



Legislation Text

File #: 16-0420, **Version:** 1

Recommendation to receive supporting documentation into the record, conclude the public hearing regarding an economic subsidy in connection with a Transient Occupancy Tax Sharing Agreement with American Life, Inc., pursuant to California Government Code Section 53083;

Adopt Specifications No. RFP CM15-163 for the purchase and development opportunity at 100 East Ocean Boulevard, Assessor Parcel Number 7278-007-928 (Subject Property);

Declare the City-owned Subject Property as surplus;

Authorize City Manager, or designee, to execute any and all documents necessary, including a Purchase and Sale Agreement and Transient Occupancy Tax Sharing Agreement, with American Life, Inc., a California corporation, or assignee, for the sale of the Subject Property in the amount of \$7,000,000, for the development of a mixed-use hotel and business center; and

Accept Categorical Exemption CE 16-070. (District 2)

The City of Long Beach (City) currently owns the Subject Property located at 100 East Ocean Boulevard (Exhibit A). The Subject Property is approximately 35,510 square feet and is improved with a public parking lot that has largely been utilized by visitors to the Pike at Rainbow Harbor and the Long Beach Convention and Entertainment Center. Formerly owned by the Redevelopment Agency of the City of Long Beach (Agency), the Subject Property was included in the Successor Agency's Long Range Property Management Plan (LRPMP), which was approved by the State of California Department of Finance (DOF) on March 10, 2015 and amended on June 24, 2015. The Subject Property has been categorized with a permissible use of "Future Development," allowing for the disposition of the Subject Property through a Request for Proposals (RFP) process for development consistent with the vision and intent of the Downtown Long Beach Redevelopment Project Area and its guiding documents. As further required in the LRPMP, the Subject Property has been conveyed to the City and is now a City-owned asset.

The Subject Property is the location of the former Jergins Trust Building, built in 1919. The building was demolished by the property owner in 1988 and the Subject Property has remained vacant and largely underutilized. The Agency acquired the Subject Property in 2011 after several failed attempts by private entities to develop the Subject Property. Certain architectural elements of the original historic landmark building were salvaged and are currently stored at an offsite location. The Subject Property is prominently located at the

corner of Pine Avenue and Ocean Boulevard, and is currently a visual and physical impediment to the connectivity of upper and lower Pine Avenue. The Subject Property includes a deteriorated portion of Victory Park at the Ocean Boulevard grade, and a portion of the Jergins Tunnel, accessible via Seaside Way grade, that originally provided a pedestrian crossing under Ocean Boulevard to the current location of the Renaissance Hotel. However, construction of the Renaissance Hotel resulted in termination of the tunnel's connection to the north side of Ocean Boulevard. As a result, only the southerly portion of the Jergins Tunnel remains intact and potentially accessible as part of a future project.

A Request for Proposals (RFP) was advertised in the Long Beach Press-Telegram on July 8, 2015, and 6,604 potential proposers specializing in purchase and development opportunities were notified of the RFP opportunity. Of those proposers, 126 downloaded the RFP documents via the City's electronic bid system. The RFP documents were made available from the Purchasing Division, located on the seventh floor of City Hall, and the Division's website at: www.longbeach.gov/purchasing <<http://www.longbeach.gov/purchasing>>. An RFP announcement was also included in the Purchasing Division's weekly update of Open Bid Opportunities, which is sent to 22 local, minority and women-owned business groups. Three proposals were received on November 10, 2015. Of those three proposals, none were Minority-owned Business Enterprises (MBEs), Women-owned Business Enterprises (WBEs), or Small Business Enterprises (SBEs), and one was a Long Beach business (Local).

Local Business Outreach

In an effort to align with our outreach goal, Long Beach-based businesses are encouraged to submit proposals for City contracts. The Purchasing Division also assists businesses with registering on the Bids Online database to download the RFP specifications. Through outreach, 709 Long Beach vendors were notified to submit proposals, of which 35 downloaded and one submitted a proposal. The Purchasing Division is committed to perform outreach to local businesses to expand the vendor pool.

A panel consisting of representatives from the Departments of Development Services and Economic and Property Development and an outside real estate economics consultant, reviewed the three proposals. The panel unanimously selected the proposal submitted by American Life, Inc. (Buyer/Developer), and is recommending that the City Council select American Life, Inc., as the City's preferred proposer and authorize execution of a PSA for the sale and development of the Subject Property. The project proposed by the Buyer/Developer embraced a progressive vision of mixed uses, dynamic use of physical space, integration with Victory Park, connectivity between Downtown and the Convention Center, Pike and Shoreline areas, as well as activation of the Jergins Tunnel.

The Project

The Buyer/Developer proposes to develop approximately 427 hotel rooms, 19,000 square feet of pre-function space and meeting rooms, 8,000 square feet of restaurant space, and

28,000 square feet of guest amenities including a pool and sun deck (Project). The Project, as proposed, is 20 floors above the elevation of Ocean Boulevard, with an additional five floors above the Seaside Way elevation. The attached conceptual rendering is a perspective looking north from the intersection of Pine and Seaside Way. Additional layout plans are also attached (collectively, Exhibit B).

The sources of funds for the Project costs include 50 percent equity, raised through EB-5 investors. The EB-5 Investor Program is a federal job stimulus program, whose title stands for the employment-based fifth visa preference program. Under this program foreign investors (and their spouses and unmarried children under 21 years old) are eligible to apply for a permanent residence card if they:

- Make the necessary investment in a commercial enterprise in the United States; and
- Plan to create or preserve ten permanent full-time jobs for qualified workers.

Short-term employment projections assume 1,027 direct and 675 indirect jobs, for a total of 1,701 short-term jobs generated. Long-term employment projections assume 175 direct and 186 indirect, for a total of 361 long-term jobs generated.

The other 50 percent of development costs are funded through a construction loan. Upon completion of the Project, the equity and construction loans will be replaced by a permanent loan.

Public access to the Jergins Tunnel is proposed to be incorporated into the design. Activation of the Jergins Tunnel will be discussed during the due diligence and entitlement phase of the development. Restoration and redevelopment of that portion of Victory Park, which fronts Ocean Boulevard, is also an integral part of the proposal.

The Hotel Brand

The hotel brand is an important element of the Project. Pinnacle Advisory Group, a hospitality consulting firm, contracted by the Buyer/Developer, prepared a Hotel Market Demand and Cash Flow Projects Summary Report (Report) that determines the economic gap between the cost to construct the Project (but assuming 350 hotel rooms) and the Project's imputed market value upon stabilized operations.

The Report identified five hotels in Downtown Long Beach, which total 1,907 hotel rooms that are likely to be 100 percent competitive with the Project and four hotels in the greater Long Beach area, which total 727 hotel rooms that are likely to be 50 percent competitive with the Project. These nine hotels are aggregated and weighted to create a competitive supply of 828,700 available rooms per year.

Historical growth in average daily room rates (ADR) increased from \$131 per night (2010) to \$166 per night (2015), reflecting a compound average growth rate of 4.9 percent. Occupancy

levels over the same period increased from 67 percent (2010) to 79 percent (2015). Additionally, revenue per available room (RevPAR) has increased from \$88 per room (2010) to \$130 per room (2015), reflecting a compound average growth rate of 8.2 percent.

The Report then estimates future growth in ADR and RevPAR assuming that the Project opens January 1, 2019, and further assumes an additional 200 rooms from an unidentified competitive hotel that opens in January 2020. Projected growth in ADR increases from \$179 per night (2016) to \$224 per night (2022), reflecting a compound average growth rate of 4.4 percent. Occupancy levels over the same period fluctuate between a high of 80 percent (2016) to a low of 72 percent (2020), reflecting increased supply generated from the Project. Additionally, RevPAR is projected to increase from \$143 per room (2016) to \$168 per room (2022), reflecting a compound annual growth rate of 3.7 percent.

The Report then estimates the revenues to be generated from the Project. Project ADRs are projected to be slightly higher than the competitive market average starting at \$209 per night (2019) to \$254 per night (2023). Occupancy levels begin below the competitive market average at 68 percent in 2019, to exceeding the competitive market average at 80 percent (2023). Similarly, RevPAR begins below the competitive market average at \$142 per room (2019) to exceeding the competitive market levels at \$203 per room (2023).

Given these key performance indicators, certain hotel brands, generally considered to be 3-Star Hotels, have expressed interest in the Project. These include:

- Starwood (Aloft and Element)
- Radisson (Radisson Blu)
- Hilton (Embassy Suites, Hilton Garden Inn, Homewood Suites, Canopy)
- Marriott (Marriott, JW Marriott, AC Hotels)
- Hyatt (Hyatt Place, Hyatt House)
- IHG (Indigo, Staybridge Suites, EVEN)

Given the wide range of hotel brands and the significance of securing the highest quality brand available, staff recommends that the PSA include a unilateral termination right at the end of the Due Diligence Period, which allows the City to terminate the PSA if it is not satisfied with the hotel brand recommended by the Buyer/Developer. However, if the Buyer/Developer secures a 4-Star Hotel, the City will not have a unilateral termination right.

TOT Sharing Agreement

In order to estimate the value of the Project, net operating income estimates and industry standard expenses were analyzed. The Net Operating Income for the Project is estimated at \$4.086 million in 2019 (18.3 percent profit margin) growing to \$8.367 million in 2023 (27.1 percent profit margin). Assuming a sale of the Project after the end of year ten (at a 6.5 percent

exit capitalization rate), discounting the ten-year annual cash flows to present value at a 9 percent discount rate, the estimated value of the Project today is \$117.5 million, or about \$337,000 per room (for 350 hotel rooms).

Project costs in the Report are estimated to be \$165 million (for 350 hotel rooms). This cost, when compared to the estimated present value for the future Project, reflects an economic gap of approximately \$47 million.

As a result, the Buyer/Developer is seeking to share the Transient Occupancy Tax (TOT) generated by the Project. The Buyer/Developer seeks 50 percent of the TOT actually received by the City (not including the 3 percent TOT generated under the Long Beach Tourism Business Improvement Area), for a period of 20 years.

The total TOT received by the City from the first stabilized year is estimated to be \$2.7 million. Over the 20-year term of a proposed TOT sharing agreement, it is estimated that the Buyer/Developer and the City would each receive approximately \$27 million. After the 20-year term expires, the City would receive 100 percent of the TOT generated, not including that portion collected under the Long Beach Tourism Business Improvement Area.

For comparison purposes, the Buyer/Developer's project across the street from LA Live in downtown Los Angeles includes a rebate of 100 percent of the TOT received by the City of Los Angeles for a period of 25 years. Staff believes that the proposed TOT sharing agreement for this Project is mutually beneficial and an essential requirement for development of the Project.

The City's real estate economic consultant, Keyser Marston Associates, Inc. (KMA), is conducting an analysis of the financial framework of the Project to determine if it supports the analysis presented in the Report and confirm if, up to what extent, an economic gap exists. Absent the City's participation in covering the economic gap identified in the Report through a TOT sharing agreement, the Project would not proceed. As a result, staff is supportive of a TOT Sharing Agreement for the Project and requests City Council authority to enter into a TOT Sharing Agreement for up to 50 percent of the TOT generated by the Project and received by the City, for a period of time not to exceed 20 years, as justified by the analysis conducted by KMA.

Terms of Sale

The Purchase Price proposed for the property is \$7 million, or \$197 per square foot (not including Victory Park). The purchase price is based on residual land value and required return on costs. This price may fluctuate if off-Subject Property improvement costs associated with the Jergins Tunnel, Victory Park enhancements or the Seaside Way pedestrian bridge exceed the amount budgeted in the Buyer/Developer's pro-forma analysis.

The Buyer/Developer shall provide an Initial Deposit of \$20,000 at opening of escrow, with an additional \$330,000 deposited after the Buyer/Developer clears its Due Diligence Period. The Initial Deposit will be used by the City to pay for outside attorney and third-party consultant

reasonable fees, if any, and such other costs as City and Buyer/Developer agree will be paid from the Initial Deposit. If the PSA is terminated, any remaining amounts of the Initial Deposit shall be returned to the Buyer/Developer. At the Close of Escrow, any remaining amounts of the Initial Deposit shall be applied to the Purchase Price.

Other general terms and conditions are as follows:

- Seller: City of Long Beach, a municipal corporation.
- Buyer/Developer: American Life, Inc., a California corporation.
- Purchase Price: \$7,000,000.
- Initial Deposit: \$20,000 due at opening of escrow, with an additional \$330,000 deposited after Buyer/Developer clears its Due Diligence Period.
- Due Diligence Period: 90 days (3 months) from opening of escrow, with an option for an additional 90 days. Buyer/Developer will accept the property in an as-is condition and release the City from all liability.
- City's Termination Right: 120 days (4 months) from the opening of escrow if the City is not satisfied with the recommended hotel brand if it is below a 4-Star Hotel, with an option of an additional 90 days if the Due Diligence period is similarly extended.
- Entitlement Period: 365 days (12 months) from opening of escrow to complete the Entitlement process, including California Environmental Quality Act (CEQA) Analysis, Site Plan Review, Local Coastal Development Permit and Environmental Impact Report. A 90-day extension will be granted if entitlements are diligently pursued.
- Close of Escrow/Start Date: 30 days after completion of Entitlements, but no later than 18 months from opening of escrow, unless an extension is granted at Seller's discretion.

The Buyer/Developer anticipates 27 months to complete Project construction. With this schedule, anticipated occupancy would occur in Fall 2019.

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 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 Subject Property. A Categorical Exemption, CE 16-070, was completed related to the proposed transaction on February 29, 2016 (Exhibit C).

This matter was reviewed by Deputy City Attorney Richard F. Anthony on April 27, 2016 and by Revenue Management Officer Julissa José-Murray on May 4, 2016.

Pursuant to California Government Code Section 53083, the Economic Development Subsidy Report was posted on the City's website on May 9, 2016. This report identifies the entity receiving the subsidy, the schedule for the subsidy, the description of the subsidy, statement of the public purpose for the entity, the projected tax revenue as a result of the subsidy, and the estimated number of jobs created by the subsidy. City Council consideration of this Project is requested on May 17, 2016, to ensure that development on the Subject Property 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.

Sale proceeds of \$7,000,000, less escrow and closing fees and recovery of administrative costs, will be remitted to the Los Angeles County Auditor-Controller for distribution to the affected taxing agencies. The net proceeds available for remittance is estimated to be \$5,880,000. 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, resulting in roughly \$1,234,800, which is anticipated in Fiscal Year 2018. Consistent with City Council policy direction, 75 percent of the City's proceeds shall be retained for non-recurring economic programs in the former Downtown Project Area, and 25 percent shall be retained for non-recurring economic programs with a Citywide impact.

If City Council approves a TOT Sharing Agreement and the Project closes escrow, upon Project occupancy, up to fifty percent of the TOT received by the City, not including the TOT associated with the Long Beach Tourism Business Improvement Area, will be rebated back to the Buyer/Developer and at least 50 percent will be retained by the City. This rebate is anticipated to be approximately \$27 million during the term of the Agreement, which shall be not more than twenty years, with a similar amount retained by the City.

The approval of this action will provide continued support to our local economy by creating or facilitating the creation of approximately 1,701 short-term jobs and a total of 361 long-term jobs.

Approve recommendation.

MICHAEL P. CONWAY

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AMY J. BODEK, AICP
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APPROVED:

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