23 (“Debt service is based on a 30-year fixed loan at 5.75%.”); Capstone MUPTE Agenda Item at Attachment F (“Debt service is based on a 30-year fixed loan at 6.5% from Fannie Mae.”). The four MUPTE applications prior to these three apparently were analyzed by City staff using 25 year amortization.

B. Analysis Should Exclude Moderate Income Fee from Without MUPTE Budget

The applicant included the moderate income fee in the budget and used the same budget for the without MUPTE and with MUPTE scenarios. The applicant would not be required to pay the fee if no MUPTE is awarded. The consultant stated that “the permanent financing would be reduced by the absence of the fee in the without MUPTE scenario.” 8/29/18 Memo at 3. The Consultant, however, continued to include the fee in his revised pro formas for the without MUPTE scenario (9/11/18 Memo). The fee should be excluded from the without MUPTE budget and loan amounts.

C. Retail Lease Income (\$321,372) (~\$25,000 difference; 10,000, not 9,231 SF)

The consultant calculated retail lease income based upon \$2.50/square foot escalated by 3.5% for 2 years, or roughly \$2.68/square foot (consultant used 2.6780625). This amount times 9,231 square feet per month times 12 = \$296,654, the amount used by the consultant. The City, in response to a question, said the retail square feet should be 10,000. City 9/4/18 Answers at 2. This results in retail lease income of \$321,368, an increase of \$24,714 to the consultant's total for Year 1, and increases retail lease income for Years 2-10.

D. Property Tax Payment Discount (\$10,368):

People paying property taxes in Oregon are entitled to a 3% discount for paying by the November 15 due date for property assessed as of January 1 of that year. ORS 308.210; 311.505. The consultant stated: “The Applicant could certainly modify its pro forma to reflect this discount, should they choose to do so. The reduction would increase cash flow each year, as well as cash-on-cash return for the Applicant, though modestly.” 8/29/18 Memo at 2-3.

E. Year 2 Apartment Operating Expenses Should Be \$764,630, not \$832,658

The consultant chose to use national average apartment expenses rather than the expenses used by the applicant. The consultant used \$5,800 per unit expenses (multiplied by 3% for each of two years to get \$6,153) for Year 1. Using the consultant's national average apartment operating expense figure of \$6,338/unit for Year 2 (3% increase above \$6,153) times 127 units, less 5% stabilized Vacancy, results in Year 2 apartment expenses of \$764,630. The consultant initially used \$832,658, which is higher by \$67,978. The Consultant acknowledged this error, and used the lower amount in his revised pro formas. 9/11/18 Memo at 1. This reduces apartment operating expenses for Years 2-10. Year 1 expenses are increased due to application of only 5% stabilized vacancy as discussed below.

F. First Year Vacancy Should be 5% rather than 20% - 42%

The applicant used a 5% vacancy assumption for each of the 10 years including for Year 1. The consultant initially used Year 1 vacancy of 20% of projected income (GPI), characterizing the vacancy as absorption vacancy. Since he also included 5% stabilized vacancy in Year 1, his total Year 1 vacancy assumption was 25%. In his subsequent Memo (9/11/18), the consultant almost doubled his absorption vacancy assumption from 20% to 37%. He continued to include 5% stabilized vacancy in Year 1, resulting in a total Year 1 vacancy assumption of 42%.

The MUPTE application should be considered using a 5% Year 1 vacancy assumption. The applicant, who has the burden of demonstrating that, absent the exemption, the project would not be financially viable, used 5% Year 1 vacancy. The Olive Lofts MUPTE applicant used 5% Year 1 vacancy. The two prior large MUPTE projects, Core Campus and Capstone,

used 5% and 6% Year 1 vacancy assumptions, respectively. Of the seven MUPTE applications approved since 2010, all used 5% Year 1 vacancy, except for the 6% used by Capstone.

The applicant in this case allocated \$250,000 in the Budget for “Ramp up (employees-model room- pre sales efforts).” Presumably, the applicant will be actively marketing the units prior to and during construction, probably for well over a year prior to completion.

The bank probably will require a certain number of units to be rented before allowing the applicant to close on permanent financing. Johnson Economics, in evaluating the Olive Lofts MUPTE application, allowed two years for construction and initial lease-up, starting Year 1 for purposes of MUPTE evaluation in the third year, assuming 5% vacancy. For Gordon Lofts, PNW Economics escalated revenue and expense items by two years to get the amounts for Year 1 of the MUPTE evaluation. However, PNW Economics started the Year 1 in 2020, after only a little over one rather than two years. Like the Johnson Economics analysis, the third year (2021) should be Year 1 of the MUPTE pro formas, with 5% stabilized vacancy.

Use of a 42%, 37%, 25% or 20% vacancy assumption for Year 1 would probably result in almost all new construction apartment projects failing the bank cash flow and DCR requirements in Year 1. A 5% first year vacancy assumption is more realistic, is consistent with a two year delay in starting Year 1 for MUPTE purposes, and matches vacancy assumptions used by other MUPTE projects.

G. Applicant’s Full Amenity Income (or at Least 1/2) Should Be Included

Income projected by the applicant, including apartment amenity income, was apparently based upon a market study by Johnson Economics. The amenity income was thus much more than speculation, and the projection should be respected. The consultant performed a market study and concluded that the amenity income projected by the applicant was “implausibly high.” The MUPTE ordinance requires the city manager to “retain an independent outside professional consultant to review the project’s financial pro-forma * * * .” EC 2.945(4). It is not clear that a market study is within the scope of the consultant’s responsibility.

“The burden is on the applicant to demonstrate that absent the exemption, the project would not be financially viable.” EC 2.946(2)(b). The amenity income projected by the applicant makes the project more financially viable than without such income. The panel has the consultant’s market study questioning the amenity income but not the applicant’s market study supporting the amenity income (which the applicant chose not to provide). Johnson Economics, who apparently did the market study supporting the amenity income, was the City retained consultant for the Olive Lofts MUPTE application and thus is just as qualified as PNW Economics, which questioned the amenity income. The two consultants were both previously in the same economic consulting firm. It would be difficult to evaluate which consultant’s study is correct. Under these circumstances, the applicant’s full projection of amenity income should be utilized.

Even if one believes that the projected amenity income is too high, such income should not be rejected, and at least half of amenity income, or \$281,606, should be utilized.

H. Hard Construction Cost Contingencies in Excess of 10% Should be Excluded from the Budget, Loan and Debt Service

The Applicant includes Contractor and Owner Contingencies for construction hard costs of \$4,355,989. These contingencies are 18.9% of the hard construction costs of \$23,005,649. The Consultant stated that “a 20% construction contingency is common, particularly in the case of unique, difficult, or unprecedented projects.” The Gordon Lofts project does not seem overly difficult for a 7 story building built on a former parking lot in Eugene, where the north part of the block will be available for staging.

The consultant did not cite other financial feasibility studies showing construction contingencies for similar specific projects higher than 10% of hard construction costs, let alone 20% of hard construction costs. A financial feasibility study presented to the City of Santa Monica indicated that contingencies for downtown Santa Monica mixed use development could be as much as 10% of hard construction costs.²

In Oregon, the Low Income Housing Tax Credit appears to limit the construction contingency to 5% of new construction costs. Affordable Housing Investors Council underwriting guidelines appear to identify typical new construction contingencies as being 5%. Underwriting requirements for the Oregon Housing and Community Services apparently provide that the new construction contingency amount is limited to 10% of total new construction costs. Financial pro formas for the Moving Forward Milwaukie opportunity site development concepts appear to assume a Hard Cost Contingency of 7.5% and a Soft Cost Contingency of 7.5% (\$2,212,146 as applied to Gordon Lofts). The Olive Lofts MUPTE application used 15% construction contingencies based upon hard construction costs.

For purposes of evaluating whether a project could be built without MUPTE, contingencies should be limited. A large contingency such as 18.9 or 20% adds to the project cost and loan, and increases debt service, thus making the project appear less viable.

Construction contingencies for MUPTE evaluation should be limited to 10% of hard construction costs, or \$2,300,565, a reduction of \$2,055,424 from the budget and loan. Reducing the hard cost construction contingencies reduces the project and loan amounts, and debt service, and makes the project more financially viable.

² Beacon Economics, Financial Feasibility Analysis presented to the City of Santa Monica, at 5-6 (11/16) <https://www.smgov.net/departments/pcd/agendas/Planning.../s2017042606-AB.pdf>.

III. Conclusions Based Upon Modifications to Consultant's Revised Pro Formas

The consultant has defined financial viability as requiring a 6% cash-on-cash “cash flow return” and a 1.20 DCR (debt service coverage ratio). Report at 17. Making the above changes to the Consultant's pro formas, including full amenity income, and using cash flow return, results in the project being financially viable and not needing MUPTE. Table 1. Making the changes, including full amenity income and using cash flow return, but without the construction contingencies limitation and the property tax discount, still results in the project not needing MUPTE. Table 2. These returns are significantly enhanced when considering cash-on-cash “return on equity,” which includes payments to principal as part of the return.³ Tables 1 & 2.

Making the above changes, with 1/2 amenity income, and 10% construction contingencies, results in only a Year 1 need for MUPTE, using Year 1 cash flow return of 4.9%, Year 2 cash flow return of 6.6%, and a Year 1 DCR of 1.20. Table 3. No MUPTE would be needed using the return on equity of 9.2% in Year 1. Table 3. Thus, using 30 year amortization, removing the moderate income fee, adjusting commercial lease income, using Year 1 vacancy of 5%, with 10% contingencies, and 1/2 amenity income, should result in a financially viable project with no need for MUPTE.

Making the above changes, with 1/2 amenity income, but with 15% contingencies, results in the project needing MUPTE for two years, using cash flow return or for one year using return on equity. Table 4. Removing the construction contingencies limitation and property tax discount, with 1/2 amenity income, results in the project needing MUPTE for three years, using cash flow return, and for one or two years using return on equity. Table 5. Thus, using 30 year amortization, removing the moderate income fee, adjusting the commercial lease income, using first year vacancy of 5% and using 1/2 amenity income, results in only a need for up to a 3 year MUPTE.

Making the above changes, without any amenity income, and using cash flow return, results in the project needing MUPTE for 5 years with 10% contingencies (Table 6), for 6 years with 15% contingencies (Table 7), and for 7 years without the limitation on construction contingencies. (Table 8). Making the above changes, without any amenity income, and using return on equity, results in the project needing MUPTE for 3 years with 10% contingencies (Table 6), for 4 years with 15% contingencies (Table 7), and for 5 years without the limitation on construction contingencies. (Table 8).

³ Cash-on-cash “cash flow return” is the before tax cash flow divided by development equity, which in this case is \$7 million. This return “usually needs to be at least 6% in early years of a project to be a satisfactory investment for equity partners . . .” Consultant Report at 17. Cash-on-cash “return on equity” is the before tax cash flow plus payments to principal divided by development equity. Johnson Economics in its Olive Lofts report, defined “return on equity” as the “net cash flow after interest costs divided by the developer equity,” excluding payments to principal from the debt service. Olive Lofts report at 7. Both PNW Economics and Johnson Economics consider the “return on equity” to be a valid measure of return. PNW Economics stated that “[f]or project evaluation purposes, either calculation is acceptable and are virtually the same,” and that “in early-year (years 1-2) cash-on-cash return analysis, including minuscule payment on principal according to the amortization schedule or not including it are insignificantly different.” 8/29/18 PNW Memo at 6. Compare to returns in Tables 1-8.

INDEX TO TABLES 1-8

All tables are without MUPTE scenarios and use:

- 30 Year Amortization
- Removal of Moderate Income Fee
- First Year Vacancy of 5%

Table 1: Full Amenity Income, Property Tax Discount, 10% Contingencies Limitation
(Revisions to Consultant Table 4 (old Table 13))

Table 2: Full Amenity Income, 18.9 Construction Contingencies
(Revisions to Consultant Table 4 (old Table 13))

Table 3: 1/2 Amenity Income, Property Tax Discount, 10% Contingencies Limitation
(Revisions to Consultant Table 4 (old Table 13))

Table 4: 1/2 Amenity Income, Property Tax Discount, 15% Contingencies Limitation
(Revisions to Consultant Table 4 (old Table 13))

Table 5: 1/2 Amenity Income, 18.9 Construction Contingencies
(Revisions to Consultant Table 4 (old Table 13))

Table 6: No Amenity Income, Property Tax Discount, 10% Contingencies Limitation
(Revisions to Consultant Table 1 (old Table 11))

Table 7: No Amenity Income, Property Tax Discount, 15% Contingencies Limitation
(Revisions to Consultant Table 1 (old Table 11))

Table 8: No Amenity Income, Property Tax Discount,, 18.9 Construction Contingencies
(Revisions to Consultant Table 1 (old Table 11))

30 Year Amortization, W/O Fee; W/O MUPTE; Amenity Income, 5% 1st Yr Vacancy; Prop Tax Discount; 10% Contingencies

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income		\$563,211	\$580,107	\$597,511	\$615,436	\$633,899	\$652,916	\$672,503	\$692,678	\$713,459	\$734,863
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,408,610	\$3,512,534	\$3,619,634	\$3,730,008	\$3,843,755	\$3,960,980	\$4,081,789	\$4,206,291	\$4,334,599	\$4,466,831
Vacancy 5%		\$170,430	\$175,627	\$180,982	\$186,500	\$192,188	\$198,049	\$204,089	\$210,315	\$216,730	\$223,342
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$3,162,931	\$3,313,824	\$3,414,877	\$3,519,019	\$3,626,344	\$3,736,951	\$3,850,940	\$3,968,414	\$4,089,480	\$4,214,249
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
+ Prop Tax Payment Discount 3%		\$10,368	\$10,679	\$10,999	\$11,329	\$11,669	\$12,019	\$12,379	\$12,751	\$13,133	\$13,527
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$2,375,182	\$2,502,442	\$2,579,153	\$2,658,224	\$2,739,725	\$2,823,733	\$2,910,326	\$2,999,582	\$3,091,583	\$3,186,414
Debt Service 30YrAmort		\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423
Cash Flow		\$607,759	\$735,020	\$811,731	\$890,801	\$972,303	\$1,056,311	\$1,142,903	\$1,232,159	\$1,324,160	\$1,418,992
Cash-on-Cash Return (CashFlow)	GOAL 6%	8.7%	10.5%	11.6%	12.7%	13.9%	15.1%	16.3%	17.6%	18.9%	20.3%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$24,264,267	\$23,943,988	\$23,603,955	\$23,242,949	\$22,859,677	\$22,452,766	\$22,020,758	\$21,562,104	\$21,075,161	\$20,558,185
Payments to Principal		\$301,673	\$320,279	\$340,033	\$361,006	\$383,272	\$406,911	\$432,009	\$458,654	\$486,943	\$516,976
Cash Flow w/ Principal Payments		\$909,432	\$1,055,299	\$1,151,764	\$1,251,807	\$1,355,575	\$1,463,222	\$1,574,912	\$1,690,813	\$1,811,103	\$1,935,968
Cash-On-Cash (Return on Equity)		13.0%	15.1%	16.5%	17.9%	19.4%	20.9%	22.5%	24.2%	25.9%	27.7%
Value (Cap Rate = 6%)		\$39,586,360	\$41,707,372	\$42,985,891	\$44,303,726	\$45,662,089	\$47,062,224	\$48,505,429	\$49,993,026	\$51,526,375	\$53,106,908
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	Goal 75%		64%	62%	60%	58%	57%	55%	53%	52%	50%
Debt Coverage Ratio	Goal 1.2	1.3	1.4	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.8
Loan With 6% Interest Rate	\$24,565,940	(\$27,000,000 - \$378,636 - \$2,055,424)									
Total Development Cost	\$31,565,940	(\$34,000,000 - \$378,636 - \$2,055,424)			Monthly P& I Pmt:		\$147,285				
Developer Planned Equity	\$7,000,000		Hard Construction Costs:		\$23,005,649		Hard Construction Cost Contingency at 10%:				\$2,300,565

TABLE 1

30 Year Amortization, W/O Fee; W/O MUPTE; Amenity Income, 5% 1st Yr Vacancy

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income		\$563,211	\$580,107	\$597,511	\$615,436	\$633,899	\$652,916	\$672,503	\$692,678	\$713,459	\$734,863
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,408,610	\$3,512,534	\$3,619,634	\$3,730,008	\$3,843,755	\$3,960,980	\$4,081,789	\$4,206,291	\$4,334,599	\$4,466,831
Vacancy 5%		\$170,430	\$175,627	\$180,982	\$186,500	\$192,188	\$198,049	\$204,089	\$210,315	\$216,730	\$223,342
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$3,162,931	\$3,313,824	\$3,414,877	\$3,519,019	\$3,626,344	\$3,736,951	\$3,850,940	\$3,968,414	\$4,089,480	\$4,214,249
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$2,364,814	\$2,491,764	\$2,568,155	\$2,646,895	\$2,728,057	\$2,811,715	\$2,897,946	\$2,986,831	\$3,078,449	\$3,172,887
Debt Service 30YrAmort		\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302
Cash Flow		\$449,512	\$576,461	\$652,852	\$731,592	\$812,754	\$896,412	\$982,644	\$1,071,528	\$1,163,147	\$1,257,585
Cash-on-Cash Return (CashFlow)	GOAL 6%	6.4%	8.2%	9.3%	10.5%	11.6%	12.8%	14.0%	15.3%	16.6%	18.0%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$26,294,451	\$25,947,374	\$25,578,890	\$25,187,679	\$24,772,339	\$24,331,382	\$23,863,227	\$23,366,198	\$22,838,513	\$22,278,281
Payments to Principal		\$326,914	\$347,077	\$368,484	\$391,211	\$415,340	\$440,957	\$468,155	\$497,029	\$527,685	\$560,231
Cash Flow w/ Principal Payments		\$776,426	\$923,538	\$1,021,336	\$1,122,803	\$1,228,094	\$1,337,370	\$1,450,799	\$1,568,558	\$1,690,832	\$1,817,816
Cash-On-Cash (Return on Equity)		11.1%	13.2%	14.6%	16.0%	17.5%	19.1%	20.7%	22.4%	24.2%	26.0%
Value (Cap Rate = 6%)		\$39,413,567	\$41,529,396	\$42,802,575	\$44,114,911	\$45,467,609	\$46,861,910	\$48,299,106	\$49,780,513	\$51,307,487	\$52,881,453
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	Goal 75%		64%	62%	60%	59%	57%	55%	53%	52%	50%
Debt Coverage Ratio	Goal 1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.6	1.7
Loan With 6% Interest Rate	\$26,621,365	(\$27,000,000 - \$378,636)									
Total Development Cost	\$33,621,365	(\$34,000,000 - \$378,636)			Monthly P&I Pmt:		\$159,609				
Developer Planned Equity	\$7,000,000										

30 Year Amortization, W/O Fee; W/O MUPTE; 1/2 Amenity Income, 5% 1st Yr Vacancy; Prop Tax Discount; 10% Contingencies

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income (1/2 \$563,211)		\$281,606	\$290,054	\$298,756	\$307,718	\$316,950	\$326,459	\$336,252	\$346,340	\$356,730	\$367,432
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,127,005	\$3,222,481	\$3,320,879	\$3,422,290	\$3,526,807	\$3,634,523	\$3,745,538	\$3,859,952	\$3,977,870	\$4,099,401
Vacancy 5%		\$156,350	\$161,124	\$166,044	\$171,115	\$176,340	\$181,726	\$187,277	\$192,998	\$198,894	\$204,970
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$2,895,406	\$3,038,274	\$3,131,060	\$3,226,687	\$3,325,243	\$3,426,816	\$3,531,501	\$3,639,392	\$3,750,588	\$3,865,190
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
+ Prop Tax Payment Discount 3%		\$10,368	\$10,679	\$10,999	\$11,329	\$11,669	\$12,019	\$12,379	\$12,751	\$13,133	\$13,527
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$2,107,657	\$2,226,892	\$2,295,336	\$2,365,892	\$2,438,624	\$2,513,599	\$2,590,887	\$2,670,560	\$2,752,690	\$2,837,355
Debt Service 30YrAmort		\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423
Cash Flow		\$340,234	\$459,469	\$527,914	\$598,469	\$671,201	\$746,176	\$823,465	\$903,137	\$985,268	\$1,069,933
Cash-on-Cash Return (Cash Flow)	Goal 6%	4.9%	6.6%	7.5%	8.5%	9.6%	10.7%	11.8%	12.9%	14.1%	15.3%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$24,264,267	\$23,943,988	\$23,603,955	\$23,242,949	\$22,859,677	\$22,452,766	\$22,020,758	\$21,562,104	\$21,075,161	\$20,558,185
Payments to Principal		\$301,673	\$320,279	\$340,033	\$361,006	\$383,272	\$406,911	\$432,009	\$458,654	\$486,943	\$516,976
Cash Flow w/ Principal Payments		\$641,907	\$779,748	\$867,947	\$959,475	\$1,054,473	\$1,153,087	\$1,255,473	\$1,361,791	\$1,472,210	\$1,586,909
Cash-On-Cash (Return on Equity)		9.2%	11.1%	12.4%	13.7%	15.1%	16.5%	17.9%	19.5%	21.0%	22.7%
Value (Cap Rate = 6%)		\$35,127,614	\$37,114,864	\$38,255,607	\$39,431,534	\$40,643,731	\$41,893,315	\$43,181,454	\$44,509,331	\$45,878,169	\$47,289,256
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	Goal 75%		72%	70%	68%	65%	64%	62%	60%	58%	56%
Debt Coverage Ratio	Goal 1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.6
Loan With 6% Interest	\$24,565,940	(\$27,000,000 - \$378,636 - \$2,055,424)									
Total Development Cost	\$31,565,940	(\$34,000,000 - \$378,636 - \$2,055,424)			Monthly P&I Pmt:		\$147,285				
Developer Planned Equity	\$7,000,000		Hard Construction Costs:		\$23,005,649		Hard Construction Cost Contingency at 10%:				\$2,300,565

TABLE 3

30 Year Amortization, W/O Fee; W/O MUPTE; 1/2 Amenity Income, 5% 1st Yr Vacancy; Prop Tax Discount; 15% Contingencies

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income (1/2 \$563,211)		\$281,606	\$290,054	\$298,756	\$307,718	\$316,950	\$326,459	\$336,252	\$346,340	\$356,730	\$367,432
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,127,005	\$3,222,481	\$3,320,879	\$3,422,290	\$3,526,807	\$3,634,523	\$3,745,538	\$3,859,952	\$3,977,870	\$4,099,401
Vacancy 5%		\$156,350	\$161,124	\$166,044	\$171,115	\$176,340	\$181,726	\$187,277	\$192,998	\$198,894	\$204,970
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$2,895,406	\$3,038,274	\$3,131,060	\$3,226,687	\$3,325,243	\$3,426,816	\$3,531,501	\$3,639,392	\$3,750,588	\$3,865,190
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
+ Prop Tax Payment Discount 3%		\$10,368	\$10,679	\$10,999	\$11,329	\$11,669	\$12,019	\$12,379	\$12,751	\$13,133	\$13,527
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$2,107,657	\$2,226,892	\$2,295,336	\$2,365,892	\$2,438,624	\$2,513,599	\$2,590,887	\$2,670,560	\$2,752,690	\$2,837,355
Debt Service 30YrAmort		\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181
Cash Flow		\$257,476	\$376,711	\$445,155	\$515,711	\$588,443	\$663,418	\$740,706	\$820,379	\$902,509	\$987,174
Cash-on-Cash Return (Cash Flow)	Goal 6%	3.7%	5.4%	6.4%	7.4%	8.4%	9.5%	10.6%	11.7%	12.9%	14.1%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$25,400,425	\$25,065,149	\$24,709,194	\$24,331,284	\$23,930,066	\$23,504,101	\$23,051,864	\$22,571,734	\$22,061,991	\$21,520,808
Payments to Principal		\$315,798	\$335,276	\$355,955	\$377,910	\$401,218	\$425,965	\$452,237	\$480,130	\$509,743	\$541,183
Cash Flow w/ Principal Payments		\$573,274	\$711,987	\$801,110	\$893,621	\$989,661	\$1,089,382	\$1,192,943	\$1,300,509	\$1,412,253	\$1,528,358
Cash-On-Cash (Return on Equity)		8.2%	10.2%	11.4%	12.8%	14.1%	15.6%	17.0%	18.6%	20.2%	21.8%
Value (Cap Rate = 6%)		\$35,127,614	\$37,114,864	\$38,255,607	\$39,431,534	\$40,643,731	\$41,893,315	\$43,181,454	\$44,509,331	\$45,878,169	\$47,289,256
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	Goal 75%		72%	70%	68%	65%	64%	62%	60%	58%	56%
Debt Coverage Ratio	Goal 1.2	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.5
Loan With 6% Interest	\$25,716,223	(\$27,000,000 - \$378,636 - \$905,142)									
Total Development Cost	\$32,716,223	(\$34,000,000 - \$378,636 - \$905,142)			Monthly P&I Pmt:		\$154,182				
Developer Planned Equity	\$7,000,000		Hard Construction Costs:		\$23,005,649		Hard Construction Cost Contingency at 15%:				\$3,450,847

TABLE 4

30 Year Amortization, W/O Fee; W/O MUPTE; 1/2 Amenity Income, 5% 1st Yr Vacancy

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income (1/2 \$563,211)		\$281,606	\$290,054	\$298,756	\$307,718	\$316,950	\$326,459	\$336,252	\$346,340	\$356,730	\$367,432
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,127,005	\$3,222,481	\$3,320,879	\$3,422,290	\$3,526,807	\$3,634,523	\$3,745,538	\$3,859,952	\$3,977,870	\$4,099,401
Vacancy 5%		\$156,350	\$161,124	\$166,044	\$171,115	\$176,340	\$181,726	\$187,277	\$192,998	\$198,894	\$204,970
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$2,895,406	\$3,038,274	\$3,131,060	\$3,226,687	\$3,325,243	\$3,426,816	\$3,531,501	\$3,639,392	\$3,750,588	\$3,865,190
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$2,097,289	\$2,216,213	\$2,284,337	\$2,354,563	\$2,426,955	\$2,501,580	\$2,578,508	\$2,657,809	\$2,739,557	\$2,823,828
Debt Service 30YrAmort		\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302
Cash Flow		\$181,987	\$300,911	\$369,035	\$439,261	\$511,653	\$586,278	\$663,205	\$742,507	\$824,254	\$908,526
Cash-on-Cash Return (Cash Flow)	Goal 6%	2.6%	4.3%	5.3%	6.3%	7.3%	8.4%	9.5%	10.6%	11.8%	13.0%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$26,294,451	\$25,947,374	\$25,578,890	\$25,187,679	\$24,772,339	\$24,331,382	\$23,863,227	\$23,366,198	\$22,838,513	\$22,278,281
Payments to Principal		\$326,914	\$347,077	\$368,484	\$391,211	\$415,340	\$440,957	\$468,155	\$497,029	\$527,685	\$560,231
Cash Flow w/ Principal Payments		\$508,901	\$647,988	\$737,519	\$830,472	\$926,993	\$1,027,235	\$1,131,360	\$1,239,536	\$1,351,940	\$1,468,757
Cash-On-Cash (Return on Equity)		7.3%	9.3%	10.5%	11.9%	13.2%	14.7%	16.2%	17.7%	19.3%	21.0%
Value (Cap Rate = 6%)		\$34,954,821	\$36,936,888	\$38,072,292	\$39,242,719	\$40,449,252	\$41,693,001	\$42,975,130	\$44,296,818	\$45,659,281	\$47,063,801
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	Goal 75%		72%	70%	68%	66%	64%	62%	60%	58%	57%
Debt Coverage Ratio	Goal 1.2	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.5
Loan With 6% Interest	\$26,621,365	(\$27,000,000 - \$378,636)									
Total Development Cost	\$33,621,365	(\$34,000,000 - \$378,636)			Monthly P&I Pmt:		\$159,609				
Developer Planned Equity	\$7,000,000										

TABLE 5

30 Year Amortization, W/O Fee; W/O MUPTE; W/O Amenity Income, 5% 1st Yr Vacancy; Prop Tax Discount; 10% Contingencies

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$2,845,400	\$2,932,428	\$3,022,124	\$3,114,573	\$3,209,858	\$3,308,065	\$3,409,286	\$3,513,612	\$3,621,141	\$3,731,969
Vacancy 5%		\$142,270	\$146,621	\$151,106	\$155,729	\$160,493	\$165,403	\$170,464	\$175,681	\$181,057	\$186,598
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$2,627,882	\$2,762,723	\$2,847,243	\$2,934,356	\$3,024,141	\$3,116,682	\$3,212,063	\$3,310,369	\$3,411,695	\$3,516,129
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
+ Prop Tax Payment Discount 3%		\$10,368	\$10,679	\$10,999	\$11,329	\$11,669	\$12,019	\$12,379	\$12,751	\$13,133	\$13,527
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$1,840,132	\$1,951,341	\$2,011,519	\$2,073,560	\$2,137,522	\$2,203,464	\$2,271,448	\$2,341,537	\$2,413,798	\$2,488,295
Debt Service 30YrAmort		\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423	\$1,767,423
Cash Flow		\$72,709	\$183,919	\$244,097	\$306,138	\$370,100	\$436,042	\$504,026	\$574,114	\$646,375	\$720,872
Cash-on-Cash Return (CashFlow)	Goal 6%	1.0%	2.6%	3.5%	4.4%	5.3%	6.2%	7.2%	8.2%	9.2%	10.3%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$24,264,267	\$23,943,988	\$23,603,955	\$23,242,949	\$22,859,677	\$22,452,766	\$22,020,758	\$21,562,104	\$21,075,161	\$20,558,185
Payments to Principal		\$301,673	\$320,279	\$340,033	\$361,006	\$383,272	\$406,911	\$432,009	\$458,654	\$486,943	\$516,976
Cash Flow w/ Principal Payments		\$374,382	\$504,198	\$584,130	\$667,144	\$753,371	\$842,953	\$936,034	\$1,032,768	\$1,133,318	\$1,237,849
Cash-On-Cash (Return on Equity)		5.3%	7.2%	8.3%	9.5%	10.8%	12.0%	13.4%	14.8%	16.2%	17.7%
Value (Cap Rate = 6%)		\$30,668,868	\$32,522,356	\$33,525,323	\$34,559,341	\$35,625,371	\$36,724,404	\$37,857,475	\$39,025,617	\$40,229,959	\$41,471,583
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	75%		76%	79%	77%	75%	72%	70%	68%	66%	64%
Debt Coverage Ratio	1.2	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.4	1.4
Loan With 6% Interest Rate	\$24,565,940	(\$27,000,000 - \$378,636 - \$2,055,424)									
Total Development Cost	\$31,565,940	(\$34,000,000 - \$378,636 - \$2,055,424)			Monthly P&I Pmt:		\$147,285				
Developer Planned Equity	\$7,000,000		Hard Construction Costs:		\$23,005,649		Hard Construction Cost Contingency at 10%:				\$2,300,565

30 Year Amortization, W/O Fee; W/O MUPTE; W/O Amenity Income, 5% 1st Yr Vacancy; Prop Tax Discount; 15% Contingencies

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$2,845,400	\$2,932,428	\$3,022,124	\$3,114,573	\$3,209,858	\$3,308,065	\$3,409,286	\$3,513,612	\$3,621,141	\$3,731,969
Vacancy 5%		\$142,270	\$146,621	\$151,106	\$155,729	\$160,493	\$165,403	\$170,464	\$175,681	\$181,057	\$186,598
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$2,627,882	\$2,762,723	\$2,847,243	\$2,934,356	\$3,024,141	\$3,116,682	\$3,212,063	\$3,310,369	\$3,411,695	\$3,516,129
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
+ Prop Tax Payment Discount 3%		\$10,368	\$10,679	\$10,999	\$11,329	\$11,669	\$12,019	\$12,379	\$12,751	\$13,133	\$13,527
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$1,840,132	\$1,951,341	\$2,011,519	\$2,073,560	\$2,137,522	\$2,203,464	\$2,271,448	\$2,341,537	\$2,413,798	\$2,488,295
Debt Service 30YrAmort		\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181	\$1,850,181
Cash Flow		-\$10,049	\$101,160	\$161,338	\$223,379	\$287,341	\$353,283	\$421,267	\$491,356	\$563,617	\$638,114
Cash-on-Cash Return (CashFlow)	Goal 6%	-0.1%	1.4%	2.3%	3.2%	4.1%	5.0%	6.0%	7.0%	8.1%	9.1%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$25,400,425	\$25,065,149	\$24,709,194	\$24,331,284	\$23,930,066	\$23,504,101	\$23,051,864	\$22,571,734	\$22,061,991	\$21,520,808
Payments to Principal		\$315,798	\$335,276	\$355,955	\$377,910	\$401,218	\$425,965	\$452,237	\$480,130	\$509,743	\$541,183
Cash Flow w/ Principal Payments		\$305,749	\$436,436	\$517,293	\$601,289	\$688,560	\$779,248	\$873,505	\$971,486	\$1,073,360	\$1,179,297
Cash-On-Cash (Return on Equity)		4.4%	6.2%	7.4%	8.6%	9.8%	11.1%	12.5%	13.9%	15.3%	16.8%
Value (Cap Rate = 6%)		\$30,668,868	\$32,522,356	\$33,525,323	\$34,559,341	\$35,625,371	\$36,724,404	\$37,857,475	\$39,025,617	\$40,229,959	\$41,471,583
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	75%		79%	79%	77%	75%	72%	70%	68%	66%	64%
Debt Coverage Ratio	1.2	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3
Loan With 6% Interest Rate	\$25,716,223	(\$27,000,000 - \$378,636 - \$905,142)									
Total Development Cost	\$32,716,223	(\$34,000,000 - \$378,636 - \$905,142)			Monthly P&I Pmt:		\$154,182				
Developer Planned Equity	\$7,000,000		Hard Construction Costs:		\$23,005,649		Hard Construction Cost Contingency at 15%:				\$3,450,847

TABLE 7

30 Year Amortization, W/O Fee; W/O MUPTE; W/O Amenity Income, 5% 1st Yr Vacancy; Prop Tax Discount

100318		Year 1 - 2021	Year 2 - 2022	Year 3 - 2023	Year 4 - 2024	Year 5 - 2025	Year 6 - 2026	Year 7 - 2027	Year 8 - 2028	Year 9 - 2029	Year 10 - 2030
Apartment Rent Income		\$2,415,543	\$2,488,009	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,276	\$2,884,285	\$2,970,813	\$3,059,938	\$3,151,736
Retail Lease Income (10,000SF*\$2.68)	Not 9,231 SF	\$321,368	\$332,615	\$344,257	\$356,306	\$368,777	\$381,684	\$395,043	\$408,869	\$423,180	\$437,991
Amenity Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc Income 4%		\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$2,845,400	\$2,932,428	\$3,022,124	\$3,114,573	\$3,209,858	\$3,308,065	\$3,409,286	\$3,513,612	\$3,621,141	\$3,731,969
Vacancy 5%		\$142,270	\$146,621	\$151,106	\$155,729	\$160,493	\$165,403	\$170,464	\$175,681	\$181,057	\$186,598
Model Room & Concessions		\$75,248	\$23,083	\$23,775	\$24,489	\$25,223	\$25,980	\$26,760	\$27,562	\$28,389	\$29,241
Effective Gross Income		\$2,627,882	\$2,762,723	\$2,847,243	\$2,934,356	\$3,024,141	\$3,116,682	\$3,212,063	\$3,310,369	\$3,411,695	\$3,516,129
Apartment Operating Exp	Inc Prop Taxes	\$742,359	\$764,630	\$787,569	\$811,196	\$835,532	\$860,598	\$886,415	\$913,008	\$940,398	\$968,610
+ Prop Tax Payment Discount 3%		\$10,368	\$10,679	\$10,999	\$11,329	\$11,669	\$12,019	\$12,379	\$12,751	\$13,133	\$13,527
Retail Operating Exp		\$55,758	\$57,431	\$59,154	\$60,928	\$62,756	\$64,639	\$66,578	\$68,575	\$70,633	\$72,752
- MUPTE (Non-Retail)	\$345,585	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income		\$1,840,132	\$1,951,341	\$2,011,519	\$2,073,560	\$2,137,522	\$2,203,464	\$2,271,448	\$2,341,537	\$2,413,798	\$2,488,295
Debt Service 30YrAmort		\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302	\$1,915,302
Cash Flow		-\$75,170	\$36,039	\$96,217	\$158,258	\$222,220	\$288,162	\$356,146	\$426,235	\$498,495	\$572,993
Cash-on-Cash Return (CashFlow)	Goal 6%	-1.1%	0.5%	1.4%	2.3%	3.2%	4.1%	5.1%	6.1%	7.1%	8.2%
(Cash Flow/\$7,000,000)											
EOY Loan Balance		\$26,294,451	\$25,947,374	\$25,578,890	\$25,187,679	\$24,772,339	\$24,331,382	\$23,863,227	\$23,366,198	\$22,838,513	\$22,278,281
Payments to Principal		\$326,914	\$347,077	\$368,484	\$391,211	\$415,340	\$440,957	\$468,155	\$497,029	\$527,685	\$560,231
Cash Flow w/ Principal Payments		\$251,744	\$383,116	\$464,701	\$549,469	\$637,560	\$729,119	\$824,301	\$923,264	\$1,026,180	\$1,133,224
Cash-On-Cash (Return on Equity)		3.6%	5.5%	6.6%	7.8%	9.1%	10.4%	11.8%	13.2%	14.7%	16.2%
Value (Cap Rate = 6%)		\$30,668,868	\$32,522,356	\$33,525,323	\$34,559,341	\$35,625,371	\$36,724,404	\$37,857,475	\$39,025,617	\$40,229,959	\$41,471,583
Loan to Cost (Applicant Plan)			79%								
Loan-To-Value	75%		82%	79%	77%	75%	72%	70%	68%	66%	64%
Debt Coverage Ratio	1.2	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3
Loan With 6% Interest Rate	\$26,621,365	(\$27,000,000 - \$378,636)									
Total Development Cost	\$33,621,365	(\$34,000,000 - \$378,636)			Monthly P&I Pmt:		\$159,609				
Developer Planned Equity	\$7,000,000										

**REPORT AND RECOMMENDATION
of the Planning & Development Department**

Gordon Lofts Application for Multiple-Unit Property Tax Exemption

The Executive Director of the Planning & Development Department of the City of Eugene Finds that:

1. The Gordon Lofts apartments will be developed on real property located at 6th Avenue and Pearl Street, Eugene, Oregon (Assessor's Map #17-03-31-11-04400 currently portions of tax lots 03200 and 02800). Lane County is the current owner of the subject property. Obie Companies, Inc. and Gordon Lofts, LLC submitted an application pursuant to the City's Multiple-Unit Property Tax Exemption ("MUPTE") Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to residential and commercial units to be constructed on the property. Lane County has expressed support for the application.
2. As the City Manager's designee, I have reviewed the application and find that:
 - 2.1 The project will provide 5 two-bedroom units, 53 one-bedroom units and 69 studio units, for a total of 127 residential units, none of which will be for transient use or vacation occupancy. The ground floor will contain a total of approximately 10,000 square feet of commercial space.
 - 2.2 The project is not designed to be student housing, meaning it will be leased by the unit (rather than by individual rooms or beds) and the unit configuration does not include several bedrooms with individual bathrooms and sparse common space or include amenities and location selected primarily for individuals attending college and offer limited viability as potential housing for the general population. Additionally, the project does not designate any of the units for transient use or vacation occupancy.
 - 2.3 Construction is expected to be complete on or before January 1, 2022.
 - 2.4 The project is located in the downtown area described in subsection (1) of Section 2.946 of the Eugene Code, 1971.
 - 2.5 The applicant submitted all materials, documents and fees required by the City as set forth in Section 2.945 of the Eugene Code, 1971, and the administrative rules adopted by Administrative Order No. 53-18-03-F.
 - 2.6 The applicant has responded to the **Required Public Benefit** criteria as follows:
 - 2.6.1 Compact Urban Development. The project will be built in the C-2 Community Commercial Zone, which has no minimum density requirements for mixed-use projects. The proposed, mixed-use project includes 127 residential units, with a density of 254 units per net acre.
 - 2.6.2 Green Building Features. The project will utilize the City of Eugene Building and Permit Services Pathway in order to meet MUPTE green building

requirement and exceed the 10% energy efficiency benchmark. Gordon Lofts will be required to submit an energy model with their permit application and a commissioning report due 18 months after certificate of occupancy is issued. As the project does not include onsite parking, the project will not include installation of conduit for future electric vehicle charging stations.

- 2.6.3 Local Economic Impact Plan. A plan is in place for more than 50% of the project's dollar volume of professional services and construction contracts to be local to Lane County (estimated at 71%). The applicant is committed to promoting open competitive opportunities for Minority, Women, and Emerging Small Businesses, and is committed to complying with wage, tax, and licensing laws.
- 2.6.4 Moderate-Income Housing Contribution. The project will pay a fee to be dedicated to moderate-income housing. The fee will be 10% of the total exemption benefit for the 10-year benefit.
- 2.6.5 Project Design and Compatibility. The project will address basic design concepts in the context of the project location and will be designed and permitted for construction as shown in the resolution (should City Council approve the MUPTE). The building is constructed as one component of a larger development with a mix of uses. It is 7 stories, with a relatively narrow street frontage on Pearl Street. The ground floor is retail and commercial space with upper levels of residential. The design elements include a tall first floor with a row of urban storefronts facing south on to the proposed Market Alley and a residential entrance with a lobby facing east on to Pearl Street. Upper levels are regular bays of openings grouped vertically and punctuated by balconies. The building has a roof deck above the sixth floor, and the residential units are characterized by large windows. Building materials are primarily brick and stucco, with metal and glass storefronts and metal balconies. The building meets City requirements for vehicle parking (no minimum) and bicycle parking, and will utilize existing lots owned or under contract by the developer for additional parking need. The basic design concepts include the scale, form, and quality of the building; the mix of project elements; the relationship to the street and surrounding uses; and parking and circulation.

The project design is designed to contribute to its downtown Eugene context. The development is designed for the human scale, will add a needed mix of uses, promote active transportation modes, support a more vibrant pedestrian realm, and increase safety through additional activity and "eyes on the street."

- 2.6.6 Historic and Existing Housing Sensitivity. The project is adjacent to three properties with the historic locale definition, but they are not affected by the Gordon Lofts redevelopment. The project includes no direct, structural

impacts, such as alterations or demolitions, to any of the identified resources. Furthermore, each locale will maintain its setting and special relationships that characterize each property.” No historic structures or existing housing were demolished or removed from the property in the 2 years prior to the date of application.

2.6.7 Project Need. The project’s pro-forma and financial information was analyzed by PNW Economics, an independent, real estate economics consultant who found that the project as proposed could not be built but for the benefit of the tax exemption. The financial information Gordon Lofts submitted in their application is based on projections prior to finalizing financing, construction, and tenanting. It includes assumptions regarding rents, vacancy rates, operating costs, lender underwriting criteria, interest rates, and reasonable rate of return. PNW Economics, the Review Panel, and staff reviewed the assumptions. The PNW Economics analysis concludes that the project would not be viable without the availability of the MUPTE, using the reasonable assumptions outlined and concludes that MUPTE is critical to the success of the project from a financial feasibility perspective. See Section 4 below for the Review Panel’s conclusions.

2.6.8 Public Benefit beyond Period of Exemption. The public benefits of the project that will extend beyond the period of the tax exemption include Green Building (energy performance), Project Design and Compatibility, and Compact Urban Development.

2.7 A presentation on the Gordon Lofts project was given to the Downtown Neighborhood Association on March 28, 2018.

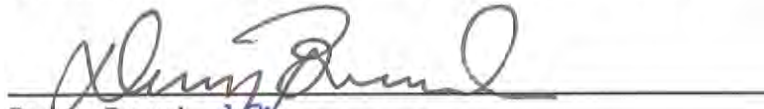
2.7.1 Future Neighborhood Engagement. Prior to completing final drawings, Gordon Lofts will meet with the Downtown Neighborhood Association. Before submitting for permits, Gordon Lofts will submit the design to staff to review conformance with the design attached to the MUPTE resolution (should City Council approve the MUPTE). Staff will also allow the neighborhood an opportunity to review and comment on that final design.

3. A display ad soliciting recommendations or comments from the public regarding this project was published in the Register-Guard on July 14, 2018. The period for comment expired on August 13, 2018 and resulted in 26 written comments. Additional comments were submitted to staff or directly to City Council after the official comment period. All 26 comments received as of October 8 were provided to City Council with the materials for the October 17 work session.
4. The community member MUPTE Review Panel considered the project application, including compliance with program criteria and the independent consultant’s financial review, during 3 meetings held on August 23, September 10, and September 20. The Review Panel concluded that the project meets the Required Public Benefit criteria. The Panel noted that Project Need

involves many variables that are hard to predict. The Panel concluded that project need was demonstrated. The majority of the panel members agreed that a ten-year exemption was warranted. Some members agreed that only a three-year exemption was warranted. See Attachment C of the October 17 Agenda Item Summary for the full Review Panel conclusions.

Therefore, based upon the above findings, the project is, or will be at the time of completion, in conformance with all applicable local plans and provisions of the Eugene Code, 1971, planning regulations, the Metropolitan Area General Plan, and the criteria set forth in the City's adopted administrative rules, and I recommend that the application be approved conditioned upon the project moving forward as proposed.

Dated this 10 day of October, 2018.

A handwritten signature in black ink, appearing to read "Denny Braud", is written over a horizontal line.

Denny Braud
Executive Director AIC
Planning & Development Department

Memorandum

Date: October 17, 2018
To: Mayor and City Council
From: Amanda Nobel Flannery, Economic Prosperity Programs Manager
Subject: Financial Analysis Materials from PNW Economics – Gordon Lofts

The Gordon Lofts project proforma and financial information was analyzed by PNW Economics, an independent real estate economics consultant. PNW Economics provided a Market and Financial Analysis with a review of assumptions including rents, vacancy rates, operating costs, lender underwriting criteria, interest rates, and a review of cash-on-cash return ([Exhibit A](#)). The analysis was provided to the Review Panel in advance of the first meeting and was discussed at the second meeting.

The Panel provided questions to PNW Economics to be addressed at the second meeting. The answers were provided to the Panel in a memo dated August 29, 2018 ([Exhibit B](#)). Based on the Review Panel's discussion at the second meeting and their follow-up questions, PNW Economics provided additional information. This was provided to the Review Panel in advance of the third meeting in a memo dated August 29, 2018 and includes the final proforma scenarios ([Exhibit C](#)).

The PNW Economics analysis concludes that the project would not be viable without the availability of the MUPTE, using the reasonable assumptions outlined and that "inclusion of the MUPTE over a ten-year period would likely make this project viable."

**MARKET & FINANCIAL
ANALYSIS
GORDON LOFTS
MIXED-USE PROJECT
MUPTE PROGRAM
APPLICATION**

Prepared for: City of Eugene, Oregon

Prepared by: PNW Economics, LLC

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1. Executive Summary

Introduction

PNW Economics, LLC was retained by the City of Eugene to review the Obie Companies/Gordon Lofts, LLC Multi-Unit Property Tax Exemption (“MUPTE”) program application as part of City market and financial analysis of the project. Specifically, PNW Economics, LLC was tasked with:

- Reviewing project application assumptions including market comparables, bank underwriting assumptions, and other pertinent assumptions;
- Evaluate projected cash-on-cash return for the project without MUPTE and with MUPTE, which grants a ten-year property tax exemption for the project in order to incent its financial performance such that investment and development is possible and positively contributes to the downtown Eugene economy in place of property underutilization; and
- Communicates all analysis and findings appropriately for review by community members and elected officials.

This document represents completion of these tasks for review by the City of Eugene and its partners and stakeholders.

Summary of Findings

- The project as planned is consistent with competitive projects in downtown Eugene in terms of unit types (mix), sizes and project concept.
- The project plans apartment rents that are found to be plausible for the prevailing market in downtown Eugene, particularly compared to the most competitive apartment developments currently in downtown.
- In addition to standard apartment rents, the project expects to earn “Amenity Based Income” from units, which is basically defined as additional rent for different units depending upon such things as views, balconies, or other unit-specific features.
- Analysis of Amenity Based Income assumptions indicates that the amenity rent, 26% or \$0.65 additional per square foot above and beyond documented average unit rents in the application, would push project rents significantly higher than what the market will likely achieve.
- The planned lease rate for retail space in the ground floor of the project, or \$2.75 per square foot monthly, is found to be implausibly above market for the site due to its currently speculative nature, the speculative nature of the planned market adjacent to the space, its lack of visibility from 6th Avenue if a market is developed, and it not physically connected to 5th Street Market, which earns \$2.78 per square foot monthly *on average*.
- Anticipated operating expenses for both the apartments and the retail space were found to be high and were adjusted downward for purposes of pro forma financial analysis.

- Development assumptions including debt, equity, income and expense escalation were found to be reasonable. The only caveat to this finding is the fact that financing of the project as planned may materialize differently as the project is on land to be leased from Lane County rather than purchased and owned fee simple by the developer. Although too early to tell now, perceived risk of such an arrangement could lead to less favorable lending terms.
- A MUPTE of \$378,635 beginning in the first project year and growing by 3% annually thereafter is found to be critical to the success of the project from a financial feasibility perspective. Pro forma analysis found:
 - The project will only be financially feasible, in terms of appropriate cash-on-cash return for equity investment in the project, with the MUPTE exemption and implausibly assuming the development manages to earn Amenity Based Income.
 - Assuming the project only earns market-achievable rents but does not earn Amenity Based Income, the project is not estimated to be financially feasible with or without MUPTE, with negative cash-on-cash return prevailing for several years.

2. Review of Market Rent & Lease Income Assumptions

Apartment Market Analysis: Documented Rents

This section of the report provides a discussion of apartment rents that the Applicant has documented will be charged at the proposed project. Apartment rents are discussed as follows:

1. Profile of the proposed apartment unit mix, unit sizes, monthly gross rents, and monthly rents per square foot.
2. Comparison of the proposed apartment gross rents with comparable and competitive apartment projects in the downtown Eugene market area.
3. Comparison of the proposed apartment rents per square foot with comparable and competitive apartment projects in downtown Eugene.

Comparison of the proposed project to other, comparable apartment projects in the downtown Eugene market is important as it gives contextual evidence for how well-suited the project is given prevailing rents that renters seeking to live downtown are willing to pay.

- Rents that are below market indicate the project will be at a competitive advantage because it is a relative bargain.
- Rents that are above market indicate the project is more expensive, which can be acceptable to renters if new rents are not *too* much higher and new, high quality units are worth the price premium.
- New projects with rents that are too ambitiously high will be uncompetitive in the market, leasing more slowly and potentially hindering the apartment developer's ability to earn sufficient rent income in time to meet expenses and/or debt service, which threatens financial viability of the project.

Applicant Documented Project Apartment Rents

Table 1 provides a profile of the apartment component of the proposed project, Gordon Lofts. Information is taken directly from the "Unit Mix" table on page 2 of the Gordon Lofts MUPTE application. PNW Economics has gone one step further with the application-provided information and calculated rents per square foot, which is simply gross monthly rents divided by the unit size earning that rent.

- Appropriate for an urban downtown market, the proposed project has a strong emphasis on smaller units including Studio apartments (69 total – 468 square feet) and One-bedroom apartments (53 total – 642 square feet).
- Gross monthly rents that renters would pay are planned to range from \$1,171 monthly (Studio units) to \$2,756 monthly (Two-bedroom units). The average gross rent at the project based on unit mix is estimated to be \$1,417 monthly.

- Rents per square foot at the project are expected to average \$2.49 monthly given the mix of unit types and sizes. Rents per foot range from \$2.35 monthly for Two-bedroom units and as high as \$2.51 monthly for One-bedroom units.

Project Apartment Mix Conclusions

- Given available information, emphasis of the project on smaller, urban units is appropriate given the prevalence of smaller households usually without children in a downtown setting, whether professionals earlier in their careers or later in their careers.
- Gross rents appear to scale upward appropriately as unit sizes get larger, though comparison to prevailing downtown market rents in the next section will provide ultimate context.
- In PNW Economics' experience, the smaller the apartment unit, the higher the rents per square foot. Therefore, we find that either Studio units are potentially under priced relative to One-bedroom units, or One-bedroom units are potentially overpriced relative to Studio units.

Table 1 – Gordon Lofts Apartment Unit Mix, Average Unit Size, and Average Rent Details

Unit Type	Unit Mix		Average Unit Size (Sq. Ft.)	Monthly Rent	Rent per Square Foot
	Units	Percentage			
Studio	69	54%	468	\$1,171	\$2.50
One bedroom	53	42%	642	\$1,612	\$2.51
Two bedroom	<u>5</u>	<u>4%</u>	<u>1,171</u>	<u>\$2,756</u>	<u>\$2.35</u>
Subtotals/Averages	127	100%	568	\$1,417	\$2.49

Applicant Compared to Prevailing Comparable Projects: Unit Gross Rents

Two downtown Eugene apartment projects were selected as most comparable and competitive to Gordon Lofts should it be developed: First on Broadway and Park Place. Below is a description of each project and its competitive advantages and disadvantages relative to each other and any new projects that may be built in downtown Eugene.

- First on Broadway: The 16-unit mixed-use project at 39 West Broadway was renovated from commercial to residential use in 2013. The project is well-located in the center of the stretch of West Broadway that has enjoyed the highest concentration of new employment, shopping, dining, and entertainment. Because of so much new, successful downtown growth proximate to this project, rents at the project “capitalize” or are higher because renters at First on Broadway have immediate access to the combination of employers, services, dining, shopping, and entertainment. As a two-story project, however, units have no unobstructed views in any direction due to taller downtown buildings in the vicinity. As the newest project downtown, rents should further earn a relative premium as a result. First on Broadway has one vacant unit, a vacancy rate slightly greater than 5%, the key “stable” vacancy rate for an apartment project.
- Park Place: The 24-unit apartment project at 877 East Park Street was renovated from commercial to residential use in 2012. Located on the east side of the Park Blocks, the project is less proximate to the aggregation of new shopping, services, and entertainment on Broadway than is First on Broadway. The concentration of convenient commercial amenities and employment at Park Place compares somewhat unfavorably in rent levels compared to First on Broadway as a result. Park Place’s competitive advantages are its greater proximity to Whole Foods on the east side of High Street and the fact that the project is four stories tall, allowing some units unobstructed views in different directions. Built a year before First on Broadway, rents should also reflect a slight, resulting discount relative to First on Broadway. Park Place has reported a vacancy rate greater than 5%.

Table 2 provides a comparison of planned gross monthly rents at Gordon Lofts with the two most comparable and competitive projects in downtown Eugene, First on Broadway and Park Place.

Table 2 – Gordon Lofts Apartment Gross Rents Compared to Most-Comparable Competitive Projects

Unit Type	Gross Monthly Rent			Subject Gross Rent Premium vs.:	
	Proposed	First on Broadway	Park Place	First on Broadway	Park Place
Studio	\$1,171	\$1,035	\$938	13%	25%
One bedroom	\$1,612	\$1,573	\$1,200	3%	34%
Two bedroom	<u>\$2,756</u>	<u>\$2,245</u>	<u>\$1,750</u>	<u>23%</u>	<u>57%</u>
Subtotals/Averages	\$1,417	\$1,285	\$1,182	10%	20%

- The overall average gross rent at First on Broadway is \$1,285 monthly, which is 10% below the average planned at Gordon Lofts.

- Unit rents at First on Broadway range from 3% less expensive than Gordon Lofts for One-bedroom units to 23% less expensive than Gordon Lofts for Two-bedroom units.
- Rents at Park Place, unsurprisingly, are at an even greater discount than planned rents at Gordon Lofts, with an average discount of 20% across all units.
- Park Place discounts relative to planned rents at Gordon Lofts range from 25% for Studio units to a remarkable 57% for Two-bedroom units.

Competitive Gross Monthly Rent Conclusions

Gordon Lofts planned, gross monthly rents overall appear to have an appropriate premium over First on Broadway, the newest and most competitive project in downtown Eugene. Though we find that Gordon Lofts planned Two-bedroom unit gross rents are probably too high relative to market.

- Gordon Lofts' new delivery will tend to earn a 6% to 10% premium over the most recent, existing competitive project in the experience of PNW Economics. The greater the age of the existing, competitive project, the premium will push closer to 10% frequently. This tends to reflect renters' greater enthusiasm for new apartments that have taken longer to be delivered in a growing market.
- Relative to First on Broadway, Two-bedroom units at Gordon Lofts appear to have a somewhat high gross monthly rent premium (23%), while Gordon Lofts One-bedroom units can conceivably earn a greater "new unit" premium than planned (3%).
- Relative to Park Place, Gordon Lofts may be expecting too-high of a rent premium for Two-bedroom units (57%) or over \$1,000 higher rent per month.

Although a detailed analysis of rents is beyond the scope of this report, the following factors should also affect rent at Gordon Lofts:

- Located north of the 6th Avenue/7th Avenue one-way couplet, the site is more distant to central downtown Eugene, its employers, and new concentration of continuous, new retail and services. This would tend to affect achievable rent unfavorably.
- Gordon Lofts is, however, located proximate to 5th Street Public Market and the nearby commercial district with boutique retail and services which would reflect positively on rents. The district is, however, lacking in basic grocery and other day-to-day services, employment, and entertainment that the concentration on Broadway does have, including nearby Whole Foods and The Kiva for day-to-day essentials.
- Gordon Lofts commercial district premiums are currently at best uncertain due to the speculative nature of retail and services that could locate in the first floor of the building as well as the planned market building to the south.
- Gordon Lofts should achieve some rent premiums due to unobstructed views in all directions given the planned seven stories for the structure.

Applicant Compared to Prevailing Comparable Projects: Unit Rents per Square Foot

Table 3 provides a final comparison of Gordon Lofts planned unit rents compared to competition, rents-per-square-foot.

- Because average unit sizes at Gordon Lofts (568 square feet) are actually larger than First on Broadway (533 square feet), rent per-square-foot at Gordon Lofts earns lower premiums than do gross rents. In fact, it is somewhat unusual for new apartment units in a market to trend larger and more common for units to trend smaller.
- On a per-square-foot basis, Studio units at Gordon Lofts could conceivably charge greater rent to reflect some type of positive premium at least for being the newest product on the market and featuring views of greater quality depending upon floor level.
- Units at Gordon Lofts are 4% smaller on average than Park Place, therefore rent per-square-foot premiums for Gordon Lofts seem mostly appropriate.

Table 3 – Gordon Lofts Apartment Rents Per Square Foot Compared to Most-Comparable Competitive Projects

Unit Type	Monthly Rent per Square Foot			Subject Rent Per Sq. Ft. Premium vs.:	
	Proposed	First on Broadway	Park Place	First on Broadway	Park Place
Studio	\$2.50	\$2.54	\$2.14	-2%	17%
One bedroom	\$2.51	\$2.29	\$2.05	10%	22%
Two bedroom	<u>\$2.35</u>	<u>\$2.23</u>	<u>\$1.79</u>	<u>6%</u>	<u>31%</u>
Subtotals/Averages	\$2.49	\$2.46	\$2.01	1%	24%

Competitive Monthly Rents Per Square Foot Conclusions

Average rents per square foot planned at Gordon Lofts appear market-consistent if not a bit low due to the new status of the project at delivery as well as views that will allow premiums at Gordon Lofts. Studio unit rents per-square-foot relative to First on Broadway definitely have room to be somewhat higher in our view.

In general, however, we would caution that there is a ceiling to what additional rent Gordon Lofts could plan to charge:

- Vacancies do exist at both First on Broadway (one unit or 6% vacancy) and Park Place (two units or 8% vacancy). Though vacancy is not significant, the market for these projects at stated rent levels is not absolutely “tight” and indicates that significantly higher rent levels may likely experience greater operating vacancy.
- We ultimately view the First on Broadway location to be the strongest in the current market and stronger than the Gordon Lofts location given the West Broadway concentration of amenities and employers proximate and with unobstructed pedestrian access. Future commercial features at the Gordon Lofts site are either boutique (5th Street Public Market) rather than day-to-day or speculative due to undeveloped status.

Apartment Market Analysis: “Amenity Based Income” & Rents

Amenity Based Income Defined

In the Gordon Lofts MUPTE application, the Applicant assumes that in addition to income from apartment rents, it will also earn “Amenity Based Income” defined on application page 36 as:

This includes premiums added to select floorplans for items such as; [sic] top floor views, corner apartments, decks, skylights, etc.

In other words, the Applicant expects to charge rents higher than documented in different units based on different unit amenities in the definition.

On page 40 of the MUPTE application, the Year 1 Summary of apartment performance, and on page 42, the 10-year pro formas for the project, the Applicant assumes that Gordon Lofts will earn an additional \$563,211 annually in the first year from rent premiums for different units. Table 4 displays this combined unit rent premium, its context with the whole project apartment component, and how that translates into *higher effective* average per-unit rent.

- \$563,211 in annual Amenity Based Income a 26% rent premium over the documented \$2,159,796 Potential Gross Annual (Rent) Income the project expects to earn in Year 1 as found on page 40 Year 1 summary and page 42 10-year pro formas.
- When translated into a monthly rent premium rather than annually, Amenity Based Income amounts to \$369.56 additional rent on average for every apartment unit, or \$0.65 per square foot on average for every apartment unit.

Table 4 – Gordon Lofts Apartments Amenity Based Income Rent Analysis

	Annual	Monthly		
	Project-Wide 1/	Project-Wide	Average Per Unit	Average Per Square Foot 2/
Amentity-Based Income	\$563,211	\$46,934	\$369.56	\$0.65

1/ Obie Companies/Gordon Lofts, LLC MUPTE Application page 40.

2/ Project-wide Monthly "Amenity-Based Income" divided by total gross leaseable apartment area for all units combined.

Table 5 provides the resulting, effective gross monthly rent and rent per-square-foot with Amenity Based Income unit premiums factored in. The effect is a 26% increase in unit rents above what is documented in the application.

Table 5 – Gordon Lofts Apartments Effective Total Rents with Amenity Based Income Assumption

Unit Type	Unit Mix		Average Unit Size (Sq. Ft.)	Monthly Rent	Rent per Square Foot
	Units	Percentage			
Studio	69	54%	468	\$1,475	\$3.15
One bedroom	53	42%	642	\$2,029	\$3.16
Two bedroom	5	4%	1,171	<u>\$3,518</u>	<u>\$3.00</u>
Subtotals/Averages	127	100%	568	\$1,787	\$3.14

Table 6 provides a comparison of true, effective rents at Gordon Lofts apartments with rents at its two most comparable and competitive existing projects, First on Broadway and Park Place.

- The Gordon Lofts gross monthly rent premium over First on Broadway, the current market leader, grows from 10% to 39% on average with a remarkable 57% gross rent premium over the First on Broadway Two-bedroom units.
- The Gordon Lofts gross monthly rent premium over Park Place grows from 20% to 51% on average with Two-bedroom total effective rents at Gordon Lofts charging more than twice the rent as Park Place.

Table 6 – Gordon Lofts Apartments Effective Gross Rents with Amenity Based Income Competitive Position

Unit Type	Monthly Rent			Subject Gross Rent Premium vs.:	
	Proposed	First on Broadway	Park Place	First on Broadway	Park Place
Studio	\$1,475	\$1,035	\$938	43%	57%
One bedroom	\$2,029	\$1,573	\$1,200	29%	69%
Two bedroom	<u>\$3,518</u>	<u>\$2,245</u>	<u>\$1,750</u>	<u>57%</u>	<u>101%</u>
Subtotals/Averages	\$1,787	\$1,285	\$1,182	39%	51%

Finally, Table 7 provides a comparison of Gordon Lofts total effective rents per-square-foot with its competitive peer group.

- Gordon Lofts becomes the only project in downtown, and potentially city-wide that is not designed as college student housing, to earn above \$3.00 per square foot on average.
- Gordon Lofts earns a rent per-square-foot premium of 28% compared to First on Broadway, up from 1% with documented average rents alone.
- Compared to Park Place, Gordon Lofts' total effective rent per-square-foot earns a 57% average premium, up from 24% with documented project rents alone.

Table 7 – Gordon Lofts Apartments Effective Rents Per Foot with Amenity Based Income Competitive Position

Unit Type	Monthly Rent			Subject Rent Per Sq. Ft. Premium vs.:	
	Proposed	First on Broadway	Park Place	First on Broadway	Park Place
Studio	\$3.15	\$2.54	\$2.14	24%	48%
One bedroom	\$3.16	\$2.29	\$2.05	38%	54%
Two bedroom	<u>\$3.00</u>	<u>\$2.23</u>	<u>\$1.79</u>	<u>35%</u>	<u>67%</u>
Subtotals/Averages	\$3.14	\$2.46	\$2.01	28%	57%

Amenity Based Income Conclusions

PNW Economics fully expects that Gordon Lofts apartments will earn unit rent premiums because of views, corner units, balconies or decks, and other unit-specific features. However, all such rent premiums are standard project planning and should be reflected in orthodox unit mix and rent reporting. We view it as a missed opportunity for the Applicant to display varying unit rents by project floor, unit type, and location in the building in the Rent Diagram on page 39 of the MUPTE application as well as averaged in the table on application page 2.

Having said that, it is our finding that total effective rents with documented Amenity Based Income are implausibly high compared to the prevailing rental apartment market now and in the near future. 10% to 20% market premiums over existing downtown projects would be conventional. But rents 28% to 57% above the competition strain market credibility based on information available in the MUPTE application as well as additional apartment market information gathered by PNW Economics during application review.

The key analysis in this document, a financial pro forma evaluation of project measures of success without and with MUPTE, will therefore consider two rent scenarios for City consideration:

1. **Achievable Market Rents:** Assumed market rents that are closer to documented Gordon Lofts average rents on page 2 of the application, but adjusted for project delivery in two years and exclude Amenity Based Income.
2. **Applicant-Assumed Market Rents:** Average rents documented on page 2 of the application, along with Amenity Based Income as assumed by the applicant, adjusted for project delivery in two years.

Retail Market Analysis: Documented Lease Rates

The ground floor of Gordon Lofts, or an estimated 9,231 square feet of ground floor space is planned to be retail commercial space for lease. The Gordon Lofts MUPTE application on page 2 documents that the project expects to lease for an average of \$2.75 per square foot monthly triple-net (“NNN”), or \$33.00 annually. Triple-net lease rates assume retail tenants will themselves pay for real estate/property taxes, building insurance, and maintenance costs in addition to their own utilities and related costs to run their business.

To evaluate the planned retail space lease rate at Gordon Lofts, a survey of currently available retail space citywide as well as downtown or in the vicinity was compiled from Loopnet.com, an online listing service clearinghouse for numerous real estate brokerages. Average lease rates at 5th Street Market occupied space was also provided by Obie Companies for context. Table 8 provides a summary of that query.

Table 8 – Gordon Lofts Planned Retail Lease Rate and Competitive Market Position (Triple-Net)

	<u>Sq. Ft. Available</u>		<u>Monthly Lease Rate</u>		<u>Annual Lease Rate (NNN)</u>	
	<u>Low</u>	<u>High</u>	<u>(NNN) per Square Foot</u>	<u>per Square Foot</u>	<u>Low</u>	<u>High</u>
Six Highest Asking Retail Lease Rates - Eugene						
1079 Valley River Way	1,248	1,248	\$3.00	\$3.00	\$36.00	\$36.00
440-460 Coburg Road	1,170	3,000	\$2.25	\$2.67	\$27.00	\$32.04
1777 Coburg Road	1,341	1,773	\$2.67	\$2.67	\$32.04	\$32.04
747 E 32nd Avenue	1,725	5,371	\$1.83	\$2.50	\$21.96	\$30.00
847 Seneca Road	2,585	2,585	\$2.50	\$2.50	\$30.00	\$30.00
2300-2500 W 11th Avenue	1,020	3,500	\$1.67	\$2.50	\$20.04	\$30.00
Seven Highest Downtown/Broadway Corridor Asking Retail Lease Rates						
630 E 13th Avenue	2,715	2,715	\$2.25	\$2.25	\$27.00	\$27.00
515 E Broadway	1,321	1,321	\$2.23	\$2.23	\$26.76	\$26.76
1203-1245 Willamette Street	600	600	\$1.75	\$1.75	\$21.00	\$21.00
856-888 Willamette Street	3,786	21,628	\$1.35	\$1.35	\$16.20	\$16.20
505-545 High Street	886	886	\$1.58	\$1.58	\$18.96	\$18.96
220 W 8th Avenue	1,866	2,658	\$1.00	\$1.35	\$12.00	\$16.20
959 Pearl Street	2,931	2,931	\$1.30	\$1.30	\$15.60	\$15.60
5th Street Market	0	0	\$2.78	\$2.78	\$33.36	\$33.36
Subject Property - Planned	1,165	9,231	\$2.75	\$2.75	\$33.00	\$33.00

SOURCE: www.loopnet.com, Obie Companies

- The planned \$2.75 per square foot monthly lease rate is slightly lower than the current average 5th Street Market lease rate of \$2.78 per square foot monthly.
- The planned retail lease rate is commensurate with retail concentrations outside of downtown and among the six highest citywide for currently vacant space.

- Among the seven highest asking retail lease rates in downtown for currently vacant space, the Gordon Lofts retail lease rate would be 22% higher than vacant space at 630 E 13th Avenue, which has the highest asking lease rate in the vicinity of downtown.

Retail Lease Rate Conclusions

As among the newest retail space to be developed in downtown Eugene, retail space on the ground floor of Gordon Lofts should be expected to earn a premium for the following:

- New construction;
- Modern space for current tenant needs;
- Part of a mixed-use development supported by housing upstairs;
- Adjacent to a planned market space and nearby a planned, new hotel;
- Situated between a planned new hotel, Inn at the 5th Hotel, and part of a potential retail corridor between the two.

On the other hand, PNW Economics finds that should the planned market space immediately adjacent along 6th Avenue be developed, ground floor retail in the Gordon Lofts will entirely lack visibility from 6th Avenue and will be the least marketable retail space in the combined master-planned development of the site as a result. Retail traffic will depend upon successful joint development of the hotel and the market space and a coordinated marketing effort to move pedestrian retail traffic between the 5th Street Public Market retail node through Gordon Lofts. 6th and 7th Avenues create a pedestrian traffic discontinuity for retail from the south along Willamette and Oak Streets, compounded by the presence of the Hult Center and the Hilton Eugene hotel.

We therefore conclude that \$2.75 per square foot for retail space at the Gordon Lofts for the above reasons is somewhat aggressive. For purposes of pro forma financial analysis in the next section of this report, PNW Economics assumes retail space at Gordon Lofts earns halfway between lease rates at 5th Street Market and at the 630 E 13th Avenue comparable, in the \$2.50 per square foot range.

3. Financial Feasibility Analysis

Financial Feasibility (“Pro Forma”) Assumptions

Debt vs. Equity & Project Financing

Table 9 provides a summary of Applicant project permanent financing assumptions taken from the Gordon Lofts MUPTE application. 79% of project development cost is expected to be financed, with a 21% equity split. This would be below the typical maximum of 80% of cost project cost (loan-to-cost ratio or “LTC”), but only slightly.

Table 9 – Gordon Lofts Project Permanent Debt Finance Assumptions

Total Development Cost	\$34,000,000
Permanent Loan	\$27,000,000
Equity	\$7,000,000
Percent Financed	79%
Annual Interest Rate	6.00%
Term	25
Annual Permanent Debt Service	(\$2,087,537)

PNW Economics views the assumption as reasonable and utilizes these assumptions in its own pro forma analysis of the project with and without MUPTE benefit. But we do mention the following:

- The MUPTE application incorrectly states that the term for the loan would be 30 years. In later confirmation with the City of Eugene, Obie Properties clarified that the term is expected to be 25 years for an annual debt service payment of \$2,087,537. If the term was 30 years, PNW Economics calculates that annual debt service would be \$1,942,544. This would have the effect of modestly increasing Before Tax Cash Flow and modestly increasing cash-on-cash return for the project, the key measure of investment return for equity (dollar investment instead of debt) partners. However, because the effects would be modest, conclusions reached in the pro forma analysis section of this report would not meaningfully change. Both financial terms are given greater explanation beginning on page 16.
- Development of Gordon Lofts will be on land leased from Lane County. The developer, Obie Companies, does not own the underlying land fee simple. Permanent, long-term lending to real estate development on leased land is less common, but it frequently happens and is growing in use. But for the lender to commit to a loan, the process involving the lessor (Lane County), lessee (Obie Companies), and the unnamed lender is more complicated with a longer list of legal assurances, and any perception of increased risk due to the arrangement could have the following effects:
 - Increase the interest rate to reflect a risk premium for the lender;
 - Reduce the LTC ratio and ultimately the size of the loan, requiring the developer to seek additional equity or a “mezzanine” loan, which simply fills any equity gap but will almost certainly charge an interest rate higher than the primary loan.

- To Obie Companies' advantage, the developer has major real estate holdings and development track record in the area, which likely translates into a strong relationship with commercial lending. The long-standing business relationship between Obie Companies and its lender will likely mitigate concerns about lending for development on leased land.

Assumed Rents, Lease Rates & Escalation

Table 10 provides a summary of apartment rents and retail lease rate utilized in the pro forma analyses in this section.

- Apartment rents by unit type are based on a competitive premium relative to First on Broadway unit rents. First on Broadway rents were escalated by 5% annually for two years to reflect the likely delivery of the project in 2020, then a 10% premium was added for Gordon Lofts.
- The retail lease rate of \$2.68 was achieved by assuming a \$2.50 per square foot lease rate more commensurate with the prevailing downtown Eugene market, then escalated by 3.5% annually for two years.
- Annual apartment rent escalation is assumed to be 3%, while annual retail lease rate escalation is assumed to be 3.5%, both consistent with assumptions in the Gordon Lofts MUPTE application.

Table 10 – Gordon Lofts Project Market Apartment Rent & Retail Lease Rate Assumptions

Assumed Rents	2020
Studio per Month	\$1,255
1 Bed per Month	\$1,907
2 Bed per Month	\$2,723
Retail per Month	\$2.68

Operating Expenses

Apartment Operating Expenses

Page 41 of the Gordon Lofts MUPTE application documents that operating expenses as a percentage of income *without MUPTE* is expected to be \$976,208, or \$7,687 per apartment unit annually including property taxes. Based on the past experience of PNW Economics, the operating expense per unit assumed is high. Adjusting for the unusual expense of making lease payments to Lane County (\$62,100 annually), annual operating expense of \$7,198 per unit annually is still on the high side.

- We would expect annual operating expense per apartment unit to be within the \$5,000 to \$6,000 range.

- The National Apartment Association 2017 survey of apartment developments aged 5 years or newer nationwide reported an average of roughly \$5,700-\$5,800 in annual per-unit operating expenses.¹

For pro forma financial analysis in the next section of this report, PNW Economics assumes operating expenses including property taxes and land lease payments at \$6,153 per apartment unit in the first year of the project. The figure is achieved by adjusting the national average of roughly \$5,800 by 3% for two years.

Retail Operating Expenses

Page 41 of the Gordon Lofts MUPTE application documents that expected, first-year operating expenses for retail space to be \$76,568, or 20% of income from retail space including property taxes (\$24,011) and lease payment to Lane County for the retail share of the development (\$4,060).

But because the retail lease rate will be triple-net where tenants are responsible for operating expenses including their own prorated share of property taxes. Therefore, annual operating expense of \$76,568 should be reduced by property tax burden (\$24,011) to \$52,557. Because project completion is assumed to be two years out, annual retail operating expenses of \$55,758 are assumed for the pro forma financial analysis later in this document. \$55,758 for year 1 retail operating expenses is achieved by adjusting the current estimate of \$52,557 by 3% for two years.

¹ https://www.naaq.org/sites/default/files/naa-documents/about-membership/ies_executive_summary_2017.pdf

Financial Feasibility Analysis: Two Scenarios to Compare Rent Income Assumptions

Introduction to Terms

To evaluate whether or not a project is financially feasible, that is whether or not the project meets investment rates of return benchmarks, a pro forma analysis is conducted. A pro forma is simply a financial modeling exercise to examine how a development project performs as a business investment over a specified period of time.

Variables that are modeled, or estimated, in this report are as follows:

Apartment Rent Income: The annual rent income if all apartment units in a project were occupied and charging full, assumed market rent. This grows by 3% each year.

Retail Lease Income: The annual lease income if all retail space in a project were occupied and charging full, assumed market lease rate. This grows by 3.5% each year.

Amenity Income: The Applicant assumes that beginning in Year 1 of the project, \$563,211 in additional rent will be earned due to unique features of different apartments. Section 2 of this report discusses the plausibility of earning such premiums, finding that they are unreasonable given the prevailing downtown Eugene apartment market. Two pro forma scenarios are considered, one beginning on page 18 which assumes unlikely Amenity Income is not earned. The second scenario, which begins on page 20, aggressively assumes that the market accepts such a high rent premium. When included, this increases by 3% annually.

Misc. Income: This represents other income from managing apartments and retail space, including application fees, cleaning fees, deposits kept for damage, and other non-primary project income. This increases by 3% annually.

Gross Project Income: The sum of Apartment Rent Income, Retail Lease Income, Amenity Income (when included), and Misc. Income. This increases annually due to each income stream escalating on their own at different rates.

Vacancy: 5% of apartment space and retail space is assumed to always be vacant and represent income loss.

Absorption Vacancy & Concessions: This category of expense reflects different sources of loss to revenue as a result of project vacancy and discounts to apartment rents to realize and keep an average 5% vacancy rate.

- In year 1 of the project only, PNW Economics assumes a 20% loss in potential rent income will occur due to new units being vacant prior to first occupancy (“absorption”). We would note that this differs from the “Loss to Lease” assumption by the Applicant in their application pro forma analysis. Projects during lease-up, even if it only takes a year, will tend to have lease-up vacancy higher than assumed by the Applicant.
- During assumed 1-year lease-up to stabilized occupancy, a model unit will remain vacant in order to market the project to potential renters. This represents unique, first-year rent income loss.

- Concessions represent average rent discounts every year as part of setting rents to entice or ensure vacancy does not exceed 5%. Concessions grow by 3% annually.

Effective Gross Income: Gross Project Income less Vacancy and Absorption Vacancy & Concessions.

Apartment Operating Expense: Annual operating expenses of \$6,153 per apartment unit starting in year 1 and growing by 3% annually thereafter. In year 1 only, apartment operating expenses are reduced by the 20% absorption vacancy described in the Absorption Vacancy & Concessions definition.

Retail Operating Expense: Annual operating expenses documented by the Applicant, starting at \$55,758 in Year 1 and growing by 3% annually thereafter.

MUPTE: When included, MUPTE is a 10-year exemption from local property taxes levied on the value of the improvement constructed in place, in this case the Gordon Lofts project. Based on an estimated cost-of-replacement of \$34 million and a local, existing total property tax rate of \$0.0186901, the estimated MUPTE exemption beginning in year 1 would be \$378,636. This would increase by an assumed 3% annually, consistent with the annual maximum under Oregon property tax law.

Net Operating Income (NOI): Effective Gross Income less Apartment Operating Expense less Retail Operating Expense plus the MUPTE (if assumed).

Debt Service: The annual, fixed debt service payment made by the developer for permanent debt financing of the project.

Before Tax Cash Flow: Net Operating Income Less Debt Service.

Cash-on-Cash Return: Before Tax Cash Flow divided by development equity (\$7 million in this analysis). Cash-on-Cash Return is also known as Return on Equity and usually needs to be at least 6% in early years of a project to be a satisfactory investment for equity partners in a project. This can vary depending upon developer and equity partners, however.

Value: The estimated market value of the development based on the “income valuation method.” Calculated as Net Operating Income divided by a Capitalization (“Cap”) Rate, which is a measure of development risk for a future stream of business income over a period of time. A higher cap rate signifies a higher risk investment and vice versa. The assumed cap rate in this analysis is 6%.

Loan-To-Cost (LTC): The amount of debt a project can take on as a percentage of its cost to develop. This analysis assumes a 79% LTC ratio consistent with the Applicant.

Loan-To-Value (LTV): An alternative measure of maximum debt that a project can take on, calculated as a percentage of the Value calculated utilizing Net Operating Income. 75% LTV is common.

Debt Coverage Ratio (DCR): Another alternative measure of maximum debt that a project can take on, calculated by dividing stabilized Net Operating Income (when occupancy is at 95%) by a factor such as 1.20, a common debt coverage ratio. The resulting quotient is the maximum annual debt service obligation a project can take on.

Equity: The share of total development cost that is funded by invested dollar assets rather than by debt.

Scenario 1: Market-Achievable Rents

Market-Achievable Rents Pro Forma Without MUPTE

Table 11 reports the resulting pro forma analysis of Gordon Lofts without MUPTE assuming the project earns market-achievable rents only, but cannot earn the additional Amenity Based Income due to that additional rent being found to be aggressive for the downtown Eugene apartment market.

Results indicate that without the tax exemption, the project would earn a **-10.7%** cash-on-cash return for year 1 and would earn a negative cash-on-cash return until year 6 of the analysis. The project is not feasible and would certainly not be developed given the early and consistent losses. Basically, development costs are unsubstantiated by potential income from rent. As a further sign of being unfeasible:

- There is an estimated debt gap of \$3,995,814 (loan-to-value method), meaning that the project doesn't earn enough income to justify the development's planned \$27 million loan.
- There is also an estimated debt gap of \$5,591,197 assuming the more stringent debt coverage ratio method of figuring the potential maximum loan for the project.

Table 11 – Scenario 1 Pro Forma Without MUPTE: Market-Achievable Rents Only

		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income		\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income		\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income	4%	<u>\$108,488</u>	<u>\$111,802</u>	<u>\$115,217</u>	<u>\$118,737</u>	<u>\$122,365</u>	<u>\$126,104</u>	<u>\$129,958</u>	<u>\$133,930</u>	<u>\$138,023</u>	<u>\$142,242</u>
Gross Project Income		\$2,820,686	\$2,906,849	\$2,995,651	\$3,087,173	\$3,181,498	\$3,278,713	\$3,378,907	\$3,482,170	\$3,588,598	\$3,698,287
- Vacancy	5%	<u>(\$141,034)</u>	<u>(\$145,342)</u>	<u>(\$149,783)</u>	<u>(\$154,359)</u>	<u>(\$159,075)</u>	<u>(\$163,936)</u>	<u>(\$168,945)</u>	<u>(\$174,109)</u>	<u>(\$179,430)</u>	<u>(\$184,914)</u>
- Absorption Vacancy & Concessions		<u>(\$679,134)</u>	<u>(\$23,083)</u>	<u>(\$23,775)</u>	<u>(\$24,489)</u>	<u>(\$25,223)</u>	<u>(\$25,980)</u>	<u>(\$26,760)</u>	<u>(\$27,562)</u>	<u>(\$28,389)</u>	<u>(\$29,241)</u>
= Effective Gross Income		\$2,000,517	\$2,738,423	\$2,822,093	\$2,908,325	\$2,997,200	\$3,088,798	\$3,183,202	\$3,280,500	\$3,380,779	\$3,484,132
- Apartment Operating Expense		<u>(\$606,304)</u>	<u>(\$832,658)</u>	<u>(\$857,638)</u>	<u>(\$883,367)</u>	<u>(\$909,868)</u>	<u>(\$937,164)</u>	<u>(\$965,279)</u>	<u>(\$994,237)</u>	<u>(\$1,024,064)</u>	<u>(\$1,054,786)</u>
- Retail Operating Expense		<u>(\$55,758)</u>	<u>(\$57,430)</u>	<u>(\$59,153)</u>	<u>(\$60,928)</u>	<u>(\$62,756)</u>	<u>(\$64,638)</u>	<u>(\$66,578)</u>	<u>(\$68,575)</u>	<u>(\$70,632)</u>	<u>(\$72,751)</u>
+ MUPTE		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
= Net Operating Income (NOI)		\$1,338,455	\$1,848,335	\$1,905,302	\$1,964,031	\$2,024,576	\$2,086,995	\$2,151,346	\$2,217,687	\$2,286,083	\$2,356,595
- Debt Service (79% Loan-to-Cost)		<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>
= Before Tax Cash Flow		<u>(\$749,082)</u>	<u>(\$239,202)</u>	<u>(\$182,235)</u>	<u>(\$123,506)</u>	<u>(\$62,961)</u>	<u>(\$542)</u>	\$63,809	\$130,150	\$198,546	\$269,058
Cash-on-Cash Return		-10.7%	-3.4%	-2.6%	-1.8%	-0.9%	0.0%	0.9%	1.9%	2.8%	3.8%
Value - 6% Cap Rate	6%	\$22,307,590	\$30,805,581	\$31,755,028	\$32,733,843	\$33,742,938	\$34,783,254	\$35,855,760	\$36,961,457	\$38,101,376	\$39,276,580
Maximum Private Loan (6% Interest)											
Loan-to-Cost (Applicant Plan)	79%	(\$27,000,000)									
Loan-To-Value	75%	(\$23,104,186)									
Debt Coverage Ratio	1.2	(\$21,408,803)									
Total Development Cost			\$34,000,000								
Developer-Planned Equity (Total Cost Less Loan)			\$7,000,000								

Market-Achievable Rents With MUPTE

Table 12 reports the same pro forma as Table 11, but assumes the project is awarded the MUPTE equal to \$378,635 in its first year and growing by 3% every year thereafter. The project's estimated cash-on-cash return in Year 1 is -5.3% and is not expected to reach the typical minimum threshold return of 6.0% until year 6.

In this scenario, where market achievable rents only are earned income, MUPTE certainly dramatically changes the outcome for return on equity and project feasibility. But the project is still not feasible due to the -5.3% cash-on-cash return in year 1 and nearly three-year wait for cumulative cash flow to be positive. As a further sign of being unfeasible:

- There is an estimated debt gap of \$1,073,993 assuming the more stringent debt coverage ratio method of figuring the potential maximum loan for the project.

Table 12 – Scenario 1 Pro Forma With MUPTE: Market-Achievable Rents Only

		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income		\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income		\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income	4%	\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$2,820,686	\$2,906,849	\$2,995,651	\$3,087,173	\$3,181,498	\$3,278,713	\$3,378,907	\$3,482,170	\$3,588,598	\$3,698,287
- Vacancy	5%	(\$141,034)	(\$145,342)	(\$149,783)	(\$154,359)	(\$159,075)	(\$163,936)	(\$168,945)	(\$174,109)	(\$179,430)	(\$184,914)
- Absorption Vacancy & Concessions		(\$679,134)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
= Effective Gross Income		\$2,000,517	\$2,738,423	\$2,822,093	\$2,908,325	\$2,997,200	\$3,088,798	\$3,183,202	\$3,280,500	\$3,380,779	\$3,484,132
- Apartment Operating Expense		(\$606,304)	(\$832,658)	(\$857,638)	(\$883,367)	(\$909,868)	(\$937,164)	(\$965,279)	(\$994,237)	(\$1,024,064)	(\$1,054,786)
- Retail Operating Expense		(\$55,758)	(\$57,430)	(\$59,153)	(\$60,928)	(\$62,756)	(\$64,638)	(\$66,578)	(\$68,575)	(\$70,632)	(\$72,751)
+ MUPTE		\$378,635	\$389,994	\$401,694	\$413,745	\$426,157	\$438,942	\$452,110	\$465,673	\$479,643	\$494,033
= Net Operating Income (NOI)		\$1,717,090	\$2,238,329	\$2,306,996	\$2,377,775	\$2,450,733	\$2,525,937	\$2,603,456	\$2,683,361	\$2,765,726	\$2,850,628
- Debt Service (79% Loan-to-Cost)		(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)
= Before Tax Cash Flow		(\$370,447)	\$150,792	\$219,459	\$290,238	\$363,196	\$438,400	\$515,919	\$595,824	\$678,189	\$763,091
Cash-on-Cash Return		-5.3%	2.2%	3.1%	4.1%	5.2%	6.3%	7.4%	8.5%	9.7%	10.9%
Value - 6% Cap Rate	6%	\$28,618,173	\$37,305,482	\$38,449,926	\$39,629,588	\$40,845,555	\$42,098,950	\$43,390,927	\$44,722,679	\$46,095,434	\$47,510,460
Maximum Private Loan (6% Interest)											
Loan-to-Cost (Applicant Plan)	79%	(\$27,000,000)									
Loan-To-Value	75%	(\$27,979,112)									
Debt Coverage Ratio	1.2	(\$25,926,007)									
Total Development Cost											
\$34,000,000											
Developer-Planned Equity (Total Cost Less Loan)											
\$7,000,000											

Scenario 2: Applicant-Assumed Rent Income

The second two pro forma scenarios assume that Gordon Lofts somehow achieve planned Amenity Based Income totaling \$563,211 in project Year 1 as discussed in this document.

Applicant-Assumed Rent Income Without MUPTE

Table 13 reports the results of the pro forma analysis of the project without MUPTE but also assuming it earns market achievable rents and, aggressively, also earns Applicant-anticipated Amenity (Based) Income. The primary difference between Table 13 and Table 11 is the inclusion of Amenity Income, though resulting calculations of performance and return are different as a result.

Analysis in Table 13 indicates that without MUPTE under this scenario, the project earns a first-year cash-on-cash return of **-5.1%**. Cash-on-cash return becomes positive in Year 2 and grows thereafter, reaching at least 6.6% in year 3.

Still, without MUPTE, the project is infeasible as the developer would have to absorb a significant cash loss and negative return on equity in the first year, take more than a year additionally to recover the loss, and not reach the minimum benchmark 6.0% rate of return until year 4. And though cash-on-cash return is positive in year 2 and year 3, it must be remembered that a minimum return benchmark is crucial because equity investor(s) will place their funds where the highest rate of return occurs given expected risk. Other investment vehicles such as stocks, funds, or other opportunities can and will achieve at least 6% annually with less risk than complicated real estate development opportunity.

Table 13 – Scenario 2 Pro Forma Without MUPTE: Market-Achievable Rents with Amenity Income

		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income		\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income		\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income		\$563,211	\$580,107	\$597,511	\$615,436	\$633,899	\$652,916	\$672,503	\$692,678	\$713,459	\$734,863
Misc. Income	4%	\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,383,897	\$3,486,956	\$3,593,161	\$3,702,609	\$3,815,397	\$3,931,629	\$4,051,410	\$4,174,849	\$4,302,057	\$4,433,150
- Vacancy	5%	(\$169,195)	(\$174,348)	(\$179,658)	(\$185,130)	(\$190,770)	(\$196,581)	(\$202,571)	(\$208,742)	(\$215,103)	(\$221,657)
- Absorption Vacancy & Concessions		(\$819,937)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
= Effective Gross Income		\$2,394,765	\$3,289,525	\$3,389,728	\$3,492,989	\$3,599,404	\$3,709,068	\$3,822,080	\$3,938,544	\$4,058,565	\$4,182,252
- Apartment Operating Expense		(\$606,304)	(\$832,658)	(\$857,638)	(\$883,367)	(\$909,868)	(\$937,164)	(\$965,279)	(\$994,237)	(\$1,024,064)	(\$1,054,786)
- Retail Operating Expense		(\$55,758)	(\$57,430)	(\$59,153)	(\$60,928)	(\$62,756)	(\$64,638)	(\$66,578)	(\$68,575)	(\$70,632)	(\$72,751)
+ MUPTE		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
= Net Operating Income (NOI)		\$1,732,703	\$2,399,437	\$2,472,937	\$2,548,695	\$2,626,780	\$2,707,265	\$2,790,224	\$2,875,732	\$2,963,868	\$3,054,714
- Debt Service (79% Loan-to-Cost)		(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)
= Before Tax Cash Flow		(\$354,834)	\$311,900	\$385,400	\$461,158	\$539,243	\$619,728	\$702,687	\$788,195	\$876,331	\$967,177
Cash-on-Cash Return		-5.1%	4.5%	5.5%	6.6%	7.7%	8.9%	10.0%	11.3%	12.5%	13.8%
Value - 6% Cap Rate	6%	\$28,878,385	\$39,990,614	\$41,215,612	\$42,478,244	\$43,779,672	\$45,121,089	\$46,503,731	\$47,928,867	\$49,397,808	\$50,911,904
Maximum Private Loan (6% Interest)											
Loan-to-Cost (Applicant Plan)	79%	(\$27,000,000)									
Loan-To-Value	75%	(\$29,992,960)									
Debt Coverage Ratio	1.2	(\$27,792,079)									
Total Development Cost			\$34,000,000								
Developer-Planned Equity (Total Cost Less Loan)			\$7,000,000								

Applicant-Assumed Apartment Rent Income With MUPTE

Table 14 displays the final pro forma analysis for Gordon Lofts with MUPTE and assuming the project earns both achievable market rents and, aggressively, also earns Applicant-anticipated Amenity (Based) Income.

As indicated in Table 14, the MUPTE makes a crucial difference in project performance in year 1 with an estimated cash-on-cash return of **0.3%**, but again only if the project implausibly earns planned rents plus Amenity Income as discussed on page 11 of this report. In year 2, cash-on-cash return is estimated at 10.0% and above the common, minimum benchmark of 6%. The return measure grows steadily thereafter and reaches an estimated 20.9% by Year 10 under these more aggressive assumptions.

MUPTE in this case renders the project feasible under the less-plausible Amenity (Based) Income assumption of this scenario. But again, PNW Economics notes that Amenity (Based) Income expected by the Applicant is aggressive for the market and should not be expected to materialize as planned.

Table 14 – Scenario 2 Pro Forma With MUPTE: Market-Achievable Rents with Amenity Income

		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income		\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income		\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income		\$563,211	\$580,107	\$597,511	\$615,436	\$633,899	\$652,916	\$672,503	\$692,678	\$713,459	\$734,863
Misc. Income	4%	\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,383,897	\$3,486,956	\$3,593,161	\$3,702,609	\$3,815,397	\$3,931,629	\$4,051,410	\$4,174,849	\$4,302,057	\$4,433,150
- Vacancy	5%	(\$169,195)	(\$174,348)	(\$179,658)	(\$185,130)	(\$190,770)	(\$196,581)	(\$202,571)	(\$208,742)	(\$215,103)	(\$221,657)
- Absorption Vacancy & Concessions		(\$819,937)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
= Effective Gross Income		\$2,394,765	\$3,289,525	\$3,389,728	\$3,492,989	\$3,599,404	\$3,709,068	\$3,822,080	\$3,938,544	\$4,058,565	\$4,182,252
- Apartment Operating Expense		(\$606,304)	(\$832,658)	(\$857,638)	(\$883,367)	(\$909,868)	(\$937,164)	(\$965,279)	(\$994,237)	(\$1,024,064)	(\$1,054,786)
- Retail Operating Expense		(\$55,758)	(\$57,430)	(\$59,153)	(\$60,928)	(\$62,756)	(\$64,638)	(\$66,578)	(\$68,575)	(\$70,632)	(\$72,751)
+ MUPTE		\$378,635	\$389,994	\$401,694	\$413,745	\$426,157	\$438,942	\$452,110	\$465,673	\$479,643	\$494,033
= Net Operating Income (NOI)		\$2,111,338	\$2,789,431	\$2,874,631	\$2,962,439	\$3,052,937	\$3,146,207	\$3,242,334	\$3,341,405	\$3,443,512	\$3,548,747
- Debt Service (79% Loan-to-Cost)		(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)
= Before Tax Cash Flow		\$23,801	\$701,894	\$787,094	\$874,902	\$965,400	\$1,058,670	\$1,154,797	\$1,253,868	\$1,355,975	\$1,461,210
Cash-on-Cash Return		0.3%	10.0%	11.2%	12.5%	13.8%	15.1%	16.5%	17.9%	19.4%	20.9%
Value - 6% Cap Rate	6%	\$35,188,968	\$46,490,515	\$47,910,510	\$49,373,989	\$50,882,289	\$52,436,785	\$54,038,897	\$55,690,088	\$57,391,866	\$59,145,784
Maximum Private Loan (6% Interest)											
Loan-to-Cost (Applicant Plan)	79%		(\$27,000,000)								
Loan-To-Value	75%		(\$34,867,886)	\$7,867,886	If negative, represents a gap in maximum debt due to insufficient NOI under Loan-to-Value method						
Debt Coverage Ratio	1.2		(\$32,309,283)	\$5,309,283	If negative, represents a gap in maximum debt due to insufficient NOI under Debt Coverage Ratio method						
Total Development Cost			\$34,000,000								
Developer-Planned Equity (Total Cost Less Loan)			\$7,000,000								

MEMORANDUM

To: Amanda Nobel Flannery
Anne Fifield
CITY OF EUGENE

From: Bill Reid, Principal
PNW ECONOMICS

Subject: Response to MUPTE Citizen Advisory Committee: Consultant Questions

Date: August 29, 2018

This memorandum is intended as a response to questions from the City of Eugene MUPTE citizen advisory committee regarding PNW Economics' review of Obie Companies' MUPTE application. Each question from the advisory committee are addressed in turn below.

1. Does use of 25 year rather than 30 year amortization have a significant effect? See Report at 13. It appears to significantly increase the cash on cash cash flow return by about 2% each year under the various scenarios, reduce non-viability, with MUPTE and without amenity income, from 5 to 3 years, and achieve adequate DCR in year 2 rather than year 6, under your analysis.

Consultant Response: All things equal, a 30-year term for debt would decrease annual debt service by order of magnitude observed in the question and would generally enhance cash flow and cash-on-cash return under all scenarios. But all things are not equal, and a longer-term permanent loan would necessarily be charged a higher interest rate by the lender. So we cannot know exactly what the annual debt service payment would be on a 30-year vs. a 25-year without knowing the consequence to the interest rate from extending the term, though we can be certain the rate would go up by some amount. Though different terms and interest rates are an interesting hypothetical, our charge was to critically review application assumptions only as documented by the Applicant.

2. Would use of 30 year amortization rather than 25 year amortization reduce the annual debt service on the project by about \$145,000? Why would someone who had a choice use a 25 year rather than a 30 year amortization, especially if they were focused on cash flow cash on cash return?

Consultant Response: Again, with a longer term on the permanent loan, we only know that the interest rate would be higher by some amount. Therefore, it cannot be said with certainty how much annual debt service would decrease with a longer term and higher interest rate. 25-year terms are very common on permanent commercial loans. 30-year terms are actually more common for home mortgage loans than for commercial loans. A 25-year term for permanent debt may also be necessary due to the fact that this development is planned to occur on leased land. In order to borrow for

development on leased land, lenders usually require that the lease term extend 5 to 10 years beyond the term of the permanent loan for recourse purposes should the loan default.

3. Would most multi-family housing financing options allow use of a 30 year amortization as opposed to requiring use of a 25 year amortization?

Consultant Response: 25 years is a very common term for permanent financing of development. Terms can range from 17 years to 30 years, but truly a 30-year term for permanent commercial lending on a multifamily housing project is not the most common.

4. Your tables show apartment operating expenses which you calculated using a national average, resulting in expenses of \$6,153 per unit in the first year. When multiplied times 127 units, this results in apartment operating expenses of \$781,431. Your table uses \$606,304 in the first year. Did you reduce the first year expenses due to absorption issues? The second year presumably would be \$781,431 plus 3% or \$804,874. How did you get \$832,658 in the second year, which is almost \$28,000 more than the \$804,874? A similar differential is carried through years 3-10.

Consultant Response: Indeed, first year expenses are reduced by absorption vacancy loss and model unit vacancy loss as defined in the review report pages 16-17. In the second year, occupancy is assumed to have reached stabilized 95% occupancy along with the 3% escalation of expenses between year 1 and year 2. Years 2 through 10 assume continued 95% occupancy with 3% annual escalation in expenses.

5. As you pointed out, the commercial leases for the first floor commercial space would be triple net (NNN), which means that the commercial tenant pays the property taxes. Report at 15. The property taxes for the commercial space would not be paid by the owner/applicant or would be reimbursed to the owner/applicant by the tenants. You apparently removed the commercial space property taxes as an expense in your pro formas. Should your pro formas on page 19 and 21 add back as a negative expense, for the with MUPTE scenario, only the apartment property taxes and not the total property taxes including commercial? Similarly, should the applicant's pro forma without MUPTE include as an expense only the apartment property taxes and not the property taxes attributable to the commercial space?

Consultant Response: Although the City would need to confirm the technical workings of MUPTE, PNW Economics' reading of the exemption is that it is based on the total taxable assessed value of improvements regardless of who actually pays the tax bill. Therefore, reduction from MUPTE is fully credited to the Applicant in its pro forma. How the Applicant chooses to reimburse commercial tenants, if it chooses to, would be up to the Applicant. In terms of the Applicant's pro forma, it would be our recommendation that the Applicant reduce its operating expense by the extent to which retail tenants pay property tax on the commercial space along with the triple-net lease rate.

6. The county allows a 3% property tax reduction for payment on the November due date. Should this reduction be included in the applicant's without MUPTE pro forma for property taxes? This may not be relevant to your analysis which appears to use national averages for expenses including property taxes, except that you add back the actual estimated property

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taxes to reflect MUPTE. Should the amounts you add back be reduced by 3% to reflect paying by the due date?

Consultant Response: The Applicant could certainly modify its pro forma to reflect this discount, should they choose to do so. The reduction would increase cash flow each year, as well as cash-on-cash return for the Applicant, though modestly. Property tax calculation in the MUPTE application as well as by PNW Economics is based on the City of Eugene combined property tax rate applicable for the subject site rather than national averages.

7. Could you provide the national average individual items of expense, including property tax per unit, which you used? Did you use the Total column on page 7 of the survey you cited?

Consultant Response: PNW Economics' assumed a flat total expense figure per unit of \$6,153 beginning in Year 1 excluding property taxes. We did not itemize expenses by category or detail. The \$6,153 per-unit figure is based on a current \$5,800 per-unit average expense per the cited National Apartment Association survey, then escalated for two years by 3% annually to the assumed project completion year timeline.

8. Should you add back the average property taxes rather than actual estimated property taxes for the MUPTE scenario since you used average and not actual property taxes as expenses? This may zero out property taxes rather than add an amount for the differential between actual estimated property taxes and the national average. From the survey, the property taxes of \$1,741/ unit for 127 units is \$221,107. Adding back actual estimated first year property taxes \$378,635, would seem to give a bonus of \$157,528 to the with MUPTE analysis in the first year.

Consultant Response: National average operating expenses utilized by PNW Economics excludes the national average property tax portion. Local property tax burden is distinct in Oregon under state property tax law, as well as the specific issue of the MUPTE application.

9. Since no moderate income fee is required without MUPTE, should the moderate income fee be deducted from the without MUPTE budget, so the loan is less for the without MUPTE scenario?

Consultant Response: In this case, yes the permanent financing would be reduced by the absence of the fee in the without MUPTE scenario. The assumed fee from Application Page 5, Item 4 is \$378,600. This would reduce annual debt service on a 25-year loan at 6% by \$2,440.

10. The applicant included budget construction contingencies of \$4,355,989 (\$3,163,312 for contractor contingency and \$1,192,677 for owner contingency), with construction hard costs of \$23,005,649. Construction contingencies were thus 18.93% of construction hard costs. There were separate contingencies for various soft construction costs. 5% of construction hard costs would be \$1,150,282, and 10% would be \$2,300,565. What is the appropriate percentage of construction hard costs to use for the construction contingency?

Consultant Response: In PNW Economics' experience, a 20% construction contingency is common, particularly in the case of unique, difficult, or unprecedented projects. The nature of Obie Companies

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proposed apartments would qualify for such a classification in our view. The 7-story construction typology, in a narrow building structure to also accommodate planned new redevelopment immediately adjacent, and affecting nearby traffic and existing, income-generating parking space nearby with construction staging and logistics will undoubtedly pose unexpectedly higher costs than a less-challenging site and development type with track record in Eugene and resulting economies of cost.

11. The applicant included \$81,238 as an annual expense for “Reserves” for the apartments and \$8,566 as “Reserves” for the Commercial portion. Is it appropriate to include “Reserves” in annual expenses, given that they are not actually paid out to a third party as an expense? They apparently are not used to calculate NOI. The survey you used in your analysis did not appear to include “Reserves” in national average operating expenses (using the Total column on page 7).

Consultant Response: We have seen a Reserves set aside in different project planning pro formas not unlike the assumption in the Obie Companies application. However, the rate can vary from development to development based on who operates and manages the project and how. As the likely owner-developer of Gordon Lofts, Obie Companies would itself likely plan for such Reserves costs as the long-term owner of the project and likely source of funds for later repair and replacement. It would be reasonable to ask the Applicant about their Reserves and operating cost assumptions as the application provides no basis for its assumptions beyond the explanation that information is based on the credibility of a management company retained by the Applicant. Relative to other expense items, however, we would not view modifications to Reserves assumptions as significant.

12. The applicant included first year negative apartment income for “Less Loss to Lease” of \$55,152. The applicant defined “Loss to lease” as “[t]he difference between market rent and in place contract rent.” App at 36. Does loss to lease have any relevance in a pro forma where all apartment lease payments are calculated to increase automatically 3% each year? Does loss to lease apply in the first year?

Consultant Response: PNW Economics has never seen the term “Loss to Lease” utilized in a new development pro forma. It is our understanding that the term is more common and applicable to existing apartment projects that experience cost due to vacant units being repaired, renovated, or remodeled and thus not occupied and earning rent income. In our experience, the Absorption Vacancy Loss term and assumption is far more common and reflects the fact new apartment units do take time to become leased for the first time and the resulting, unusual beginning vacancy rate strictly from beginning lease-up activity. For this reason, our analysis utilizes the Absorption Vacancy Loss term and assumption as described on pages 16-17 of our report.

13. The applicant included first year negative apartment income for “Less to Model Room/Concessions” of \$75,248. The applicant defined “Model” as a “select apartment set up to tour which is not considered rentable during lease up.” The applicant defined “Concessions” as a “discount offered as an incentive for signing a lease or renewal agreement.” App at 36. Does “Less to Model Room” have any relevance for the first year in the pro forma if the Model Room is part of the assumed 5% vacancy and would

or should be rented if it was the last available unit? Would the model room be part of the 5% assumed vacancy?

Consultant Response: Model rooms, which are furnished for purposes of marketing the project to potential renters, are intentionally kept vacant at least as long as the initial lease-up period, in this case for one year. The intentional vacancy of the unit purely for marketing purposes is in excess of stabilized 5% market vacancy and is therefore an income loss in excess of the stabilized 5% vacancy loss.

14. How did you calculate \$679,134 for first year “Absorption Vacancy & Concessions,” without amenity income? You indicated that you assumed “a 20% loss in potential rent due to new units being vacant prior to first occupancy (‘absorption’).” Report at 16. Did you base this on Gross Project Income (GPI) or did you exclude Retail Lease Income. 20% of GPI, without amenity income, in the first year in your pro forma is \$564,137, which is lower than your number by \$114,997. You indicate that a model room will remain vacant (see question 12 above). Are you adding the applicant’s category of “Less to Model Room/Concessions” of \$75,248 to the \$564,137. which would total \$639,385? With the 5% annual vacancy rate and the 20% first year absorption rate, would this total 25% first year absorption vacancy rate? The first year “Absorption Vacancy & Concessions” of 679,134 plus the first year 5% vacancy of \$141,034 total \$820,168 first year vacancy & concessions, which is 29% of first year GPI, without amenity income. Similar questions would apply to the first year GPI with amenity income, where you use “Absorption Vacancy & Concessions” of \$819,937.

Consultant Response: Without amenity income (First Scenario), calculations are based on the first income line item “Apartment Rent Income” which is purely assumed unit rents as described in Table 10 of the PNW Economics report. GPI in the First Scenario (market rents only) “zeros out” Amenity Income (pro formas line 3). Per the answer to Question 13, PNW Economics Less to Model Room is included as an expense that is subtracted from Income calculations to achieve Net Operating Income. Absorption Vacancy of 20% for Year 1 includes the 5% stabilized vacancy plus 15% additional absorption vacancy. Absorption Vacancy does not include the intentional vacancy of a Model Unit. Vacancy as described in Year 1 is applied similarly between the First Scenario (market rents only) and the Second Scenario (market rents plus amenity income).

15. Do you believe a developer incentive is appropriate for use in analyzing whether a MUPTE, which is another developer incentive, should be granted? In other words, should the return without MUPTE be deemed inadequate due in part to the developer receiving incentive funds out of the loan, increasing the loan and debt service?

Consultant Response: The effect of MUPTE is to reduce operating expenses for the project, thus enhancing the project as investment by equity interests seeking cash payback and ultimately rendering the project a viable investment that can be constructed with equity and debt. MUPTE does not affect the upfront development cost of the project and the resulting permanent financing required.

16. Jerry Johnson previously defined “Return on Equity or Equity Yield Rate or Cash on Cash” as “the net cash flow after interest costs divided by the developer equity,” excluding “payments towards principal as interest costs.” Olive Lofts Report at 7. You defined “Cash-

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on-Cash Return” as “Before Tax Cash Flow divided by development equity,” stating that it was “also known as Return on Equity * * *.” Report at 17. Why is it not appropriate to include payments towards principal in the cash on cash return or return on equity?

Consultant Response: For project evaluation purposes, either calculation is acceptable and are virtually the same. Cash-on-cash return is a benchmark of importance for evaluating early-year payback risk for equity investors. Early year debt service in an amortization schedule is virtually all interest and very little principal payback. Therefore in early-year (years 1-2) cash-on-cash return analysis, including miniscule payment on principal according to the amortization schedule or not including it are insignificantly different.

17. Why is it not appropriate to include appreciation in value in calculating the return? In your Table 11, without MUPTE and without any amenity income, the property achieves a 10th year value of \$39,276,580, which is an increase of \$8,470,999 over the year 2 value, a 27.5% increase. Appreciation in Table 11 adds a 3.1% annual return (not including from years 1-2) to the cash flow return and to the return from payments to principal.

Consultant Response: All appreciation in value in the pro forma is based purely on rent escalation vs. expense escalation as time progresses. Ultimately, as an income property, escalation in net income from this differential is what determines the market value of the property based on standard, income-based valuation.

18. The applicant and you used a 6% interest rate. Would a lower rate such as 5.5% be justified, given current lower rates?

Consultant Response: Alternative interest rates for the project are speculative at best. PNW Economics critically evaluated application assumptions as documented by the Applicant. We traditionally utilize conservative assumptions which would include a bias towards a higher interest rate rather than a lower one to model less optimistic cash flow risk. Further, the project will be constructed on leased land and, therefore, permanent financing will likely view this as higher risk with slightly higher interest rate rather than lower risk with lower interest rate.

19. I would like to go through the applicant's building costs on page 38, line by line, with the consultant, to see if they are reasonable. Specifically, contractor and owner contingencies seem excessive at \$4,355,989 and developer costs and incentives at \$1,256,100 seems excessive in lieu of receiving a MUPTE. I would like to make sure there is no duplication in the building costs. Certainly, the moderate-income housing fee should be eliminated for all proformas that do not include MUPTE.

Consultant Response: PNW Economics admits to not being the best qualified consultant for a detailed audit of every individual development cost assumption for the Obie Companies project, like a general contractor or architect would be. We can say, however, that the total development costs and different individual cost categories in the expected development cost spreadsheet are credible based on our experience reviewing other projects. For comparability, we would specifically cite the 5-story apartments component of the Independence Landing mixed-use project in Independence, Oregon that

is currently under construction. That project comprises both a significant, new apartment project along with a boutique hotel. Total development costs per square foot expected for that project adjusted to 2018 dollars (\$229 per square foot vs. \$297 per square foot for Gordon Lofts) indicate credibility for the Gordon Loft development cost assumptions in our opinion for three reasons:

- a) We would expect a 25% to 30% total cost-per-square-foot premium for the 7-story construction typology planned for Gordon Lofts over Independence Landing. Gordon Lofts is a “5-Over-2” or “Seattle Midrise” project, whereby a 20-foot reinforced concrete podium is built to house ground floor commercial uses and five stories of wood-frame (“stick-built”) apartments on top. This type of construction is definitively more expensive per square foot than five-story construction, which can be built with significantly more wood frame component, and therefore commensurately (25%-30%) cheaper as a result.
- b) We would expect that rents at Gordon Loft, as a “5-over-2” or “Seattle Midrise” construction type would need to be 25% to 30% to make it financially feasible. And in fact, the “Amenity Based Income” premium that our MUPTE review discusses compared to base rents is a 26% average rent premium over current market.
- c) It is our understanding that Obie Companies would retain ownership of Gordon Lofts as an income property for indefinite duration as part of their broader downtown development plan. In our experience, developers as long-term owners – and especially as part of a broader development effort – will tend to have different financial return criteria than other types of developers. First, owner-developers who face long-term depreciation and cost-of-replacement planning will tend to develop projects of higher construction quality that do not deteriorate and pose higher capital replacement costs later in the lifetime of the project. The typical real estate developer will develop a project, lease it up to stabilized occupancy to maximize its value, and then after a definite duration will sell the project at its maximum value once stabilized. Most developers, therefore, do not expect to be taking on renovation/capital costs when planning the project and its construction costs because they do not plan to be owning the project in later years. Obie Companies likely does expect to hold Gordon Lofts based on past development track record and, therefore, PNW Economics finds it credible that development costs for Gordon Lofts may be planned for purposes of minimizing later-year, significant repair and replacement costs.

20. How has the consultant accounted for property taxes? Are they based on averages from the 2017 NAA survey? In the proformas with MUPTE an exact amount is used, does this overstate the averaged amount?

Consultant Response: Based on our own experience modeling urban renewal and property tax exemptions under Oregon’s property tax law (Measure 50), we find the Applicant’s analysis of property tax rate and taxable assessed value of their project (cost of replacement-based) to be credible. Therefore, we utilized their results for our own analysis. Oregon property tax law is distinct compared to national averages for keeping property tax rates permanent and then applying reductions (“change

ratios”) to the value of new construction to adjust them to the base year of the permanent property tax rates. National averages fail to address this distinct aspect of Oregon property tax law.

21. Where are other expenses covered in the consultants proformas and what is the source?

Consultant Response: Per the answer to Question 7, we assumed a flat, total annual operating expense – excluding applicable property taxes – based on National Apartment Association 2017 operating cost survey data cited in our review report. We did not itemize cost categories.

22. Where is Obie at in the process for getting financing?

Consultant Response: We would defer to the Applicant for the answer to this question. We would expect, however, that the process of guaranteeing financing awaits the decision by the City regarding the MUPTE. While our review of Application pro forma analysis indicates differences of quantified results, we agree with the conclusion that MUPTE is a crucial contributor to the financial viability of the Gordon Lofts project, and its enhancement of developer cash flow will undoubtedly be viewed favorably by lending as well as possible equity investment partners. In other words, we expect that award of MUPTE will likely have crucial effect upon quantitative financial results as well as development deal structure and financing reality.

23. Seems strange that they can build a project that won't pencil. Reid's report seems to be a different reality than Obie's market study.

Consultant Response: First, the market study by Johnson Economics in our understanding has not been released for review. Second, please see the answer to Question 19, particularly part c.) for an explanation for why development costs may credibly be higher and thus early year financial return may be lower than optimal for a typical project. We would also note that because of previous, nearby successful development, Obie Companies may also not be seeking equity investment partners in similar manner to other apartment projects. Equity partners may be involved in the broader development plan including the hotel and market. For review purposes, all of us are looking at the financials for the mixed-use apartment project by itself. We do not, however, have access to broader development plan pro forma analysis and information that equity investors besides Obie Companies, if any, might be viewing that takes into account other development (new hotel, market) that may financially mitigate early poor performance by the Gordon Lofts component. It should also be noted that if Obie Companies is the primary (if not sole) source of equity investment in the project, and as owner-developer, they are less sensitive to cash-on-cash performance than a typical developer or project. Outside equity investment partners are typically more sensitive to measures of cash return and payback because they see this as one of many investment options for their money and purely see it that way. Obie Companies, on the other hand, would more likely look at this project as a long-term source of additional cash flow that may underperform early in terms of standard return measures, but ultimately provides growing cash flow and does not view this project as one of many options for investment of funds purely based on rate of return. In summary, and in other words, different

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developers have different measures of financial viability and success, especially owner-developers looking at long-term hold, operation, and cash flow generation over time.

24. Consultant to please evaluate the categories and relative amounts listed in the application on page 38. Are they consistent with what is typical?

Consultant Response: Please see the answer to Question 19.

MEMORANDUM

To: Amanda Nobel Flannery
Anne Fifield
CITY OF EUGENE

From: Bill Reid, Principal
PNW ECONOMICS

Subject: Response to MUPTE Citizen Advisory Committee Meeting #2 Questions

Date: September 11, 2018

This memorandum is intended as a response to three questions raised at the City of Eugene MUPTE citizen advisory committee Meeting #2 where my follow-up was required for clarification. Each question is answered in turn below:

1. Address the year 2 annual operating expenses of \$832k (instead of \$764k).

Consultant Response: Upon review, there does seem to have been a math error in the spreadsheet calculation for Year 2 operating expenses and every year forward in each of the scenarios. Results have been revised to express Year 2 operating expenses equaling \$764,630 and escalating by 3.0% annually each year thereafter. New pro forma results reflecting this change can be found in the answer to Question 2 below, which also indicated another revision to analysis.

2. Confirm the year 1 total absorption vacancy in your tables is 20% (rather than 25%).

Consultant Response: Upon review, the absorption vacancy estimate was indeed including the 5% stabilized vacancy rate for a total of 25%. The line of questions regarding appropriate absorption vacancy rate in Year 1 did lead me to the need to perform an absorption analysis assuming the project fully leases by the end of the first year. Table 1 details the annual average vacancy rate that the project will experience in the first 12 months assuming:

- The project is 20% leased by the end of the first month of operation.
- The project requires eleven months to lease up all but 7 units: the vacant model unit and 5% stabilized vacant units (six units).

Assuming 20% occupancy by end of the first month and one year to stabilized occupancy plus a vacant model unit, the annual absorption vacancy rate is 37%. This is higher than either the 20% absorption vacancy rate incorrectly stated as the assumption in the original review document, and higher than the 25% effective absorption vacancy rate in the original review document pro forma tables. It is clear, however, that both 20% and 25% absorption vacancy

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rates are aggressive assumptions. Therefore, the pro forma analysis for each scenario was revised to more reasonably assume 37% absorption vacancy in Year 1.

Table 1 – Year 1 Monthly & Average Absorption and Vacancy Analysis

Month	Monthly Absorption	Occupied Units	Vacant Units	Vacancy Rate
1	25*	25	102	80%
2	9	34	93	73%
3	9	43	84	66%
4	9	52	75	59%
5	9	61	66	52%
6	9	70	57	45%
7	9	79	48	38%
8	9	88	39	31%
9	9	97	30	24%
10	9	106	21	17%
11	9	115	12	9%
12	5	120	7	6%
Year 1 Absorption Vacancy Rate:				42%

* Reflects 20% occupancy in the first month of active operations.

Tables 2, 3, 4 and 5 provided revised pro forma results given revisions described for Questions 1 and 2. Overall, revised results point to weaker Year 1 performance for all scenarios with worse losses than originally estimated. After Year 1, the corrected, lower operating expenses estimates help the project perform better than originally estimated. But overall, the project is expected to have a chance at performing adequately only if it is awarded a ten-year MUPTE.

REVISED Scenario 1: Market-Achievable Rents

Market-Achievable Rents Pro Forma Without MUPTE

Table 2 expresses the revised pro forma replacing Table 11 from the original MUPTE application review document. With corrected, lower operating expenses and corrected, higher absorption vacancy as explained:

- The project performs more poorly in Year 1 with estimated cash-on-cash return of -12.6%.
- Starting in Year 2, the project does perform better with lower per-unit operating expenses, with cash-on-cash return of -2.4% and lesser losses through Year 4 of the project.
- Without MUPTE, and only achieving market rents, the project is not financially feasible.

Table 2 – REVISED Scenario 1 Pro Forma Without MUPTE: Market-Achievable Rents Only (Replaces Review Table 11)

		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income		\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income		\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income	4%	<u>\$108,488</u>	<u>\$111,802</u>	<u>\$115,217</u>	<u>\$118,737</u>	<u>\$122,365</u>	<u>\$126,104</u>	<u>\$129,958</u>	<u>\$133,930</u>	<u>\$138,023</u>	<u>\$142,242</u>
Gross Project Income		\$2,820,686	\$2,906,849	\$2,995,651	\$3,087,173	\$3,181,498	\$3,278,713	\$3,378,907	\$3,482,170	\$3,588,598	\$3,698,287
- Stabilized Vacancy	5%	<u>(\$141,034)</u>	<u>(\$145,342)</u>	<u>(\$149,783)</u>	<u>(\$154,359)</u>	<u>(\$159,075)</u>	<u>(\$163,936)</u>	<u>(\$168,945)</u>	<u>(\$174,109)</u>	<u>(\$179,430)</u>	<u>(\$184,914)</u>
- Absorption Vacancy & Concessions		<u>(\$959,362)</u>	<u>(\$23,083)</u>	<u>(\$23,775)</u>	<u>(\$24,489)</u>	<u>(\$25,223)</u>	<u>(\$25,980)</u>	<u>(\$26,760)</u>	<u>(\$27,562)</u>	<u>(\$28,389)</u>	<u>(\$29,241)</u>
Year 1 Absorption Vacancy	37%	<u>(\$884,114)</u>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 1 Model Unit and Concessions		<u>(\$75,248)</u>	<u>(\$23,083)</u>	<u>(\$23,775)</u>	<u>(\$24,489)</u>	<u>(\$25,223)</u>	<u>(\$25,980)</u>	<u>(\$26,760)</u>	<u>(\$27,562)</u>	<u>(\$28,389)</u>	<u>(\$29,241)</u>
= Effective Gross Income		\$1,720,289	\$2,738,423	\$2,822,093	\$2,908,325	\$2,997,200	\$3,088,798	\$3,183,202	\$3,280,500	\$3,380,779	\$3,484,132
- Apartment Operating Expense		<u>(\$456,348)</u>	<u>(\$764,630)</u>	<u>(\$787,569)</u>	<u>(\$811,196)</u>	<u>(\$835,532)</u>	<u>(\$860,598)</u>	<u>(\$886,416)</u>	<u>(\$913,008)</u>	<u>(\$940,399)</u>	<u>(\$968,611)</u>
- Retail Operating Expense		<u>(\$55,758)</u>	<u>(\$57,430)</u>	<u>(\$59,153)</u>	<u>(\$60,928)</u>	<u>(\$62,756)</u>	<u>(\$64,638)</u>	<u>(\$66,578)</u>	<u>(\$68,575)</u>	<u>(\$70,632)</u>	<u>(\$72,751)</u>
+ MUPTE		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
= Net Operating Income (NOI)		\$1,208,184	\$1,916,363	\$1,975,370	\$2,036,201	\$2,098,912	\$2,163,561	\$2,230,208	\$2,298,916	\$2,369,748	\$2,442,770
- Debt Service (79% Loan-to-Cost)		<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>	<u>(\$2,087,537)</u>
= Before Tax Cash Flow		<u>(\$879,353)</u>	<u>(\$171,174)</u>	<u>(\$112,167)</u>	<u>(\$51,336)</u>	\$11,375	\$76,024	\$142,671	\$211,379	\$282,211	\$355,233
Cash-on-Cash Return		-12.6%	-2.4%	-1.6%	-0.7%	0.2%	1.1%	2.0%	3.0%	4.0%	5.1%
Value - 6% Cap Rate	6%	\$20,136,398	\$31,939,377	\$32,922,838	\$33,936,687	\$34,981,867	\$36,059,351	\$37,170,140	\$38,315,269	\$39,495,802	\$40,712,838
Maximum Private Loan (6% Interest)											
Loan-to-Cost (Applicant Plan)	79%	(\$27,000,000)									
Loan-To-Value	75%	(\$23,954,533) (\$3,045,467) If negative, represents a gap in maximum debt due to insufficient NOI under Loan-to-Value method									
Debt Coverage Ratio	1.2	(\$22,196,751) (\$4,803,249) If negative, represents a gap in maximum debt due to insufficient NOI under Debt Coverage Ratio method									
Total Development Cost		\$34,000,000									
Developer-Planned Equity (Total Cost Less Loan)		\$7,000,000									

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Market-Achievable Rents Pro Forma With MUPTE

Table 3 expresses the revised pro forma replacing Table 12 from the original MUPTE application review document. With corrected, lower operating expenses and corrected, higher absorption vacancy as explained:

- The project performs more poorly in Year 1 with estimated cash-on-cash return of -7.2% instead of -5.3%.
- Starting in Year 2, the project does turn positive cash flow and stronger with lower operating expenses per unit at 3.1% cash-on-on-cash return.
- Project achieves 6.3% cash-on-cash return in Year 5 rather than Year 6, one year sooner.
- With MUPTE, and only achieving current market rents, the project is still financially challenged but performs dramatically better.

Table 3 – REVISED Scenario 1 Pro Forma With MUPTE: Market-Achievable Rents Only (Replaces Review Table 12)

		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income		\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income		\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Misc. Income	4%	\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$2,820,686	\$2,906,849	\$2,995,651	\$3,087,173	\$3,181,498	\$3,278,713	\$3,378,907	\$3,482,170	\$3,588,598	\$3,698,287
- Stabilized Vacancy	5%	(\$141,034)	(\$145,342)	(\$149,783)	(\$154,359)	(\$159,075)	(\$163,936)	(\$168,945)	(\$174,109)	(\$179,430)	(\$184,914)
- Absorption Vacancy & Concessions		(\$959,362)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
Year 1 Absorption Vacancy	37%	(\$884,114)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 1 Model Unit and Concessions		(\$75,248)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
= Effective Gross Income		\$1,720,289	\$2,738,423	\$2,822,093	\$2,908,325	\$2,997,200	\$3,088,798	\$3,183,202	\$3,280,500	\$3,380,779	\$3,484,132
- Apartment Operating Expense		(\$456,348)	(\$764,630)	(\$787,569)	(\$811,196)	(\$835,532)	(\$860,598)	(\$886,416)	(\$913,008)	(\$940,399)	(\$968,611)
- Retail Operating Expense		(\$55,758)	(\$57,430)	(\$59,153)	(\$60,928)	(\$62,756)	(\$64,638)	(\$66,578)	(\$68,575)	(\$70,632)	(\$72,751)
+ MUPTE		\$378,635	\$389,994	\$401,694	\$413,745	\$426,157	\$438,942	\$452,110	\$465,673	\$479,643	\$494,033
= Net Operating Income (NOI)		\$1,586,819	\$2,306,357	\$2,377,064	\$2,449,946	\$2,525,069	\$2,602,503	\$2,682,318	\$2,764,589	\$2,849,392	\$2,936,803
- Debt Service (79% Loan-to-Cost)		(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)
= Before Tax Cash Flow		(\$500,718)	\$218,820	\$289,527	\$362,409	\$437,532	\$514,966	\$594,781	\$677,052	\$761,855	\$849,266
Cash-on-Cash Return		-7.2%	3.1%	4.1%	5.2%	6.3%	7.4%	8.5%	9.7%	10.9%	12.1%
Value - 6% Cap Rate	6%	\$26,446,981	\$38,439,278	\$39,617,735	\$40,832,432	\$42,084,485	\$43,375,047	\$44,705,307	\$46,076,490	\$47,489,860	\$48,946,718
Maximum Private Loan (6% Interest)											
Loan-to-Cost (Applicant Plan)	79%	(\$27,000,000)									
Loan-To-Value	75%	(\$28,829,458)									
Debt Coverage Ratio	1.2	(\$26,713,955)									
Total Development Cost			\$34,000,000								
Developer-Planned Equity (Total Cost Less Loan)			\$7,000,000								
			\$1,829,458 If negative, represents a gap in maximum debt due to insufficient NOI under Loan-to-Value method								
			(\$286,045) If negative, represents a gap in maximum debt due to insufficient NOI under Debt Coverage Ratio method								

REVISED Scenario 2: Applicant-Assumed Rent Income

Applicant-Assumed Rent Income Without MUPTE

Table 2 expresses the revised pro forma replacing Table 13 from the original MUPTE application review document. With corrected, lower operating expenses and corrected, higher absorption vacancy as explained:

- The project continues to perform more poorly in Year 1 with estimated cash-on-cash return of -7.9% instead of only -5.1%.
- Starting in Year 2, again the project does perform better with lower per-unit operating expenses, with cash-on-cash return of 5.4% and reaching the minimum benchmark of at least 6% by Year 3 instead of Year 4.
- Without MUPTE, and very aggressively assuming the project earns all amenity rent premiums above market rents, the project suffers significant cash loss the first year and will not recover the loss until Year 3.

Table 4 – Scenario 2 Pro Forma Without MUPTE: Market-Achievable Rents & Amenity Income (Replaces Review Table 13)

		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income		\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income		\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income		\$563,211	\$580,107	\$597,511	\$615,436	\$633,899	\$652,916	\$672,503	\$692,678	\$713,459	\$734,863
Misc. Income	4%	\$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income		\$3,383,897	\$3,486,956	\$3,593,161	\$3,702,609	\$3,815,397	\$3,931,629	\$4,051,410	\$4,174,849	\$4,302,057	\$4,433,150
- Stabilized Vacancy	5%	(\$169,195)	(\$174,348)	(\$179,658)	(\$185,130)	(\$190,770)	(\$196,581)	(\$202,571)	(\$208,742)	(\$215,103)	(\$221,657)
- Absorption Vacancy & Concessions		(\$1,165,503)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
Year 1 Absorption Vacancy	37%	(\$1,090,255)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 1 Model Unit and Concessions		(\$75,248)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
= Effective Gross Income		\$2,049,198	\$3,289,525	\$3,389,728	\$3,492,989	\$3,599,404	\$3,709,068	\$3,822,080	\$3,938,544	\$4,058,565	\$4,182,252
- Apartment Operating Expense		(\$456,348)	(\$764,630)	(\$787,569)	(\$811,196)	(\$835,532)	(\$860,598)	(\$886,416)	(\$913,008)	(\$940,399)	(\$968,611)
- Retail Operating Expense		(\$55,758)	(\$57,430)	(\$59,153)	(\$60,928)	(\$62,756)	(\$64,638)	(\$66,578)	(\$68,575)	(\$70,632)	(\$72,751)
+ MUPTE		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
= Net Operating Income (NOI)		\$1,537,093	\$2,467,465	\$2,543,005	\$2,620,865	\$2,701,116	\$2,783,831	\$2,869,087	\$2,956,961	\$3,047,534	\$3,140,890
- Debt Service (79% Loan-to-Cost)		(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)
= Before Tax Cash Flow		(\$550,444)	\$379,928	\$455,468	\$533,328	\$613,579	\$696,294	\$781,550	\$869,424	\$959,997	\$1,053,353
Cash-on-Cash Return		-7.9%	5.4%	6.5%	7.6%	8.8%	9.9%	11.2%	12.4%	13.7%	15.0%
Value - 6% Cap Rate	6%	\$25,618,219	\$41,124,410	\$42,383,421	\$43,681,088	\$45,018,601	\$46,397,186	\$47,818,111	\$49,282,678	\$50,792,233	\$52,348,163
Maximum Private Loan (6% Interest)											
Loan-to-Cost (Applicant Plan)	79%		(\$27,000,000)								
Loan-To-Value	75%		(\$30,843,307)	\$3,843,307	If negative, represents a gap in maximum debt due to insufficient NOI under Loan-to-Value method						
Debt Coverage Ratio	1.2		(\$28,580,028)	\$1,580,028	If negative, represents a gap in maximum debt due to insufficient NOI under Debt Coverage Ratio method						
Total Development Cost			\$34,000,000								
Developer-Planned Equity (Total Cost Less Loan)			\$7,000,000								

Applicant-Assumed Rent Income With MUPTE

Table 5 expresses the revised pro forma replacing Table 14 from the original MUPTE application review document. With corrected, lower operating expenses and corrected, higher absorption vacancy as explained:

- The project suffers a Year 1 loss of cash for an estimated cash-on-cash return of -2.5% instead of 0.3% positive return previously estimated.
- Year 2 performance is stronger due to revised operating expenses for 11.0% cash-on-cash return instead of 10.0% previously estimated. Every year thereafter is stronger as well due to the lower operating cost estimates.
- With MUPTE, and very aggressively assuming the project earns all amenity rent premiums above market rents, the project suffers a loss in Year 1, but more than recovers in Year 2.
- We would still conclude that MUPTE is critical to the chances of the Gordon Lofts project to be financially feasible, and may not be considered traditionally feasible even with MUPTE and aggressive rent assumptions.

Table 5 – Scenario 2 Pro Forma With MUPTE: Market-Achievable Rents & Amenity Income (Replaces Review Table 14)

	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
Apartment Rent Income	\$2,415,543	\$2,488,010	\$2,562,650	\$2,639,529	\$2,718,715	\$2,800,277	\$2,884,285	\$2,970,814	\$3,059,938	\$3,151,736
Retail Lease Income	\$296,654	\$307,037	\$317,784	\$328,906	\$340,418	\$352,332	\$364,664	\$377,427	\$390,637	\$404,309
Amenity Income	\$563,211	\$580,107	\$597,511	\$615,436	\$633,899	\$652,916	\$672,503	\$692,678	\$713,459	\$734,863
Misc. Income	4% \$108,488	\$111,802	\$115,217	\$118,737	\$122,365	\$126,104	\$129,958	\$133,930	\$138,023	\$142,242
Gross Project Income	\$3,383,897	\$3,486,956	\$3,593,161	\$3,702,609	\$3,815,397	\$3,931,629	\$4,051,410	\$4,174,849	\$4,302,057	\$4,433,150
- Stabilized Vacancy	5% (\$169,195)	(\$174,348)	(\$179,658)	(\$185,130)	(\$190,770)	(\$196,581)	(\$202,571)	(\$208,742)	(\$215,103)	(\$221,657)
- Absorption Vacancy & Concessions	(\$1,165,503)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
Year 1 Absorption Vacancy	37% (\$1,090,255)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 1 Model Unit and Concessions	(\$75,248)	(\$23,083)	(\$23,775)	(\$24,489)	(\$25,223)	(\$25,980)	(\$26,760)	(\$27,562)	(\$28,389)	(\$29,241)
= Effective Gross Income	\$2,049,198	\$3,289,525	\$3,389,728	\$3,492,989	\$3,599,404	\$3,709,068	\$3,822,080	\$3,938,544	\$4,058,565	\$4,182,252
- Apartment Operating Expense	(\$456,348)	(\$764,630)	(\$787,569)	(\$811,196)	(\$835,532)	(\$860,598)	(\$886,416)	(\$913,008)	(\$940,399)	(\$968,611)
- Retail Operating Expense	(\$55,758)	(\$57,430)	(\$59,153)	(\$60,928)	(\$62,756)	(\$64,638)	(\$66,578)	(\$68,575)	(\$70,632)	(\$72,751)
+ MUPTE	\$378,635	\$389,994	\$401,694	\$413,745	\$426,157	\$438,942	\$452,110	\$465,673	\$479,643	\$494,033
= Net Operating Income (NOI)	\$1,915,728	\$2,857,459	\$2,944,699	\$3,034,610	\$3,127,273	\$3,222,773	\$3,321,197	\$3,422,634	\$3,527,177	\$3,634,923
- Debt Service (79% Loan-to-Cost)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)	(\$2,087,537)
= Before Tax Cash Flow	(\$171,809)	\$769,922	\$857,162	\$947,073	\$1,039,736	\$1,135,236	\$1,233,660	\$1,335,097	\$1,439,640	\$1,547,386
Cash-on-Cash Return	-2.5%	11.0%	12.2%	13.5%	14.9%	16.2%	17.6%	19.1%	20.6%	22.1%
Value - 6% Cap Rate	6% \$31,928,803	\$47,624,310	\$49,078,319	\$50,576,833	\$52,121,218	\$53,712,882	\$55,353,277	\$57,043,900	\$58,786,291	\$60,582,043
Maximum Private Loan (6% Interest)										
Loan-to-Cost (Applicant Plan)	79%	(\$27,000,000)								
Loan-To-Value	75%	(\$35,718,233)	\$8,718,233	If negative, represents a gap in maximum debt due to insufficient NOI under Loan-to-Value method						
Debt Coverage Ratio	1.2	(\$33,097,232)	\$6,097,232	If negative, represents a gap in maximum debt due to insufficient NOI under Debt Coverage Ratio method						
Total Development Cost		\$34,000,000								
Developer-Planned Equity (Total Cost Less Loan)		\$7,000,000								

3. Varying mortgage rate and amortization assumption questions.

PNW Economics again reviewed the Independence Landing planning pro formas utilized by the City of Independence and Tokola Properties, the lead master-developer of the mixed-use project. Tokola Properties, with a successful track record of 4-story to 5-story mixed-use developments in Gresham, Hillsboro, and currently Independence assumed the following permanent debt terms:

- 5.5% fixed annual rate, 30-year amortization, \$8.7 million principal (2016).

Accordingly, we continue to hold the opinion that a \$27 million commercial loan with a 25-year amortization and 6.0% annual rate is a *reasonable* assumption for Obie Companies under the circumstances.

- The project is on leased land, and though the term is 99 years, the effective collateral for a lender would be the current value of annual lease income from the land after default through Year 99, which is a riskier asset than the liquidity of property owned fully fee simple.
- Rates have increased since 2016.
- Obie Companies does not have a track record of 7-story apartment development in multiple markets, and would be viewed as a riskier undertaking than for an established lender relationship with Tokola Properties, with successful track record of downtown, mixed-use redevelopment in different Oregon cities.

The issue is further treated in the original Gordon Lofts/Obie Companies MUPTE Application review document.

Written Comment

Received July 16th through August 13th

BERNARD Dana M

From: Judy Puderbaugh <judy@columbiainsgroup.com>
Sent: Monday, July 16, 2018 12:12 PM
To: BERNARD Dana M
Subject: FW: OBIE - MUPTE - No!

Dear all:

Brian Obie is a businessman
He's in it to make money
I have no problem with that

I do strenuously object to granting a 10-year tax exemption; MUPTE
He wants to increase his luxe housing portfolio but does not want to provide any units in the 'affordable housing' category
He wants to ride the coattails of the developer 'the next lot over' who WILL be building affordable units
That's like me saying I can add on to my home without getting the proper permits because my neighbor, also adding on to his home, DID get the permits
He said if forced to provide affordable housing, his development will not be financially feasible

In today's Register Guard, the front page story is about Obie PURCHASING major real estate in the fifth street area...he had enough money to acquire THAT property. How can he try to weasel out of paying taxes on a new development for 10 years?

Please, no MUPTE for him.

Your thoughts, please.

Judy

BERNARD Dana M

From: Judy Puderbaugh <judy@columbiainsgroup.com>
Sent: Monday, July 16, 2018 12:10 PM
To: BERNARD Dana M
Subject: FW: OBIE - MUPTE + NO, NO, NO, NO!

City officials:

I thought the MUPTE issue on Obie's development was a dead issue; thought he'd pay a fine, instead. He'd said 'without MUPTE his project will not be financially feasible'; now he's asking the city to make other concessions or, 'the project will not be financially feasible;...what else is he going to come up with? Being the former mayor of eugene should not give him carte blanche to ask all kinds of concessions so his ventures will be profitable. How about dollar for dollar, the value of any concessions the city makes, the Obie Group spends 50% of that amount in developing AFFORDABLE HOUSING? I know someone who had to look way outside of the city to find any type of affordable apartments. I own a tiny rental, purchased so I could provide housing for a family member; the rent is below market value because it's what he can afford; I lose money every month and I have never asked for a MUPTE concession; my gain is knowing a family member is taken care of and not living in a car; my long-term gain is the property may increase in value. Sometimes we do what we have to do; the Obie Group wants the CITY to do what HE wants it to do. Please, no concessions...if their project cannot fly on its own, then let it thud to the ground.

Judy p

222 E. Broadway #211
Eugene, Or. 97401
July 16, 2018

HRNI
99 W. 10th Ave.
Eugene, Or. 97401

Dear friends:

I cannot attend July 25, and my
question/Comment is MUPTE.

Please inform me of the study, if any,
of traffic control, especially police, fire,
school buses, LTD and ordinary auto
cars which can be affected by the seven
story building proposed.

I would like to speak of the negatives
of this project that promise to happen to
our beautiful, pedestrian/bike population,
including making downtown air even more
polluted, and destroying the attractiveness
of the area. Let me know if I may speak
at a future event. I lived in Sacramento,
Ca. for years experienced the misuse of
transportation there. ^{+ poor building}

Ray A. Koser
541-684 4495

BERNARD Dana M

From: Dave and Kim Strahan <dwsfks@gmail.com>
Sent: Wednesday, July 18, 2018 9:22 AM
To: BERNARD Dana M
Subject: Mupte disapproval for Gordon Lofts

This letter is request to DENY tax exemptions for Gordon Lofts.

This program has been greatly Abused and money has been misappropriated by outside companies taking the sweat equity of Eugene and Springfield taxpayers for their million dollar profits Play also support further legislation to tighten the regulations that allow these tax exemptions particularly in this time of add insanely high rent rates and low level of market income or low to extreme low income housing units. I am in fully support of Granny cottages and legislation similar to what Springfield has approved to allow secondary residences.

David Strahan
RiverRun enterprises

153 NE 57th St
Newport, OR 97365
Aug. 5th, 2018
hiketheworld2@gmail.com

Dana Bernard
City of Eugene Planning &
Developing Department
99 W. 10th Ave.
Eugene, OR. 97401

Re: 10 year property tax exemptions

Dear Ms. Bernard;

I just moved to Newport but was a resident and home owner in Eugene for 15 years. It was always frustrating, especially when I was still working till age 71, to keep up with expenses which includes the high property taxes I had (and still do).

MUPTE as I understand, is given because businesses are providing jobs and helping the community. Are these exemptions given to developers who are first time builders, and would be unable to build without the exemption? Do they use all locate employees for building? Why 10 years? There are so many Eugene apartments and usually everyone continually has a "for lease" sign out. Is that because there are too many or are they too expensive?

As a renter for at least 30 years, I had very few owners who were poor. In fact, the last one lived and owned property in Hawaii and in California, and when he wanted to raise the rent **again**, I finally struggled to buy a property instead of continuing to give my hard earned money to someone else. The sale of that property is also the only reason I have been able to own now. No one gave me any breaks to do this.

In Eugene, I would not even be able to list the huge number of people and businesses that I helped by having the house. More than \$20,000 (after rebates) spending for Green energy: lighting, windows, heat pump, extra insulation, appliances, etc all from local businesses. (and with EWEB my cost for energy doubled due to all their increases) There were always house repairs, roof and gutter cleaning, tree trimming, all local businesses. I tried to buy from local

farmers, but all from local stores employing local people, even Oregon owned, like BiMart and Winco. I buy most things from local thrift stores, no fancy French designed clothing. I have numerous pets, all rescued from there and contributed to local Veterinarian's income. I even drove from here to Eugene to have my cataract surgery and follow up laser procedure.

My property taxes almost doubled over the time there. The only recourse would have been to apply for a deferral, which would put **a lean on my house and pay back is with 8% interest!** WOW, what a break for Seniors. Esp. when much of my savings gets less than 1% interest (one is from a Eugene local credit union I still have). And then my IRA's are getting hit with a 20 % or more income tax when I withdraw.

To sell my house, I had local people make more repairs and upgrades. I used a local real estate agency who got a huge \$16,000 with the sale. I sure could use that money now for all the mold and other repairs here in Newport; even the person who came to decontaminate the black mold and fungus from one of my rooms for \$1500, is from Eugene.

So I guess you can conclude that I really don't see why there is MUPTE at all. A 10 year MUPTE for me would have given me more money to get a better quality home instead of a *manufactured cardboard, contact paper* house.

It continues to be that the more wealthy people get the better breaks. I learned that the "golden years" can really mean that all our "gold" goes to other people.

Thank you for taking time to read my letter.



Lin Marie

BERNARD Dana M

From: Robert Steck <Robert@partneredsolutionsit.com>
Sent: Thursday, August 09, 2018 10:27 AM
To: BERNARD Dana M
Cc: CLARK Mike
Subject: Yes to Gordon Lofts and downtown Housing!

Dana,

I am writing you today in support of more housing downtown and specifically the Gordon Lofts. I believe adding the lots to the project is critical for our downtown. We need more residents downtown and that can only happen with projects like the Gordon Lofts. Please make this happen and don't let this great opportunity slip by.

Robert Steck

Chief Executive Officer

Partnered Solutions IT / Ruby Porter Marketing + Design

58 West 11th, Eugene OR 97401

p: 541.255.4980 x10 f: 541.255.4970

www.partneredsolutionsit.com / www.rubyporter.com

Divisions of Phoenix Business Solutions, LLC

BERNARD Dana M

From: Pat Walsh <pat@voxprpa.com>
Sent: Thursday, August 09, 2018 11:08 AM
To: BERNARD Dana M
Subject: MUPTE: Gordon Lofts

August 9, 2018

Dear Dana,

I am writing to you today in support of the Multi-Unit Property Tax Exemption application filed by Brian Obie for the Gordon Lofts. The Gordon Lofts turns a parking lot on the northeast edge of downtown into the northeast anchor of Eugene's growing business, government, arts, residential, and shopping district. A MUPTE is the perfect private-public investment tool for the city to deploy to ensure that a quality development, like Gordon Lofts, can be built to support Eugene's increased need for housing that is available to people from all backgrounds who want to live downtown. Brian and his team are known for quality developments that fit the needs and characteristics of the community and the people they serve. The Gordon Lofts is one more important piece of the economic development puzzle that makes our downtown accessible to all who want to live there today and in the future.

Please accept my message in support of a MUPTE for Gordon Lofts. Thank you.

Pat Walsh
Owner
Vox PRPA
570 Sweetwater Lane
Eugene, Oregon 97404

BERNARD Dana M

From: Larissa Straily <strailyl@gmail.com>
Sent: Friday, August 10, 2018 9:15 AM
To: BERNARD Dana M
Subject: Gordon Lofts MUPTE Support

Good Morning Dana,

I wanted to send in my support of approving The Gordon Lofts in Eugene with the ten-year property tax exemption under the Multi-Unit Property Tax Exemption Program. This project is vital in helping provide more housing options downtown as you know we are a community that is severely lacking in enough housing options for everyone.

Thank you for your time and I hope you will support the project by approving the MUPTE so they can move forward with their plans.

Larissa Straily
strailyl@gmail.com

BERNARD Dana M

From: John Iglesias <JIglesias@nwcua.com>
Sent: Friday, August 10, 2018 11:43 AM
To: BERNARD Dana M
Subject: NWCU supports Gordon Lofts MUPTE application

Sensitivity: Private

To: Dana Bernard
City of Eugene Planning & Development
99 W. 10th Ave
Eugene, OR 97401

Dear Dana:

On behalf of the board of directors, members, and staff at Northwest Community Credit Union, please accept our endorsement of Brian Obie's application for a 10-year Multi-Unit Property Tax Exemption to build the Gordon Lofts in Eugene.

This proposed 7-story, 127-unit apartment building is an excellent example of what a private-public partnership should entail. With a MUPTE, Gordon Lofts will pay a generation of dividends to our growing, vibrant community. Our residents need a range of housing downtown and throughout Eugene that is available to people from all walks of life.

Thank you for your consideration of our support for this project.

Sincerely,

John

John D. Iglesias, President/CEO
Northwest Community Credit Union
Administration

DIRECT (800) 452-9515, ext 9744

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BERNARD Dana M

From: Megan OConnor <megan@hathawaymunro.com>
Sent: Friday, August 10, 2018 4:29 PM
To: BERNARD Dana M
Subject: Lofts at The Gordon, Market District

Good Afternoon. I'm writing to encourage the City of Eugene to authorize multi property tax exemption to the loft homes to be constructed by Obie Properties across from the 5th Street Public Market. A healthy, vibrant, progressive downtown requires homes that are both market rate and affordable. The historic and beautiful homes to the north, the shops, restaurants and services in the Market offer the perfect area for more diverse housing. The lofts fill a significant part of that need.

Eugene has long looked at methods to revitalize it's core and historic districts. Access to MUPTE is a step in the right direction.

Thank you for your consideration

Megan O'Connor
360 East 49th Avenue
Eugene OR

--

Megan K. O'Connor
HATHAWAY MUNRO -Organizational Development & Strategy
Megan@HathawayMunro.com
www.HathawayMunro.com
458.201.9170

BERNARD Dana M

From: Dana Turell <dana@turellgroup.com>
Sent: Friday, August 10, 2018 4:03 PM
To: BERNARD Dana M
Subject: Support use of the MUPTE program to build downtown apartments

Ms Bernard,

In my opinion, we need more downtown housing in Eugene. Tax-deferral programs, like MUPTE, help make that possible. I support the Gordon Lofts proposed project and application to use of MUPTE.

Thank you.

Cheers!

Dana Turell

President
Direct: 541.790.2272
Cell: 541.525.2207

TURELL GROUP

Marketing . Digital . Communications
800 Willamette St. Suite 770 Eugene Oregon
[Web](#) | [Facebook](#)

BERNARD Dana M

From: Sue Prichard <sue@prichardpartners.com>
Sent: Saturday, August 11, 2018 3:58 PM
To: BERNARD Dana M
Cc: Jenny Ulum; Brian Obie; PRICHARD Hugh (SMTP)
Subject: MUPTE/Obie Project

Hello Dana...

I am writing in strong support of granting MUPTE approval for development of the housing component of the Obie project.

It is common knowledge that housing is the most important component of downtown revitalization. Housing drives every other component of redevelopment that will ultimately create a vibrant downtown. It is also common knowledge that Eugene rents are not high enough to support these housing projects without assistance. MUPTE is the only tool we have to create this assistance. It is an essential part of the total financing package.

We desperately need more housing in general, but specifically, we need dense housing downtown in the urban core, where infrastructure already exists and residents can take full advantage of existing transportation services and other urban amenities. Given the policy decisions that the council has already made to build "in and not out" (avoiding sprawl), this MUPTE approval should be viewed as a critical and necessary method for implementing the policy decisions that have already been made.

Please pass my strong support for this MUPTE approval on to our Mayor, City Council and City Manager.

Thank you,

Sue Prichard

BERNARD Dana M

From: Kenneth Alberts <kralberts@gmail.com>
Sent: Sunday, August 12, 2018 1:57 PM
To: BERNARD Dana M
Subject: The Gordon Lofts

I would like to take a moment to share my support of the MUPTE exemption for The Gordon Lofts. This project is vital to downtown and aligns with the city's goals of creating more housing in the downtown area. By approving the exemption, or truly, the deferral you send a clear message to everyone that this is extremely important to the city of Eugene.

Thank you for your time,

Ken Alberts

Sent from my iPhone

BERNARD Dana M

From: Jodi Sommers <Jodi.Sommers@essexgc.com>
Sent: Monday, August 13, 2018 9:04 AM
To: BERNARD Dana M
Subject: Yes on MUPTe for Market District Apartments

Hi Dana,

I work at Essex General Construction. Brian Obie's project downtown is not one of our projects, but I'm writing to you today, because I believe that we need more apartments downtown to create the kind of vibrancy we want in our downtown core. I urge you to support the MUPTe application for this project. I believe downtown Eugene, and there for the whole community will benefit from the addition of these residents.

Thanks,
Jodi

Jodi Sommers

Marketing & Business Development Manager
Essex General Construction Inc
Jodi.Sommers@essexgc.com
Phone: 541-342-4509 | Fax: 541-342-6938
Mobile: 541-556-6967
Direct: 541-275-8886
www.essexgc.com | Eugene | Portland
4284 W 7th Ave Eugene, OR 97402



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BERNARD Dana M

From: Vanessa Alberts <valberts@gmail.com>
Sent: Monday, August 13, 2018 4:17 PM
To: BERNARD Dana M
Subject: Gordon Lofts - Support for MUPTE

Hello,

I am writing this email in support of the Gordon Lofts MUPTE application.

The MUPTE tax exemption is vital to the Gordon Lofts ability to build the Apartments which will help bring more people to the downtown core and it will truly help revitalize the Eugene downtown businesses.

In addition, the project will create more jobs and give our community and visitors another opportunity to live, visit and recreate in Eugene.

Thank you,

Vanessa Alberts

Sent from my iPhone

August 13, 2018

Dear City of Eugene Mayor and City Councilors,

In 2012 Homes for Good Housing Agency partnered with Obie Companies to respond to a Lane County request to re-develop the two blocks west of the 5th Street Public Market. The intent of this partnership was to provide a variety of housing downtown that includes both affordable housing and market rate housing on what is currently underutilized land owned by the County. This joint proposal responded directly what is called for in Envision Eugene and the Eugene Downtown Plan which call for housing of all types and promote compact development near downtown.

We are pleased to let you know that Market District Commons a 50-unit affordable housing project which will serve downtown workers and veterans was recently awarded over 12 million dollars in Low Income Housing Tax Credits and other funding by the State of Oregon. This combined with City of Eugene SDC waivers and HOME funding will allow for our project to move forward.

We strongly support your approval of a temporary tax exemption to allow the market rate (The Gordon Lofts) apartments to be developed that are part of the Obie Companies proposal. We have a direct interest in the success of the Obie Companies proposal. Obie Companies has agreed to purchase the commercial ground floor of Market District Commons which is important to our financing. More residents nearby will aid the success of commercial space. In addition, having a mix of affordable and market rate units will provide for a great diversity of residents and a more vibrant downtown neighborhood.

As you know, the intent of the tax exemption is to incentivize development where we want it. There is no better location for sustainable downtown living in Eugene. Residents will have access to downtown employment, the Willamette Greenway and can walk, bicycle or take transit from this location. In addition, this project is being developed by local residents that are invested in the community have shown a track record for building quality projects that make our community and economy better.

Please take the next step in implementing the vision for Eugene and making Eugene a thriving, sustainable place to live by approving the MUPTE for The Gordon Lofts as part of the 5th Street Market expansion.

Respectfully,



Steve Ochs
Real Estate Development Director

BERNARD Dana M

From: dmord24719@aol.com
Sent: Monday, August 13, 2018 6:21 AM
To: BERNARD Dana M
Subject: Gordon Lofts

We are writing to support the use of the MUPTE tax deferral program on the proposed Gordon Lofts apartment building, part of the 5th Street Public Market Expansion.

We know the best way to create a safer and more vibrant downtown area of Eugene is to have more downtown housing. This won't happen unless the city approves the MUPTE for this project.

MUPTE was created and used precisely for this sort of project. It will help develop housing in the downtown area and contribute to a better Eugene.

Thank you for your time and consideration.

Deland and Deborah Mord
Eugene, Or

BERNARD Dana M

From: Roger Rutan <rogerbrutan@gmail.com>
Sent: Monday, August 13, 2018 3:13 PM
To: BERNARD Dana M
Subject: MUPTE Tax Deferral Request - Gordon Lofts Apartments

Dana,

I want to encourage the City Council to approve the above tax deferral request.

Having served four years on the Eugene Planning Commission and two terms on the Eugene City Council, I am familiar with the complexities of a tax deferral request such as this. However, this request is exactly what this program was designed to do - encourage housing development where a reasonable incentive is needed to make it happen. In this case, the project offers the real world fundamentals to help create a vibrant, safe and healthy downtown Eugene.

An excellent example of the effectiveness of downtown housing in general is the Pearl District in Portland. While this area got private support for restaurants and the like, it wasn't until a full range of housing was made available for the Pearl District to be the wonderful place it is today. Nothing makes a place more safe than the presence of people and activity all day and all night.

During my 12 years of official public service, we worked tirelessly to get developer interest in a project exactly like the Gordon Lofts. We were unsuccessful at the time. With the MUPTE program, the economics of this project will work. This project is a wonderful opportunity for the council to continue to build on their vision and leadership on the future of downtown and the waterfront area.

My thanks to the City Council for considering my comments and for hopefully approving the MUPTE tax deferral request for the Gordon Loft apartments.

Roger Rutan

BERNARD Dana M

From: Raymond Nehl <raymond.nehl@gmail.com>
Sent: Monday, August 13, 2018 1:42 PM
To: BERNARD Dana M
Subject: MUPTE Tax Deferral

Hello –

As a longtime Eugene resident, I wish to express my support for the MUPTE application by Obie Companies. The proposed expansion of the 5th Street Public Market is very exciting, representing the most significant investment in downtown in recent memory. The apartments and their residents are a key part of downtown's economic recovery. Not only will they support downtown businesses, but just through sheer numbers they'll add to the safety and security of our streets and sidewalks.

I am downtown almost every day and see how challenging it is for our local retailers and restaurants. For years we have watched the downtown decline. One of the strategies often mentioned for helping turn downtown around is to have more people living there. That's exactly what this project does. The City Council approved the MUPTE program to encourage this sort of development. I want to see the project move forward, and the evidence strongly suggests it can do so only with the tax benefit that MUPTE provides. I urge the panel and the City Council to approve this MUPTE application.

Ray Nehl

1858 Riverwood Drive

Eugene, Oregon 97401

BERNARD Dana M

From: Jeremy Carney <jeremycarney@gmail.com>
Sent: Monday, August 13, 2018 3:01 PM
To: BERNARD Dana M
Subject: Support of use of the MUPTE program to build downtown apartments

Dear Ms. Bernard,

I am writing to express my support of using the MUPTE program to build downtown apartments similar to the one being proposed by Mr. Obie and Obie Companies. Downtown Eugene is in desperate need of housing; however, without the support of MUPTE it will not be possible.

Thank you for your consideration.

Sincerely,

J.B. Carney
142 Spencers Crest Dr.
Eugene, OR 97405

BERNARD Dana M

From: jessica@marcherestaurant.com
Sent: Monday, August 13, 2018 12:04 PM
To: BERNARD Dana M
Subject: Support of MUPTE program

Hello-

I'm writing in support of the MUPTE tax deferral for the Gordon Lofts and the Market District expansion project. We are at a pivotal moment in the responsible development of our downtown core, and these projects are an opportunity to truly transform our city. Please make it possible for this visionary project to move forward by granting the MUPTE tax deferral.

Thank you,

Jessica MacMurray Blaine
Creative Director, C.O.O.
Marché Restaurant Group
jessica@marcherestaurant.com

BERNARD Dana M

From: Andrea Ash <andrea_ash@yahoo.com>
Sent: Monday, August 13, 2018 5:15 AM
To: BERNARD Dana M
Subject: Support for Gordon Lofts

Dear Ms. Bernard:

I am writing in support of the application submitted by Gordon Lofts LLC for a multi-unit property tax exemption. The proposed apartment building is precisely the kind of development Eugene needs, and currently lacks. More housing has been suggested as one way to improve downtown safety, by increasing street-level activity by people who live and work there. As someone who works downtown, I care about the environment there. When I first moved to Eugene as a young professional, I would have welcomed an opportunity to live in a place like the Gordon Lofts, near services and amenities, close to parks, the bike path and riverfront. Eugene needs a diverse array of housing downtown for all income levels to attract a wide range of residents who have a stake in our downtown's health. The Gordon Lofts gets us closer to that goal. It's an important step forward in the revitalization of our downtown, and I urge the panel to support the application.

Thank you,
Andrea Fosmark
1583 Gilham Rd.
Eugene

BERNARD Dana M

From: Tiffany Edwards <tiffanye@eugenechamber.com>
Sent: Monday, August 13, 2018 4:48 PM
To: BERNARD Dana M
Subject: Public Comment for Gordon Lofts - MUPTE

Importance: High

Dana,

I'd like to request that you include the content of this email to be included in the record regarding the Gordon Lofts Multi-Unit Property Tax Exemption (MUPTE) Application.

The Eugene Area Chamber of Commerce is in strong support of granting MUPTE for the Gordon Lofts apartments, which is part of the 5th Street Public Market expansion. This type of exemption has been extremely under-utilized and it would be highly beneficial for its use to be associated with a project with such strong community support. Furthermore, the Multi-Unit Property Tax Exemption is very limited in geographic scope, and this particular project intends to utilize it precisely as it was intended. Additionally, the Envision Eugene process relied heavily on MUPTE being utilized, in order to meet our goals to build additional housing units in downtown Eugene.

Thank you for your consideration.

**Tiffany Edwards, Director of Business Advocacy
On behalf of the Eugene Area Chamber of Commerce**

Tiffany Edwards
Director of Business Advocacy
(541) 242-2352 w
(541) 678-3370 m
[Website](#) | [Facebook](#) | [Twitter](#)



1401 Willamette Street | Eugene, OR 97401

August 13, 2018

Dana Bernard
City of Eugene
Planning & Development Dept.
99 W. 10th Avenue
Eugene, OR 97401

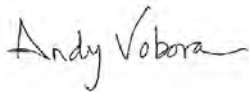
Mayor Vinis and Council:

Travel Lane County is encouraged to see many exciting projects coming to life in our community. Many of these projects will become demand generators that result in increased visitor spending. While visitor spending annually generates over \$676 million in direct spending, local residents use and benefit from the investment made to support the visitor industry. Residents appreciate good restaurants, attractions and shopping opportunities; however, residents also need quality housing options.

The 5th Street Public Market expansion checks all the boxes for visitors, while the inclusion of The Gordon Lofts project fills a void in downtown housing. Housing near current downtown jobs and near the hundreds of jobs that will be created with the 5th Street Market expansion project, the EWEB waterfront project and other projects is dearly needed. The multi-unit property tax exemption (MUPTe) is a necessary tool for projects like The Gordon Lofts to proceed. The short-term loss in property tax revenue will pay dividends in the long-run. In fact, at the current tax rate the community will receive nearly \$400,000 in property taxes following the exemption period. Without the exemption, the project will not move forward and everyone loses.

Travel Lane County encourages the Council to support the use of the MUPTe for The Gordon Lofts.

Sincerely,

A handwritten signature in black ink that reads "Andy Vobora". The signature is written in a cursive, flowing style.

Andy Vobora
Vice President of Stakeholder Relations

BERNARD Dana M

From: Stephanie Seubert <stephanie@eebcre.com>
Sent: Monday, August 13, 2018 3:29 PM
To: BERNARD Dana M
Subject: MUPTE

Dana,

Please add this to the public record in support of the Gordon Lofts' MUPTE application.

As a downtown business owner, I think it is important to have more housing available in downtown Eugene. A higher population of folks living in the downtown area will generate more activity, and more activity will bring the need for more retail related services which will benefit both those individuals who live or work in the area. As a real estate professional, I know how challenging it is for developers to build without the use of tools such as MUPTE. The cost of construction has skyrocketed making it difficult for most new projects to pencil out and make sense for developers. The Gordon Lofts project is a prime example of why the Council approved a revised MUPTE program. Also, it is important to remember that the 5th Street expansion project will generate taxes immediately, with additional funds to come from the apartment building after the exemption period expires. To me, this seems like a Win/Win and, and I urge your support.

Sincerely,
Stephanie Seubert



Stephanie Seubert
Partner / Principal Broker

Evans, Elder, Brown & Seubert, Inc.
101 East Broadway, Suite 101
Eugene, Oregon 97401

// (541) 345-4860 *phone*
// (541) 345-9649 *fax*
// www.eebcre.com

Licensed in the State of Oregon. » [Initial Agency Disclosure](#)

BERNARD Dana M

From: Delores Mord <rbarm@aol.com>
Sent: Monday, August 13, 2018 9:35 AM
To: BERNARD Dana M
Subject: Downtown housing

Please support the MUPTE program to build downtown housing it is so important to our community.
I thank you for your work spent in this area.
Delores Mord
Sent from my iPhone

From: [Dana Siebert](#)
To: [BERNARD Dana M](#)
Subject: Support of the Obie Project
Date: Monday, August 13, 2018 10:24:51 PM

Hello:

Please accept this testimony in **support** of the MUPTE application for apartments at the 5th Street Public Market expansion, the Gordon Lofts. It is apparent by reviewing the project's financial pro formas that the apartments are a financial challenge even with MUPTE, impossible without. If we are serious about our goals for downtown, we must use the tools the council has created to stimulate the kind of development we want to see. Affordable housing is needed, but so is housing at market rates for up-and-coming professionals, empty nesters and others who desire a more urban lifestyle. Right now there is little downtown for these folks, and Eugene is missing out on the positive benefits of residents in our city's core.

For the quarter-century I've been in Eugene, I've watched the Council wrestle with how to revive our downtown, and have seen us sacrifice the good in search of the perfect. We are a building owner on Oak St and very much believe in making this project happen. This is a golden opportunity to do some good. We can wait for the taxes – better to defer for 10 years than to lose out altogether, and I have no doubt that is the choice before us. Focusing on the property tax deferral overlooks the immediate positive economic benefits of the development and the contribution 150 or so new downtown residents will make to the overall health of our city. I urge your support for the Gordon Lofts, and thank you for considering my point of view.

Sincerely,
Dana Siebert
32543 Mt Baldy Lane
Eugene, OR 97405

RESOLUTION NO. _____**A RESOLUTION APPROVING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED AT 6TH AVENUE AND PEARL STREET, EUGENE, OREGON (APPLICANTS OBIE COMPANIES, INC. AND GORDON LOFTS, LLC).****The City Council of the City of Eugene finds that:**

A. Gordon Lofts, LLC (296 E. 5th Avenue, Suite 300, Eugene, Oregon), intends to enter into a Lease Agreement for the lease of real property located at 6th Avenue and Pearl Street, Eugene, Oregon (Assessor's Map Number 17-03-31-11, portions of existing Tax Lots 2800 and 3200) ("the Property") which is owned by Lane County, Oregon (125 E. 8th Avenue, Eugene, Oregon).

B. Obie Companies, Inc. and Gordon Lofts, LLC ("the applicant") submitted an application pursuant to the City's Multiple-Unit Property Tax Exemption Program (Sections 2.945 through 2.947 of the Eugene Code, 1971 ("EC")), with respect to residential units and commercial space to be constructed on the property ("the project").

C. The proposed project consists of the development of 69 studio units, 53 one-bedroom units, and five two-bedroom units, for a total of 127 residential units, none of which will be for transient use or vacation occupancy, and will also include approximately 10,000 square feet of commercial space. As proposed, the project is not designed for the leasing of individual rooms or beds, for transient or vacation uses, or otherwise designed primarily for individuals attending college.

D. An independent outside professional consultant was retained and reviewed the project's financial pro-forma. A Review Panel was convened and reviewed the independent consultant's conclusions, and also reviewed the application in order to make a recommendation as to whether the application met the criteria in EC 2.946. The Review Panel's recommendation was submitted for the City Manager's review.

E. After considering the Review Panel's conclusions and recommendation, the Executive Director of the Planning and Development Department ("the Executive Director") as designee of the City Manager, prepared the Report and Recommendation attached to this Resolution as Exhibit A and incorporated herein by reference. The Report and Recommendation sets forth findings demonstrating that the project meets the criteria described in EC 2.946 and the conditions set forth in Multiple-Unit Housing Property Tax Exemption Rule R-2.945 ("Rule R-2.945").

F. Based on the findings in the Report and Recommendation, the Executive Director 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 required in EC 2.945, EC 2.946, and Rule R-2.945, and the applicant is in compliance with the policies contained therein.

G. City Council has concluded that the criteria described in EC 2.946 and Rule R-2.945 have been met.

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 Report and Recommendation of the Executive Director of the Planning and Development Department attached to this Resolution as Exhibit A and incorporated herein by reference, the City Council approves the application of Obie Companies, Inc. and Gordon Lofts, LLC 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 at 6th Avenue and Pearl Street, Eugene, Oregon (Assessor's Map Number 17-03-31-11, portions of existing Tax Lots 2800 and 3200), subject to the following conditions:

- 1.1 Compact Urban Development. The project will consist of the development of 69 studio units, 53 one-bedroom units, and five two-bedroom units, for a total of 127 residential units, none of which are for transient use or vacation occupancy. The ground floor will contain approximately 10,000 square feet of commercial space. The project will be built in the C-2 Community Commercial Zone, which has no minimum density requirements for mixed-use projects. A schematic drawing showing the site plan and major features and dimensions of the proposed development, and a schematic drawing showing side, front, and back elevations of the proposed development are attached to this Resolution as Exhibit B.
- 1.2 Green Building. The project will perform at least 10% more efficiently than the performance established in the Oregon Energy Efficiency Specialty Code. Applicant will provide to the City of Eugene's Building and Permit Services an energy model with applicant's permit application.

Within 18 months after receiving a Certificate of Occupancy, the applicant shall submit to the City a commissioning report pursuant to Section 1.2 of Rule R-945-C demonstrating compliance with this requirement.

For the duration of the tax exemption, Gordon Lofts, LLC, either alone or with others, or its successor (herein after referred to as "the owner") will report multi-family occupancy energy use data to the City of Eugene's Building and Permit Services.

- 1.3 Local Economic Impact Plan and Compliance with Laws. The applicant submitted a plan demonstrating that more than 50% of the dollar volume of professional

services and construction contracts will be from a business organization or individual residing or doing business primarily in Lane County. After construction, the applicant will submit a list of the home city or zip code of the construction labor workers.

The owner will ensure that qualified minority and women business enterprises have been given an equitable opportunity to compete for development related contracts by: (1) accessing lists of such enterprises from the Oregon State Office of Minority, Women and Emerging Small Business Program website; (2) search for Qualified Rehabilitation Facilities from whom to procure products and services via the Oregon State Qualified Rehabilitation Facilities Program website; and (3) advertise in general circulation, trade association, and minority focused media about prime subcontracting opportunities.

The applicant will post information about the City's Rights Assistance Program in English and Spanish on the job site during construction of the project.

The project shall be in conformance with wage, tax and licensing laws.

The applicant will have in place methods for ensuring that all contractors performing work are licensed and performing in compliance with state law.

The applicant will provide the City's Building and Permits Services a list of all contractors performing work on the project. Prior to performing work on the project, contractors must have valid, current licensing, insurance, bonding and workers compensation coverage, and be on the list of contractors provided to the City.

The applicant will require that each contractor provide an affidavit attesting to the fact that (1) the contractor, owner, or responsible managing individual for the contractor does not have any unpaid judgments for construction debt, including unpaid wages; and (2) the contractor is in compliance with Oregon tax laws.

- 1.4 Moderate-Income Housing Contribution. The applicant will pay a fee to be dedicated to moderate-income housing. The fee will be 10% of the total exemption benefit for the 10-year benefit.
- 1.5 Project Design and Compatibility. The design elements include a ground floor with a residential entrance to the east and commercial storefronts to the south. Upper levels are regular bays of openings grouped vertically and punctuated by balconies. The building has a roof deck above the sixth floor, and the residential units are characterized by large windows. Building materials are primarily brick and stucco, with metal and glass storefronts and metal balconies. These design elements, as well as the actual square footages, reviewed at the time of approval of this application and included in Exhibit B shall be adhered to unless the City Manager approves a deviation from the plan pursuant to EC 2.946(2)(e)2.

During the design process and before the final design drawings are completed, the owner shall hold at least one neighborhood engagement opportunity to allow members of the Downtown Neighborhood Association to provide comments on the proposal. At least one of the applicant's principals shall attend that meeting.

After the final design is completed and before it is submitted for permits, the final design shall be submitted to the City to review for conformance with the design approved by Council resolution. In addition, the City shall allow the neighborhood an opportunity to review and comment on the final design. After the comment period, the City shall determine if the design is consistent with the requirements of this Resolution, and if not, whether the City Manager will approve a deviation pursuant to EC 2.946.

- 1.6 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 Chapter 195, 196, 197, 215, and 227.
- 1.7 The project shall not contain any units for transient use or vacation occupancy.
- 1.8 The project will be completed on or before January 1, 2022, unless an extension of the deadline is requested by the property owner and approved by Council resolution pursuant to EC 2.947(5).
- 1.9 The public benefits of the project that will extend beyond the period of the tax exemption include Green Building (energy performance), Project Design and Compatibility, and Compact Urban Development.

Section 2. Subject to the conditions in Section 1 of this Resolution, 100% of the residential units and newly constructed commercial space 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 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 applicant within ten days, and to cause a copy of this Resolution to be filed with the Lane County Assessor on or before April 1, 2019.

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

The foregoing Resolution adopted and effective the ____ day of October, 2018.

City Recorder

**REPORT AND RECOMMENDATION
of the Planning & Development Department**

Gordon Lofts Application for Multiple-Unit Property Tax Exemption

The Executive Director of the Planning & Development Department of the City of Eugene Finds that:

1. The Gordon Lofts apartments will be developed on real property located at 6th Avenue and Pearl Street, Eugene, Oregon (Assessor's Map #17-03-31-11-04400 currently portions of tax lots 03200 and 02800). Lane County is the current owner of the subject property. Obie Companies, Inc. and Gordon Lofts, LLC submitted an application pursuant to the City's Multiple-Unit Property Tax Exemption ("MUPTE") Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to residential and commercial units to be constructed on the property. Lane County has expressed support for the application.
2. As the City Manager's designee, I have reviewed the application and find that:
 - 2.1 The project will provide 5 two-bedroom units, 53 one-bedroom units and 69 studio units, for a total of 127 residential units, none of which will be for transient use or vacation occupancy. The ground floor will contain a total of approximately 10,000 square feet of commercial space.
 - 2.2 The project is not designed to be student housing, meaning it will be leased by the unit (rather than by individual rooms or beds) and the unit configuration does not include several bedrooms with individual bathrooms and sparse common space or include amenities and location selected primarily for individuals attending college and offer limited viability as potential housing for the general population. Additionally, the project does not designate any of the units for transient use or vacation occupancy.
 - 2.3 Construction is expected to be complete on or before January 1, 2022.
 - 2.4 The project is located in the downtown area described in subsection (1) of Section 2.946 of the Eugene Code, 1971.
 - 2.5 The applicant submitted all materials, documents and fees required by the City as set forth in Section 2.945 of the Eugene Code, 1971, and the administrative rules adopted by Administrative Order No. 53-18-03-F.
 - 2.6 The applicant has responded to the **Required Public Benefit** criteria as follows:
 - 2.6.1 Compact Urban Development. The project will be built in the C-2 Community Commercial Zone, which has no minimum density requirements for mixed-use projects. The proposed, mixed-use project includes 127 residential units, with a density of 254 units per net acre.
 - 2.6.2 Green Building Features. The project will utilize the City of Eugene Building and Permit Services Pathway in order to meet MUPTE green building

requirement and exceed the 10% energy efficiency benchmark. Gordon Lofts will be required to submit an energy model with their permit application and a commissioning report due 18 months after certificate of occupancy is issued. As the project does not include onsite parking, the project will not include installation of conduit for future electric vehicle charging stations.

- 2.6.3 Local Economic Impact Plan. A plan is in place for more than 50% of the project's dollar volume of professional services and construction contracts to be local to Lane County (estimated at 71%). The applicant is committed to promoting open competitive opportunities for Minority, Women, and Emerging Small Businesses, and is committed to complying with wage, tax, and licensing laws.
- 2.6.4 Moderate-Income Housing Contribution. The project will pay a fee to be dedicated to moderate-income housing. The fee will be 10% of the total exemption benefit for the 10-year benefit.
- 2.6.5 Project Design and Compatibility. The project will address basic design concepts in the context of the project location and will be designed and permitted for construction as shown in the resolution (should City Council approve the MUPTE). The building is constructed as one component of a larger development with a mix of uses. It is 7 stories, with a relatively narrow street frontage on Pearl Street. The ground floor is retail and commercial space with upper levels of residential. The design elements include a tall first floor with a row of urban storefronts facing south on to the proposed Market Alley and a residential entrance with a lobby facing east on to Pearl Street. Upper levels are regular bays of openings grouped vertically and punctuated by balconies. The building has a roof deck above the sixth floor, and the residential units are characterized by large windows. Building materials are primarily brick and stucco, with metal and glass storefronts and metal balconies. The building meets City requirements for vehicle parking (no minimum) and bicycle parking, and will utilize existing lots owned or under contract by the developer for additional parking need. The basic design concepts include the scale, form, and quality of the building; the mix of project elements; the relationship to the street and surrounding uses; and parking and circulation.

The project design is designed to contribute to its downtown Eugene context. The development is designed for the human scale, will add a needed mix of uses, promote active transportation modes, support a more vibrant pedestrian realm, and increase safety through additional activity and "eyes on the street."

- 2.6.6 Historic and Existing Housing Sensitivity. The project is adjacent to three properties with the historic locale definition, but they are not affected by the Gordon Lofts redevelopment. The project includes no direct, structural

impacts, such as alterations or demolitions, to any of the identified resources. Furthermore, each locale will maintain its setting and special relationships that characterize each property.” No historic structures or existing housing were demolished or removed from the property in the 2 years prior to the date of application.

2.6.7 Project Need. The project’s pro-forma and financial information was analyzed by PNW Economics, an independent, real estate economics consultant who found that the project as proposed could not be built but for the benefit of the tax exemption. The financial information Gordon Lofts submitted in their application is based on projections prior to finalizing financing, construction, and tenanting. It includes assumptions regarding rents, vacancy rates, operating costs, lender underwriting criteria, interest rates, and reasonable rate of return. PNW Economics, the Review Panel, and staff reviewed the assumptions. The PNW Economics analysis concludes that the project would not be viable without the availability of the MUPTE, using the reasonable assumptions outlined and concludes that MUPTE is critical to the success of the project from a financial feasibility perspective. See Section 4 below for the Review Panel’s conclusions.

2.6.8 Public Benefit beyond Period of Exemption. The public benefits of the project that will extend beyond the period of the tax exemption include Green Building (energy performance), Project Design and Compatibility, and Compact Urban Development.

2.7 A presentation on the Gordon Lofts project was given to the Downtown Neighborhood Association on March 28, 2018.

2.7.1 Future Neighborhood Engagement. Prior to completing final drawings, Gordon Lofts will meet with the Downtown Neighborhood Association. Before submitting for permits, Gordon Lofts will submit the design to staff to review conformance with the design attached to the MUPTE resolution (should City Council approve the MUPTE). Staff will also allow the neighborhood an opportunity to review and comment on that final design.

3. A display ad soliciting recommendations or comments from the public regarding this project was published in the Register-Guard on July 14, 2018. The period for comment expired on August 13, 2018 and resulted in 26 written comments. Additional comments were submitted to staff or directly to City Council after the official comment period. All 26 comments received as of October 8 were provided to City Council with the materials for the October 17 work session.
4. The community member MUPTE Review Panel considered the project application, including compliance with program criteria and the independent consultant’s financial review, during 3 meetings held on August 23, September 10, and September 20. The Review Panel concluded that the project meets the Required Public Benefit criteria. The Panel noted that Project Need

involves many variables that are hard to predict. The Panel concluded that project need was demonstrated. The majority of the panel members agreed that a ten-year exemption was warranted. Some members agreed that only a three-year exemption was warranted. See Attachment C of the October 17 Agenda Item Summary for the full Review Panel conclusions.

Therefore, based upon the above findings, the project is, or will be at the time of completion, in conformance with all applicable local plans and provisions of the Eugene Code, 1971, planning regulations, the Metropolitan Area General Plan, and the criteria set forth in the City's adopted administrative rules, and I recommend that the application be approved conditioned upon the project moving forward as proposed.

Dated this 10 day of October, 2018.

A handwritten signature in black ink, appearing to read "Denny Braud", is written over a horizontal line.

Denny Braud *DB*
Executive Director AIC
Planning & Development Department

NOT FOR
CONSTRUCTION

Ankrom Moisan
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EUGENE MARKET DISTRICT
6TH AVENUE AND PEARL STREET, EUGENE, OR

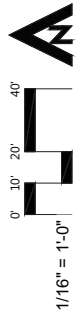
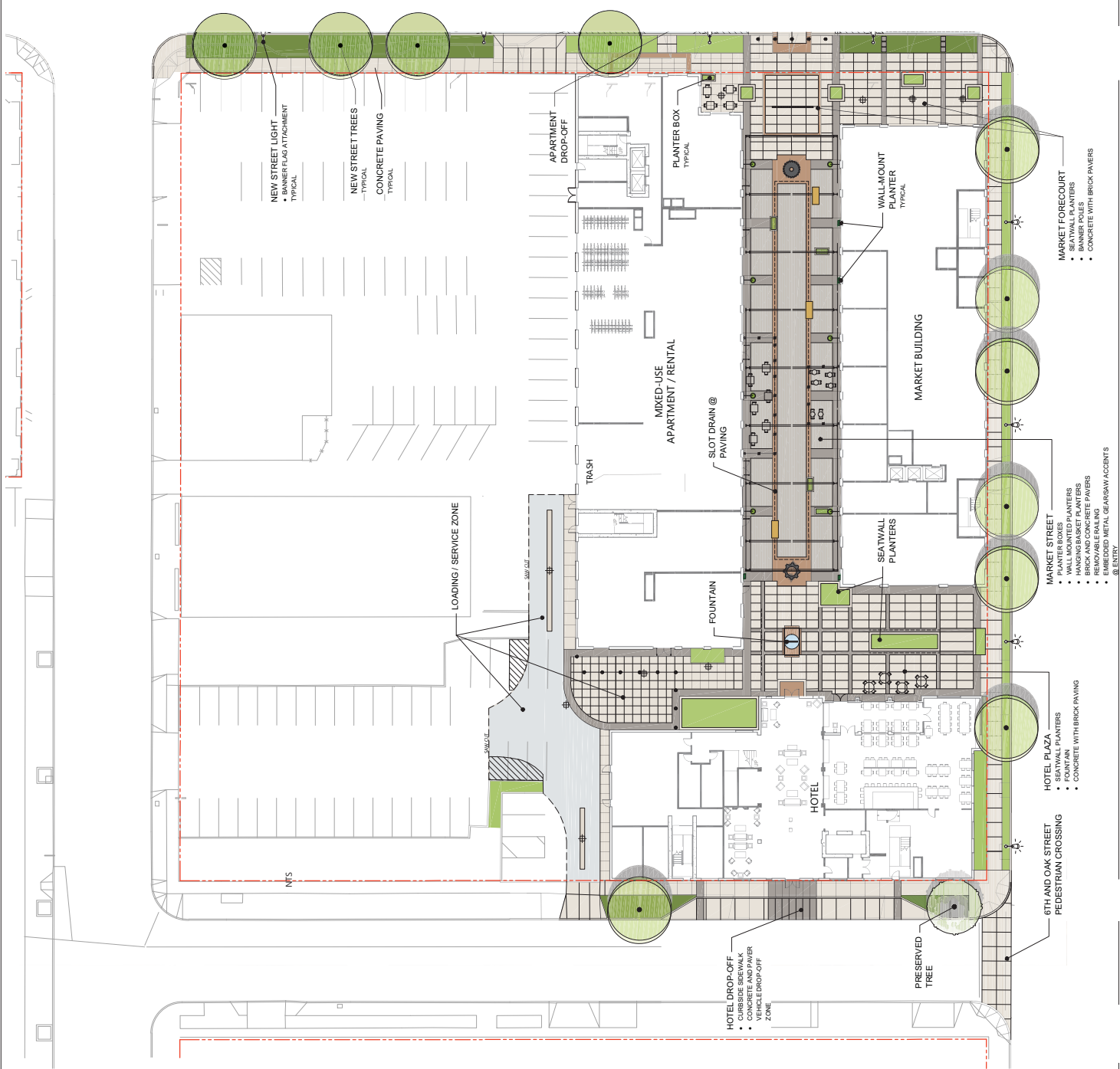
Obie Companies

REVISION	DATE	BY	DESCRIPTION

SCHEMATIC SITE PLAN	DATE 1/25/2018	PROJECT NUMBER 177790
SD SET		

L1.00

Exhibit B
Page 1 of 5





ELEVATION - APARTMENT NORTH







ELEVATION - APARTMENT EAST