UTSA INSTITUTE OF TEXAN CULTURES
ITC CENTENNIAL 2068

INSTITUTE OF TEXAN CULTURES: ADAPTIVE REUSE ANALYSIS

INTERNAL REPORT

Visioning Process & Evaluation

In 2021, The University of Texas at San Antonio (UTSA) embarked on the Institute of Texan Cultures (ITC) Centennial 2068 Community Stakeholder Visioning Process, a robust community engagement initiative to ensure the future museum becomes a focal point in excellence of cultural heritage, inclusively tells the story of our past and defines what it means to be a Texan.

Throughout the process, UTSA engaged in community conversations. In spring of 2022, the steering committee issued a report that put forth three scenarios for further evaluation:

1. Relocate Outside of the Hemisfair District
2. Relocate from the Texas Pavilion, but remain in Hemisfair District
3. Remain in the Texas Pavilion

This report led to an extensive evaluation period to review the existing facility as an opportunity for the continued home of the ITC, as well as to evaluate opportunities both within and outside of the Hemisfair Campus. The evaluation facility studies showed the highest and best use of the property is to relocate outside of the Hemisfair District.

Reuse of the Texas Pavilion as well as the John H. Wood courthouse were considered as options. Overall, the lower capital costs associated with a purpose-built state of the art facility, as well as the opportunity to increase foot traffic, led UTSA to the decision to relocate the museum outside of the Hemisfair district and in close proximity to the Alamo.

Texas Pavilion: Property Analysis for Highest & Best Use

As UTSA studied the Texas Pavilion, industry experts captured key data that supported relocating the museum. Key findings indicate:

- Current immediate backlog of deferred maintenance of $12 million.
- Five-year projected deferred maintenance and systems replacement of $62+ million.
- Costs to repurpose the building for adaptive reuse are not captured in these deferred maintenance figures.
- The building has current environmental issues, including asbestos and mold.
- Mechanical, electrical, and plumbing systems, as well as fire life safety systems were minimally functioning or indicated to be at the end of their useful life.

A detailed report from Architexas noted that compatible use of the Texas Pavilion for residential, hospitality/hotel or office use may be difficult as some of the most significant character-defining features of the building, including minimal exterior windows and the Globe Theater, present challenges when considering redevelopment.

UTSA used several methods over the past year to study reuse opportunities for the site to yield the highest value of the property. Building upon the information provided in the Architexas report, UTSA evaluated whether an adaptive reuse of the existing building would be feasible and attractive to a private developer.

The analysis eliminated potential uses that would require modifications to the exterior by use of additional storefront or windows which would disqualify for historic tax credits, and focused on the Architexas report recommendations around entertainment destinations, including indoor golf, escape rooms, bowling, etc. These tenants are mainly single use tenants.

Texas Pavilion: Adaptive Reuse Market Data

In addition to data provided through the Architexas report, UTSA closely examined adaptive reuse market data to fully evaluate adaptive reuse as an option for the Texas Pavilion. Understanding that UTSA cannot directly benefit from Historic Tax Credits, the university turned to the private development community and consulted with several expert development groups in adaptive reuse to assist in analysis of the opportunity.

For this analysis, we used the highest appraised land value as the basis for our calculations. The conversion costs for the Texas Pavilion include $65 million allocated for systems replacement, as well as an additional $150 per square foot for tenant improvements. The Qualified Rehabilitation Expenditures (QREs)—which include specific expenses for preserving, rehabilitating, or restoring historic buildings—are projected at $110 million. An eligible entity can capture up to 25% in Federal tax credits and 20% in State tax credits based on the total projected QREs for the project. Our analysis includes a small deduction to cover soft costs associated with securing these tax credits. This results in a deduction of $42.35 million for the project.

Based on data provided from JLL, San Antonio market rents for comparable projects for entertainment venues range from $25-$35 per square foot. In the current market, investors seek a 9% return on investment for retail and entertainment projects. A detailed financial analysis showed that converting the Texas Pavilion—even with $42.35 million in tax credits and rent estimates of $35 per square foot—the project does not meet this requirement. The project would need rents of $100 per square foot to make this project financeable, which is not realistic in the San Antonio market today. Typically, an adaptive reuse project utilizes both Historic Tax Credits and incentives. In this case, the project would require an additional $82 million of incentives from a yet to be identified philanthropic source to make the project feasible.

Challenges for reuse include limited alterations for the maximum utilization of tax credits, the need for additional incentives, and difficulty attracting tenants. Tight financial markets further complicate financing for this high-risk investment, making adaptive reuse an unworkable option.

Visit the ITC Centennial website to learn more about the initiative, explore processes and view reports.

Appendix:

Texas Pavilion Adaptive Reuse & Tax Credits

Total Project Cost Calculations	
Total Project Costs without Tax Credits	**$168,500,000**
Qualifying Restoration Expenditures	$110,000,000
State Tax Credits Deductions	$ 17,600,000
Federal Tax Credits Deductions	$ 24,750,000
Total Deductions	$ 42,350,000
Total Project Cost with Tax Credits	**$126,150,000**
Entertainment Use Operating Calculations	
Total Leasable Area	115,000 SF
Total Average Rent per Square Foot	$35
Total Net Operating Income	$4,025,000
Total Yield on Cost (NOI of $4.025M/Total Project Cost of $126.15M)`	3.19%

Texas Pavilion Adaptive Reuse & Tax Credits

Options to Accomplish 9% Return on Investment	
Only Applying Historic Tax Credit Deductions	
Total Leasable Area	115,000 SF
Total Average Rent per Square Foot	**$100**
Total Net Operating Income	$11,500,000
Total Yield on Cost (NOI of $11.5M/Total Project Cost of $126.15M)	9.11%
Historic Tax Credits + Required Incentives (Gap Fill)	
Total Leasable Area	115,000 SF
Total Average Rent per Square Foot	**$35**
Total Net Operating Income	$4,025,000
Total Required Incentives (Reducing Total Project Costs to $44.15M)	**$82,000,000**
Total Yield on Cost (NOI of $4.025M/Total Project Cost of $44.15M)`	9.11%