



Board Report

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Agenda Number: 11.

PLANNING AND PROGRAMMING COMMITTEE JULY 19, 2023

SUBJECT: WESTLAKE/MACARTHUR PARK STATION JOINT DEVELOPMENT

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer or designee to execute an amendment to the Exclusive Negotiations Agreement and Planning Document (ENA) with Walter J Company (Developer) to extend the term for one year with the option to further extend the term for two additional one-year periods. The ENA provides for the joint development of Metro-owned property at the Westlake/MacArthur Park B/D (Red/Purple) Line Station with approximately 434 market rate residential units, 234 income-restricted units, a hotel, commercial office space, and neighborhood serving retail including space for local vendors (Project).

ISSUE

In August 2020, the Metro Board of Directors (Board) authorized the execution of an ENA with the Developer to support the joint development of the Project. The ENA was executed in February 2021. Since that time, the Developer has advanced predevelopment activities, including design development, community engagement, and the preparation of an entitlements package to be submitted to the City of Los Angeles (City). The ENA is set to expire in August 2023, and an extension of the ENA term is necessary to continue negotiations activities that include: (a) review of the schematic design; (b) Developer-led stakeholder outreach; (c) responding to City Planning questions/comments on the entitlements and environmental clearance application; and (d) negotiating and finalizing a ground lease and other transaction documents.

BACKGROUND

In August 2020, the Metro Board approved an ENA (Approved ENA/Project) that was the product of a revised and updated unsolicited joint development proposal from the Developer for the development of a mixed-use project inclusive of the 1.8 acres Metro-owned Plaza situated on the south side of Wilshire Boulevard between Alvarado Street and Westlake Avenue in the Westlake community of Los Angeles. The Developer intends to incorporate the Metro-owned property with properties it owns both north and south of the Metro-owned property to comprise the Project site (see Attachment A - Site Map).

The Approved ENA/Project was resubmitted to the Board following the rejection of the initial February 2020 proposal. Table 1 below outlines the changes between the initial February 2020 submittal and the Approved ENA/Project of June 2022.

Table 1	Initial Project Proposal Feb 2020	Approved ENA/Project Proposal June 2020
Total Apartments	665	668
Market Rate Apartments	545	434
Income-Restricted Apartments	120	234
Very Low (30 - 50% AMI*)	0	66
Low (50 - 80% AMI)	120	66
Moderate (120%-150% AMI)	0	66
Section 8 (0 - 50% AMI)	0	36
Hotel Rooms	252	300
Commercial SF	67,791	124,058
Open Space SF	75,679	75,679
Parking Spaces	896	775

*Area Median Income (AMI) for the Los Angeles-Long Beach Metropolitan Statistical Area, as determined annually by the Department of Housing and Urban Development (HUD) and adjusted for actual household size.

In addition to the enhanced affordable housing component, the Project was upgraded by strengthening the community outreach process through a Project Advisory Task Force (PATF); incorporating opportunities for existing local small businesses and street vendors to remain; and new neighborhood-based businesses to be recruited into the redeveloped site. Following Board approval in August 2020, the ENA was executed and became effective in February 2021. In 2022, the Developer acquired the property to the north of the Metro Plaza (650 S Alvarado) on which the 99 Cents Only building is located and has incorporated it into the development site.

DISCUSSION

Project Findings

Based on the progress made under the existing ENA, Joint Development staff recommend the Project continue to be advanced for the following key reasons:

1. The inclusion of adjacent land enables a more substantial development project to overcome the challenges of the Site.

- Significant Metro infrastructure exists including two station portals, an elevator, and vent shafts.
- Prior proposals could not build above and/or around these elements and still produce a meaningful development.
- The Developer owns a substantial number of properties adjacent to the Project Site that can be leveraged into a project with the appropriate scale and scope.

2. The Project would provide more income-restricted units than could be developed by Metro on its own.

- 234 income-restricted units (168 targeting incomes below 80% of AMI and 66 additional units targeting the Moderate 150% AMI level)
- Prior Metro land-only proposal (see below Project Site History) produced only 82 total units of affordable housing.

3. The Project commits to supporting existing plaza vendors and small businesses.

- Permanent vendor space dedicated to minority-owned and local businesses (at least 20%).
- On-site training and other business support resources provided.

4. The Developer's team has deep ties and experience working with the Westlake/MacArthur Park community.

- Developer's family has operated in this location providing medical, community, and related services for over 40 years.
- Currently entitled to develop the Lake on Wilshire project, a mixed-use project, directly across the street from the Phase B project.
- New Economics for Women (NEW) is a non-profit social service provider with deep roots in the community.

Joint Development Project Site History

In 2003, Metro entered into an ENA with an affiliated company of McCormack Baron Salazar (MBS) for a mixed-use affordable housing project which was later modified into two phases. In 2006, a Joint

Development Agreement (JDA) was entered into with MBS to develop Phase A which consisted of a 90-unit affordable housing development directly across the street from the current Project Site on the east side of Westlake Avenue. Phase B consisted of the development of an additional 82 units of affordable housing over the Metro Plaza along with upgrades to Metro transit infrastructure.

In 2012 Phase A was completed. However, due to the physical challenges and related cost to build across the plaza and subterranean transit infrastructure MBS proposed an alternative design for Phase B on Metro property. Staff determined the revised conceptual plan, which featured a surface parking lot without either retail or a new station portal, lacked the transit orientation necessary to achieve Metro's programmatic goals. It was later decided to not extend the JDA with MBS and the agreement was terminated.

Project Overview and Programming

The Developer is proposing a mix of commercial, retail, and housing uses that wrap around the perimeter of the Metro owned plaza. This will include two towers, one at the corner of Wilshire and Westlake and the other at 7th and Westlake which will have 668 housing units as a combination of studio, one- and two-bedroom units. Community-serving retail uses will occur along the southern and northern perimeters of the Metro Plaza.

A two-story pavilion will be built above the Metro Plaza at the existing park and ride location. It will contain a mix of quick service food stores, permanent space for local vendors, and community-based services. The Developer intends to integrate the Metro Plaza into its overall design through an enhanced landscape plan, fixed locations for local vendors to operate, and options for community-based performances and open-air events. To create the project density necessary to accommodate these various uses, the Developer is seeking a certain amount of open space and floor area ratio (FAR) from Metro. This would include the granting of air rights of approximately 575,492 square feet and the ability to add another 240 density units to the Project.

Detailed programming of the pavilion and other ground floor retail options will be fully developed in conjunction with the Developer over the remainder of the ENA period. The Developer has committed to certain community-based programming to include anti-displacement and homeless prevention services, English as a second language and citizenship classes, economic mobility programs & job training, along with a community business & family resource center.

In 2022, the Developer acquired the property to the north of the Metro Plaza (650 S Alvarado) on which the 99 Cents Only building is located and has incorporated it into the Project. This acquisition provided for additional commercial use of approximately 64,000 sq. ft. for medical offices and a retail pavilion. In addition, there was an increase of 968 parking spaces (from 775 spaces). The increased parking is still within the joint development policy limit of 0.5 spaces per bedroom (902 bedrooms, 451 allowable spaces, 341 proposed spaces).

Table 2 below summarizes the updated Project components including the additional parcel:

Project Component	Approved ENA/Project (2020)	Updated ENA/Project (2023)
Total Housing Units	668	668
Income Restricted Units (see Table 1 for details)	234	234
Hotel Rooms	300	300
Commercial Sq. Ft.	124,058	187,721
Combined Parking	775	968
Open Space	75,679	74,135

It is anticipated the Developer will complete and submit an entitlement package to the City no later than September 30, 2023. Based on the Developer's current timeline, the City's application review process will take approximately one year. Once entitlements are in place, staff intend to request Board authorization of key terms and conditions for a Joint Development Agreement (JDA) and Ground Lease (GL).

Community Engagement

To date, the Developer has conducted community outreach, design review, and the preparation of entitlements for submission to the City. The community outreach component has been extensive and ongoing since the ENA went into effect. Thus far, the Developer has conducted the following activities:

- 33 community outreach events.
- 4 project workshops.
- 8 PATF meetings.
- 26 separate meetings with community groups, including various tenants' rights organizations.

Communication channels have been in the form of in-person meetings, digital and paper-form surveys, holiday events, and food giveaways. Much of the community interface has been accomplished through the Developer's non-profit partner, NEW.

Comments received through this information gathering process include the need for greater security at the Plaza; more opportunities for affordable housing accessible to local residents; job opportunities during the construction period; and the need to protect local businesses from displacement once the project is operational. The Developer has been responsive to these needs in the design of the Project.

On June 30, 2023, Metro Joint Development staff briefed First District Council Member Eunisses Hernandez and her staff on the Project. This was followed by a commitment to provide ongoing updates throughout the predevelopment phase.

Unit Count and Affordability Analysis

As proposed, the Project will contain 234 income-restricted units (35% of the total unit count) which will be subject to a long-term affordability covenant. A subset of these units, 168 units or 25% of the total, are reserved for lower-income households with incomes no greater than 80% of AMI, adjusted for household size. The proposed affordable unit count aligns with the 2021 Board adopted update to the Joint Development Policy that establishes an inclusionary requirement for large projects such as Westlake/MacArthur Park (over 300 units) to allocate at least 25% of the total number of units for households earning up to 80% of AMI. This also aligns with the City of Los Angeles incentives policies and the State Surplus Land Act establishing threshold requirements for large-scale projects at 25% affordability.

In addition to the 168 affordable units, the Project proposes to reserve 66 units (approximately 10% of the overall unit count) for households with income levels between 120% and 150% of AMI. Known by the City of Los Angeles Housing Department as the “Moderate 150%” income level, this range of housing is a helpful resource as there is no existing public subsidy that targets this range. The Developer intends to subsidize the inclusion of these units through other Project components including the 434 market rate units. This would place 35% of all housing under a long-term affordability covenant.

This mixed-income approach maximizes affordability as financial studies have found increasing affordability requirements much beyond 25% in mixed-income projects require more funding gap than the projects or existing resources can likely bear. The Developer’s commitment to underwrite the Moderate 150% component speaks to providing the largest number of income-restricted units and the widest array of affordability levels while at the same time acknowledging the Project can be underwritten.

As part of the 2020 Board approval of the ENA, a preliminary financial pro forma was submitted for review. Given the structural complexity of building on a high-intensity transit station with significant subsurface rail infrastructure and a high-cost building methodology that maximizes unit yield in the form of two multi-purpose towers, the preliminary review suggests a maximum of 234 income restricted units. Although a higher percentage of affordable units could potentially be achieved through a lower-cost, lower height/density construction typology, this would result in a significant reduction in the total number of affordable units provided by the Project, and thus, would not align with the Board’s adopted policy goal of constructing as many units as possible, as quickly as possible for those who need it most. Further, prior efforts to develop the site with a low-rise, fully affordable development were unsuccessful for the reasons noted above.

With the extension of the ENA and the continued due diligence to follow, a revised financial pro forma will be submitted and reviewed by one of Metro’s third-party consultants. This will include an analysis of all programming activities including the affordable housing component and a determination of the maximum number of affordable units that could be supported by the overall Project.

Operations/Maintenance and Integration of Developer Activities

Metro has experienced an increase in drug related medical emergencies, violent crime, and general misuse of the Westlake/MacArthur Park Station. As a result, Metro Operations convened an agency

task force leading a collaborative effort to reimagine how the Station could better serve transit patrons and the broader community by improving public safety and service reliability through the strategic deployment of pilot programs. One of these pilot interventions includes a proposed restructuring of the vendor marketplace developed in collaboration with the County, City, and community that activates the plaza, promotes business sustainability and growth, and preserves space for community events.

Metro and the Developer are interested in a long-term Plaza program that continues to enhance security and improves the on-site transit experience for transit riders, workers, and residents. During the remainder of the ENA period the Developer will work collaboratively with Metro's restructured plaza vending program to provide input on ways to maintain continuity of vending activities throughout the predevelopment phase. As the Project moves forward to completion, the Developer will also seek to negotiate favorable leases with local vendors including the rate and length of term. Uses within the commercial and retail space will establish "eyes on the plaza" and the hotel and residential uses will provide a 24-hour presence at the station.

During the remainder of the ENA period, Metro and the Developer will negotiate an integrated maintenance, operations, and security program that addresses the needs of Metro, the Developer, and patrons of the station. Those terms will be incorporated into the proposed GL terms for the Board's consideration.

DETERMINATION OF SAFETY IMPACT

Approval of this item will have no impact on safety as it only seeks a time extension for the ENA term during which no improvements will be constructed. An analysis of safety impacts will be completed and presented to the Board for consideration when negotiations result in proposed terms for a JDA and GL.

FINANCIAL IMPACT

Funding for the joint development activities is included in the adopted FY24 budget under Cost Center 2210, Project 401038. In addition, the Chief Planning Officer will be responsible for seeking budget authority in future years as the ENA process is finalized. Pursuant to the ENA, third-party and certain Metro staff costs are reimbursed by the Developer. The ENA executed in 2020 required the Developer to pay Metro a non-refundable fee of \$50,000, as well as a \$100,000 deposit to cover Metro staff and consultants. As stated in the JD Policy the non-refundable fee is held in a fund to be reinvested into Transit Oriented Communities activities such as land acquisition and other opportunities in furtherance of the 10K Plan. The full amount of the fee remains available for these activities. The deposit is replenished when it reaches a balance of less than \$50,000.

Impact to Budget

There is no adverse impact to the proposed FY24 budget. Staff costs are included in the FY24 budget to negotiate the proposed transaction and review the design and other project documents. No new capital investment or operating expenses are anticipated to occur and ENA deposits from funds provided by the Developer will offset certain staff and project-related professional service costs.

EQUITY PLATFORM

The project will deliver 234 income-restricted units to an Equity Focus Community, which could benefit community members adjacent to the project as well as other lower-income County residents in need of affordable housing and jobs. The Developer and its non-profit partner NEW have committed to marketing to income-qualifying local residents within the project area to increase chances of placement in the income-restricted units. This will be detailed in the Developer's leasing plan. To improve equity outcomes the developer has committed to reserving 20% of commercial/retail space for minority-owned businesses, and/or businesses that are owned by Westlake/MacArthur Park District residents. The space allocated to minority-owned businesses is the result of approximately two years of ongoing outreach with local stakeholders, CBOs, and advisory boards. The Developer will also negotiate in good faith to establish tenant-friendly leases with these businesses regarding the rate and length of term.

Likewise, the Developer is committed to partnering with local trade and apprenticeship readiness programs, hospitality training organizations, and local tenants' unions to offer job training and job creation opportunities throughout the Project's construction period. The terms and conditions of these partnerships will be detailed in the JDA and GL that will be negotiated and submitted to the Board for future consideration. Key terms will include outreach to the immediate neighborhood and those underrepresented and/or marginalized workers. As part of any future construction activities, Metro will require the Developer to submit a construction work plan with mitigation measures to limit dust, traffic, and noise for surrounding small businesses and other neighbors.

In pursuing the project, the developer and Metro staff will continue to actively engage with all stakeholders through a coordinated community outreach process that will involve multiple public engagement opportunities. Since the ENA was accepted by the Board in August 2020, Metro JD staff worked closely with the Developer to implement the community engagement plan that centers CBOs in the development process. CBO engagement strategies have included: 1) enlisting over 27 CBOs to participate in a project advisory role on the PATF; 2) working with CBOs to disseminate information for project community meetings and collect community surveys for project design; 3) collaborating with CBOs on a series of educational community workshops covering affordable housing, project design, and environmental review; and 4) working with local CBOs to negotiate community benefits including workforce and economic development plans. The Developer will continue building on the significant prior community outreach for the Project as specified by the requirements under the ENA.

Throughout this process, the Developer's staff have expressed a strong commitment to ongoing community engagement, using different methods such as in-person design review workshops, public neighborhood council meetings, and pop-up events at the Station and the Developer's offices across the street at 1930 Wilshire Blvd. To date, the Developer has conducted eight PATF meetings with public attendance, collected 341 community surveys, hosted food giveaways at nine CBO events, and contacted over 200 community attendees at public meetings. Across all events, the Developer engaged 3,211 participants. Based on the demographic data that has been collected so far, 70 percent of survey participants were Hispanic and Latino, 30% were Non-Hispanic and Latino. Regarding language preference, 55% of participants speak only Spanish at home, 21% speak other languages at home, and 24% speak English at home. Most participants were aged 35 to 59. The developer has engaged local youth and younger adults by providing multiple outreach meetings at

nearby schools and toy giveaways during the holiday season. As in previous JD outreach efforts, engagement will be conducted by the Developer in English, Spanish, and other languages deemed appropriate to reach a broad audience of stakeholders.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Enhance communities and lives through mobility and access to opportunity, Initiative 3.2: Metro will leverage transit investments to catalyze transit-oriented communities and help stabilize neighborhoods where these investments are made.

ALTERNATIVES CONSIDERED

The alternative to Board approval would result in the current ENA expiring in August 2023. As a result, further negotiations with the Developer would be discontinued jeopardizing build-out of the site and the creation of 234 new affordable housing units. A full range of options to upgrade the maintenance and operations of the station and plaza area in conjunction with the Developer would be postponed and future development options would be severely constrained due to the Developer's existing ownership of the surrounding properties. The remaining developable space was proven to be infeasible in the prior MBS proposal due to physical site limitations associated with sensitive Metro rail infrastructure running through the Metro Plaza and significant costs associated with building over the station infrastructure.

NEXT STEPS

Upon approval of the recommended action, staff will prepare and execute an amendment to the ENA providing for a one-year extension of the term. During the extension period, staff will continue to work with the Developer to modify specific design elements, entitlement application details and confirm overall Project financial feasibility. This will include a detailed analysis of the affordable housing component and include confirmation of the ability to provide deeper levels of affordability and/or the number of overall affordable housing units.

Staff will return to the Board for approval of key terms and conditions for a JDA and GL following the Developer's securing of Project entitlements and environmental approvals from the City. Plaza maintenance, operations, and security will also be negotiated during the remainder of the ENA term.

ATTACHMENTS

Attachment A - Site Map

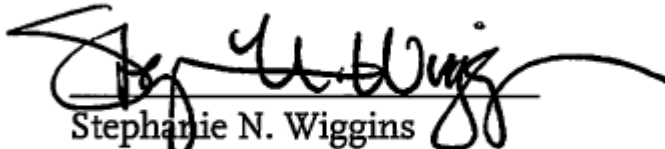
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