

# Agenda Report

November 23, 2020

**TO:** Honorable Mayor and City Council

**FROM:** Department of Housing

**SUBJECT: APPROVAL TO ENTER INTO EXCLUSIVE NEGOTIATIONS WITH HRI IN CONNECTION WITH THE DEVELOPMENT OF THE HISTORIC REHABILITATION AND CONSTRUCTION OF A NEW BUILDING LOCATED ON CITY-OWNED REAL PROPERTY AT 78 N. MARENGO AVENUE**

## **RECOMMENDATION:**

It is recommended that the City Council take the following actions:

1. Find that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with State CEQA Guidelines Section 15061(b)(3), the "general rule" that CEQA only applies to projects that may have an effect on the environment;
2. Approve the terms of the Exclusive Negotiation Agreement (ENA) with HRI as described in the Background section of this report in connection with the development of the historic rehabilitation and construction of a new building located on city owned property at 78 N. Marengo Avenue; and
3. Authorize the City Manager to execute, and the City Clerk to attest the ENA and any other related documents necessary to effectuate the ENA.

## **BACKGROUND:**

On June 20, 2019, the City issued a Request for Proposals (RFP) for the YWCA Building Rehabilitation, Adaptive Reuse and New Building Opportunities in the Civic Center. The development of the RFP was informed by City Council action establishing a setback of 45 feet from Garfield Avenue as well as the site to the north referred to as the Water & Power site and a height limit of 60 feet for both. Additionally, prior to its formal release, the RFP was available for public input from May 15-28. The RFP was posted on the City's webpage and advertised on various social media feeds with a September 20<sup>th</sup> proposal deadline. A specific use was not identified as part of the

outreach, rather staff sought proposals from groups that are experienced in historic renovation.

As outlined in the RFP, the stated goals/objectives of the City are to identify a project(s) that will:

- Renovate and preserve the YWCA Building.
- Enhance and activate the dynamic environment of the Civic Center District while respecting the dominance and monumentality of major civic buildings, and the scale and form of existing historic structures.
- Reflect and respect the architectural and spatial context of the civic center and surrounding historic district.
- Develop a high quality building and a use that is commensurate with the historic integrity of the YWCA Building/Site.
- Ideally, establish a long-term, fair market value ground lease or sale (as determined by an appraisal) of the YWCA Building/Site and the Water & Power site. However, the City is willing to consider alternatives that result in an overall superior project. In the event of a lease or sale, the ground floor use must be accessible to the public.
- Maximize the site's potential in a creative and complementary manner.

The evaluation process set forth in RFP outlines the following criteria to be used in evaluating proposals:

#### Development Entity/Capacity

- Demonstrated experience in successful financing, development, operation and economic performance of comparable projects

#### Development Plan

- Extent to which the submittal meets the project goals and objectives described in the RFP
- Ability to effectively design the project within the development parameters as described in the RFP

#### Economic and/or Public Benefit to the City of Pasadena

#### Transaction Terms

- Proposed development schedule and phasing required to complete the project
- Quality and feasibility of proposed business offer
- Ability to complete the transaction in a timely fashion

On September 22, the remaining two proposals (which both propose the historic rehabilitation and construction of a new building for a hotel use on the 78 N. Marengo property), were presented virtually in a public forum that included a question and answer period and was viewed by approximately 175 people. The following is a summary of the two proposals:

- Edgewood Realty Partners, LLC, South Pasadena, CA - Edgewood Realty Partners (“Edgewood”) is a real estate investment firm with 25 years of real estate investment experience. Edgewood builds and redevelops unique, design-driven projects. Edgewood and its affiliate The Kutzer Company have worked on numerous properties in Pasadena.
  - YWCA Building: Restore the historic landmark Julia Morgan YWCA, in conformance with the Secretary of the Interior’s Standards, and adapt for use as a 164-room boutique hotel operated by Palisociety. The plan calls for thirteen unique suites to be housed in the historic structure and include restoring the historic lobbies, public areas, courtyard, and indoor swimming pool and returning these to public access. A specialty restaurant is envisioned to take advantage of the gym with the double height space and access to the interior courtyard and exterior patio.
  - New Construction Building: The new architecturally compatible, L-shaped building would house the majority of the new hotel rooms.
- HRI Properties, LLC, New Orleans, LA – Founded in 1982, HRI Properties, LLC is a national real estate company engaged in the ownership, development and management of upscale-branded and independent hotels, luxury apartments, mixed-use properties, and mixed-income housing communities in the top 40 urban markets. The proposal is to restore the YWCA Building per the Secretary of the Interior’s Standards and adapt the hotel functions as closely as possible to the original building for a 179 room hotel with 165 rooms in a new 83,000 sq.ft. building.
  - YWCA Building: The Development Team is proposing a substantial renovation of the YWCA Building that will restore the historic building in a way that resembles and respects the building’s previous uses. • The hotel lobby will be located where the YWCA lobby was once located, the full-service restaurant will be located in the previous YWCA cafeteria, and the ballroom and event spaces will be in the YWCA’s former pool and gymnasium spaces. The upper floors of the historic building will house 14 hotel guestrooms.
  - New Construction Building: • Separate but adjacent to the YWCA Building, The Development Team is proposing a five-story, architecturally respectful new construction building with two exterior courtyards and a ground floor pool. • The new construction building will contain 165 guestrooms as well

as back of house space. This building will be designed and built in a way that is complementary and congruent to the historic YWCA Building and the Civic Center Historic District. The upscale brand, Curio Collection by Hilton is the targeted hotel flag.

The proposals have been reviewed and analyzed by staff using the Evaluation Criteria from the RFP. Edgewood is a local team, with offices in South Pasadena, and has a good track record on prior projects, however, the firm has no prior experience developing a hotel project. HRI manages 12 hotels and has successfully developed approximately 6,000 hotel rooms as owner, designer, and builder; specializing in adaptive reuse, and currently owns and operates 13 hotels (5 from ground-up) with three more under construction and two more under development. Presently, about 60% of HRI's development strategy is focused on adaptive reuse, while the balance represents new construction. Moreover, the financial terms presented by HRI are significantly better than those offered by Edgewood. Understanding that millions of dollars will be needed for rehabilitation of the YWCA Building and to have a profitable hotel project, each developer requested a minimum fifty-year lease term and a City subsidy to help offset those costs. Edgewood is requesting a City subsidy for the duration of the lease term. Over a 20 year period, the subsidy request equates to approximately 97% of the gross City revenues generated by the hotel on a present value basis (8.0% discount rate). HRI is requesting a subsidy for the initial 12 years of the lease. Over the same 20 year period this request equates to approximately 41% of the gross City revenues on a present value basis. State law mandates that whenever a developer requests a subsidy that exceeds a minimum threshold that the City conduct a Public Subsidy Hearing that specifies the amount of the subsidy and the public benefits associated with the project. HRI's subsidy request exceeds the minimum thresholds and in the coming months, a public hearing will be held.

#### **KEY TERMS OF EXCLUSIVE NEGOTIATION AGREEMENT:**

As proposed, the City and HRI will enter into good faith negotiations pursuant to the terms and conditions of an Exclusive Negotiation Agreement ("ENA") in connection with an anticipated disposition, development and financing agreement for the proposed development of the Property (the "Development Agreement"). The key terms and conditions of the ENA are as follows:

1. The negotiation period shall be six (6) months. The negotiation period may be increased by two (2) six (6)-month extensions for a total of 12 months at the discretion of the City Manager.
2. Developer shall submit documentation of its development team with special attention to engaging an architect with an understanding of the significance of the Civic Center, financial capacity, and other disclosures as may be required by the City.

3. The Development Agreement shall set forth essential terms and conditions of the project transaction including but not limited to the disposition of the Property, environmental requirements, project concept, scope of development, schedule of performance, financing plan, City financial assistance, and City polices and regulations.

Following the conclusion of the Public Subsidy Meeting, the negotiated Lease Agreement will be presented to Council for approval in open session. Assuming approval of such an agreement, there would multiple opportunities for the public to learn more about and comment on the proposed project, including:

- Predevelopment Plan Review
- Entitlements/Environmental Review
- Design Review (Design Commission)

#### **COUNCIL POLICY CONSIDERATION:**

The proposed action is consistent with the City's General Plan Housing Element, and it also supports and promotes the quality of life and the local economy – a goal of the City Council's Strategic Objectives.

#### **ENVIRONMENTAL ANALYSIS:**

The action proposed herein is the identification by the City of a developer to enter into exclusive negotiations in connection with the potential development of 179 room hotel on City-owned real property located at 78 N. Marengo Avenue (the "Property").

That action is exempt from the California Environment Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3), the "general rule" that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that an activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

However, prior to the first discretionary action for any proposed project to be developed on the Property, the appropriate CEQA review will be undertaken to analyze the potential effects of the project on the environment. When CEQA review is conducted, the proposed project will be subject to any mitigations measures that could be identified during CEQA review and the conditions of approval associated with obtaining land use entitlements.

**FISCAL IMPACT:**

There is no fiscal impact associated with this particular action. It is anticipated that the ENA will result in the development of various economic terms that would form the basis of a development agreement, which would be subject to further City Council action.

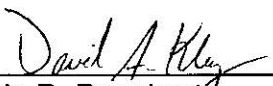
Respectfully submitted,

  
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