

**Board Report**

File #: 2021-0380, **File Type:** Agreement**Agenda Number:** 9.

**PLANNING AND PROGRAMMING COMMITTEE
JULY 14, 2021****SUBJECT: VERMONT/SANTA MONICA JOINT DEVELOPMENT PROJECT****ACTION: APPROVE RECOMMENDATION****RECOMMENDATION**

AUTHORIZING the Chief Executive Officer (CEO) to execute an amendment to the Purchase and Sale Agreement with SMV Housing, L.P., an affiliate of LTSC Community Development Corporation (LTSC) to amend the purchase price of approximately 33,682 square feet of real property (Metro Property) adjacent to the Vermont/Santa Monica B (Red) Line Station from \$7,140,000 to \$5,100,000, subject to Federal Transit Administration (FTA) concurrence.

ISSUE

Metro and SMV Housing, L.P. (Developer), an affiliate of LTSC Community Development Corporation (LTSC), are currently parties to a Purchase and Sale Agreement (PSA) which allows the Developer to purchase from Metro approximately 33,682 square feet of real property (Metro Property) next to the Vermont/Santa Monica B (Red) Line Station to facilitate the construction and operation of a mixed-use, affordable housing project (Project) on the Metro Property and adjacent Developer-owned property. In August 2020, the Metro Board of Directors (Board) approved the PSA terms including a 30% discount (\$3,060,000) from fair market value (FMV) for the Metro Property. The Developer must lower the Project's total development costs (TDC) in order to be competitive for Low Income Housing Tax Credits and tax-exempt bonds, the final funding sources needed to begin construction. The Developer has reduced Project costs but the TDC remains over the threshold to be competitive for these critical funding sources. The Developer has requested an additional discount of 20% from FMV for the Metro Property (total discount of 50% or \$5,100,000 from FMV). Reducing the purchase price for the Metro Property would improve the Project's competitiveness for funding. Without the requested Board action, the Developer will be at an impasse in its affordable housing development.

BACKGROUND

In January 2017, Metro received an Unsolicited Joint Development (JD) Proposal from the Developer which contemplated development of the Metro Property and 20,499 square feet of adjacent Developer-owned property (Developer Property) at the Vermont/Santa Monica B Line Station (see Attachment A - Site Map). The Metro Property and Developer Property (collectively, the Site) are located in the City of Los Angeles East Hollywood community and are surrounded by the

neighborhoods of Hollywood, Silver Lake, and Los Feliz. Metro currently owns four (4) parcels at the Site with a total area of 46,105 square feet (1.05 acres). In March 2018, the Metro Board approved entering into an Exclusive Negotiation Agreement and Planning Document (ENA) with the Developer. The ENA allowed Metro staff and the Developer to explore the feasibility of the proposed Project, conduct community outreach, finalize design, undertake CEQA clearance, secure entitlements and negotiate the key terms and conditions of the disposition and development of the Metro Property.

Metro JD projects typically utilize long-term ground leases. During the ENA period, Metro staff and the Developer determined that entitling a project across multiple ownerships would create insurmountable obstacles to securing planning and land use entitlements from the City of Los Angeles. Given the configuration of the parcels, it was infeasible to design the buildings in a way that would not cross over property lines with differing ownership. In order to adequately protect Metro's interest in the event of ground lease default, Metro would be required to retain rights to automatically acquire the Developer Property to ensure continuous operation of the Project. Such an acquisition would present challenges, including securing funds within a short period of time to purchase the Developer's improvements on the Metro Property in the event of a default under a ground lease. It was thus determined that a ground lease structure would not be possible.

In May 2020, the Metro Property was appraised at a fair market value of \$10,200,000. In August 2020, the Metro Board approved the PSA terms and a 30% discount (\$3,060,000) from fair market value resulting in a purchase price of \$7,140,000 for the Metro Property. The PSA will transfer ownership of the approximately 33,682 square foot Metro Property to the Developer. Metro will retain ownership of the remaining approximately 12,423 square feet which includes the station plaza and portal. The PSA also allows Metro to retain certain rights that will unequivocally safeguard and preserve Metro's ability to operate, maintain, and access the adjacent public transit facilities. As the Metro Property was acquired in the early 1990s using funding from both the Federal Transit Administration (FTA) and State bonds, Metro secured approval of the property disposition and PSA terms from the FTA and the California Transportation Commission (CTC) in summer/fall 2020. The PSA was executed in January 2021.

Project Overview

The Project consists of a total of one hundred and eighty-five (185) affordable rental units including ninety-one (91) units restricted to households earning 50% of Area Median Income (AMI) or less and ninety-four (94) special needs units restricted to households earning 30% of AMI or less. The PSA requires that all units remain affordable for a period of ninety-nine (99) years. There will be two (2) unrestricted managers' units and sixty-nine (69) parking spaces. Approximately 20,000 square feet of ground floor commercial space will be provided, along with on-site supportive services, community space and a federally-qualified health clinic. LTSC's Small Business Program, in partnership with local East Hollywood organizations, intends to recruit longtime area businesses to rent space in the proposed food hall that will surround the plaza. In order to enhance the overall pedestrian experience and connect with the existing neighborhood fabric, the Project includes transit-related infrastructure and pedestrian amenities including new landscaping, a self-service Metro Bike Hub, upgraded lighting, and street furniture.

DISCUSSION

The PSA closing conditions require the Developer to demonstrate to Metro that it has the financial resources sufficient to design, construct and operate the Project. Once the PSA closing conditions are satisfied, Metro and the Developer will close on the transaction and transfer the Metro Property to the Developer. The Project has all funding commitments to begin construction with the exception of Low Income Housing Tax Credits and tax-exempt bonds. In order to be competitive for these funding sources, the Developer must lower the Project's TDC. The Developer has exhausted all cost savings options including significantly reducing construction, Developer, and soft costs. The Project's TDC still remains above the threshold required to ensure competitiveness in the tax credit and bond allocation process so the Developer has requested Metro amend the PSA to reduce the purchase price for the Metro Property to \$5,100,000. This would result in a discount of \$2,040,000 (20%) in addition to the \$3,060,000 (30%) from the fair market value granted by the Metro Board in August 2020. The new proposed purchase price represents a total discount of \$5,100,000 (50%) from the May 2020 appraised fair market value. Staff and a JD financial have analyzed the request and determined it to be reasonable and necessary for the Project to compete for and secure these final funding sources. All other terms of the PSA will remain unchanged.

The recommended PSA amendment does not require additional approval by the CTC. Staff submitted the request to amend the PSA to the FTA in May 2021. FTA approval of the PSA amendment is expected in July 2020.

DETERMINATION OF SAFETY IMPACT

Approval of this item will have no impact on safety. Staff will continue to oversee the development and eventual construction of the Project to ensure that it does not adversely impact the Metro transit system or the continued safety of staff, contractors, and the public. In addition, the implementation of this Project at the Vermont/Santa Monica Station will offer opportunities to improve safety for transit riders and the general public through new active transportation connections and improvements to the existing plaza at the station entrance.

FINANCIAL IMPACT

Pursuant to the previously approved PSA, certain staff and consultant costs are reimbursed through the Developer's deposit. No new capital investment or operating expenses are anticipated to implement the Project. A total of \$5,100,000 in revenue will be generated once the Developer satisfies the PSA closing conditions. Per the revised Metro JD Policy, this revenue will be used to fund Metro Transit Oriented Communities activities.

Impact to Budget

Continued work under the PSA is included in the FY22 budget in Cost Center 2210 (Joint Development) under Project 401004 (Vermont/Santa Monica Joint Development).

EQUITY PLATFORM

Consistent with the Equity Platform, the eventual development of the Project provides an opportunity to "focus and deliver" by adding much needed transit-accessible, permanent supportive affordable housing and opportunities for small businesses to an Equity Focus Community. The Developer, LTSC

Community Development Corporation, is a mission-based, minority-led non-profit organization with an over 40-year track record of improving the lives of underserved individuals and families and promoting the equitable development of diverse communities. Since entering into an ENA with Metro in March 2018, the Developer has engaged with more than 500 local stakeholders and two dozen local organizations. Initial outreach was conducted via door-knocking and in-depth conversations with neighbors surrounding the Site. Community engagement also included meetings with area institutions including Los Angeles City College, the Blind Children’s Center, the Braille Institute, John Wesley Community Health Center, Children’s Hospital Los Angeles, Kaiser Permanente, and the Los Angeles LGBT Center. The East Hollywood Business Improvement District and East Hollywood Neighborhood Council voted to formally support the Project at their fall 2019 meetings.

The Project is subject to Metro’s Project Labor Agreement/Construction Careers Policy (PLA/CCP). The PLA/CCP sets forth procedures and requirements for hiring and training targeted and/or disadvantaged construction workers in ways calculated to mitigate the harms caused by geographically concentrated poverty, unemployment, and underemployment.

Portions of the Metro Property are currently leased by adjacent, minority-owned small businesses for parking. Development of this Project will result in the loss of portions of that parking. Replacement parking may not be needed. If it is, alternative parking arrangements in the surrounding community may be available to these businesses. Consistent with the Equity Platform and the recently revised Metro JD Policy, staff will “define and measure” by tracking various equitable outcomes and metrics related to any negative unintended consequences related to this Project and its impact on the surrounding community.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This recommendation supports the Strategic Plan Goal to “enhance communities and lives through mobility and access to opportunity”, specifically 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.” The Project will deliver a number of community benefits, including transit-accessible, low-income housing and new commercial/community space. Metro will also conduct surveys of the Project’s residential and commercial tenants to gather metrics such as transit use, demographic data (as allowed/feasible), car ownership, move in/move out information, revenue generation and qualitative data on tenant satisfaction to help inform features for future JD projects (e.g. design issues, amenities, desired ground floor services, parking, and unit design).

ALTERNATIVES CONSIDERED

The Board could choose not to authorize execution of the PSA amendment. Staff does not recommend this option because the Project is the product of extensive negotiations and community engagement and is consistent with the goals of the JD Policy, including the development of affordable housing and new opportunities for local businesses. Electing not to authorize execution of the PSA amendment would delay and potentially jeopardize delivery of critical affordable housing units.

NEXT STEPS

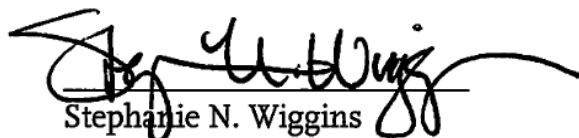
Upon Board and FTA approval of the recommended action, Metro and the Developer will execute the PSA amendment. Once the Developer satisfies all of the PSA closing conditions, it is anticipated that Project construction will commence in late 2021/early 2022 with completion in late 2023/early 2024.

ATTACHMENTS

Attachment A - Site Map

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