

JULY 30, 2007

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

RE: 60 DAY UPDATE ON PRE- NEGOTIATION AGREEMENT PERIOD WITH THE BAKEWELL COMPANY/CENTURY HOUSING CORPORATION FOR DEVELOPMENT OF HERITAGE SQUARE PROJECT AT 19-25 E. ORANGE GROVE BOULEVARD AND 710-790 N. FAIR OAKS AVENUE

RECOMMENDATION

It is recommended that the Pasadena Community Development Commission ("Commission") direct staff to:

1. Continue the pre-negotiation period with the Bakewell/Century Housing Corporation based on the project concept shown in Exhibit 1, and return to the Commission on September 10, 2007 and;
2. Return to the Commission within 60 days with a defined process for the selection of developers for Commission owned land and suspend any new selection processes until a specific process is in place.

BACKGROUND

At the May 21, 2007 meeting of the Commission staff was directed to refine the project to ensure it meets the needs of the Commission and, with the Bakewell Company/Century Housing Corporation, provide an amended proposal within a 60 day period. During the 60 day pre-exclusive negotiation period, City staff and the developers were to prepare a detailed analysis regarding the feasibility of the project, and include information on the financing of the project, both direct and indirect subsidies, and a list of potential sources and uses of funding.

In order to comply with the Commission direction without impacting the ongoing staff work plan, the City acquired the services of Steven Wraight of the Related Companies (design consultant), and Paul Silvern of Hamilton, Rabinovitz and Alschuler, (financial consultant). Both Mr. Wraight and Mr. Silvern are well respected experts in their fields and did not serve in any capacity during the initial evaluation of the responses to the Heritage Square RFP. Information concerning their background is attached as Exhibit 2.

Staff developed a set of key terms that would be discussed during this period. These terms include the following:

1. Determine the optimal product mix. This includes discussion of the number of senior vs. family units.
2. Determine the optimal affordability mix. A mixture of affordable levels (this includes market, workforce and affordable levels) is desirable, however the majority of the project should remain affordable.
3. Determine the basic design and if town homes can be incorporated into the design with a separation of senior and family units.
4. Clarify the role of the respective members of the development team.
5. Determine ultimate title ownership and affordability covenants.
6. Determine who will be responsible for any remediation required.
7. Determine how the project can be financed and how any potential gaps in the project can be covered including direct and indirect costs. Review whether the project is eligible for 9% or 4% New Market Tax Credits and what experience the development team has in securing credits.
8. Determine when sources of funding become available.
9. Determine who bears the cost and responsibility of demolition.
10. Determine who bears the cost and responsibility of moving the historical building.
11. Provide a completion schedule that takes into account the New Market Tax Credit approval schedule.

During this 60-day period, staff and the developers have been concentrating on questions 1, 2, 3 and 7. Until the amended proposal, which includes a revised development concept and a fiscal feasibility analysis are completed, the remaining questions were not considered to be as critical.

In accordance with City Council direction, a refined concept for the Heritage Square site was developed. This new concept attempted to address the concerns of the Council as to the product mix and the need for additional senior affordable housing, while still ensuring that that the project is financially viable. Overarching these concerns was the need to have a project that would address the critical need for affordable housing in Pasadena.

On July 24, 2007, staff along with the design consultant and representatives of the Bakewell/Century Housing proposal team convened a community meeting to discuss the revised development concept with members of the community. Approximately 30 members of the community attended this session. Most of the comments concerned disability access, parking, emergency services, traffic and some comments were received concerning the massing of the project. Overall, the members of the community were generally supportive of the revised concept.

The revised concept, a rendering of which is attached as Exhibit 1, has the following elements; 136 total units. This unit number represents a slight reduction (5 units) from the total number of units in the initial proposal. This reduction was caused by the need to increase the width of Wheeler Alley per City requirements. Of the 136 units, 89 of the units are designated as affordable senior rental units and 47 are market rate units. Of these 47 units, 15 are designated for family ownership and 32 are market senior condos. The family ownership units will be segregated toward the north end of the project and are designed as town homes. The amended proposal also maintains the community (2,000 square feet) and commercial (20,000 square feet) spaces as called for in the original RFP.

Development Concept

The City retained Steve Wraight of Related Companies to prepare a revised development concept. The revised concept is based on acknowledging the surrounding context of streets, residential and retail uses and the development program which requests a mixed-use project encompassing for-sale condominiums, for families and seniors, affordable senior apartments, street level retail and a community facility. The resultant plan is divided into three distinct "neighborhoods" to address the different nature of for-sale and rental housing.

The North Neighborhood is for-sale, two-story family townhouses. Ten townhouses front Painter or Fair Oaks Avenues but are separated from these public ways by 10 feet of landscaping and a raised porch to define and individualize the entries. The remaining five townhouses face quiet interior courtyards and all homes have private 12'x20' rear patios. The Middle Neighborhood is three-story, senior condominium flats, associated with +-8100 square feet of street-oriented retail. The 32 senior condominiums have a visitor entrance from Fair Oaks which enjoys a view into the central courtyard and easy access to the elevator core. The primary orientations for the condominiums is toward the central courtyard or Fair Oaks (from above retail), with a minimum number facing the senior rentals across an open space garden. Both housing types have well-scaled, landscaped courtyards.

The South Neighborhood encompasses 89 senior apartments of two and three story flats above retail and four-story flats on grade, as well as, 11,900 square feet of retail. Retail is sited on the corner of Fair Oaks and Orange Grove with a corner public plaza as its focus and is surmounted by 2 floors of apartments which develop a street-friendly mixed-use building at this important corner. The units attach to the four-story building via a bridge/walkway which simultaneously creates an entry path and view to an existing oak tree and interior courtyard. The four-story height exceeds the height limit in the Specific Plan by approximately six feet. This represents a small portion of the overall site. The residential edge of Wheeler Lane is limited to 65 feet. Along Fair Oaks the length of the building is limited to +-120 feet. Visitors to the senior apartments enter through a Fair Oaks lobby which is accented by views to the northern garden space and south to the oak tree plaza. This mix of uses and building scale is further enhanced by the adjacent Community Room.

The Fair Oaks Avenue composition increases from the low residential scale of Painter Street, with the two-story townhouses, rising through the three-story mixed-use condominiums to the central 4-story height and then descends to the appropriately scaled mixed-use corner at Orange Grove Boulevard.

The Orange Grove and Fair Oaks retail area is served by +43 street-level parking spaces, accessed from Wheeler Lane, with the remaining retail parking provided in a subterranean garage. Senior apartment parking shares the ramp with the retail but achieves separation and security by a resident controlled security gate. Condominium parking is also in a subterranean garage but it is completely separated from the retail and apartment parking by use of separate ramps. The parking structures are configured to accommodate the existing oak tree, as well as, allow for landscaping to grow from earth and not from planters which are typically set on top of a concrete slab, as is often found in infill/mixed-use projects.

Financial Feasibility

The City retained the services of Hamilton Rabinovitz and Alschuler (HR&A), to conduct a preliminary evaluation of the financial feasibility of the revised development concept. HR&A has extensive experience providing policy and financial analysis for affordable and market rate housing to public agencies, non-profit developers and for profit developers, in California and elsewhere around the nation. This includes a variety of services to the Los Angeles County Community Development Commission on its competitive affordable housing loan programs. The firm also has experience working for Pasadena previously on development-related public finance issues.

HR&A first reviewed the March 9, 2007 Bakewell/Century Housing proposal and Keyser Marston Associates' (KMA) financial feasibility critique of that proposal. HR&A generally concurred with the KMA methodology, including the development cost, income and residual land value calculation approaches used in that evaluation. HR&A worked closely with Century Housing Corporation to develop preliminary financial feasibility models for the housing components in the revised development concept, and prepared its own analysis for the retail component. HR&A concludes that, on the basis of the information available at this time, the revised development concept would result in a total financial gap of about \$1.2 million, assuming the land is made available by the City at no cost and after including the equity that might be derived from New Market Tax Credits (NMTC) which could be used to offset the development's cumulative financial gap, as previously recommended by KMA.¹ The basis for this conclusion is summarized in Table 1.

¹ While a very promising resource, more detailed analysis of the NMTC potential will be required if the City Council decides to pursue this development concept, because it is a complicated financing structure and timing of equity pay-in could be an issue. For example, depending on the construction loan specifics, it is possible that the City (or another funding source) may be required to defer fees or make a bridge loan during construction, which would be taken out by the NMTC equity at permanent loan closing.

Table 1
Summary of Financial Feasibility Analysis for the
Heritage Square Revised Development Concept

	Affordable Housing (89 Units)	Market Rate Housing (47 Units)	Retail Component (20,000 SF GLA)	TOTAL
Available Resources ¹	\$ 20,673,893	\$ 20,308,250	\$ 4,583,095	\$ 45,565,238
Less: Total Development Cost	\$ (22,054,027)	\$ (22,485,454)	\$ (5,214,377)	\$ (49,753,858)
Surplus/(Financial Gap)	\$ (1,380,134)	\$ (2,177,204)	\$ (631,282)	\$ (4,188,620)
Plus: New Market Tax Credits Equity				\$ 3,000,000
Surplus/(Remaining Financial Gap) ²				\$ (1,188,620)

¹ Includes total sources of funds for affordable units; net sale proceeds for for-sale units; and supportable investment for the retail component.

² Assumes land at no cost

Sources: HR&A, Inc.; Century Housing Corp.; Keyser Marston Associates.

The feasibility analysis for the revised development concept includes detailed estimates and projections of development costs by project component, annual operating costs for each component, net operating income for the affordable component, and net sales proceeds for the for-sale component, and supportable private investment for the commercial component.² For the affordable housing component, the analysis includes reasonable assumptions about a number of non-City financial resources that should be available to help finance the 89 units of affordable housing for seniors. These sources include equity derived from the Federal government's four percent Low Income Housing Tax Credit program, tax-exempt bonds authorized by the State, the State's Multifamily Housing Program, Los Angeles County's City of Industry Fund, the Federal Home Loan Bank Board's Affordable Housing Program, private bank loans, and deferred developer fees. This combination of funding sources is commonly used for housing developments in which the units are all affordable to very low- and low-income households (i.e., 30%-50% x Area Median Income). The unit mix and affordability assumptions were specifically selected to maximize scoring under the intensely competitive affordable loan programs. Total development cost for this component is estimated to total \$22.1 million (about \$248,000 per unit), not including land. Reasonably foreseeable financing sources sum to \$20.7 million.

² The financial models for the housing components were prepared by Century Housing Corporation based on detailed discussions with HR&A, and they have also been reviewed by City staff. The model for the retail component was prepared by HR&A, based on a framework developed by KMA. Copies of the models are not included here due to the summary nature of this staff report, but can be made available if requested by the City Council.

The total project financial gap needs to be reduced by about \$1.2 million. Some of the ways this reduction might be accomplished include:

- Closer analysis of whether it is possible to reduce the hard construction costs (about \$170 per square foot assumed) and subterranean parking costs (about \$25,000 per space assumed).
- Changing the mix of units, such as adding moderate, workforce or market rate rentals and/or reducing the number of for-sale units.
- Closer analysis of whether it is possible to achieve a higher rental rate for the retail space (\$2 per square foot per month assumed), although aiming for a higher rate may limit the kinds of tenants available to the development.
- As a last resort, the Commission might consider reducing or waiving City fees on the for-sale units because they are part of a predominantly affordable housing development, especially the Arts Fee, Residential Impact Fee and the Construction Tax, which together account for nearly two-thirds of the fees applicable to the for-sale units. City fees for market units are approximately \$35,000 per unit.

Process Review

Recently, the City Council received an independent review of the developer selection process for Heritage Square. There were several conclusions. One was that Developer Selection Committee (DSC) relied heavily on community sentiment and less on technical analysis in their evaluation of the proposals received in response to the Heritage Square RFP. Because of this, the efficiency of the DSC recommendation has been called into question as a technical review. That review may be better used as community input. The independent review did not find issues with staff's technical review.

Additionally, the review concluded that the Community Development Committee did not have sufficient time to conduct a detailed analysis of the City Manager's recommendation. Should the Commission decide to approve an amended proposal in the future, the Commission might consider directing the Community Development Committee or some other advisory body to review the amended proposal without time constraints and return to the Commission with a recommendation.

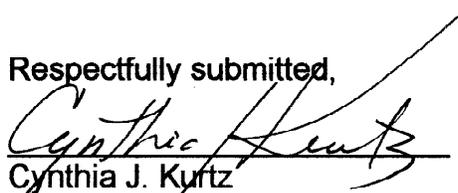
Finally, the independent review noted that the City has conducted very few solicitations for developers for Commission owned property. As a result, there are not in existence clearly defined procedures for the selection of developers for Commission owned properties. As the level of land acquisitions increase and based upon the issues which have arisen in the Heritage Square process, it is patently clear that a well-defined process must be developed for the selection of developers for future projects with Commission approval. It would be the intention of staff to develop such procedures and policies for the Commission's review.

Until such procedures are in place, it is the recommendation of staff that no new selection processes occur.

FISCAL IMPACT

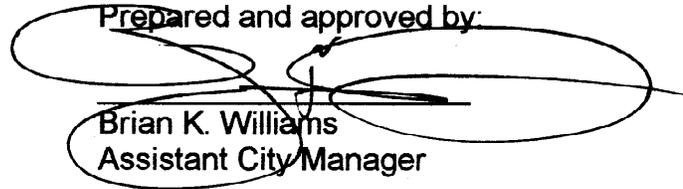
Council has approved a City Commission contribution to the project of the value of the land which is currently valued at approximately \$13.4 million dollars.

Respectfully submitted,



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Chief Executive Officer

Prepared and approved by:



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