



**Metro**

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Metropolitan Transportation Authority

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**PLANNING AND PROGRAMMING COMMITTEE  
NOVEMBER 5, 2014**

**SUBJECT: METRO GOLD LINE – MARIACHI PLAZA JOINT DEVELOPMENT**

**ACTION: AUTHORIZE EXECUTION OF AN EXCLUSIVE NEGOTIATION  
AGREEMENT AND PLANNING DOCUMENT**

**RECOMMENDATION**

1. Authorize the Chief Executive Officer to enter into an 18-month Exclusive Negotiation Agreement and Planning Document (“ENA”), with options to extend up to 12 additional months, with Primestor Development Inc (“Primestor”), or an entity created by Primestor, to explore the feasibility of developing a commercial real estate development and to negotiate the development scope and business terms to be included in a joint development agreement (“JDA”), ground lease(s) and other development documents for the Metro-owned property situated at and across the street from the Metro Gold Line Mariachi Plaza station (the “Development Sites”).
2. Amend the FY15 budget to allow deposit(s) collected from Primestor under the ENA to be used to offset staff and third party costs associated with the negotiation of JDA and ground lease terms and the review and evolution of the development proposal.

**ISSUE**

In December 2013 the Joint Development team issued separate Requests for Proposals (“RFPs”) for three Metro-owned sites in Boyle Heights. One of the RFPs solicited real estate development proposals for the Development Sites (depicted on Attachment A). The two other RFPs solicited development proposals for: (a) Metro’s Cesar E. Chavez and Soto Street properties, and (b) Metro’s Soto Station properties. Requests to enter into ENAs for these sites are covered in separate November 2014 Board Reports. Metro received four development proposals for the Development Sites in response to the RFP. One of these proposals was submitted by Primestor. The recommended action will provide the Chief Executive Officer with authority to execute an 18-month ENA with Primestor to further explore the feasibility of their proposed development for the Development Sites and to negotiate the development scope and business terms to be included in a JDA, ground lease(s) and other development documents. The recommended action will also provide the Chief Executive Officer with the authority to execute extensions of the ENA term for up to 12 additional months.

## **DISCUSSION**

The Mariachi Plaza Development Sites consist of three parts: (1) the 0.14-acre vacant parcel on the southeast corner of Pennsylvania Avenue and Bailey Street; (2) the 0.56-acre vacant parcel immediately north of the Mariachi Plaza Station; and (3) the 0.74-acre Mariachi Plaza Station parcel itself, subject to operational constraints. The station and portal parcels serve the Metro Gold Line Mariachi Plaza Station, which is situated underground. The southern edge of the Mariachi Plaza Station is the location of an historic “Bandstand” (or “Kiosko”) area that is subject to coordination with the City of Los Angeles. In addition to Metro-owned sites, Primestor has partnered with neighboring property owner Anita Castellanos to add .48 acres that would connect Mariachi Plaza and Boyle Avenue. Attachment A describes both the Metro and Castellanos-owned sites.

### **The Solicitation Process**

The RFP soliciting real estate development proposals for the Development Site was issued in December 2013 in accordance with Metro’s Joint Development Policies and Procedures. The RFP contained Conceptual Development Guidelines for the Development Sites that were approved by the Board in January 2013. Among other things, the RFP required each proposer to submit: (a) a narrative and graphic description of a development project that meets or exceeds the objectives and guidelines included in the Board-approved Conceptual Development Guidelines for the Development Sites; (b) details regarding the development team; (c) a financing plan and timeline for completion of the proposed development project; and (d) a financial proposal to Metro in exchange for a long-term ground lease of the Development Sites.

Metro received four proposals for the Development Sites. The proposals were received from the following teams, proposing the indicated developments:

<b><u>Development Team</u></b>	<b><u>Proposed Development</u></b>
AMG & Associates/Pacific Companies	79 units of affordable family apartments and 3,800 sq. ft. of street level retail space in one, six-story building.
Bridge/ELACC	49 units of affordable family apartments and 7,500 sq. ft. of street level retail space in a 4-story building over a podium. Includes relocation of an historic home to the Bailey parcel for use as a community center and museum space.
Gangi Development	96 units of housing (67 affordable units for artists and 29 market rate) and 37,000 sq. ft of street level retail space in 3 interconnected 3-story buildings
Primestor	2 buildings, one 3-stories and one 8-stories, with a total of 120,570 sq ft of commercial space.

The proposals were evaluated by a three-member panel, aided by a non-voting consultant team consisting of the Saucedo Group and Jim Suhr and Associates. Each proposing firm was evaluated based on the following criteria:

1. Proposed Development Project (35%)
2. Project Feasibility (35%)
3. Experience and Qualification of the Development Team (15%)
4. Financial Proposal to Metro (15%)

After its initial review of the proposals, the panel eliminated from further consideration the proposal provided by AMG & Associates/Pacific Companies because the other three proposals were more transit oriented and showed a clearer compatibility with the context of both the Development Sites and the neighborhood overall.

Bridge/ELACC, Gangi Development and Primestor were interviewed by the evaluation panel on September 22, 2014. After the interviews, the final scores were tabulated and discussed and the proposal submitted by Primestor was identified as the preferred proposal.

### The Selected Proposal

Primestor submitted a well-conceived proposal for the Development Sites, including an attractive, transit-oriented design by Gensler Architects. The proposal includes retail and commercial office space that could provide a combination of food and beverage retail opportunities, a fitness center and a medical office building – the latter being in great demand as the site is adjacent to White Memorial Hospital. These commercial uses could change during the negotiations, but Primestor had early interest letters from several potential tenants. In addition, Primestor has expanded the site by partnering with a neighboring property owner to create a more expansive site plan. A site plan, renderings and a summary of the proposed development are set forth on Attachments B and C.

The Primestor team demonstrated a thorough understanding of the entitlement and financing processes needed to bring their proposed project to fruition and have an impressive track record of completing similar projects. They rely on public subsidies tied to job creation and economic development to fill financing gaps, but have a track record in securing these funds. Primestor brings a strong commitment to community outreach, paying prevailing wages. The team also has many longstanding relationships with retailers that can bring goods and services desired by the community.

Primestor has offered the following ground lease financial proposal to Metro:

Capitalized Ground Rent: \$0

Additional Ground Rent: 10% of market value paid at completion, estimated at \$340,000 per year

Cash Flow Participation: Offered to negotiate a percentage of retail rents.  
Holding Rents: Predevelopment: 20% of ground lease, or \$68,000  
Development: 30% of ground lease, or \$102,000  
Pre-Stabilization: 60% of ground lease, or \$204,000

During the ENA, Metro will have the property appraised, will consult with an Economic Advisor and will negotiate with Primestor, as is necessary, to assure that Metro receives a fair market return under any future JDA and ground lease(s).

Primestor's proposal included 140 parking spaces for Metro's transit riders, and assumed that Metro would contribute \$3,000,000 toward the development of these parking spaces. Staff has informed Primestor that these transit parking spaces are not needed, and Primestor has agreed to modify its proposal to exclude those parking spaces. This condition is part of the ENA document.

### Policy Implications

The recommended actions are consistent with the goals of Metro's Joint Development Policies and Procedures to (i) enhance the land use and economic development goals of the surrounding community and conform to applicable local and regional development plans (as such plans may be amended from time to time); (ii) promote and enhance transit ridership; (iii) reduce auto use and congestion through transit-linked development and (iv) generate value to Metro based on a fair market return on public investment. However, the proposed term of the ENA, 18 months plus up to 12 months of extensions, is not consistent with the Joint Development Policies and Procedures, which specify that the term of an ENA, including extensions, shall not exceed 18 months. Due to the impact of recent court decisions which will require the developer to obtain full CEQA clearance before the Metro Board may approve a specific joint development, staff is recommending an initial 18 month ENA period to allow Primestor to complete the proposed project's entitlement process and CEQA clearance and to allow Metro and the Primestor team to negotiate the business terms of a JDA, ground lease(s) and other development documents, with options for Metro to extend the ENA term up to an additional 12 months.

### Selected Developer Team

The Primestor team includes the following firms:

- Developers: Primestor Development, Inc
- Architect: Gensler
- Entitlements Consultant: Sheppard Mullin

### DETERMINATION OF SAFETY IMPACT

Approval of this item will have no impact on safety. During the ENA process and through the JDA and ground lease negotiations, Metro's operations staff will review and

comment on the proposed development to ensure that the station, portal and public areas on Metro's property are maintained at the highest levels of safety.

## **FINANCIAL IMPACT**

Funding for joint development activities related to the ENA and the proposed project is included in the FY15 budget in Cost Center 2210 (New Business Development), under Project 610011 (Economic Development). In addition, upon execution of the ENA, Primestor will be required to provide an ENA Fee of \$25,000 and deposits totaling at least \$50,000. The deposits may be used to cover staff time from supporting departments and third party costs associated with the negotiation of JDA and ground lease terms and the review and evolution of the development proposal.

Since the ENA is a multi-year contract, the Managing Executive Officer, Countywide Planning and Development and Chief Planning Officer will be accountable for budgeting any costs associated with the ENA and the proposed project in future years.

### **Impact to Budget**

Metro project planning activities and related costs will be funded from local right-of-way lease revenues and the deposit, as appropriate. Local right-of-way lease revenues are eligible for bus/rail operating and capital expenses. Execution of the ENA will not impact ongoing bus and rail operating and capital costs, Proposition A and C and TDA administration budget or Measure R administration budget.

## **ALTERNATIVES CONSIDERED**

The Board could choose not to proceed with the recommended action and could direct staff to (a) enter into an ENA with one of the other proposers, (b) not proceed with development of the Development Sites and hold on to the property for future development, or (c) not proceed any of the proposers and seek new development proposals for the Development Sites from the development community via a new competitive process. Staff does not recommend proceeding with the first alternative because the Primestor team submitted the strongest proposal in response to a widely solicited RFP and proceeding with any of the other proposers would circumvent staff's solicitation and review process. Staff does not recommend proceeding with the other two alternatives because such action would delay development of the Development Sites. Also, if the Board directs staff to conduct a new solicitation, it may not result in a development proposal that is more preferable than the current Primestor proposal.

## **NEXT STEPS**

Upon approval of the recommended action, the ENA will be executed, and, upon execution, staff and the Primestor team will: (a) explore further the feasibility of developing the proposed project on the Development Site, (b) complete the planning, design and entitlement work necessary to receive project approvals under CEQA, and

(c) negotiate key terms and conditions to be included in a JDA, ground lease(s) and other development documents for the proposed project. If successful, staff will return to the Board for the authority to execute a JDA, ground lease(s) and other development documents with Primestor in accordance with the negotiated terms and conditions.

## **ATTACHMENTS**

Attachment A: Depiction of the Development Sites

Attachment B: Site Plan and Rendering of Proposed Development Project

Attachment C: Summary of the Proposed Development Project

Prepared by: Jenna Hornstock

Deputy Executive Officer

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Calvin E. Hollis

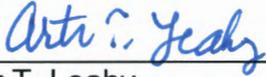
Managing Executive Officer

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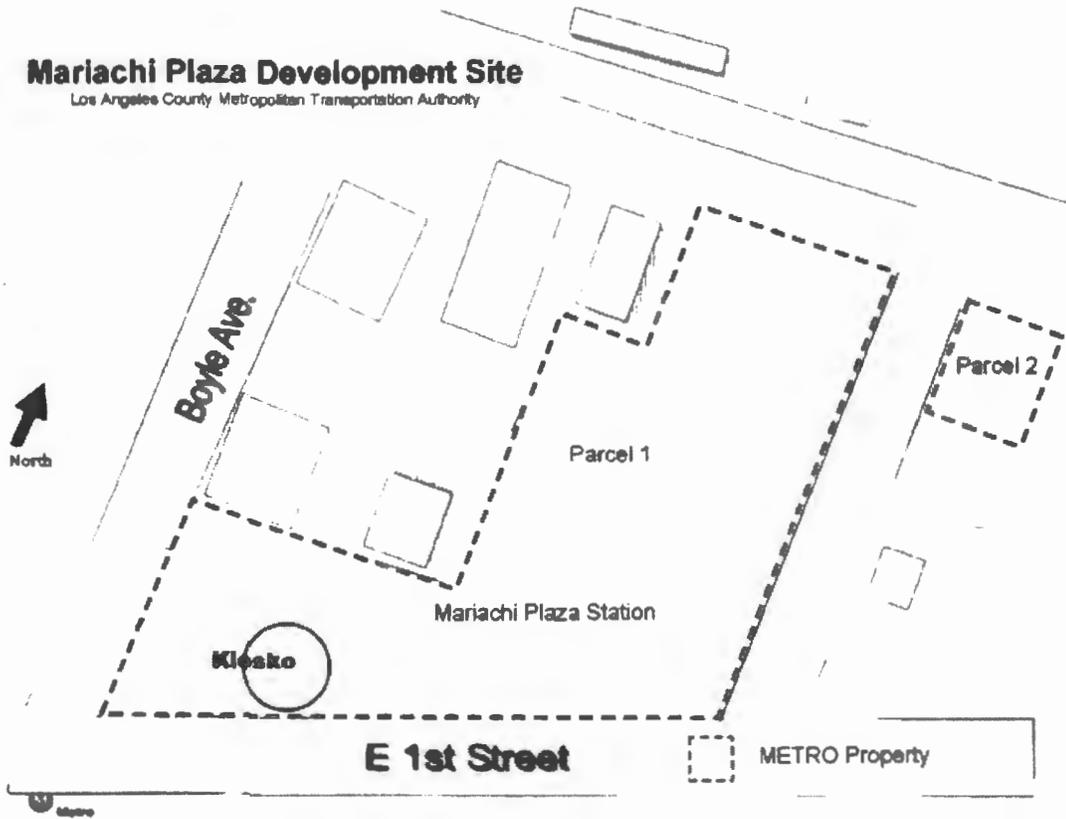
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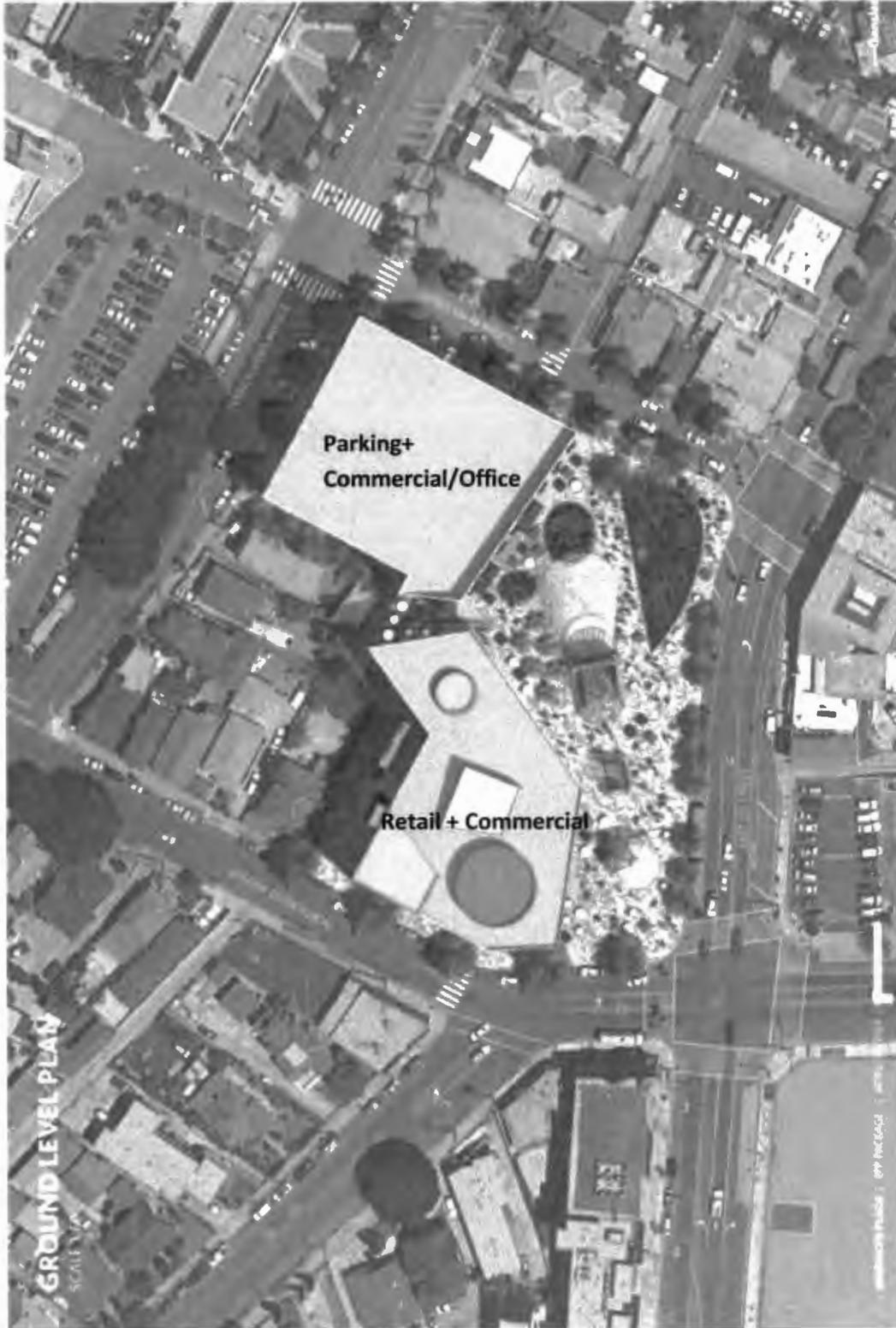
Martha Welborne FAIA  
Chief Planning Officer



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Arthur T. Leahy  
Chief Executive Officer







## Summary of the Proposed Development Project

## ATTACHMENT C

Primestor has proposed the Plaza del Mariachi development to include 120,570 square feet of retail and commercial uses that could provide food and beverage retail opportunities, a fitness center and a medical office building. The development is proposed in two structures: (1) a 3-story building with retail and commercial use proposed to have ground level food and beverage and a two-story fitness center; and (2) an 8-story building with 6 floors of parking and 2 floors of medical office. Metro staff has expressed interest in reducing parking on site, which will be negotiated during the ENA. The development also includes ample open space around the station portal, outdoor seating for the food and beverage, and a sloped green seating area serving the amphitheater already existing at the Plaza.

<b>Building</b>	<b>PROPOSED USE</b>	<b>GROSS SF</b>
1	Level 1: Retail – proposed food & beverage	28,500
1	Level 1: Corner Retail	1,800
1	Mezzanine Level – proposed fitness center	24,430
1	Level 2 - proposed fitness center	16,910
2	Levels 1 – 6 – proposed parking	528 spaces
2	Level 7 - proposed Medical Office	25,340
2	Level 8 - proposed Medical Office	25,340