

**KIMPTON HOTEL
PASADENA, CALIFORNIA
ECONOMIC DEVELOPMENT SUBSIDY REPORT
California Government Code
Section 53083**

**PURSUANT TO PROPOSED LEASE AGREEMENT BETWEEN
KHP III PASADENA LLC
AND
THE CITY OF PASADENA**

April 3, 2017

I. INTRODUCTION

A. Purpose of Report

This Economic Development Subsidy Report (Report) was prepared in accordance with Section 53083 of the California Government Code in order to inform the City Council of the City of Pasadena (City) and the public of the proposed economic subsidy provided by the City to KHP III PASADENA LLCS (Developer) as described in the Ground Lease. The term of the proposed Ground Lease is 99 years. The proposed subsidy is included in the form of proposed ground rent and parking between the City and the Developer.

B. Summary of Findings

The City engaged its economic consultant, Keyser Marston Associates, Inc. (KMA), to analyze the financial terms contained in the Agreement. Under the terms of the Ground Lease, the City will provide two Economic Development Subsidies. The total possible amount of the subsidy over a 99 year period is \$14.081 million (present valued at 5%).

C. Description of Area and Proposed Project

Description of Property and Environs

The project site is located at 78 N. Marengo Avenue in the City of Pasadena (City), within the County of Los Angeles. The project site is composed of three parcels on the block bounded by Marengo Avenue to the west, Holly Street to the north, Garfield Avenue to the east, and Union Street to the south. The southwest parcel (Parcel 1) contains the existing vacant YWCA building located at the northeast corner of Marengo Avenue and Union Street. The YWCA building varies in height from two stories to three stories with a maximum height of 44.6 feet. The second parcel (Parcel 2) consists of a surface parking lot east of the existing YWCA building. The third "L-shaped" parcel (Parcel 3), located to the north and east of the existing YWCA building and parking lot, consists of landscaping and public art (Robinson Memorial) along Holly Street and Garfield Avenue. The project site is located within the Civic Center/Midtown Sub-District of the Central District Specific Plan, and is zoned CD-2. The General Plan Land Use designation for the site is Medium Mixed Use. The YWCA building is a historically significant property that is listed as a contributor to the Pasadena Civic Center Historic District on the National Register of Historic Places and the California Register of Historical Resources, and is a City-designated historic monument.

Proposed Project

The proposed project involves the rehabilitation and adaptive reuse of the existing approximately 42,000-square-foot YWCA building located at 78 N. Marengo Avenue and the addition of an 87,342-square-foot, six-story building on the project site, which together would become a 129,342-square-foot, approximately 181-room, Kimpton Hotel having 13 rooms in the existing building and 168 rooms in the new building. The new hotel would be of first class standard and consist of approximately 181 guestrooms and suites, approximately 1,989 square feet of meeting facilities, approximately 5,630 square feet of ballroom space, approximately 1,197 square feet of hospitality parlors, and an approximately 2,350 square-foot, 140-seat restaurant. The height of the building

would be 60 feet high and have a floor area ratio of 1.5. Parking for the new hotel would be valet-only; all parking would be off-site and would be provided at existing parking lots and structures in the nearby area. In addition, a sidewalk cut-back and use of the existing parking lane is proposed along Marengo Avenue for guest drop-off, valet parking, and access to the main entrance of the hotel and restaurant.

D. Proposed Transaction Terms

This section summarizes the salient aspects of the business terms contained in the proposed Ground Lease.

1. No ground rent during the first 50 years of the Ground Lease term; thereafter there shall be a Fair Market appraisal of the rent and rent will adjust to Fair Market Value.
2. City to provide 136 off-site parking spaces at no cost for up to 99 years.
3. In exchange for not receiving ground rental payments, the City will share in 15% of room revenue when KHP exceeds the threshold rooms sales specified in the Ground Lease. The participation will be capped at \$438,720 in the first year and will increase 3.0% annually thereafter. The participation is for the duration of the Ground Lease regardless of the hotel owner.
4. In exchange for not receiving ground rental payments, the City shall receive a one-time sale participation payment equal to 20% of the proceeds exceeding a 14% Internal Rate of Return to the developer. The participation remains in place for the duration of KHP's ownership and applies if less than 100% of the asset is sold.

II. NAME AND ADDRESS OF BUSINESS ENTITY RECEIVING SUBSIDY

The Economic Development Subsidy provided under the Ground Lease will be paid, or otherwise credited, to the Developer, under the name:

**KHP III PASADENA LLC.
101 California Street, Suite 980
San Francisco, CA 94111**

In July of 2012, the City issued a Request for Proposal for the renovation and use of the Premises and an adjacent parcel owned by the City. The Developer responded to the aforesaid Request for Proposal, following which an internal advisory panel of the City recommended to the City Council to begin exclusive negotiations with Developer. The City and Developer then entered into an Exclusive Negotiating Agreement dated May 1, 2013, as heretofore amended (the "ENA"), pursuant to which Developer has the exclusive right, for a limited period of time, to negotiate with the City with respect to the terms of a lease necessary or appropriate for the development of a hotel on the Premises.

III. DESCRIPTION OF ECONOMIC DEVELOPMENT SUBSIDY

The City will provide two economic subsidies: 1) No Ground Rental Lease payments and 2) The City will provide 136 off-site parking spaces to meet the Hotel's peak parking demand. The City will forego lease payments for the first 50 years of the lease that total approximately

\$8.179 million (present valued at 5%). The total cost of providing 136 off-site parking spaces for up to 99 years approximately \$5.902 million (present valued at 5%).

IV. START AND END DATES OF SUBSIDY

The subsidy related to the Ground Lease payment will be from the first year of hotel operations until year fifty (50). At year fifty, the rent will be adjusted based on an appraisal and adjusted to then Fair Market Value. The subsidy for the parking spaces will be for up to 99 years.

V. PUBLIC PURPOSE

The City purchased the Julia Morgan designed YWCA and parking lot properties in 2012 for the purpose of rehabilitating and reusing the YWCA to halt any “demolition by neglect.” Given the current and long-term view of the City’s finances, the City does not have the financial wherewithal to restore the Julia Morgan Building. Without the subsidy, the Developer will not move forward with the project as the project’s financial returns are below the current hotel industry standards. By providing the subsidy, the Developer will perform the historic rehabilitate the Julia Morgan building and construct a hotel that will Increase the number of visitors to the City, which will spend money on dining, retail and entertainment activities in the City. Moreover, the hotel will create a new, active use in the Civic Center. Also, the hotel will generate significant public revenues to the City that can fund police, fire and other public services.

VI. PROJECTED TAX REVENUE TO CITY RESULTING FROM THE SUBSIDY

The following table projects the tax revenue to the City over a 20 year period:

	Net Present Value @ 5%	Gross Revenues (no discount)
Transient Occupancy Tax Revenues	\$25.99 M (calculated at 12.11 TOT tax rate %)	\$43.98 M
Sales Tax Revenue	\$1.30 M	\$2.20 M
Property Tax Revenue	\$2.46 M	\$4.07 M
Proposed Ground Rent	N/A	N/A
Total	\$29.75 M	\$50.26 M

VII. ESTIMATED NUMBER OF JOBS CREATED BY THE SUBSIDY

The Project is subject to the City of Pasadena’s First Source Local Hiring Ordinance and expected to generate a total of **352** jobs during a **two** year construction period and **144** permanent, full-time jobs, and **16** part-time jobs at Project build-out and stabilization.