

January 24, 2023

R-17

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Amend the Purchase and Sale Agreement, dated March 10, 2022, with Armory Arts Collective, LP (Buyer/Developer), for the disposition of City of Long Beach-owned exempt surplus property located at 854 East 7th Street, commonly known as the former Long Beach Armory (Subject Property) to add an Option to Lease the Subject Property in lieu of a fee purchase. (District 1)

DISCUSSION

On December 7, 2021, the City Council authorized a Purchase and Sale Agreement, dated March 10, 2022 (Purchase and Sale Agreement), with Armory Arts Collective, LP (Buyer/Developer) for the development and adaptive reuse of City of Long Beach (City)-owned exempt surplus property located at 854 East 7th Street, commonly known as the former Long Beach Armory (Subject Property) for the development of a 64-unit affordable housing project (Proposed Project). The Purchase and Sale Agreement established a purchase price of \$5.15 million to be paid to the City through a fifty-five (55) year Residual Receipts Loan, which is a loan that is repaid with surplus cash from Proposed Project rents after all obligations from construction and financing have been disbursed. After execution of the Purchase and Sale Agreement, the Buyer/Developer applied to the California Debt Limit Allocation Committee (CDLAC) and the California Tax Credit Allocation Committee (TCAC) (Collectively: CDLAC/TCAC) for an award of multifamily housing bonds and Tax Credits. Unfortunately, the Proposed Project was not competitive enough to secure an award from CDLAC/TCAC last year.

To increase the competitiveness of the Proposed Project's CDLAC/TCAC application this year, the Buyer/Developer has requested to have the option to convert the purchase structure into a long-term ground lease (Lease Option), wherein the City would agree to enter into a long-term lease of the Subject Property with the Buyer/Developer for a specified period, and the City would retain fee ownership of the Subject Property. Therefore, City staff recommends that the City Council approve an amendment to the Purchase and Sale Agreement that would give the Buyer/Developer a Lease Option for the Subject Property for the purposes of securing site control for the CDLAC/TCAC application. Once the Buyer/Developer secures an award from CDLAC/TCAC, but no later than sixty (60) days prior to the Closing Date (prior to the start of construction), the Buyer/Developer may elect to exercise the Lease Option. At that time, City staff will return to an open session of the City Council to convert the purchase structure of the Subject Property to a long-term lease with more extensive terms.

Staff has negotiated general terms of a long-term lease if the Buyer/Developer decides to exercise the Lease Option for the Subject Property as outlined in the Amendment to the Purchase and Sale Agreement. The long-term lease would be subject to City Council approval at a future meeting.

The general terms and conditions of the long-term lease for the Subject Property are as follows:

- Lessor:** City of Long Beach, a municipal corporation.
- Lessee:** Armory Arts Collective, a California limited partnership.
- Premises:** The Premises consists of the entirety of 854 East 7th Street, commonly known as the former Long Beach Armory, comprised of a 3-story existing 26,530-square-foot Armory building and a 12,000-square-foot parking lot.
- Term:** The Term of the Lease shall be for 57 years.
- Base Rent:** Lessee shall pay Lessor a Base Rent of \$1 per year.
- Additional Rent:** In addition to Base Rent, Lessee shall pay to Lessor residual receipts based upon a commitment of \$5.15 million in the appraised value of the Premises, comprised of a pro-rata share of 50 percent of the cash flow from the Proposed Project after all deferred developer fee is paid. The actual percentage of residual receipts will be calculated against other soft debt prior to the execution of the Lease. Currently, the only soft debt anticipated for the Proposed Project is a \$5 million loan from the Long Beach Community Investment Corporation.
- Affordability:** 63 of the 64 proposed residential units on the Subject Property (accounting for one onsite manager's unit) will be restricted to lower-income households at or below 80 percent of the Area Median Income (AMI). In accordance with Government Code Section 37364(c), 40 percent or 26 of the units shall be restricted to lower-income households below 80 percent of AMI. Of those 26 units, half or 13 units shall be restricted to very low-income households at or below 50 percent of AMI.

Encumbrances: Through the end of the Lease Term, neither Lessee nor Lessor shall encumber the fee interest in the Subject Property. However, Lessee shall be allowed to encumber its leasehold interest in the Subject Property with financing to develop and operate the Proposed Project.

Mortgage Protections: The Lease shall contain industry-standard leasehold mortgage protections for any current and future lenders connected to the Proposed Project.

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on January 9, 2023 and by Budget Operations and Development Officer Rhutu Amin Gharib on January 5, 2023.

TIMING CONSIDERATIONS

City Council action is requested on January 24, 2023, to add a Lease Option to the Purchase and Sale Agreement, thus allowing Buyer/Developer to apply for CDLAC/TCAC multifamily housing bonds and Tax Credits with the required amount of site control.

FISCAL IMPACT

There is no fiscal impact associated with the recommended action, as staff will return to an open session of the City Council to authorize a long-term lease. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

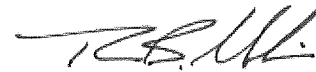
Approve recommendation.

Respectfully submitted,

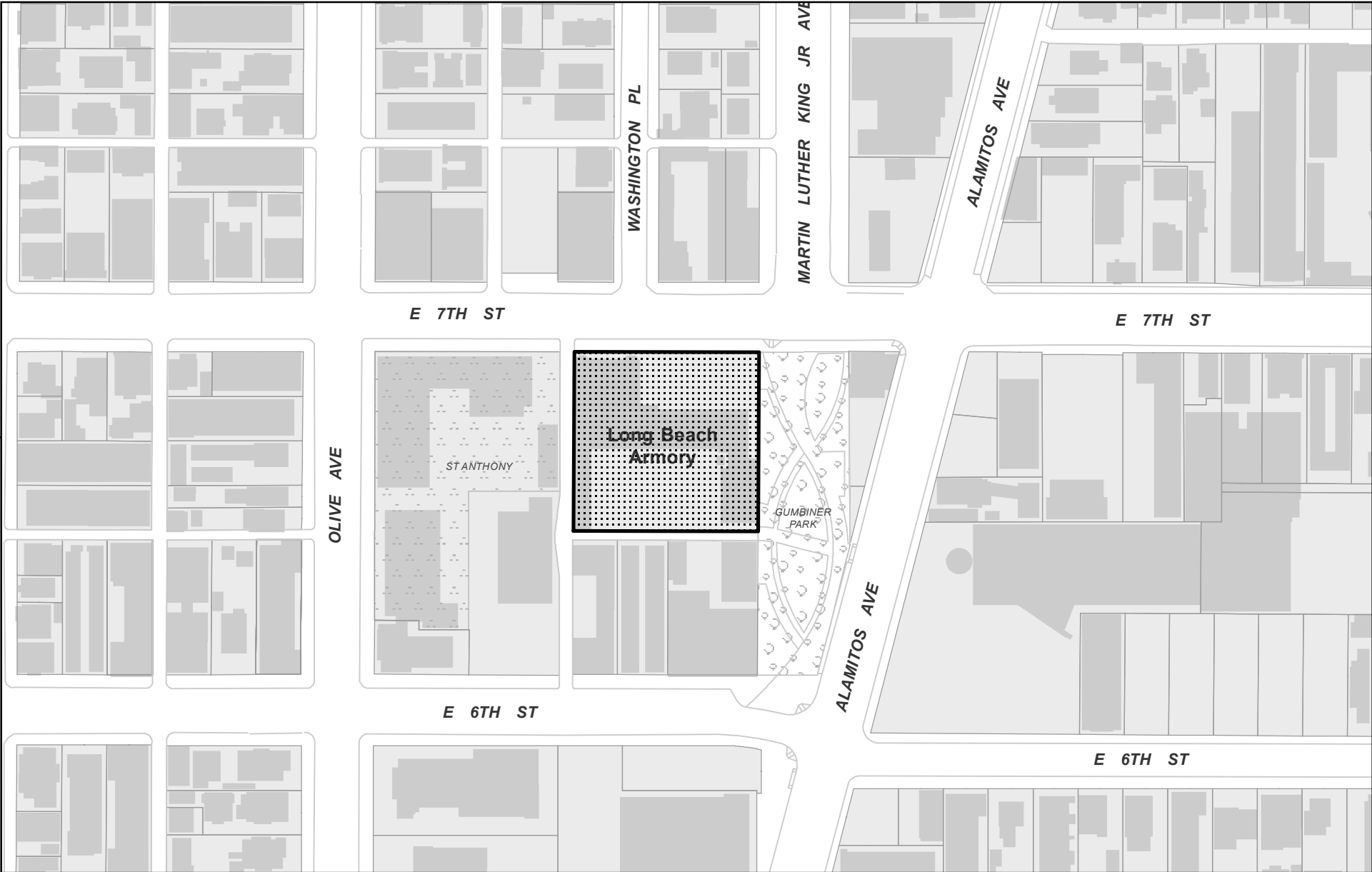


BO MARTINEZ
DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:



THOMAS B. MODICA
CITY MANAGER



Subject Property:
 854 E 7th St
 Council District : 1

Attachment A

