



Board Report

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Agenda Number: 14.

PLANNING & PROGRAMMING COMMITTEE MAY 19, 2021

SUBJECT: CESAR E. CHAVEZ & SOTO JOINT DEVELOPMENT

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to execute and enter into a ground lease (“Ground Lease”) and other related documents with La Veranda, L.P. (the “Developer”), an affiliate of Abode Communities, for the construction and operation of a mixed-use, affordable housing project (the “Project”) on Metro-owned property located near the corner of Cesar E. Chavez Avenue and Soto Street in Boyle Heights (the “Site”) in accordance with the Key Terms and Conditions approved by the Board at its November 30, 2017 meeting as amended by the terms and conditions set forth in the Discussion section of this Board report.

ISSUE

In November 2017, the Board authorized the execution of a Joint Development Agreement (JDA), Ground Lease and other related documents for the Project pursuant to certain key terms and conditions. As a result of Project refinement, financing requirements and Ground Lease negotiations, certain changes to the Board-authorized transaction are needed to finalize and execute the Ground Lease. The proposed changes are described in the Discussion section below.

BACKGROUND

Metro and the Developer executed a JDA in January 2018 in accordance with the Board authorization in November 2017. The JDA was extended for twelve (12) months to January 31, 2022, per Board authorization in January 2021. Prior to the execution of the JDA, Metro and the Developer were parties to an Exclusive Negotiation Agreement and Planning Document (“ENA”). The JDA and ENA have allowed the parties to explore the feasibility of the Project, conduct developer-led community engagement, and negotiate the Ground Lease, and for the Developer to secure entitlements and financing.

Site Overview

The Site totals approximately 1.96 acres of Metro-owned property bounded by Cesar E. Chavez Avenue to the north, Soto Street to the west, Mathews Street to the east, and a residential neighborhood to the south. The Metro L Line (Gold) Soto station is located about one-quarter mile south of the Site. This property was originally purchased for the extension of the Metro Red/Purple

Line subway into Boyle Heights, but with the construction of the Metro L Line's Eastside Extension, it was no longer needed for this purpose.

Project Description

The Project, known as La Veranda, contemplates seventy-six (76) income-restricted affordable apartments, one (1) unrestricted property manager's apartment, approximately 8,000 square feet of commercial space, and associated parking.

Outreach

The recommended action follows extensive project-related outreach by Metro and the Developer. This effort started under a short-term ENA which was executed by the parties in March 2015 for the sole purpose of conducting project-specific community outreach. In December 2015, a full-term ENA was executed and outreach continued throughout its term. Collectively, these efforts resulted in approvals from the Boyle Heights Neighborhood Council (BHNC) Planning and Land Use Committee and the BHNC in October 2015 and January 2021, and approval of the project design by Metro's Boyle Heights Design Review Advisory Committee in June 2016 and February 2021.

DISCUSSION

As a result of Project refinement and financing requirements and additional Ground Lease negotiations, certain key terms and conditions approved by the Board in November 2017 need to be changed in order to finalize and execute the Ground Lease with the Developer.

Proposed Changes:

- 1. Proposed Project:* The Project will include, without limitation, seventy-six (76) affordable rental apartments and one (1) unrestricted property manager's unit. apartments will range from one to three bedrooms which includes the introduction of thirty-eight (38) one-bedroom Permanent Supportive Housing (PSH) apartments at 20% Area Median Income (AMI). Affordable apartments will be made available to households earning between 30% and 50% of AMI.
- 2. Cap on Sale Proceeds:* To avoid negative-income tax-related consequences for the Project's tax-credit investors and to avoid Metro being considered a partner in the Project, Metro's 20% share of the Developer's net proceeds from the sale of the Project, which was previously approved by the Board in November 2017, will be subject to a necessary and reasonable cap.
- 3. Float Up:* Notwithstanding the affordability levels set forth on Attachment A, in the event of a reduction in or loss of Project-Based Vouchers ("PBV Reduction"), or a similar operating subsidy supporting operations related to the Project's thirty-eight (38) PSH apartments, the Developer may, during the period of any such PBV Reduction and only with respect to PSH apartments that become vacant during such period, lease such apartment to households that earn up to 50% of AMI and who may or may not require supportive services; provided that such measures may be utilized only for the duration of and to the extent of the PBV Reduction.
- 4. Construction Completion:* The Ground Lease will require commencement of construction promptly after the commencement date. The Project's construction period will commence on the date that the Ground Lease is executed (the "Commencement Date") and will terminate upon the

earlier of: (1) substantial completion of construction of the Project improvements as described in the Ground Lease, which shall be evidenced by a temporary certificate of occupancy for substantially all of the Project improvements described in the Ground Lease, or (b) the day preceding the date occurring 33 months after the Commencement Date.

5. *Percentage Rent:* Ground lessee shall pay LACMTA a percentage rent in an amount equal to 25% of all gross receipts paid or credited to the ground lessee for commercial uses in the Project's 8,000 square feet of commercial space. Percentage rent shall be calculated on a calendar-year basis and shall be due from the ground lessee to LACMTA annually, in arrears, on March 1st of each calendar year, with a full accounting of the amount due.

6. *Ground Lease Term:* At the end of the initial 65-year Ground Lease term, the Developer will have an option to extend the term for up to 10 years, with a total possible term of not more than 75 years. During the option period, all units in the Project that become vacant will be restricted to households earning no more than 80% of AMI. The option period length and increased income limits are needed for the Developer to secure a tax credit investor and obtain tax credit equity for the Project, and were reviewed and deemed reasonable by Metro's financial consultant.

Equity Platform

Consistent with the Equity Platform pillar "listen and learn", the Project has undergone a robust community engagement process as noted above. In addition, the Project provides an opportunity to "focus and deliver" by adding much needed transit-accessible, income-restricted affordable housing stock to the community, along with commercial space along a main commercial corridor.

DETERMINATION OF SAFETY IMPACT

Approval of this item will have no impact on safety as it only seeks to amend certain key terms and conditions to be contained in development and real estate contracts. Appropriate construction oversight will be included under the Ground Lease for the Project as part of any construction work to ensure that such work does not adversely impact Metro property, improvements or service, or the continued safety of Metro staff, contractors and the public.

FINANCIAL IMPACT

Funding for joint development activities related to the Project is included in the adopted FY21 budget under Cost Center 2210, Project 401003. Metro costs related to the proposed project that are not reimbursed by the Developer will be funded from General Funds, which are eligible for bus and rail operating and capital expenses.

Impact to Budget

There is no impact to the adopted FY21 budget, which includes the cost to negotiate the JDA, Ground Lease and other project-related documents, review the design and support outreach efforts. No new capital investment or operating expenses are anticipated to implement the Project, and revenues from a developer deposit offset certain staff- and Project-related professional services costs.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommended action supports the Strategic Plan Goal to “enhance communities and lives through mobility and access to opportunity”. By advancing the Project, which includes delivery of critical transit-accessible, income-restricted affordable housing to the Boyle Heights community, as well as commercial space along a main commercial corridor, the recommended action will specifically implement Initiative 3.2, which states “Metro will leverage its transit investments to catalyze transit-oriented communities and help stabilize neighborhoods where these investments are made”.

ALTERNATIVES CONSIDERED

The Board could choose not to authorize the proposed changes. Such an action would require a re-scoping of the Project, as well as renegotiation of the proposed changes and perhaps other Board-approved key terms and conditions for the proposed transaction. In addition, the re-scoping effort would jeopardize delivery of the Project, given the design changes that would result therefrom, the added cost of such design changes and current Project financing constraints. Staff does not recommend this alternative because proceeding with the proposed Project incorporating the proposed changes described above is the quickest and surest way to bring much needed transit-accessible, income-restricted affordable housing to the community. The Developer’s longstanding commitment to the Project, including its financial investment to date, provides further reason not to choose this alternative.

NEXT STEPS

Upon approval of the recommended action, Metro and the Developer will finalize the Ground Lease in accordance with the key terms and conditions approved by the Board in November 2017, as amended by the proposed changes set forth herein. The parties anticipate execution of the Ground Lease in the second quarter of 2021. Construction of the Project is expected to commence promptly thereafter and should be completed within two years of its commencement.

ATTACHMENTS

Attachment A - Unit Mix and Affordability Levels

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