

Agenda Report

April 8, 2019

TO: Honorable Mayor and City Council

FROM: Planning & Community Development Department

SUBJECT: RECOMMENDATIONS FOR DEVELOPMENT PARAMETERS WITHIN THE CIVIC CENTER AND ANALYSIS OF POSSIBLE REUSE OPTIONS FOR THE YWCA BUILDING

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15061(b)(3); and
2. Provide direction to staff regarding: a) the proposed parameters for the redevelopment of the YWCA building; b) the use(s) of the building; and, c) the process for selecting a specific project and possibly including the adjacent northern City-owned property (Water & Power site).

EXECUTIVE SUMMARY:

As requested by the City Council on June 18, 2018, staff has obtained analysis conducted by professional consultants, regarding the appropriate building envelope, including setbacks and heights for potential projects adjacent to the YWCA and YMCA buildings in the Civic Center as well as economic analysis regarding various possible reuses for the YWCA building and other City-owned parcels in the Civic Center.

The economic analysis indicates that while the YWCA building is appealing and historically significant, it is expected to cost more to rehabilitate than the revenues from any of the reuse options studied will support. The analysis therefore focused on whether there is sufficient additional building area under the various scenarios to generate sufficient revenues to support the rehabilitation of the YWCA.

Using the recommended setback and height from the latest study as well as a 107-foot setback option (consistent with the eastern edge of the existing YWCA building) the economic analysis concluded that:

- Hotel reuse of the YWCA site is possibly feasible but would rely on aggressive revenue projections and the ability to provide parking offsite. Note: the analysis did not consider the payment of ground rent.
- Reuse as private office at both the YWCA site and the Water & Power site is likely feasible if subterranean parking can be minimized and/or offsite parking available.
- Reuse of the YWCA as City offices is possible but is estimated to initially cost 20% - 50% more than current City leasing costs per square foot (without and with subterranean parking, respectively) Note: This translates to a financial gap of \$23.4 million assuming all off-site City offices were relocated to the Building.
- Reuse of the vacant Water & Power site as offices for the Water & Power Department and perhaps one other department depending on setback, is possible but is estimated to initially cost 10% - 30% more than current City leasing costs per square foot (without and with subterranean parking, respectively) Note: This translates to a financial gap of \$3.5 million.
- Market-rate residential reuse of the YWCA site is feasible if subterranean parking can be minimized and/or offsite parking available.
- Affordable housing reuse of the YWCA site would be a function of public funds available to support such reuse. Initial estimates suggest such reuse could require \$20 - \$36 million in public funds.

BACKGROUND:

YWCA Building Acquisition

The Pasadena YWCA building at 78 N. Marengo Avenue was designed by Julia Morgan. Ms. Morgan graduated from the University of California, Berkley in 1894 with a degree in civil engineering and is best known for her work on Hearst Castle in San Simeon, California. Morgan was the first woman to be admitted to the architecture program at l'École nationale supérieure des Beaux-Arts in Paris.

The building is a historic resource that is both listed in the National Register of Historic Places as a contributing structure to the Pasadena Civic Center Historic District and designated as a historic monument by the City. After the YWCA organization vacated the building in 1997, it remained vacant, unmaintained and in a state of deterioration. The City acquired the building for \$8.3 million in 2012 in a negotiated settlement with the previous property owner in order to take control of the building and save it from demolition by neglect. Since that time, the City has spent approximately \$200,000 for temporary roof covering with tarps, site security perimeter fencing, temporary roof repairs, boarding of windows and entryways and re-assessment of structural conditions to determine the level of deterioration; bringing the City's total investment to date to \$8.5 million.

In July 2012, the City issued a Request for Proposals (RFP) to identify a private developer that could rehabilitate the building and, if necessary, build on adjacent City-owned land to establish an economically feasible new use. The RFP specified that the proposed use should save and restore the historic asset, fulfill the vision of the Central District Specific Plan, enliven the Civic Center, and generate a financial return to the City. A proposal submitted by Kimpton Hotel & Restaurant Group was selected for further negotiations. In August 2016, after several years of technical analyses, environmental review and public meetings, the City Council approved the construction of Kimpton's proposed 179-room hotel with meeting facilities, ballrooms and a restaurant, including certification of an Environmental Impact Report and approval of a series of Zoning entitlements. In May 2017, when reviewing the proposed lease agreement for the project, the City Council did not approve Kimpton's sought after subsidies in the form of no ground rent payment for the first 50 years of a 99 year lease and no cost for 136 off-site parking spaces for the duration of the lease to offset the impact of paying prevailing wage, and the project did not proceed.

Civic Center Task Force

Following the demise of Kimpton's proposal, on July 17, 2017, the City Council approved the formation of a 15-member Community Task Force. The purpose of the Task Force was to provide recommendations to the City Council regarding the future development of the portion of the Civic Center adjoining Centennial Plaza, including the YWCA and YMCA sites and adjacent City-owned properties east of those buildings. The Task Force met eight times between October 26, 2017 and May 3, 2018. On June 18, 2018 the recommendations of the Task Force were presented to the City Council. The recommendations related to: Setbacks/Open Space; Building Height; Land Use, and Public Improvements.

The following table summarizes the Task Force Recommendations. The full June 18, 2018 report, with attached Task Force recommendations, is attached hereto as Attachment A.

Topic Area	Recommendation
Setback/Open Space	52.5' Majority opinion 25' & 98-108' Minority opinion
Height	54' Stepping down adjacent to the YWCA
Land Use	Mix of public and private uses
Public Improvements	Majority of members recommended safety and beautification improvements to Centennial Plaza and landscaped medians in Garfield Ave. All members agreed that the Engelmann Oaks on Holly Street should be preserved, a public art installation should be established to the north landscaped parcel, and a central feature should be established within Centennial Plaza.

Rather than act on the Task Force recommendations, the Council directed staff to initiate further studies including building heights, setbacks and open space designs, as well as economic analysis of various uses, with particular attention to the possible use of the YWCA building as City offices.

Accordingly, staff engaged two professional consultants: OLIN Partnership to conduct a design/setback study and Kosmont Companies, to prepare an economic analysis of various reuse options, including but not limited to use of the YWCA building as City offices. The studies are included as Attachments B and C to this report, respectively, and are summarized below:

1. OLIN Partnership: A design study, including associated visuals, of appropriate setbacks and massing for the two sites, taking into consideration the Bennett Plan, preservation of the YWCA building, the Gray Book, the Civic Center Plans, and Beaux Arts design and principles; and
2. Kosmont Companies: An economic study to analyze and evaluate possible reuses for the YWCA building and possible new construction adjacent to both the YWCA and YMCA.

OLIN Partnership Study

OLIN Partnership is a landscape design firm with extensive knowledge and experience in Beaux Arts urban design principles. Under the leadership of Mr. Laurie Olin, the firm studied the Civic Center and provided recommendations for development of the two properties east of the YWCA and YMCA buildings. Staff provided OLIN primary source documentation regarding the history of the Civic Center, as well as links to the documentation (presently available on the City's website) of the activities of the Civic Center Task Force. Staff also requested that OLIN independently evaluate the documentation and provide a recommended urban design scheme for the area based on the historical documentation, Beaux Arts urban design principles, and existing conditions. The primary request was to provide recommendations regarding an appropriate building envelope for these sites, including setbacks from Garfield Avenue and building heights, as well as recommendations for treatment of Centennial Plaza. OLIN's complete analysis and recommendations are in Attachment B. In summary, they recommend:

1. Garfield Avenue Setback: New construction on the two lots have an angled façade of approximately 60' in width to relate to the corner condition at Garfield Avenue and Holly Street and provide "sufficient presence to hold the frame of Centennial Square." It also recognizes the importance of the diagonal lines extending from the center of the intersection to the sites, which are present on the 1925-6 Bennett Plan, and the presence of the Robinson Memorial, a new feature in the landscape that should be respected with any new adjacent development. In consideration of these features, OLIN recommends a 45' setback from Garfield Avenue as the most appropriate.

2. **Building Height**: The report recommends that any buildings constructed on these sites not exceed 60' in height, which is the existing height limit on the site.
3. **Centennial Plaza**: The report recommends installing planted medians within Garfield Avenue north and south of Centennial Plaza, planting of additional street trees, and installation of a specialty paving pattern within Centennial Plaza, similar to the Piazza del Campo in Sienna, Italy (images provided on page 36 of the report in Attachment B, with a sketch of similar treatment in Pasadena on page 37).

The report provides a diagram of the proposed development envelope and important influences on it, as well as two suggestions for how new buildings could be designed within the recommended parameters, including perspective sketches on pages 30 and 31.

In the June 18, 2018 agenda report staff recommended that, "a setback of 25' would be more consistent with a symmetrical relationship to City Hall and a full realization of the version of the Bennett Plan that more closely resembles the existing conditions." While this setback would be fully consistent with the Bennett Plan, the additional setback recommended by OLIN fully responds to the existing conditions, particularly the Robinson Memorial, while maintaining Beaux Arts urban design principles.

For reference, the Central District Specific Plan, which currently governs the land-use for these sites calls for a minimum setback from Garfield Avenue and Holly Street of 10-feet, a minimum setback from Union Street and Marengo Avenue of between 0' and 5', a maximum allowed height of 60-feet and a maximum floor area ratio (FAR) of 2.25:1.

Kosmont Companies Analysis

Kosmont Companies was retained to evaluate and analyze certain reuse and development scenarios of the former YWCA building and the adjacent vacant Water and Power site. For its analysis, Kosmont used the 45-foot setback recommended by OLIN, but also analyzed these same uses assuming a 107-foot setback (no new construction past the existing YWCA pool building).

Consistent with the existing Specific Plan, the reuse scenarios assumed a 5-story building height for a hotel, office (both City use and private use), market rate multi-family residential, and affordable housing, and separately, the development of an office building on the Water & Power Site.

Kosmont's analysis considered pertinent studies previously completed, current market conditions, and a review of construction cost. Based on this, Kosmont concluded that while the YWCA building is appealing and historically significant, it is expected to cost more to rehabilitate than revenues from the reuse of the Building will support.

Given this, the essence of the analysis was to determine whether there is sufficient additional building area, based on the various setbacks, and under the various reuse

scenarios to generate sufficient revenues to support the rehabilitation of the YWCA building. Kosmont's full analysis is attached as Attachment C and summarized below:

Hotel Reuse

Kosmont examined two scenarios and one variant for a hotel as outlined below:

YWCA Building & Site – Building Program for Hotel Scenarios			
Component	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback	
Total Sq. Ft.	117,320	95,570	
Hotel Rooms	163	122	
Parking Stalls	173	146	
YWCA Building & Site – Building Program for Hotel Scenarios			
Component	Scenario A: 45-Foot Setback	Scenario A: w/Elevated Revenues*	Scenario B: 107-Foot Setback
YWCA Building	\$22,987,000	\$22,987,000	\$22,987,000
New Building	\$40,209,000	\$40,209,000	\$28,801,000
Subterranean parking	\$9,130,000	\$9,130,000	\$7,705,000
Total Estimated Cost	\$72,326,000	\$72,326,000	\$59,493,000
Return on Costs			
Excluding Parking	-10.4%	13.6%	-19.3%
Including Parking	-18.8%	3.0%	-26.1%
10 Year Leveraged Internal Rate of Return (IRR)			
Excluding Parking	10.3%	17.7%	7.7%
Including Parking	7.8%	14.4%	5.7%

**Average Daily Rate of \$269; Occupancy of 83%, Other Departments (restaurant, banquet, bar) generate 67% of total revenues*

Based on its analysis, Kosmont considers the hotel reuse scenarios likely infeasible given a 10 Year Leveraged Internal Rate of Return (IRR) that is significantly less than 20%. Moreover, Kosmont's analysis did not assume the payment of prevailing wages during construction and did not consider the payment of ground rent. As in the case of the Kimpton proposal, in the event reduced ground rent needed to be considered in order to improve financial feasibility, it could have the opposite effect by triggering the requirement to pay prevailing wages thus making a project even less feasible without further subsidies.

The only scenario that may be moderately feasible would be the variant of Scenario A: a 45-foot setback with superior performance projections similar to those anticipated for the Kimpton project. Kosmont did note that while the analysis provides an evaluation of what a typical hotel would expect in average returns, there are possible hoteliers whose

product is unique and could possibly derive a higher than market return, thus making a hotel project feasible.

Office - Commercial/Private

Based on its analysis (summarized below) Kosmont considers a private office reuse of the YWCA potentially feasible, provided additional building area is combined with the existing building and the need to construct subterranean parking is avoided. In this scenario a return on cost of 10% or better is considered necessary for financial feasibility.

YWCA Building & Site – Building Program for Office Scenarios			
Component	YWCA Building Only	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback
Total Sq. Ft.	40,570	117,320	95,570
Leasable Sq. Ft.	30,428	95,665	77,178
Parking Stalls	39	229	186

Note: Under the YWCA Building Only scenario it was assumed that approximately 50% of the parking would be subterranean, and the balance would be surface parked.

YWCA Building & Site - Office Feasibility			
Component	YWCA Building Only	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback
YWCA Building	\$16,676,000	\$16,676,000	\$16,676,000
New Building	n/a	\$23,516,000	\$16,831,000
Subterranean Parking	\$2,060,000	\$12,044,000	\$9,782,000
Total Estimated Cost	\$18,736,000	\$52,236,000	\$43,289,000
Return on Costs			
Excluding Parking	-8.9%	18.8%	15.0%
Including Parking	-18.9%	-8.6%	-11%

Office - Governmental with Prevailing Wage

Prior to and during the June 18th City Council meeting, a number of persons suggested that the YWCA building be converted to City offices. The City currently leases approximately 64,000 square feet of space in five buildings to meet the needs of Fire Department Administration, Transportation, Water & Power, and the Housing Department as well as for the Pasadena Community Access Corporation. The total annual cost of these leases is roughly \$2.4 million per year.

As indicated in the table below, an office building encompassing the YWCA building and new construction, with a 107-Foot Setback would provide approximately 77,000 square feet of useable space, i.e., enough to meet the City's current and potentially future space needs. The estimated costs for such a project, along with a larger 95,665 square foot building with a 45-Foot Setback, is provided in the table below.

YWCA Building & Site - Office with Prevailing Wage Feasibility			
Component	YWCA Building Only	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback
YWCA Building	\$22,306,000	\$22,306,000	\$22,306,000
New Building	n/a	\$35,208,000	\$25,203,000
Total Useable Sq. Ft.	30,428	95,665	77,178
Subterranean Parking (# spaces)	\$2,454,000 (39)	\$14,347,000 (229)	\$11,653,000 (186)
Total Estimated Cost	\$24,760,000	\$71,861,000	\$59,162,000

A major factor affecting the total estimated cost of converting the YWCA to City offices is the impact of prevailing wages. Under state law, such a project would be considered a "Public Work" necessitating the payment of prevailing wages as established by the California Department of Industrial Relations.

The payment of prevailing wages can have varying impacts on construction costs for a given project and product type. Construction projects that rely more heavily upon skilled trades and/or have a greater share of construction costs driven by material costs rather than labor cost may realize less of a cost impact from prevailing wage requirements. Overall market conditions and availability of construction labor can also influence potential premiums. Kosmont's analysis assumes the utilization of prevailing wage labor would result in an approximate 20% to 60% premium on direct construction costs. Incidentally, the above estimate of \$59 million for a 77,178 square foot building (Scenario B) is consistent with the \$52 - \$60 million estimate provided by staff on June 18, 2018.

As indicated above, the City pays just under \$2.4 million (\$2,399,984) in total rent for off-site leased office space. Were to City to capitalize this amount, assuming a 30 year bond at 4% interest with no reserve requirement, less the cost of issuance and capitalized interest, the City could raise a net project fund of \$39,350,000.

As the total estimated cost of Scenario B is \$59,162,000 and assuming the building wouldn't be constructed for another two years and factoring in a 3% cost escalator, the total estimated cost increases to \$62,765,000. As a result, there would be a projected funding gap of greater than \$23.4 million. To make the project more economical, the parking could be reduced or perhaps eliminated, saving as much as \$12 million dollars; however, given that the Holly Street parking garage is reaching the end of its useful lifespan, and not knowing what development opportunities might present themselves for the Los Robles and Marengo parking garage sites, it may not make strategic sense to forgo the development of parking were the City to construct an office building.

A similar analysis was conducted on the Water and Power vacant site. The analysis assumed the construction of a 42,500-square-foot building. The Water and Power

Department currently leases 39,800 square feet and pays \$1,675,856 in annual rent. Using the same assumptions as above, the City could net \$27,400,000 in construction proceeds from a bond issue. The total estimated cost of a new building is \$29,140,000 and, assuming the building wouldn't be constructed for another two years, and factoring a 3% cost escalator, the total estimated cost increases to \$30,914,626. The total estimated costs, with escalation, results in a \$3.5 million gap of funds needed to construct a new building.

Given this, staff believes it may make sense to pursue construction of a Water and Power Headquarters building on the vacant Water and Power site at some point in the future; perhaps during the next economic downturn when material and labor costs are likely to soften. However, conversion of the YWCA building and surrounds into City offices would be very uneconomical and is not recommended.

The financial outlook for the City's General Fund is expected to remain positive for the next several years as a result of the successful passage of Measure I. Moreover, local development trends continue to promote strong property tax growth in the City. Nevertheless, the City's overall debt levels remain high, sales tax and utility user tax revenues are flat at best and employee pension costs are set to rise dramatically over the next decade. As such, staff does not recommend taking on additional 30 year debt, in addition to the \$8.5 million already invested by the General Fund, to convert the YWCA building to City offices.

Residential - Market Rate

In addition to hotel and office uses, Kosmont also examined the potential for market rate housing and affordable housing. The following table summarizes the analysis related to market rate housing:

YWCA Building & Site – Building Program for Market Residential Scenarios			
Component	YWCA Building Only	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback
Total Sq. Ft.	40,570	117,320	95,570
Leasable Sq. Ft	28,399	93,673	75,149
Approximate Units	31	101	81
Parking Stalls	23	148	119

Note: Under the YWCA Building Only scenario it was assumed that approximately 50% of the parking would be subterranean, and the balance would be surface parked.

YWCA Building & Site – Market Residential Feasibility			
Component	YWCA Building Only	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback
YWCA Building	\$22,338,000	\$22,338,000	\$22,338,000
New Building	n/a	\$26,998,000	\$19,320,000
Subterranean Parking	\$1,395,000	\$8,708,000	\$7,001,000
Total Estimated Cost	\$23,679,000	\$58,044,000	\$48,659,000
Return on Costs			
Excluding Parking	-18.3%	21.9%	15.9%
Including Parking	-23%	3.6%	-0.8%

Kosmont considers a return on cost greater than 7% to be indicative of potential financial feasibility. As such, the multi-family residential reuse scenarios that include additional building area are considered likely feasible if subterranean parking can be minimized and/or if offsite parking is available at a reasonable cost.

Residential - Affordable

Kosmont estimates that reuse of the YWCA building and YWCA Site for affordable housing for special needs / homeless housing could cost approximately \$700,000 per dwelling unit (without any subterranean parking). Based on analogous affordable housing projects reviewed, it may be possible to achieve an eligible basis that would support Low Income Housing Tax Credits (LIHTC) in the range of \$325,000 to \$375,000 per dwelling unit. Given these assumptions and the building scenarios evaluated, approximately \$20 – 36 million in public funds would have to be sourced to facilitate such a development. These figures assume no subterranean parking is required; substantially more public funding would be required if all parking had to be provided onsite in a subterranean structure.

YWCA Building & Site – Building Program for Affordable Residential Scenarios			
Component	YWCA Building Only	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback
Total Sq. Ft.	40,570	117,320	95,570
Leasable Sq. Ft.	28,399	93,673	75,149
Approximate Units	31	101	81
Parking Stalls	23	148	119

Note: Under the YWCA Building Only scenario it was assumed that approximately 50% of the parking would be subterranean, and the balance would be surface parked.

YWCA Building & Site – Affordable Residential Feasibility			
Component	YWCA Building Only	Scenario A: 45-Foot Setback	Scenario B: 107-Foot Setback
YWCA Building	\$31,327,000	\$31,327,000	\$31,327,000
New Building	n/a	\$37,683,000	\$26,966,000
Subterranean Parking	\$1,699,000	\$10,884,000	\$8,752,000
Total Estimated Cost	\$33,026,000	\$79,894,000	\$67,045,000
Cost per Dwelling Unit			
Excluding Parking	\$1,011,000	\$683,000	\$720,000
Including Parking	\$1,065,000	\$791,000	\$828,000
Required Public Funds at \$325,000 LIHTC Funds/Unit			
Excluding Parking	\$21,226,000	\$36,158,000	\$31,995,000
Including Parking	\$22,940,000	\$47,066,000	\$40,743,000
Required Public Funds at \$375,000 LIHTC Funds/Unit			
Excluding Parking	\$19,716,000	\$31,108,000	\$27,945,000
Including Parking	\$21,390,000	\$42,016,000	\$36,693,000

Moving forward

Having completed the additional analysis requested, staff is prepared to proceed in whatever direction the Council may choose. Given the condition of the YWCA building, it is recommended that some plan for its rehabilitation be decided upon before this historic resource falls into greater disrepair, for while staff has sought to secure the building through board-ups and fencing, entry by trespassers continues and much of the building is exposed to the weather.

One possible path forward would be for the City Council to decide upon the proposed development envelope. Subsequent to this, and with the benefit of Kosmont's analysis, the Council may consider whether there are particular uses the City should seek out, or whether it should remain open to variety of possible projects. That, in turn, would inform

whether the City should undertake a new competitive selection process to identify possible uses, or proceed in another fashion.

FISCAL IMPACT:

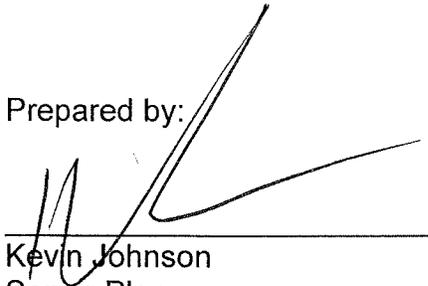
The City acquired the YWCA building for \$8.3 million and since then has appropriated an additional \$500,000 towards securing the building; \$200,000 of which has been spend to date. The estimated cost of rehabilitating the building and creating an economically viable project range into the \$10s of millions. Moreover, given the economic realities highlighted by Kosmont's analysis, it is unlikely that the City would receive market-rate ground rent from the development of the YWCA building and surrounds.

Respectfully submitted,



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Attachments: (3)

- Attachment A – Agenda report regarding recommendations of the Civic Center Task Force presented June 18, 2018 (with attachment)
- Attachment B – Design Study by OLIN partnership
- Attachment C – Economic Study by Kosmont Companies