



## Board Report

File #: 2022-0585, File Type: Program

Agenda Number: 8.

**PLANNING AND PROGRAMMING COMMITTEE  
NOVEMBER 16, 2022**

**SUBJECT: PEABODY WERDEN HOUSE LEASE OPTION AGREEMENT**

**ACTION: APPROVE RECOMMENDATIONS**

**RECOMMENDATION**

CONSIDER:

- A. AUTHORIZING the Chief Executive Officer to execute an Option Agreement with East Los Angeles Community Corporation (Developer or ELACC) for the ground lease of Metro-owned property at 2400 E. 1<sup>st</sup> Street in Boyle Heights (Project Site);
- B. ADOPTING findings that the Peabody Werden House (Project) restoration and rehabilitation is categorically exempt from the California Environmental Quality Act, Cal. Pub. Res. Code §§ 21000 *et seq.* (CEQA) pursuant to Section 21084 of the California Public Resource Code and the following sections of the CEQA Guidelines, each of which provides separate and independent bases for exemption: (i) Sections 15301(d), (n), and (p) (existing facilities); (ii) Section 15302(c) (replacement or reconstruction of existing facilities involving negligible or no expansion of capacity); (iii) Section 15325(e) (transfers of ownership in the land to preserve existing natural conditions and historical resources); and (iv) Section 15332 (in-fill development projects); and
- C. AUTHORIZING the Chief Executive Officer to file a Notice of Exemption for the Project consistent with such exemptions.

**ISSUE**

In 2016, the Board of Directors authorized Metro staff to execute an Exclusive Negotiation Agreement and Planning Document (ENA) with ELACC and their development partner, Bridge Housing Corporation (Bridge), in support of a Joint Development project located adjacent to the 1<sup>st</sup> and Soto L (Gold) Line Station. Among other things, the ENA contemplated the restoration of an 1890's Victorian house commonly known as the Peabody Werden House (House) for community serving purposes sited on a portion of the Metro-owned joint development site located at 2400 E. 1<sup>st</sup> Street in Boyle Heights (Site B or the Project Site).

ELACC and Metro have developed a plan for renovation and programming of the House and are seeking authority to enter into an Option Agreement (Option) no later than December 31, 2022, to

satisfy certain statutory requirements under the California Surplus Land Act (SLA). Should the recommended actions be approved, additional planning, design, and community outreach will occur under the Option.

..Background

## **BACKGROUND**

The Peabody Werden House is a “Queen Anne” Victorian style home built in approximately 1895 and currently owned by ELACC. The House sits on the Project Site, an approximately 0.29 acres of Metro-owned land at the southeast corner of 1<sup>st</sup> and Soto Street (Site B), across the street from the 1<sup>st</sup> and Soto Station and Los Lirios Apartments development site (Site A) (see Attachment A - Site Map).

In 2013, Metro issued a competitive Request for Proposal for both Site A and Site B, resulting in a short-term ENA with Bridge and ELACC. Following additional community engagement, in March 2016, the Board authorized a full ENA with Bridge and ELACC, which contemplated the placement and restoration of the House on Site B for a community-serving purpose. The House was originally located on an ELACC-owned property at the northeast corner of 1<sup>st</sup> and Soto Street, on which ELACC had plans to build a now-completed housing development (Cielito Lindo Apartments). Rather than demolish the House, ELACC worked with Metro to move it to Site B in 2016.

Funding sources for such rehabilitations are different and more limited than the sources available for new affordable housing projects, so the timeline for the development of the Site B Project was bifurcated from that of the Site A Project.

In March 2021, Metro and ELACC/Bridge entered into a Joint Development Agreement (JDA) to develop the affordable housing project on Site A. As of December 8, 2021, Metro ground leased Site A to develop the mixed-use affordable housing project, commonly known as the Los Lirios Apartments. Construction commenced in early 2022, is expected to be completed by the end of 2023, and will be available for tenant lease-up during the first quarter of 2024.

With Site A ground leased for the affordable housing component, the ENA was amended to allow for the continued planning and negotiations for the Site B Project, including negotiations regarding the terms and conditions under which an option to ground lease Site B would be granted.

## **DISCUSSION**

The Developer’s underlying Project consists of the restoration and rehabilitation of the Victorian era House for community serving purposes. The target population will be low- and moderate-income households that live in and around the Boyle Heights community. Under the ENA, the Developer has prepared an initial construction cost budget and related studies in support of the renovation of the House. The cost of remodeling the House for adaptive community uses is estimated to be approximately \$3.2 million. The House will need accessible upgrades such as a ramp and an accessible bathroom or kitchen, as well as the installation of an HVAC system for it to be used for community serving needs. Though it is not on the Historic Register, the Developer intends to rehabilitate the House consistent with its turn-of-the-twentieth century look, finish, and color palette.

ELACC is interested in working with a development partner that has the financial capacity and operating expertise to preserve and restore/rehabilitate the House and turn it into a community serving space. It is anticipated that such an entity would assist with funding the House's design, permit, restoration and programming. ELACC would require a joint venture agreement or similar instrument with the development partner to accomplish these goals in alignment with the Option. ELACC is presently speaking with several viable organizations to explore joint venture opportunities. The Developer is expected to engage community members to discuss the full spectrum of potential services once the Option is executed. In addition to community services, input will also be sought for the landscaping and greening of Site B, as well as a call for public art for the Project.

The Option Agreement will include specific deal terms, which can be found in the attached Term Sheet (see Attachment B - Peabody Werden House Term Sheet). Before entering into any ground lease for the Project, the Developer would be required to satisfy certain closing conditions set forth in the Option, including:

- Delivery of financial assurances to Metro evidencing the ability to pay for all rehabilitation costs.
- Metro review and approval of all construction documents in final form.
- Evidence of all governmental approvals, including building permits, will allow the Developer to build out the Site B Project successfully.
- Delivery of all performance bonds and completion guarantees necessary to demonstrate successful completion as evidenced by a certificate of occupancy.
- Metro will have reviewed and approved all proposed community services and related programming contemplated by the Developer.

The Option period will encompass one year with the ability to extend it for two additional one-year periods at the discretion of Metro. As proposed, the option would be for a ground lease term (Term) for a period of 20 years with two (2) five-year options to extend at the discretion of both parties. During the Term, the Developer would be solely responsible for upkeep and maintenance of the Site B Project. Metro will reserve the right to conduct regular monitoring reviews of Site B along with the programmatic activities to ensure conformance with community serving uses. A fee of \$25,000 will be collected from the Developer during the Option period to pay for third-party consultant costs.

Bridge has assigned its remaining interest in the ENA to ELACC such that ELACC remains the only developer for the Site B Project. Upon execution of the Option, the Developer intends to conduct additional community outreach and select a service provider with the financial capacity and operational experience to assist in the rehabilitation process and operate the updated facility on a long-term basis. Ultimate oversight and control of the House would be established through a ground lease with Metro.

To the extent the Developer does not exercise the Option, Metro will issue a separate procurement in conformance with HCD and the SLA. This will entail seeking an affordable housing use over a community serving project. In this case, the outcome of the House and its future viability would be unknown.

### **EQUITY PLATFORM**

The proposed development at the Project Site is representative of Metro's JD Program to pursue greatly needed community services in conjunction with and in close proximity to high quality affordable housing opportunities, among other community policy goals. Adopted in June 2021, the Metro JD Policy is centered on four main goals: (1) equity and inclusion, (2) access, (3) performance, and (4) innovation. The JD Policy Mission Statement is to "create high-quality homes, jobs, and places near transit for those who need them most, as soon as possible."

The eventual restoration/rehabilitation of the House for adaptive community uses next to an existing Joint Development affordable housing project will create an enhanced community serving public infrastructure, jobs, and other transit-supportive amenities. The Project also creates opportunities to enhance access to Metro's L Line (Gold).

This Project falls within an Equity Focused Community, benefitting community members adjacent to the Project and other lower income Los Angeles County residents in need of social services and affordable housing. The Developer will continue building on the years of prior community outreach for this Project as specified by the requirements under the ENA and commitments identified within the Option.

In response to community and stakeholder concerns, the Option will provide a path forward for identifying key community-based services currently lacking in the immediate area. The intent is to build out the facility and provide such services on a long-term basis through a credible non-profit and/or related entity with the required organizational capacity and demonstrated track record to maintain a facility like the House long-term. To achieve this outcome, ELACC intends to stabilize the House and work with the service provider to provide the appropriate community services. Onsite activities may include but are not limited to, a senior citizens nutrition center, literacy workshops, housing, and employment guidance opportunities.

As part of any future construction activities, Metro will require the Developer to submit a construction work plan that addresses mitigation measures to limit dust, traffic, and noise for surrounding small businesses and neighbors. During the Term of the Option, the Developer will work with Metro to define programmatic services and the target audience. Initial discussions have focused on offering services to residents of Boyle Heights and the surrounding area with a specific focus on those considered low- and moderate-income. This will be verified and documented as part of the service intake process once the Project is operational.

Throughout this process, the Developer has expressed a strong commitment to community engagement and share Metro's belief that stakeholder input will be critical to this effort's success. Once the Project's entitlements have been submitted, community engagement in coordination with the Developer will involve different methods such as design review workshops (online and/or in-person when possible) public neighborhood council meetings, and potential pop-up events. As with similar JD outreach efforts, engagement will be conducted in English, Spanish, and other languages

deemed appropriate to reach a broad audience of stakeholders.

### **DETERMINATION OF SAFETY IMPACT**

Approval of the Option Agreement will have no direct impact on safety. Proposed work on the House or Site B will be reviewed by Construction Management, Operations, as well as Metro Safety and Security to ensure there are no indirect safety impacts and that any improvements contribute to safer, more secure station environment.

### **FINANCIAL IMPACT**

Funding for joint development activities related to the Option and the Project is included in the adopted FY23 budget in Cost Center 2210, Project 401019 (1<sup>st</sup> and Soto).

#### **Impact to Budget**

There is no impact to the FY23 budget. If executed, the Option will require the Developer to pay Metro a \$25,000 Option fee, which staff have determined will be adequate to cover actual costs incurred by Metro in the planning and negotiations of a ground lease.

### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The recommendation supports strategic plan Goal #2 to provide outstanding trip experiences for all users of the transportation system and Goal #3, to enhance community and lives through mobility and access to opportunity.

### **ALTERNATIVES CONSIDERED**

The alternative to pursuing an Option with the Developer would entail missing the SLA identified deadline for having a binding agreement in place by December 31, 2022. In doing so Metro would have to take possession of the House and issue a procurement for the redevelopment of Site B as a "housing first" development as prescribed by the SLA. This would be counter to the intent of the Metro Board in its original 2016 action and neighborhood stakeholders when a community-serving project was first proposed for Site B.

### **NEXT STEPS**

Upon approval of the recommended action, staff will prepare and execute the Option. This process will need to be completed on or before December 31, 2022, to maintain compliance with the California Surplus Land Act's "grandfathering exemption" for the disposition of certain properties that meet the requirements set forth in Government Code Section 54234(a)(1).

Once the Option agreement is executed, staff will continue working with the Developer on plans for the restoration and rehabilitation of the House. In addition, staff will work with the Developer to continue to conduct Developer-led community outreach meetings regarding the potential programming, progress with entitlements and ongoing interface with community stakeholders. Presentations will also be given to the Boyle Heights Neighborhood Council as further progress is

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made. Upon exercise of the Option by the Developer, and satisfaction of certain conditions precedent outlined in the Project Term Sheet, Metro and the Developer will enter into the ground lease for the Site B Project.

## **ATTACHMENTS**

Attachment A - Site Map

Attachment B - Project Term Sheet

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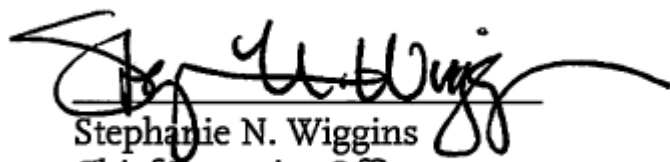
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