



MEMORANDUM TO PROPOSERS

ACQUISITION OF THE CIVIC STADIUM PROPERTIES

April 27, 2011

Dear Eugene Family YMCA:

As you know, presentation of your proposal to the Board in executive session has been scheduled for May 16, 2011, at 3:30 pm. The order of presentations was determined by the screening committee scores forwarded to the Board (in reverse order, lowest to highest). You will have a total of 1 hour and 30 minutes for the total length of your time with the Board. We anticipate 10 minutes for set-up, 20 minutes for introductions and proposal overview, 30 for response to questions (see below), and 30 minutes for additional questions and answers, and presentation “take-down”.

Since the Board members have each received and have had opportunity to review the individual proposals, your presentation should be geared toward an audience that has a high level of familiarity with the property, the issues, and your proposal and subsequent clarifications. Due to the limitations of time, we are requesting that you provide only a brief overview without getting into the proposal details with which the Board should already be familiar. We do request that you focus an appropriate amount of time to a) summarize and quantify your proposal’s specific additional benefits to SD 4J, b) summarize and quantify your proposal’s specific benefits to the community, c) summarize significant schedule and task milestones associated with your proposal and what needs to happen to meet them.

With the exception to question 1 below, we are asking all proposers to provide a written response to the questions below by no later than 3:00 pm Thursday, May 12, 2011. Please provide your responses via email to Larry Massey. As previously requested, if you desire limited disclosure of your responses, please include them as a separate document or attachment, clearly identified as “confidential”. Please plan to respond to question 1 during your presentation.

1. What is your best and final offer for Fee Simple Purchase and for Ground-Lease Terms?

In order to reduce 4J's risk associated with the Y not closing within the contract time frame following non appeal entitlement the development team is prepared to close on the entire property whether or not the YMCA fund raising campaign has reached completion. The fee simple price and basic terms are to remain consistent as originally proposed and the lease option calculation is subject to change based on further due diligence.

2. What risks do you see your proposal/development presenting to SD 4J and what steps, if any, do you propose to reduce or eliminate those risks?

The risks to 4J as contemplated are minimal and are consistent with typical real estate acquisitions focused primarily on the timing of the close. For 4J, with the concession made to close absent a successful YMCA capital campaign, there remains the risk the project never receives non-appealable entitlements and the closing does not occur. For the development team this risk is real as well yet is exaggerated by the substantial predevelopment funds expended while not having a method to recoup them absent the closing.

Our team has not contemplated any 'non-refundable' deposits or other payments during the entitlement/closing period to 4J. This is a standard contract term considering the risk of loss to the development team for the entitlement/closing costs are a significant incentive to closing. To mitigate this risk for both parties, we encourage close collaboration between our team, 4J, the city and the public serving agencies to assure the timely approvals are received and the closing occurs per the contract.

We continue to maintain a fee simple transaction is the most viable route to accomplishing the closing. The complexity of the terms and the associated risks of not reaching a successful conclusion within a ground lease structure are substantially higher than with a fee simple purchase transaction. The following responses summarize the primary risks within this transaction and offers mitigation measures to reduce the exposure:

- A. *Acquisition: As with any negotiation there exists the risk the parties will not be able to agree on terms or contract language. As well, the final terms of the contract will have an impact on the ability to finance the project. Our team is experienced working with large stakeholder groups in putting together multi-faceted ownership, financing structures and agreements. This experience assures the objectives of each party is fully understood, addressed and is a finance-able contract.*

We have worked to date without the benefit of open dialogue or collaboration with 4J. The next step, post selection, is to further refine our business plan and ownership/finance structure based on the confirmation of 4J's, the Y's and the City's mutually aligned objectives. With this understanding we will create the contract language for the disposition and use of the property within an ownership and finance structure which is as simple as possible; to help expedite the process and provide the greatest assurance of a successful closing. In this case, the fee simple option is simpler to document and the least risky and is the most viable transaction structure.

B. Entitlement: There is risk associated with not securing the land use density relating to the land coverage and heights with our contemplated entitlements or, this action is stalled through appeals or other legal challenges. As 4J has experienced already with the project, politics and public opinion can greatly impact progress. Once again, our team is experienced in complex entitlements and we work closely with the local community to ensure we understand various points of interest and concern to address those as quickly as possible. Our team has spent considerable time with the city, other public serving agencies, the community at large and the university. Our development plan provides on-going community benefits and has support for the proposed Y campus and student housing community. The proposed use is within the existing zoning framework and fits within the context of its surrounding. Based on this and the experience of our team we are confident in meeting the objectives of the community and receiving the requisite approvals.

C. Finance: Formal financing commitments will be forthcoming upon the selection of the development team. The finance process will progress with the acquisition and entitlement process and the decisions we make during these phases focus on ensuring beneficial financing terms for the project. Our principal student housing development partner has financed more than \$600,000,000 in similar projects over the course of only the last 14 months (see attached listing of Capstone financed projects).

Crafting a Purchase and Sale Agreement for a fee simple purchase will be straight forward. Our team will rely on existing capital relationships for the primary financing of the project and the processes associated with closing are standard practice and tested.

At present we are confident in our ability to deliver financing based on a fee simple purchase of the land utilizing conventional finance sources/ methods and are less confident on a ground lease scenario.

D. Construction: The Construction phase is one of the least risky phases of the development process and 4J would take on none of this risk on a fee simple purchase. On a lease basis they would be subject indirectly to the risk of not completing the project on time and within the guaranteed maximum price budget (GMP). In the case the revenue from the project is delayed or is diminished their respective payment would be impacted and would have to be reconciled or caught back up over time. This risk is primarily mitigated by managing the acquisition and entitlement process tightly to assure adequate time to construct the student housing for fall 2013. In this case, we have the balance of this year to accomplish this and have to move through the acquisition/ contract phase quickly to move on with the entitlement process and, every day will count to accomplish this. During the entitlement phase it is important to assure the design is within the frame work of the budget and is not too complicated to enable comprehensive working documents and cost effective construction. Hiring a qualified general contractor under a well put together GMP contract and having the necessary

contingencies in place to cover the working documents, site and building unknowns and unforeseen circumstances are all key elements in mitigating the construction risk.

Lease up: The revenue generation component of the process is the most risky considering it has the greatest impact on the financial performance of the project. On a fee simple basis 4J is not subject to this risk but like that of the construction phase is in an exposed position on a ground lease basis. This risk is mitigated by having the demand, program and pricing comprehensively studied as part of the due diligence and finance underwriting phase. The student housing lease up program typically starts up to a year in advance of the project opening to assure the pro forma occupancy in advance of your opening. As well, the first line of defense is the erosion of your margin over debt service with incentives and operating reserves maintained as a second line of defense to assure stabilization. In a situation where debt service is not being met the lender may step and take control of the project which means every one is impacted in some way. In this case contract language or requirements concerning guarantees or remedies beyond the performance of the project need to be considered and documented very carefully.

E. Operations:

The most substantial ongoing expenses for the student housing use are property taxes and the variable on site staff and service provider costs. Like the construction and lease up phases, on a fee simple transaction 4J is not subject to this risk and on a ground lease 4J would be indirectly exposed. This risk is mitigated through the expertise of the operator and our principal development partner Capstone is one of the largest single purpose student housing operators in the nation. As well, the Y has been successfully operating its facility for years and is a capable manager/ operator of its facility.

3. Please clarify what you are willing to pay the District during your period of gaining entitlements, and state whether this includes maintenance, insurance, property taxes, etc. (if applicable).

Based on the specifics of this project it is prudent for the Buyer and the Seller as proposed to close on the land after the Buyer has secured non appeal-able entitlement approval. We will determine as part of our contract the probable number of days required to secure the entitlement and close the transaction following this action. We do not anticipate our deposit coming non refundable or releasing money to 4J during this phase .We anticipate with the complexity of the tri party land transfer/ documentation it will require a full 60 days to close as outlined in our proposal following the Buyer securing non appeal-able approvals for the project. We do contemplate putting up a refundable deposit coinciding with signing of the contract, applicable to the purchase price which would become non refundable in the case of a Buyers default and cannot close.

4. Please provide the Board with a summary of the amounts of current funds available to meet your financial obligations, should you be the successful proposer.

Due diligence or chase funding for third party costs of up to \$100K is available to fund the process to contract signing with 4J. Once the tri party contract (the Y, TBF- Student Housing Single Purpose Entity and 4J) is signed then money will be committed for the refundable deposit and the third party costs for the entitlement phase which we anticipate to be in excess of \$1M. Our financing will not be committed until such time we are actually selected and have a purchase contract with acceptable transaction terms delineated. These terms will need to be backed with a solid business plan which meets stated return metrics. The contract is a binding document which will document the financial wherewithal, and essential terms/requirements to close

Please indicate the amount of funds currently at your disposal, source of funds, and if you do not have the funds currently available, please provide your plans on how you are going to raise the funds, including sources, professional fund raisers involved, timelines for achieving funding goals, etc.

Please be specific as this is a critical determinant in the Board's final decision.

Once again we have funding sources for the project but no formal or written commitments are in place at this time and should not be expected until we have been selected. Coinciding with the signing of the contract, funding will be committed with the release of a deposit and the funding of the due diligence, preliminary design and the entitlement process.

5. How long do you anticipate negotiations will take to come to an agreement with the District in finalizing an agreement to convey the property?

Our team is committed to moving as quickly as possible however as in any negotiation the time it takes to reach full agreement is dependent upon both sides being diligent, creative and mutually aligned in solving problems. While we can reasonably say the negotiation should take no more than ninety days in our experience, it is highly dependent upon 4J's approach to the transaction, who they have negotiating/ documenting the transaction and what purchase option they ultimately decide to pursue. As well, we have discussed previously the complications of the ground lease which will require more time and money to document and process which may have impact on being able to deliver the student housing within the 2013 time frame.

6. If you are unsuccessful in either your fundraising or land use efforts, within your projected timelines, what do you plan on doing with regards to paying for extensions, interim rents etc?

In order to reduce 4J's risk associated with the Y not closing within the contract time frame following non appeal entitlement the development team is prepared to close on the entire property whether or not the YMCA fund raising campaign has reached completion. However, we do contemplate the need for pre determined closing extensions within the contract based upon unforeseen circumstances in which a portion of the deposit amount would become non refundable at the time a closing option would be exercised.

Proposal-specific questions for Eugene Family YMCA (same response deadline as above questions):

- A. Your proposal has two distinct geographic areas and two different lease terms. As such, will there be different Guarantors for each development, or will there be one overall Guarantor? Regardless if one or two, could you please provide the financial background/capacity, etc. for each Guarantor in general terms?

The Y and the student housing properties will be owned and financed by separate entities. The two ownership parcels will be defined as part of the entitlement process and will set the land basis for the closings of these parcels. The final ownership/financing entities will be defined based on the disposition approach either fee simple or ground lease. As reference, the ground lease calculation contemplated a not for profit ownership structure which would be different than a for profit structure contemplated with the fee simple proposal. . As it relates to the either one of the financing sufficient financial depth will be demonstrated as part of the purchase contract and from the lender which will satisfy specific recourse requirements if they are deemed necessary.

If separate Guarantors, how do you envision things playing out if one of the Guarantors cannot meet their financial obligations? How would a different development on the adjacent land affect your development, if at all?

In order to reduce 4J's risk associated with the Y not closing within the contract time frame following non appeal entitlement the development team is prepared to close on the entire property whether or not the YMCA fund raising campaign has reached completion.

In this case, if the Y is unable to finance their project we have the ability to entitle and parcel the Y's location with a second phase of student housing, and/or

another retail or commercial use contemplated in the place of the Y. In the case the student housing use could not be built out then the parcel is well configured for another ownership or a multi-family rental housing use with in the properties current R-2 zoning.

- B. What is the basis for your increases in rents of 3% per annum for every year of the 65 year lease term (housing portion) and 99 year lease term (Y portion)?

The 3% per annum increase is simply used as an estimate for the long-term cost and revenue increase to represent the CPI. Actual increases will depend on economic and market conditions.

- C. Do you anticipate rebuilding any of the apartments during the 65 year term? If so, in what approximate year?

Not typical unless we suffer loss or damage due to unforeseen conditions. Industry standard replacement reserves are required and will be set aside and these improvements will be made to the buildings.

- D. Since the apartment portion is for 65 years, and the Y portion is for 99 years, how do you envision the District disposing of the apartment land and still ensuring compatibility with the Y's operations?

The properties can operate separately and there would be no compatibility with the Y's operations after 65 years.

- E. Will you guarantee the minimum of \$170,000 per year (plus 18% of net revenue) for the entire 65 year term on the ground lease, and not require a subordination of the Districts position?

The ground lease calculation provided was factored on a residual basis, paid after debt service which equated to approximately 18% of the net revenue. As such, the \$170,000 per year lease rate was not contemplated as a guaranteed minimum payment.

As well, structuring a ground lease transaction with a Fannie or Freddie take out which would be the primary source for the permanent financing for the student housing is difficult to accomplish without them require some form of land owner subordination or cooperation in the case of a foreclosure. Fannie and Freddie have very strict underwriting criteria they typically do not bend on. It is for this primary reason the ground lease structure is more challenging and complex disposition method for 4J to pursue.

Since your proposal says the District may receive 18% of the net revenue after operating and debt service costs, how does the district ensure the developer doesn't use any surplus funds for reserve replacements, or management fees or investor returns, or something like serving debt on additional mortgages beyond the initial first mortgage, etc.? What is proposed to protect the District from not getting anything over the minimum base rent? How willing will the developer be to enter into an agreement that allows the district to look into operations to ensure the cash flows are not subject to expenses not initially identified or estimated in the proposal in front of the Board at this time?

The anticipated lease rate was based on the value of the land times a discount rate of 8% paid on an annual basis. Coincidentally it equated to approximately 18% of the net revenues. The proposed lease payment is based on a fixed amount relating to the current value of the land and not as a percentage of the net revenue.

How many new jobs will your development create over those currently associated with the Y, including the jobs associated with the multi family development? Please include payroll and any ripple effect it may have on the local economy?

Besides the number of construction jobs created within the commercial and residential construction fields, the phase 1 Ball Park Village student housing operations is anticipated to have 5 permanent positions with 8 part-time positions for students. The total phase 1 student housing payroll is approximately \$235K per year with the creation of these new jobs. Similar numbers are also applicable for the phase 2 Patterson site student housing program. .

The Y's payroll is anticipated to increase by another \$250,000 per year with the introduction of additional children and family programs.

In no case, is the proposed Y and the student housing considered an overlapping use and is not anticipated to impact other smaller existing commercial businesses.