

**DATE:** AUGUST 3, 1998  
**TO:** PASADENA COMMUNITY DEVELOPMENT COMMISSION  
**FROM:** CYNTHIA J. KURTZ, ACTING CHIEF EXECUTIVE OFFICER  
**SUBJECT:** PROPOSED ADAPTIVE REUSE OF 839 – 853 E. WASHINGTON BLVD. AS MIXED-USE AFFORDABLE SENIOR HOUSING; LICENSE AGREEMENT WITH PURCHASE OPTION WITH NORM FURMAN; EXCLUSIVE NEGOTIATION AGREEMENT WITH A COMMUNITY OF FRIENDS

**RECOMMENDATION:**

It is recommend that the Pasadena Community Development Commission ("Commission") approve the following actions with respect to the proposed adaptive reuse of property at 839-853 E. Washington Blvd. as a mixed-use senior housing project:

1. Letter of Support to the Department of Housing and Urban Development on behalf of the application submitted by A Community of Friends for funding under the HUD Section 202 Elderly Housing Program;
2. The terms and conditions of an Exclusive Negotiation Agreement between the Commission and A Community Of Friends;
3. The terms and conditions of a License Agreement with Purchase Option between the Commission and Norm Furman; and
4. Authorize the Acting Chief Executive Officer to execute, and the Secretary to attest, all necessary documents in a form acceptable to the Commission General Counsel.

**EXECUTIVE SUMMARY**

A Community Of Friends ("ACOF"), a non-profit housing sponsor, has been selected to undertake the adaptive reuse of the Washington Theater building as a mixed-use affordable senior housing project. An Exclusive Negotiation Agreement between the Commission and ACOF would enable the two parties to, among other things, identify a mix of uses for the building that would be compatible with senior housing and which would be a catalyst for the revitalization of the Lake/Washington neighborhood. Securing site control of the Washington Theater building for this purpose would be accomplished through a License Agreement with Purchase Option between the Commission and the subject property owner. Site control of the subject property is also a critical element of ACOF's applications for HUD Section 202 Elderly Housing Program funds and for the County of Los Angeles "City of Industry" funds.

**COMMUNITY DEVELOPMENT COMMITTEE ACTIONS**

The Community Development Committee approved the subject recommendations at its meetings on July 9 and 23, 1998 with certain stipulations as described in the two sections of this report entitled Exclusive Negotiation Agreement and License Agreement with Purchase Option.

## **BACKGROUND**

The Washington Theater building located at 839-853 E. Washington Blvd., is a mixed-use building consisting of a 900-seat theater, four (4) commercial storefronts, and 40 residential units (consisting of studio and one-bedroom units). The total square footage of the theater is approximately 11,000 square feet and the residential units total approximately 24,000 square feet. The building was constructed in 1925. The commercial storefronts are occupied by small businesses and approximately half of the residential units have tenants. The building has deteriorated significantly due to age and neglect, and is in need of major rehabilitation and seismic retrofitting.

Examination of reuse options was initiated by the city in February 1995. Community input was solicited through the North Lake Specific Plan process and a series of meetings with the Washington Theater Committee and community members specifically concerned with the future and reuse of the building. Out of this community process emerged a preference for cinema, live theater, and retail uses. An analysis of these preferred uses was the subject of the Washington Theater Building Reuse Study (September 1995), prepared by the consulting firms Milofsky and Michali Architects, and Kosmont & Associates. While the study concluded that "a retail reuse (by a primary tenant) with retention of the existing housing emerges as the most viable economic option for the property," no progress has been made in identifying such a tenant. Furthermore, staff contacts with live theater groups and cinema operators have generated no interest.

In January 1998, staff began an investigation of other reuses avenues for the Washington Theater -- community use and affordable housing. The latter option seemed particularly promising due to the anticipated availability of two significant housing finance sources: "City of Industry Funds" from the County of Los Angeles and federal funds from the HUD Section 202 Elderly Housing Program. Consequently, staff directed the consulting firm of Keyser Marsten Associates, Inc. ("KMA") to perform economic analyses of the Washington Theater building assuming two development scenarios. In the first scenario, the theater space is converted to a community center (non-income generating) with a small retail component, and the residential portion would undergo major rehabilitation yielding 31 affordable housing units; this scenario results in a feasibility gap of \$4,994,000 to \$5,220,000. In the second scenario, the entire building is converted to a 60-unit affordable senior housing development, with a recreation room and deck; this scenario results in a feasibility gap of \$1,524,000. The feasibility gap is the amount of local public subsidy required to make the project feasible. KMA concluded that the second scenario is the best development option from a financial perspective.

Staff believes that the affordable senior housing scenario is advantageous in several respects. The project site is located on a major artery serviced by public transportation with a nearby grocery store. The residents would have the potential of supporting Lake/Washington neighborhood businesses. A senior housing use would result in a reduction in the number of residential parking spaces required on the property. This option would have the potential of leveraging a significant amount of non-local public subsidies, lessening the impact on Commission housing funds. Finally, a senior housing project at this location would be consistent with the Commission's housing objectives of providing housing for specific needs populations and dispersing affordable housing throughout the city.

Consequently, on June 8, 1998, staff solicited proposals from 12 non-profit housing sponsors who would have an interest in undertaking the Washington Theater building as a senior housing reuse project. As a result, three proposals were received by staff on June 19, 1998 from A Community Of Friends ("ACOF"), the Los Angeles Community Design Center ("LACDC"), and Latinos for Economic Awareness and Development ("LEAD"). The two most qualified proposals were submitted by ACOF and LACDC.

Staff and consultant representatives from Keyser Marsten Associates evaluated the two most qualified proposals on June 29 and selected LACDC over ACOF. Although both are highly

qualified organizations, LACDC appeared initially to have more experience in: developing and managing special needs housing; securing HUD funding; and adaptive reuse/historic preservation projects. Furthermore, LACDC's project proforma reflected slightly lower development costs per square foot compared with ACOF's proposal. However, on July 1, LACDC informed staff that it was no longer interested in submitting a HUD funding application. The reasons cited by LACDC included uncertainty as to whether or not site control of the project site would be secured, and the short time frame available to put together a HUD application. Staff immediately contacted ACOF which indicated that it would be prepared to submit the HUD application. ACOF also provided staff with additional information indicating that the organization, in fact, has more experience with historic adaptive reuse projects and in securing HUD funding for special needs housing than what was originally disclosed. ACOF's recent track record includes the development of a 19-unit HUD-funded project in San Diego for disabled persons (Reese Village), and the rehabilitation a historic building in Los Angeles for adaptive reuse as a 62-unit affordable housing project (Las Palomos). Furthermore, ACOF submitted a revised design concept for the Washington Theater project, resulting in a greater degree of preservation of the theater space elements and reduced development costs.

ACOF proposes to undertake the project as a collaborative effort with LEAD. LEAD had demonstrated interest in the future of the building during the community process that began in February 1995, and ACOF recognizes that LEAD can play an important role in the project as a locally-based advocacy organization.

The project originally proposed by ACOF consisted of 60 units. This would require Planning Commission approval of a zoning code amendment because the current zoning code permits a maximum density of 44 units (which includes a 25% density bonus). This design concept is preliminary and staff will explore other density scenarios with ACOF which are more consistent with the current zoning code.

The historic nature of the Washington Theater is also of concern to staff and ACOF. The Washington Theater was built as a neighborhood movie house in 1925. The Washington Street façade was substantially renovated in 1937 to reflect the then more contemporary moderne style. According to the Historic Resources Inventory on file for the Washington Theater, "the construction of the building helped mark the transformation of the North Pasadena area from a suburban to an urbanized neighborhood, and the ascendancy of the Lake-Washington intersection as a major business district in North Pasadena." Staff proposes to work closely with ACOF and historic preservation experts to ensure consensus for the design program that ACOF would take regarding the building's historic fabric.

At the meeting of the Business Enterprise Committee on July 15, 1998, staff presented a status report on the proposed project which, at the time, consisted primarily of affordable senior housing plus commercial use of the existing storefronts. BEC responded that a more creative, dynamic mix of uses for the Washington Theater could serve the community as well as or better than a project based primarily on affordable senior housing. This concern shall be addressed within the context of the Exclusive Negotiation Agreement to ensure that the most favorable and financially feasible mix of building uses compatible with senior housing are incorporated into the project.

#### **STATUS OF FEDERAL AND COUNTY FUNDING**

ACOF submitted a funding application to the HUD Elderly Housing Program on July 7, 1998. To date, ACOF has not received any indication from HUD on the status of the funding application. During the past two weeks, Gregory Robinson, Housing Administrator, has been working with Carolyn Chaney, City lobbyist in Washington, D. C., to generate support from HUD and legislators for the project. ACOF also intends to apply for "City of Industry Funds" from the County of Los Angeles.

## **EXCLUSIVE NEGOTIATION AGREEMENT**

As proposed, ACOF would enter into an Exclusive Negotiation Agreement ("ENA") with the Commission. During the 120-day ENA period, ACOF and the Commission would negotiate the terms and conditions of a development agreement governing the responsibilities of each party concerning the development and financing of the proposed project. Approval of an ENA is important because it would demonstrate to potential funding sources that a qualified non-profit housing sponsor is in place to undertake the project. Among the key terms and conditions of the ENA include:

### **I. Financing**

Financing for the senior housing portion of the proposed project will consist primarily of HUD Section 202 Elderly Housing Program funds, the County of Los Angeles "City of Industry" funds; and Commission Affordable Housing funds. The anticipated amounts and financing structure of the respective funding sources will be negotiated during the ENA period. The Community Development Committee, at its meeting on July 23, 1998, stipulated that in the event ACOF is unable to secure Section 202 Elderly Housing Program funds during this current HUD funding round, then the Commission would 1) terminate the ENA with ACOF; and 2) re-initiate the process for soliciting interested developers for the rehabilitation of the Washington Theater.

### **II. Identification of Compatible Uses**

Staff, ACOF, and LEAD will identify and assess the financial feasibility of other uses in the Washington Theater building which would be compatible with senior housing. The project would be a catalyst for neighborhood revitalization as well as meet senior housing needs. Possibilities include a community center containing a small business incubator, art exhibit space, meeting facilities, a venue for theatrical performances, and market rate commercial space.

### **III. Historic Preservation**

Staff and ACOF will work closely with historic preservation experts to reach a consensus on the project's design program with respect to the building's historic fabric. Staff activity in this regard would include an assessment of the Washington Theater for designation as a local historic resource, and the building's nomination for placement on the National Register.

### **IV. Housing Density**

There are currently 40 dwelling units in the Washington Theater. The zoning code permits a maximum density of 44 units on the project site (this limit includes a 25% density bonus). Although the project originally proposed consists of 60 units, ACOF and staff will evaluate other housing density scenarios and the impact of each on the financial feasibility of the project.

### **V. Roles Formalized**

The respective roles and responsibilities of ACOF and LEAD would be formalized during the ENA period. Recent discussions between the two organizations have resulted in the identification of the following roles and responsibilities:

#### **A Community of Friends**

1. Assist Commission in negotiating site control;
2. Perform community outreach and education, along with LEAD, regarding project;
3. Perform financial feasibility analyses;
4. Prepare operating and development pro forma;

5. Perform all pre-development activities;
6. Manage construction bidding process;
7. Manage project through construction;
8. Work with LEAD on property management.

**Latinos for Economic Awareness and Development**

1. Work with ACOF to analyze community needs (residential and economic), including demographic and economic characteristics of the Lake/Washington neighborhood;
2. Perform community outreach and education, with ACOF, regarding project;
3. Outreach to potential commercial users and engage commitments for commercial space;
4. Perform property management role for commercial space, residential units (subject to HUD approval), or both;
5. Operate corporate LEAD office and programs at new site.

**LICENSE AGREEMENT WITH PURCHASE OPTION**

A critical element of ACOF's application to HUD will be site control of the subject property. Evidence of this would be in the form of a License Agreement with a Purchase Option between the Commission and property owner Norm Furman. The Agreement would involve the Washington Theater site and the vacant Commission-owned parcel located adjacently to the north. The key elements of this agreement would be as follows:

1. The Owner shall be allowed use of the Commission parcel for parking by current residents and business tenants.
2. The Commission shall provide up to \$40,000 for Commission parcel improvements related for parking (e.g., site clearance, grading, paving, lighting).
3. The Owner shall provide the Commission with an option to purchase the Washington Theater property. The purchase price shall be determined by the following procedure:
  - A) The Commission and Owner shall each hire an appraiser with the following qualifications:
    - a) California State Certified General Appraiser;
    - b) Appraisal Institute MAI designation with certification as to current status in the Continuing Education Program; and
    - c) Be on the Caltrans list of approved appraisers (Caltrans typically refers to this list to appraise properties for federally funded projects).
  - B) The appraisal assignment shall be based on or contain the following:
    - a) The valuation is to be based on the definition of Fair Market Value per the Code of Civil Procedure, section 1263.320;
    - b) The date of value shall be September 1, 1998;
    - c) The appraisal report must be self-contained with no departure provisions for any reason;

- d) The basis of valuation is the highest and best use of the property in "as-is" condition; and
  - e) A value estimate of the land, if vacant and available for development, must be contained in the report.
- C) Each party shall disclose the result of its appraisal to the other party. If the property valuations differ by 10% or less, the purchase price shall be the average of the two estimates of value. If, on the other hand, the estimates differ by more than 10%, the two appraisers shall select a third appraiser who meets the qualifications specified above, and the purchase price shall be the average of the two estimates of value that are closest to each other.

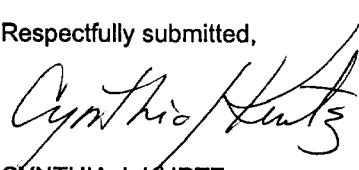
The Community Development Committee, at its meeting on July 23, 1998, stipulated that the purchase price shall not exceed 10% of its fair market value, as determined by an objective professional appraiser. Staff believes that this stipulation may be too restrictive. For example, a purchase price of 11% over fair market value would be defined as unacceptable to the Commission pursuant to the Committee's stipulation. On the other hand, in accordance with staff recommendation, the purchase price would be determined via the procedure specified above and then be taken back to the Committee and Commission for approval.

- 5. The Commission would be able to assign its purchase option to ACOF.
- 6. The License Agreement with Purchase Option would have a term of two (2) years with an option to extend the term.
- 7. Mr. Furman would have 30 days to execute the Agreement, as stipulated by the Community Development Committee at its meeting on July 23, 1998.

#### **FISCAL IMPACT**

Currently, \$916,000 in Commission Affordable Housing funds have been budgeted for the Washington Theater project for FY 1998-99 (Account No. 810-684120-51302). Commission approval of the subject recommendations will have no direct fiscal impact on the Commission's Affordable Housing funds nor the City's General Funds. However, should the ENA negotiations with ACOF result in consensus on the terms and conditions of a development agreement for the project, it is anticipated that Commission financial assistance would be required to make the project feasible. In that case, a staff recommendation regarding Commission financial assistance would be taken to the Commission for action, along with the terms and conditions of the development agreement. The total cost for the housing portion of the 60-unit project scenario would be approximately \$6,934,200. Financing for the costs attributable to the housing portion of the project would consist of \$899,500 in Commission Affordable Housing funds, and a total of \$6,034,700 between the HUD and County of Los Angeles funding sources. However, if ACOF is not able to secure the HUD or County of Los Angeles funding, then the Commission would have the option of a) extending the ENA with ACOF to explore other funding and/or project options; or b) terminating the ENA with ACOF. If option "b" is elected, then the Commission would be able to re-initiate the process of identifying and selecting another developer for the rehabilitation of the Washington Theater property.

Respectfully submitted,




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Acting Chief Executive Officer

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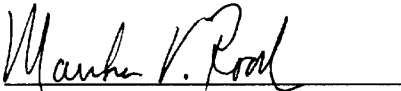
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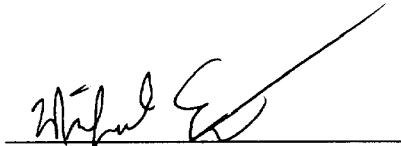
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