

Agenda Report

DATE: JUNE 3, 2002

TO: CITY COUNCIL & PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CITY MANAGER & CHIEF EXECUTIVE OFFICER

RE: JOINT PUBLIC HEARING: APPROVAL OF TERMS OF A PROPOSED DISPOSITION & DEVELOPMENT AGREEMENT BY AND BETWEEN THE PASADENA COMMUNITY DEVELOPMENT COMMISSION AND MAGUIRE PARTNERS – 385 COLORADO, L.L.C. FOR THE SALE OF COMMISSION OWNED LAND AND THE CONSTRUCTION OF A NEW COMMERCIAL OFFICE BUILDING WITHIN THE DOWNTOWN REDEVELOPMENT PROJECT AREA (Western Asset Plaza)

RECOMMENDATION

It is recommended that the City Council, following the joint public hearing:

1. Make certain findings and authorize the Pasadena Community Development Commission (Commission) to enter into a Disposition and Development Agreement with Maguire Partners-385 Colorado, L.L.C. (Developer);
2. Authorize the City Manager to accept title to “finger” of land located in the Colorado Boulevard and Los Robles Right of Way from Commission, and easements from Developer along Union Street, and at the corner of Euclid Avenue and Colorado Boulevard; and
3. Authorize the conveyance of an easement on Los Robles Avenue to Developer.

It is recommended that the Pasadena Community Development Commission, following the joint public hearing:

1. Make certain findings, approving the Business Terms to be incorporated into a Disposition and Development Agreement, and authorize the Chief Executive Officer to execute said Disposition and Development Agreement and take all necessary implementing actions; and
2. Authorize conveyance of “finger” of land located in the Colorado Boulevard and Los Robles Right of Way to the City.

ADVISORY COMMITTEE RECOMMENDATION

On May 15, 2002, the Community Development Committee (CDC), voted 4-1 in favor of recommending that the Commission approve the business terms outlined in this report and that these business terms be incorporated into a Disposition and Development Agreement (DDA) between the Commission and Developer.

After voting to support the staff recommendation, the CDC also recommended that Council direct staff to look in to several other related matters as summarized below.

1. Quantify the financial impact of Western Asset Plaza on Paseo Colorado.
2. Analyze impacts to transit occupancy "bed tax" revenues.
3. Analyze revenue impact to other businesses in the City.
4. Develop performance measures and benchmarks to assist in internal tracking and monitoring of the project's implementation schedule.

Staff concurs with the above recommendations from the CDC.

BACKGROUND

Staff is recommending Commission approval of business terms that will become the basis for a Disposition & Development Agreement (DDA) between the Commission and an entity of Maguire Partners (Developer). These business terms include the sale of three Commission owned land parcels that were purchased using redevelopment property tax increment and funds from the Developer.

The proposed project will be constructed on a 2.44-acre site within the "Broadway Block" which is bounded by Union Street on the north, Colorado Boulevard on the south, Euclid Avenue on the west, and Los Robles Avenue on the east. The site, as shown on *Attachment No. 1*, does not include the separate development site on the northwest portion of the block.

The Commission and Developer have a lengthy and successful partnership having implemented the Plaza Las Fuentes project in the early 1990's. Historically, the Developer and Commission intended to implement a second phase of Plaza Las Fuentes within the entirety of the "Broadway Block". Acquisition of portions of the block was jointly undertaken by Developer and Commission more than a decade ago pursuant to an agreement between the Developer and Commission. Implementation of this project has been delayed primarily by the generally sluggish conditions in southern California's commercial office space market.

The currently proposed project, Western Asset Plaza, involves only a portion of the site of the previously approved Plaza Las Fuentes Phase II project. The site is identified as 385 East Colorado Boulevard and is located within the Civic Center Specific Plan area. The site does not include parcels owned by Wesco Company at the northwest portion of the block.

Specific aspects of the project include the following:

1. Construction of a five-story, approximately 258,000 square foot, Class "A" commercial office building with approximately 218,000 square feet of office space and approximately

40,000 square feet of ancillary ground floor pedestrian oriented retail, restaurant and banking space;

2. Construction of an Asian-inspired, landscaped outdoor plaza with a pedestrian promenade that will provide pedestrian connections through the project to Colorado Boulevard, Union Street and Euclid Avenue. Main entrances for restaurant spaces will be generally oriented towards Colorado Boulevard. The restaurant spaces will also access the highly amenitized outdoor plaza.
3. Construction of a three-level subterranean structure, with approximately 772 parking spaces. A sophisticated attended parking program will manage tenant and customer parking. Parking and general project loading will be accessed via Union Street.

BUSINESS TERMS

The project necessitates conveyance of three Commission owned parcels to the Developer. The three parcels are as follows:

1. APN 5723-027-902 – Broadway parcel - 63,380 square feet located at the northwest corner of Colorado Boulevard and Los Robles Avenue; (a small “finger” of this parcel lies within the Colorado/Los Robles right-of-way. The “finger” portion shown on *Attachment No. 1* will be conveyed from the Commission to the City.)
2. APN 5723-027-903 – Kaplan parcel - 7,736 square feet located at the northeast corner of Colorado Boulevard and Euclid Avenue;
3. APN 5723-027-904 – Linden parcel – 7,227 square feet interior parcel on Colorado Boulevard adjacent to the Euclid Avenue corner parcel.

The City will also need to grant a subterranean easement along the west side of Los Robles Avenue to the Developer wherein the subterranean parking structure will be built.

Staff is proposing that the Commission convey these three parcels to the Developer for a combined purchase price of \$5.8 million. This amount represents a purchase price reduction by the Commission of approximately \$300,000 from the \$6.1 million acquisition and carrying cost incurred to date. California Redevelopment Law tasks the Commission to conduct a reuse valuation prior to sale of the Commission owned land. The Commission’s economic/financial consultant, Wald Realty Advisors, has prepared the reuse valuation. A reuse analysis values the property for the proposed use as required by California Redevelopment Law. The reuse value of the Commission owned parcels was determined to be \$4,371,550 or roughly \$1.43 million less than the proposed \$5.8 million sale price.

California Redevelopment Law Section 33433 also requires that a report be prepared to document for the public transactions wherein the Commission conveys fee title interest in land to a private entity. Specifically, the 33433 Report is required to document the highest and best use value of the Commission owned land. A Summary Report Pursuant to Section 33433 of the California Health & Safety Code has therefore been completed and is found in *Attachment No. 5*. The 33433 Report determines the highest and best use value of the Commission owned land to be \$5,675,000 or roughly \$125,000 less than the proposed \$5.8 million sale price.

A \$5.8 million loan note payable to the Commission and secured by a Pledge & Security Agreement, with two repayment components, will evidence repayment of the purchase price. The two repayment components are as follows:

- \$1,300,000 – Repayment term of 9.5 years (114 months) from date of conveyance; payable as follows: (a) interest only at the Commission’s cost of borrowing for 54 months; (b) the balance payable starting in month 55 in equal monthly installments including interest at the Commission’s cost of borrowing based upon a 15-year amortization schedule, with outstanding balance due and payable at month 114;
- \$4,500,000 – Repayment term of 9.5 years (114 months) from date of conveyance, payable as follows: (a) no interest for 18 months; (b) interest accruing but not paid at 5.0% from months 19 – 54; (c) the balance payable starting in month 55 in equal monthly installments including interest at 5.0% based upon a 15-year amortization schedule, with outstanding balance due and payable at month 114.

Sources of Loan Repayment and Security Interest

Sources of payments on the Developer Note and collateral pledge consist of a pledge by Maguire Partners, controlling entity of the Ownership Entity, of 100% of its equity ownership interests in the Ownership Entity of the project. Principal and interest payments to the Commission on both components of the of the Developer Note are superior to any distributions to the Developer or the major tenant of the project, Western Asset Management, which has an agreement with the developer to receive certain distributions over a five-year period. However, in the event of a defined capital event (a “Capital Event”), the payback of principal outstanding on the Developer Note is junior to distributions to Western Asset Management.

A Capital Event is defined as a sale of the Project in which Maguire Partners has no continuing ownership interest or a refinance of the Project that generates cash proceeds. However, the definition of a Capital Event excludes the formation of a Real Estate Investment Trust (REIT) or a private equity transaction /venture that includes, in addition to Western Asset Plaza, more than one Maguire Partners Controlled building in which Maguire Partners has a continuing ownership interest.

Capital Event Proceeds are the net proceeds from a Capital Event received by the Project after payment of all transaction costs incurred in connection with such Capital Event, after payment of all outstanding debts and obligations of the Project including transit fees and other traffic mitigation fees.

A graphic characterizing the Commission’s position in the ownership structure is included as *Attachment No. 2*. This graphic also shows the cash flow that will be used to repay the \$5.8 million Commission loan and distributions in the event of a Capital Event.

The Developer will purchase the Commission owned parcels in an “as is” condition with no expressed or implicit representations or warranties concerning the physical or environmental condition, zoning, or suitability for development of the Commission owned parcels.

In addition to their financial obligations, the Developer will help design and implement a finance and real estate related educational effort with high school students in Pasadena. *Attachment No. 3* outlines the anticipated plan.

The project also presents a fine opportunity to create construction related jobs for residents of Pasadena. To this end, the Developer and their general contractor have already initiated discussions with representatives of and consultants to several local labor organizations. At a minimum, the Developer will require the general contractor to direct its union subcontractors to post all project related jobs in the locals most proximal to the City of Pasadena and will first solicit jobs from qualified workers with a City of Pasadena residence zip code. Appropriate enforceable language will be placed in the DDA. Staff will continue to work closely with the Developer to ensure that as many jobs are filled by Pasadena residents as is possible

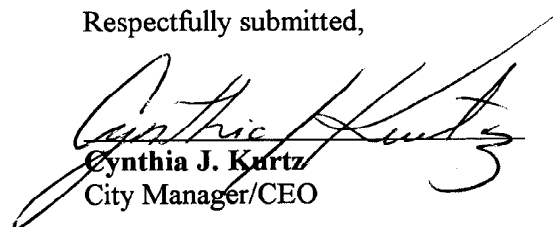
Job Retention and Creation

The project will result in the retention of one of Pasadena's most vibrant employers, Western Asset Management (WAM). WAM is one of the world's largest fixed income investment firms and currently manages nearly \$100 billion in assets for several hundred clients worldwide. WAM currently provides roughly 275 jobs in Pasadena. They also maintain offices in London and Singapore. WAM will occupy roughly 160,000 square feet of the proposed project. Based upon their existing growth trends and strategic plans, WAM anticipates employing a total of 500-600 individuals in the project. *Attachment No. 4* provides further information about WAM.

FISCAL IMPACT


- The estimated one-time development fees received by the City for the project in 2002, in terms of plan check, permit, development impact, construction tax and tenant improvement fees are estimated to be in excess of approximately \$3 million.
- Based on the project's mitigation measures, enhancement of the City of Pasadena's ARTS transit services and provision of an on-site transportation manager will be required. The Developer's contribution for these items will be in the form of an annual fee of \$134,000 for 12 years.
- The projected Property Tax Increment Revenue from the project should, conservatively, yield \$800,000 - \$900,000 a year to the Commission/City.
- Various other taxes from business activities such as hotel bed tax and retail sales tax should yield another \$100,000 annually.

Respectfully submitted,




Cynthia J. Kurtz
City Manager/CEO

Prepared by:



Kirk Pelsler
Development Administrator

Approved:



Richard Bruckner
Director of Planning & Development

List of Attachments

- 1 Site Plan
- 2 Ownership Structure and Cash Flow Distribution
- 3 PUSD Involvement Plan
- 4 Western Asset Management Summary
- 5 Summary Report Pursuant to Section 33433 of the California Health and Safety Code