



Legislation Text

File #: 16-0767, **Version:** 1

Recommendation to declare the City-owned property, identified as North Village Development Blocks C and D, and classified as Future Development in the Long Range Property Management Plan, located along Atlantic Avenue between South Street and 60th Street, Assessor Parcel Numbers 7125-033-900 through -923, 7124-017-900, -901, -902, and 7125-034-900, -901, -902, (collectively, "Future Development Properties"), as surplus, authorize City Manager, or designee, to execute any and all documents necessary, including a Purchase and Sale Agreement, with The LAB, Inc., a California corporation (The LAB), for the sale of the Future Development Properties in the amount of \$2,580,000;

Authorize City Manager, or designee, to execute any and all documents necessary, including one or more leases, with The LAB, for the lease of City-owned properties located at 5834 Atlantic Avenue, 5870 Atlantic Avenue, 5885 Lime Avenue and 5895 Lime Avenue, and identified as Government Use in the Long Range Property Management Plan, excess to the needs of the Michelle Obama Neighborhood Library, Assessor Parcel Numbers 7124-032-905, -912, -914 and a portion of 7124-032-900, (collectively, "Government Use Properties"); and

Accept Categorical Exemption CE 16-190. (Districts 8,9)

With the statewide dissolution of redevelopment agencies, dissolution law required Successor Agencies to prepare a Long Range Property Management Plan (LRPMP) addressing the disposition and use of all real property held by the Redevelopment Agency at time of dissolution. The LRPMP classified real property into four permissible use categories: (1) Government Use, (2) Future Development, (3) For Sale and (4) Enforceable Obligation. Upon approval of the LRPMP, Government Use properties transferred from the Successor Agency to the City for use for public purposes. Future Development properties were transferred to the City for disposition consistent with a related redevelopment plan or guiding document. For Sale properties were retained by the Successor Agency and sold through a real estate listing. Enforceable Obligation properties would be retained to fulfill a Successor Agency obligation. The LRPMP was approved by the State of California Department of Finance (DOF) on March 10, 2015 and amended on June 24, 2015 allowing the disposition of Successor Agency assets to occur.

On July 21 and September 22, 2015 and subsequently, on August 3 and September 23, 2015, the Successor Agency and the Oversight Board, respectively, approved the sale of 18 For Sale properties in Council Districts 8 and 9 to The LAB, for rehabilitation and development consistent with the North Village development concept, as contemplated in the guiding documents to the North Long Beach Redevelopment Project Area. The State of

California Department of Finance (DOF) approved the transactions on September 18, 2015. Subsequent to these approvals, The LAB indicated its interest in the Future Development Properties and the Government Use Properties in Council District 9, which The LAB believes, and staff concurs, that they are integral to a cohesive and integrated North Village development concept.

Sale of Future Development Properties

Pursuant to the LRPMP, the City owns approximately 176,613 square feet (4.05 acres) of unimproved property along Atlantic Avenue, between South and 60th Streets, identified as North Village Development Block C and Block D (Exhibit A). These Future Development Properties were purchased together with the For Sale Properties with the intent to create a strong Village Center in North Long Beach. The sale of Future Development Properties, together with the prior-approved sale of the For Sale Properties, for a North Village development concept, would be consistent with the vision and intent of the North Long Beach Redevelopment Project Area and its guiding documents.

Staff have worked with The LAB to assemble the 18 For Sale properties in Council Districts 8 and 9, which were previously approved, and the 30 Future Development Properties in Council District 9, which are the subject of this agenda item, into a single Purchase and Sale Agreement. All For Sale properties are being sold at fair market value, or \$4,363,200, as offered by The LAB and approved by the Successor Agency Board, Oversight Board and DOF.

The fair market value for the Future Development Properties is \$3,680,000, as determined through an independent appraisal and broker opinion of value. However, The LAB has determined that the cost to develop the Future Development Properties into a North Village exceeds the value of the completed project by \$1.1 million, based on the present value of pro-forma net operating income. This negative value reflects a financial gap in project economics and is reflective of land residual value rather than fair market value. The LAB has indicated that they cannot proceed without a reduction in the purchase price of the Future Development Properties equivalent to the economic gap to reflect land residual value.

The LRPMP, which controls the disposition of former Redevelopment Agency properties, states the following: "Economic opportunity is expected to occur when development of the property serves to create, retain or expand jobs, and results in increased property tax revenues at full implementation of a project. As a result, the Plan [LRPMP] is intended to further economic opportunity through the consideration of fair re-use and land residual value appraisal methodologies consistent with the designated use and with the covenants and conditions and development costs necessary to pursue the stated goals of the Redevelopment Plan, associated Strategic Guides and related guiding documents." The guiding documents for the North Redevelopment Project Area clearly identifies the North Village as an economic development goal. In order to achieve this stated goal, and to address the identified economic gap, application of land residual valuation is appropriate. Land residual value is the amount remaining after deducting development costs from project

value at completion. In this case, land residual value is represented by the project's economic gap. In order to ensure that the project proceeds and achieves the goal of a North Village development, staff recommends selling the Future Development Properties at land residual value rather than fair market value. As a result, the purchase price for the Future Development Properties would be \$2,580,000 rather than \$3,680,000. Total purchase price for both the For Sale Properties and the Future Development Properties would be \$6,943,200.

Promissory Note

Traditionally, when the City sells property, the City would place the property in escrow and hold the property at no cost to the buyer, until such time as the buyer has received its entitlements and the project proposed by the buyer has been approved or rejected by the City as regulator. This is the structure for the disposition of most other parcels classified as Future Development. In the proposed transaction, The LAB prefers to own the Future Development Properties while it pursues its entitlements for a North Village development concept. To accomplish this objective, and minimize monetary investment and risk exposure, allowing The LAB to invest instead into costs of development, staff proposes that The LAB provide the City with a down payment of \$500,000 (approximately 7.2 percent of the purchase price), and a Promissory Note for the remainder of the Purchase Price (approximately \$6,443,200). If closing costs exceed \$500,000, The LAB will increase its down payment to ensure that the City is not required to deposit any funds into escrow. The face value of the Promissory Note shall be proportionally reduced.

The LAB proposes to pay the City 4.5 percent annual interest-only payments (payable monthly), beginning 18 months after approval of entitlements as evidence by project approval by the Planning Commission. Payments will continue for a period of five years, with an option to extend for an additional five years. This will allow The LAB to fund and complete the North Village development concept and achieve a stabilized cash flow, from which The LAB can refinance the project and pay off the Promissory Note. If The LAB is unsuccessful in securing entitlements for its North Village development concept, The LAB will surrender the Future Development Properties and For Sale Properties back to the City, the City will surrender the Promissory Note back to The LAB, the City will retain the down payment and the parties shall have no further obligations.

Government Use Properties

The City also owns approximately 25,140 square feet (0.577 acres) of property included within the North Village Library Site, now known as the Michelle Obama Neighborhood Library (Library), and categorized in the LRPMP as Government Use. With the completion of the Library, the Government Use Properties have been identified as excess to the needs of the Library project. Consequently, staff proposes to incorporate the Government Use Properties within The LAB's North Village development concept. The manner in which the Government Use Properties will be incorporated into the North Village development concept will likely be in the form of a lease, as the properties were acquired with tax exempt bonds and are still identified as Government Use. However, through the course of development, if

project economics indicates ownership of some or all of the Government Use Properties by The LAB is more advantageous, staff may return back to the City Council to seek authority to sell the Government Use Properties and repay the tax exempt bonds.

Other general terms and conditions of the sale of Future Development Properties and For Sale Properties are as follows:

- Seller City of Long Beach, a municipal corporation and as Successor Agency to the Redevelopment Agency of the City of Long Beach

- Buyer: The LAB, Inc., a California corporation

- Purchase Price: \$6,943,200

- Initial Deposit: \$500,000 (or more if needed to cover closing costs)

- Due Diligence: 120 days (4 months) from opening of escrow

- Closing Date: 12 days after the expiration of the Due Diligence period

Other general terms and conditions of the Government Use Properties are as follows:

- Lessor: City of Long Beach, a municipal corporation

- Lessee: The LAB Inc., a California corporation

- Term: 30 years with two 10-year options to renew

- Rate: \$1 per year

Possessory interest, if any, exacted against the leasehold interest in the Government Use Properties, will be paid by the Lessee.

The Buyer anticipates 18 months to complete construction after approval of entitlements. With this schedule, anticipated occupancy would occur in Summer 2019. The timelines provided above are anticipated timelines and extensions may be required.

In compliance with Government Code Section 54220 (Chapter 621, Statutes of 1968), on June 1 and December 8, 2015, staff notified the State of California (State) that the Successor Agency

was declaring all Future Development and Sale of Property parcels in the LRPMP as surplus. Further, in accordance with past practice, a memorandum was circulated to all City Departments to determine their interest in, or objection to, declaring any parcel surplus. To date, neither the State nor any City Department has expressed an interest in, or objection to, the sale of the Future Development Properties. A Categorical Exemption, CE 16-190 (Exhibit B), was completed related to the proposed transaction on July 27, 2016.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on August 8, 2016 and by Assistant Finance Director Lea Eriksen on August 5, 2016.

City Council consideration is requested on August 16, 2016, to ensure that sale of the Future Development Properties and For Sale Properties and Lease of the Government Use Properties can occur in a timely manner.

The costs associated with the City's outside attorney and consultant fees, if any, through termination of the PSA or the close of escrow, whichever first occurs, will be reimbursed from the Initial Deposit.

Proceeds from the sale of both Future Development Properties and For Sale Properties, less escrow and closing fees and recovery of administrative costs, will be remitted to the Los Angeles County Auditor-Controller, when received by the City, for distribution to the affected taxing agencies. Costs of sale at closing, are estimated at \$500,000. Consequently, it is estimated that there will be no net proceeds remitted to the Los Angeles County Auditor-Controller upon close of escrow. Upon repayment of the Promissory Note, the City will receive approximately \$6,443,200. This amount, less recovery of any additional administrative costs, beyond those recovered from the \$500,000 deposit, will be remitted to the Los Angeles County Auditor-Controller for distribution to the affected taxing agencies. The County will distribute the net proceeds to the affected taxing agencies based on their share of the 1 percent tax rate. The City's share is approximately 21 percent of the net sale proceeds. Consistent with City Council policy direction, 75 percent of the City's share shall be retained for projects within the North Redevelopment Project Area and 25 percent shall be used for City-wide economic development priorities.

Approve recommendation.

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APPROVED:

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