File #: 2024-1093, **File Type:** Project **Agenda Number:** 6.

PLANNING AND PROGRAMMING COMMITTEE
MARCH 19, 2025

SUBJECT: EXPO/CRENSHAW JOINT DEVELOPMENT

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

CONSIDER:

A. AUTHORIZING the Chief Executive Officer (CEO), or designee, to execute and enter into a joint development agreement (JDA), ground lease, and other related documents with Expo Crenshaw Apartments, LP (Developer), for the construction and operation of a mixed-use affordable housing project (Project) on 1.77 acres of Metro-owned property located at the southeast corner of W. Exposition Blvd. and Crenshaw Blvd. (Metro Site), adjacent to the K Line Expo/Crenshaw Station in the City of Los Angeles (Attachment A - Site Map) in accordance with the Summary of Key Terms and Conditions (Attachment B) and upon receipt of concurrence by the Federal Transit Administration (FTA); and

B. FINDING the Project complies with the requirements of the California Environmental Quality Act (CEQA) for using a Sustainable Communities Environmental Assessment (SCEA) as authorized pursuant to Public Resources Code Section 21155.2(b), which is consistent with the Environmental Studies and Reports set forth in Attachment C, making the CEQA findings set forth further below (CEQA Findings) and authorizing the CEO or designee to file a Notice of Determination for the Project in accordance with said findings by the Metro Board of Directors (Metro Board).

ISSUE

Since 2017, Metro staff, the County of Los Angeles (County), and the Developer have collaborated under a Metro Board and County Board of Supervisors (County Board) approved Exclusive Negotiation Agreement and Planning Document (ENA) to conduct community engagement, refine the design of a mixed-use affordable housing project to be developed on both the Metro Site and the County-owned property located at 3606 Exposition Blvd. (County Site), negotiate key terms and conditions for a JDA and ground lease, and study relevant CEQA issues. In order to advance the Project into construction, staff recommends that the Metro Board adopt the CEQA findings set forth herein, and authorize the CEO to (i) execute a JDA and subject to the satisfaction of conditions under the JDA, execute a ground lease, both in accordance with the terms and conditions set forth in the

Summary of Key Terms and Conditions (Term Sheet) attached as Attachment B; and (ii) adopt CEQA findings.

BACKGROUND

The Metro Site was originally purchased to serve as a Park-and-Ride for the K Line Station. In response to a March 2015 motion by the Metro Board, staff initiated joint development (JD) planning activities in partnership with Los Angeles County (acting through the Community Development Commission of the County of Los Angeles, now known as Los Angeles County Development Authority) for the Metro Site and County Site (collectively, the Sites). In 2016, staff received FTA approval to use the Metro Site for joint development instead of parking. The interim use has been construction staging, and with K Line construction completed, the Metro Site now sits vacant.

In June 2016 the Metro Board authorized entering into an implementation MOU, and Metro and County staff worked jointly in administering the JD process for both Sites. Following extensive community input on future development of the Sites, Development Guidelines were adopted by the Metro Board in June 2016 and integrated into a Request for Proposals (RFP) issued in 2017 for the Sites. In late 2017/early 2018, the Metro Board and County Board approved entering into a six-month ENA with Watt Companies doing business as WIP-A LLC (Watt, predecessor-in-interest to Developer), for a mixed-use affordable development of approximately 400 residential rental units (15% of which would be affordable) across both Sites (Metro-County Project). In the spring of 2018, Watt entered into an agreement with West Angeles Community Development Corporation (WACDC) to provide support in the delivery and operation of the Metro-County Project.

During the ENA period, Watt, WACDC, and Metro staff hosted four events with over 300 representatives from resident associations, business groups, faith-based organizations, and other community-based organizations. In response to community feedback, Watt revised the Metro-County Project proposal to reserve at least 20% of the units for households earning 60% of Area Median Income (AMI) or less. Following County and Metro Board approvals, a longer-term ENA was executed on October 15, 2018, between Metro, the County, and Watt. To allow for additional time to secure entitlements and funding, the Metro Board authorized additional extensions in November 2019 and March 2021. In April 2022, the Metro-County Project received entitlements from the City of Los Angeles.

In response to additional outreach and feedback from the community expressing a desire for the Metro-County Project to include more affordable housing, in 2022, Watt further revised the scope to reserve 100% of the residential rental units for households earning between 30% to 80% of AMI. With the goal of making the Metro-County Project more competitive for affordable housing financing sources, Watt and WACDC expanded their team and partnered with The Richman Group of California Development Company LLC (Richman) and the Housing Authority of the City of Los Angeles (HACLA); together these constituent entities or affiliates thereof formed a limited partnership called Expo Crenshaw Apartments, LP (the current Developer). In February 2023, the Metro Board approved an up-to 24-month extension and authorized the assignment of the ENA to a Developer entity comprised of the aforementioned entities or affiliates/instrumentalities of such entities. In March 2023, Watt assigned the ENA to the Developer, which, consistent with the Board authorization, is comprised of: (1) Expo Crenshaw GP, LLC, a Delaware limited liability company, which is a joint venture entity comprised of affiliates of Richman and Watt, acting as the administrative general partner; (b) La Cienega LOMOD, Inc., a California nonprofit public benefit corporation (an affiliate of HACLA), acting as the managing general partner; (c) West Angeles Villas LLC, a California limited liability company, which is an affiliate of WACDC, as a co-general partner; and (d) Richman, as the initial limited partner. The current ENA expires in April 2025.

DISCUSSION

The Metro Site and the Project

When the Project shifted to a 100% income-restricted development, the Developer determined they would be more successful in securing funding if they submitted separate funding applications for the Metro Site and County Site. Although entitled together, the development of the Sites is now proceeding independently with separate financing plans and schedules.

The Project on the Metro Site proposes the construction, operation, and maintenance of an affordable housing project that includes approximately 176 residential for-rent units, of which two (2) will be unrestricted property manager units. For the entire ground lease term, all of the units (which are a mix of studios, one-, two-, and three-bedroom units), will (a) be reserved for households earning between thirty percent (30%) of AMI and eighty percent (80%) of AMI, with at least fifteen percent (15%) of the units being reserved for households earning thirty percent (30%) of AMI, and (b) be rented to such households at affordability levels consistent with applicable laws. Residential amenities will include a fitness center, multipurpose rooms, laundry room, lounge areas, outdoor amenity spaces, and a landscaped viewing deck. Community amenities include approximately 24,000 square feet of commercial space, approximately 4,500 square feet of community-serving space reserved for neighborhood retail, and 230 parking spaces, including nine stalls reserved exclusively for Metro Facilities Maintenance or other operational needs. The Developer is in advanced negotiations with a grocer to serve as the anchor tenant in the ground-floor commercial space of the Project. Since JD planning activities for this Site began in 2015, stakeholders have consistently emphasized to Metro the need for improved access to essential food items, fresh produce, and job opportunities. See Attachment D - Site Plan and Renderings.

JDA and Ground Lease Terms

The terms of the JDA, as set forth in greater detail in the attached Term Sheet, are focused on the Developer bringing the Project through full financing and construction readiness. The following are some of the key JDA terms and conditions recommended by staff:

- A term of three years with an option to extend up to two additional 12-month periods.
- Provide Metro with a Holding Rent of $3,530/month during the JDA term, which would be credited towards the one-time capitalized rent due at execution of the ground lease.
- Provide Metro with the right to review and approve the design of the Project as it progresses to completion.
- Reimburse Metro for transaction-related costs, such as design and financial review.
- Set forth the conditions for executing the ground lease, including verifying project financing, governmental approvals, payment and performance bonds, and a completion guaranty are in place.

The unsubordinated ground lease would be executed once the conditions set forth in the

JDA are met. As described in greater detail in the attached Term Sheet, the following represent some of the key ground lease terms and conditions recommended by staff:

- A term of 75 years.
- Restriction to ensure continued affordability for the full term of the ground lease.
- Provides Metro with a maximum compensation of $8,475,000 which would be accumulated through the following:
    - A one-time capitalized ground rent payment of $1,000,000 upon executing the ground lease for the housing portion of the Project;
    - 10% of annual residual receipts for the housing portion of the Project; and
    - 20% of all net proceeds from the sale and/or refinancing of the Project.
- In addition to the above, also provides Metro with 15% of all annual commercial net rent paid, unless such businesses are providing goods or services essential to the daily needs of residents (further described below).
- Provides Metro with funds via a deposit to cover construction management and related inspection costs.

Affordable Housing Ground Lease Rent Discount

In October 2023, the Metro Site was appraised at a fair market value (FMV) of $16,950,000. Rising construction costs, interest rate inflation, costs for commercial prevailing wage, geotechnical impacts (high water table), design/construction costs associated with development near complex transit infrastructure, and financing/operating expenses associated with a 100% affordable housing project significantly reduce the amount of funds available for ground rent. Based on staff analysis and third-party underwriting, the maximum capitalized ground lease payment that may be made to Metro while preserving the financial feasibility of the Project is $1,000,000. In addition to the $1,000,000 one-time, up-front ground rent payment, once the Project is in operation, Metro will receive 10% of annual residual receipts, as available, and be entitled to 20% of all sale or refinancing net proceeds of the Project. Inclusive of these potential revenues, the ground lease provides Metro with a maximum compensation of $8,475,000, representing a 50% discount from the FMV of the Metro Site, or $48,153 per unit which is the equivalent of $642 per unit per year over the term of the ground lease.

Early in the engagement process, stakeholders communicated support to Metro and the Developer for affordable housing on the Sites and expressed preferences which informed the current unit makeup. Although the Project does not include a permanent supportive housing component for which much of the affordable housing financing currently available is targeted, the Developer has secured 100 project-based vouchers from HACLA and approximately $67.6M in grant funding, representing approximately 42% of the total development costs of $162.2M. While the Project will be one of the largest in the Metro joint development portfolio, affordable housing funding sources place limits on the per unit subsidy a project is eligible for and typically favor smaller projects which contribute to the Project’s unique funding constraints.

Commercial Ground Lease Rent

If any of the Project’s commercial space is subleased to businesses that provide goods or services essential to the daily needs of residents within the Project or within a 1-mile radius of the Site, no commercial rent will be owed to Metro. Such uses may include, but are not limited to, grocery stores, pharmacies, restaurants, cafés, barbershops, hair salons, childcare facilities, and other similar neighborhood-serving businesses, as determined by Metro. If Metro determines the commercial use is not providing essential services to the community, the ground lease will require Metro receive 15% of all annual net rent paid for commercial uses, in addition to the upfront $1,000,000 rent payment and 10% of the annual residual receipts for the housing portion of the Project, and 20% of all net proceeds from the sale and/or refinancing of the Project. Grocery stores are generally unable to contribute to ground lease rent payments as they operate on profit margins of just one to three percent, largely due to high costs for refrigeration, lighting, transportation, and spoilage. These high operating costs make it difficult to attract grocery stores, often resulting in food deserts. To help secure a grocery store tenant, Metro staff and third-party financial consultants have determined the commercial space should not be required to contribute to ground lease payments. In addition to the 174 affordable residential rental units, the inclusion of a grocery store will deliver a long-desired community benefit.

Metro's financial consultant has verified that the Developer has pursued all reasonable subsidies for the Project and has also indicated that the Project's cost is reasonable. These determinations have led the consultant to conclude that the discounted ground lease rent is justified and needed to make the Project financially viable.

If the Metro Board approves the JDA and ground lease terms, with site control, the Developer will pursue the maximum funding the Project is eligible for in tax credit equity, conventional debt, and other affordable housing financing sources. Per the JDA, the Project must be fully financed before entering into the ground lease.

<u>CEQA Findings</u>
Metro, acting as a responsible agency under CEQA, reviewed and considered the Project's Sustainable Communities Environmental Assessment (SCEA) and Erratum dated September 2021 (Erratum) and Mitigation and Monitoring Program (MMP) prepared and adopted pursuant to Public Resources Code Section 21155.2(b) by the City of Los Angeles (City) as the lead agency. The Metro Board has independently reviewed and considered the information contained in the SCEA, Erratum, and MMP and reached its own conclusions regarding the environmental effects of Metro's approval related to the Project as shown in the SCEA and the Erratum. The City's MMP is adequately designed to ensure compliance with the mitigation measures related to Metro's approvals during Project implementation. There is no substantial evidence that the Project will have a significant effect on the environment. With respect to each significant effect on the environment required to be identified in the initial study for the SCEA, and for the reasons set forth in the SCEA and supporting documents and the City's environmental findings, all such effects have been analyzed in the SCEA and changes or alterations have been required in or incorporated into the Project that avoid or mitigate the significant effects to a level of insignificance or those changes and alterations are within the responsibility and jurisdiction of another public agency and have been, or can and should be, adopted by that other agency. Metro's actions are within the scope of the City's SCEA and Erratum. None of the changes or factors identified in CEQA Guidelines 15162 and 15164 have arisen since the City's approval of the SCEA and the Project. Subject to and consistent with these findings, it is recommended that the Metro Board authorize staff to file a Notice of Determination for the Project with the Los Angeles County Registrar-Recorder/County Clerk and the State Clearinghouse of the Governor's Office of Planning and Research.

Compliance with Surplus Land Act (SLA)
The proposed ground leasing of the Metro Site for the Project qualifies for the “grandfathering provision” of the Surplus Land Act (Cal. Gov’t Code Section 54220 *et seq.*, hereinafter, SLA), pursuant to Government Code Section 54234, subdivision (a)(3). In order to qualify for the “grandfathering provision,” (i) prior to September 30, 2019, a public agency must have issued a competitive request for proposals for the development of property that includes at least 100 residential units (and at least 25 percent of the total residential units are restricted to lower-income households, as defined in the statute, with an affordable rent, as defined in Section 50053 of the Health and Safety Code, for a minimum of 55 years for rental housing), and (ii) a disposition and development agreement for the property must be entered into no later than December 31, 2027. As discussed in this report, a competitive solicitation process for the development of the Metro Site was initiated in 2017; the proposed Project meets the requirements concerning the number of units and percentage of units restricted to lower-income households, with an affordable rent; and following Metro Board approval, staff intends on entering into the JDA (which meets the definition of “disposition and development agreement” under the SLA) prior to December 31, 2027. As such, the ground leasing of the Metro Site for the Project would meet the requirements of the SLA “grandfathering provision” pursuant to Section 54234(a)(3) and, upon Metro Board approval, Metro may proceed with execution of the JDA.

Federal Transit Administration Review
The Metro Site was acquired using grant funding from the FTA. Metro has submitted the terms of the JDA and ground lease to FTA through their Joint Development Review process to ensure that the FTA is aware of the proposed Term Sheet and has no objections to the overall deal structure, including the proposed rental discount for affordable housing. Execution of the JDA is subject to receipt of FTA concurrence.

DETERMINATION OF SAFETY IMPACT

Approval of this item would improve safety and security conditions immediately around the K Line Station as well as the adjacent E Line Station. By replacing the vacant fenced lot with this Project, the respective stations will have a 24-hour presence of residents who will be able to monitor or report activities. The Developer will pay for Metro Construction Management staff to oversee the construction of the Project to ensure that it does not adversely impact the Metro Site or the continued safety of staff, contractors, and the public. Project oversight will be conducted via existing Metro processes. The Developer will submit Construction Work Plans, Track Allocation Requests, and all other required documentation for review and approval by Metro staff. All safety measures and associated requirements to be met by the Developer and its construction contractor will be identified in the JDA and subsequent ground lease.

FINANCIAL IMPACT

Financial compensation under the JDA and the ground lease is fair and reasonable as determined in the third-party financial feasibility analysis. Per the ground lease, the $1M capitalized ground rent payment to Metro is guaranteed. Metro’s receipt of the remaining $7,475,000 will depend on the Project’s financial performance. The ground lease will require annual financial reports for Metro’s review to ensure compliance with all terms.

Impact to Budget

Funding for activities related to the Project is included in the FY25 Budget under Project Code 401300 (Joint Development 10K Homes), Cost Center 2210. Furthermore, Metro staff, legal and consultant costs (excluding JD staff and in-house counsel time, which are covered by the program budgets) would be recovered from the Developer via a nonrefundable fee of $50,000. No Metro funds are used to entitle or construct the Project.

EQUITY PLATFORM

The proposed Metro Board action will allow Metro to work with the Developer to advance towards construction of the Project, creating 174 units of affordable housing, approximately 24,000 square feet of commercial space, approximately 4,500 square feet of community-serving space reserved for neighborhood retail, a fitness center, outdoor amenity spaces, and other transit-supportive amenities. The Project will also benefit adjacent community members who may utilize the proposed full-service grocery store. Per the RFP issued in 2017, construction of the Project will be subject to the County's Local Hire Policy which establishes a goal that 30% of the construction hours be performed by qualified Local Residents from low-income zip codes, and a goal that 10% of the construction hours be performed by Targeted Workers facing barriers to employment. The Project will deliver affordable housing, enhanced public infrastructure, jobs, and other transit-supportive amenities benefiting community members adjacent to the Project as well as other low-income Los Angeles County residents.

Consistent with the Equity Platform pillar "listen and learn," the Project has gone through a lengthy and extensive community engagement process which directly led to revisions to the Project scope. Before initiating the developer selection process, from 2015 to 2016 Metro JD staff attended more than 25 community meetings and events to introduce the Metro JD process to local stakeholders and to build relationships in order to better understand the community priorities for future development along the K Line. During the ENA period, the Developer and Metro staff hosted events that were promoted via the distribution of 5,000 flyers within one-half mile of the Sites, e-blasts, social media, phone calls, and a Metro-County Project website. In 2019, an online survey aimed at gathering input on the Metro-County Project was circulated and over 200 responses were received. From 2020 to 2023, in addition to the City of Los Angeles' required public hearings, the Developer conducted outreach to more than a dozen community groups including neighborhood councils, block clubs and other local stakeholder organizations. The Developer has created and continues to maintain deep relationships with stakeholders. The Developer and Metro staff will continue to actively engage with and be responsive to all stakeholders throughout the construction and eventual operations of the Project. As in previous JD outreach efforts, engagement will be conducted in English, Spanish, and other languages deemed appropriate to reach a broad audience of stakeholders. As construction nears completion, affirmative marketing strategies will be utilized to encourage local residents within the income thresholds to apply for housing in the Project. As noted in Attachment B, the Developer is required to notify Metro prior to leasing the affordable residential units.

VEHICLE MILES TRAVELED OUTCOME

Vehicle Miles Traveled (VMT) and VMT per capita in Los Angeles County are lower than national averages, the lowest in the Southern California Association of Governments (SCAG) region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

As part of these ongoing efforts, this item is expected to contribute to further reductions in VMT. This item supports Metro's systemwide strategy to reduce VMT through investment and partnership activities that will benefit and further encourage transit ridership, ridesharing, and active transportation by utilizing Metro-owned land adjacent to a major transit hub to advance transit-oriented communities. The Project also proposes Transportation Demand Management (TDM) strategies including limited parking supply, permitting residential area parking, promoting and marketing various modes of travel, providing bicycle parking per the Los Angeles Municipal Code, and improving the pedestrian network. Parking for residents will be "unbundled" from the residential units, meaning parking spaces will be a separate charge from rent thus encouraging households to go car-free. With these strategies, the household VMT per capita was forecasted to be 6.0 and no work VMT. The Project has also been awarded Affordable Housing Sustainable Community (AHSC) funding which provides tenants of 109 of the residential units with transit passes for three (3) years. These Project attributes reflect best practices in transit-oriented development, design, and management, and collectively will encourage transit utilization. Metro's Board-adopted VMT reduction targets were designed to build on the success of existing investments, and this item aligns with those objectives.

**Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.*

IMPLEMENTATION OF STRATEGIC PLAN GOALS

These recommendations support 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 proposed Project will deliver several community benefits, including transit-accessible affordable housing and new commercial/community space.

ALTERNATIVES CONSIDERED

The Metro Board could choose not to authorize the execution of the JDA and ground lease. Staff is not recommending this option because the proposed Project is the product of a competitive solicitation, has had several years of extensive community engagement, has received entitlements from the City of Los Angeles, and is consistent with the goals of Metro's Joint Development Policy. Further, the terms of the proposed JDA and ground lease are fair and reasonable given the community benefits associated with this large-scale, 100% affordable housing development. Electing not to authorize execution of the JDA and ground lease would unnecessarily delay development of the Metro Site, inhibit the community from accessing a potential grocery store (or other community-serving use), and jeopardize the construction of 174 affordable housing units which are designated to serve very low- and low-income households.

NEXT STEPS

Upon approval of the recommended actions and necessary approval by FTA, staff would finalize and execute the JDA and file the Notice of Determination with the County Clerk and State Clearinghouse. Staff and the Developer will work to satisfy the conditions under the JDA necessary to finalize the ground lease in preparation for the construction of the Project. The JDA, ground lease, and related documents will be executed thereafter in substantial accordance with the terms and conditions set forth in Attachment B. In particular, the Developer will work to secure all financing necessary for the construction of the Project, which may commence on the Metro Site as early as 2026.

ATTACHMENTS

Attachment A - Site Map
Attachment B - Summary of Key Terms and Conditions
Attachment C - Environmental Studies and Reports
Attachment D - Site Plan and Renderings

Prepared by: Christopher Lopez, Senior Manager, Countywide Planning & Development (213) 922-4803
Nicole Velasquez Avitia, Senior Director, Countywide Planning & Development (213) 314-8060
Nicholas Saponara, Executive Officer, Countywide Planning & Development, (213) 922-4313
Holly Rockwell, Senior Executive Officer, Countywide Planning & Development, (213) 547-4325

Reviewed by: Ray Sosa, Chief Planning Officer, Countywide Planning & Development, (213) 922-2920

Stephanie N. Wiggins
Chief Executive Officer