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**PLANNING AND PROGRAMMING COMMITTEE
MAY 14, 2008**

SUBJECT: METRO ORANGE LINE SEPULVEDA STATION JOINT DEVELOPMENT

**ACTION: EXECUTE AN EXCLUSIVE NEGOTIATION AGREEMENT TO DEVELOP
PROPERTY ADJACENT TO SEPULVEDA STATION**

RECOMMENDATION

Authorize the Chief Executive Officer to enter into an Exclusive Negotiations Agreement (ENA) with JPI West to develop a residential project (as described in Attachments A and B) on the Metro Orange Line Sepulveda Station park-and-ride site. JPI West was selected as the most qualified in response to a Request for Proposals (RFP) issued on October 8, 2007.

ISSUE

We own a 12.45 acre parcel adjacent to the Sepulveda Station which is currently used as a park-and-ride lot for Metro Orange Line patrons. (Attachment C) Current transit parking demand is less than ten percent of the 1,200-space park-and-ride. A highest and best use study of the site conducted by The Maxima Group for us in 2005 indicated the feasibility of residential use as well as destination "big box" retail use. (Attachment D) In July 2007, our Board adopted conceptual development guidelines for inclusion in the RFP.

POLICY IMPLICATIONS

The recommended action is consistent with our Joint Development Policies and Procedures.

OPTIONS

The Board could choose not to proceed with the developer selection. Staff is not recommending this because we will lose both development and revenue opportunities.

FINANCIAL IMPACTS

The recommended action will not impact FY '08 budget. Revenues are anticipated from this project beginning negotiations through the entire negotiated lease period.

DISCUSSION

RFP Process

We issued a Request for Proposals (RFP) for the development of the Orange Line Sepulveda Station park-and-ride on October 8, 2007 with a due date of January 10, 2008. Each proposer was required to submit a narrative and graphic description of a development project that meets or exceeds the objectives and guidelines included in the Board-approved conceptual guidelines for the development of our Sepulveda property, a project team, a financial proposal that represents its best offer for a long-term ground lease and an implementation plan.

Seven development firms submitted proposals and all met our qualifying criteria. These firms are:

1. CityView/Trammel Crow
2. Fairfield Residential Development
3. Goldrich & Kest
4. JPI West
5. Lee Homes/CIM
6. Niemann/McCormack Barron and Salazar
7. Raintree/EQR/Delia

Attachment E summarizes the proposers' development proposals.

The Evaluation Process

Interviews and evaluation of all proposals were conducted by a four-member, multi-disciplinary panel that included Los Angeles County Metropolitan Transportation Authority staff, financial consultant Patricia Flynn of The Maxima Group, design and planning consultant Marc Futterman of Futterman & Associates, and real estate development counsel Richard S. Volpert of Munger, Tolles & Olson.

Each proposing firm was evaluated based on the following criteria:

1. **Proposed Development Project:** Each proposal was reviewed for its responsiveness to the conceptual development guidelines included in the RFP, the quality of the project and urban design concept and how well it integrates with transportation and adjacent uses, consistency of the concept description with the drawings submitted, and its support of sustainability elements that closely conform to the U.S. LEED silver rating.
2. **Experience and Qualification of Development Team:** This examined the qualifications and experience of both the proposing firms and the development team identified for this project.
3. **Financial Proposal:** Each proposal was evaluated on the financial strength of the firm or participating partner-firms, the soundness of its financial plan and the value of its financial offer to us. The Panel evaluated each firm's submitted financial information, its funding structure and the likelihood of indicated funding sources. In assessing each firm's financial offer, the Panel considered the soundness of

assumptions underlying project mix, revenues, costs, rates and development schedules, compared net present values of revenue streams during the base lease period and the ability of the project to generate enough revenues to cover expenses and loan payments.

4. Implementation Plan/Strategy: This examined the consistency of the proposed development plan with the proposed project, mitigations proposed to address impacts on Erwin Street, the Victory Park neighborhood, and its ability to meet market requirements.
5. Project Implementation Likelihood: This reviewed each firm's overall track record to evaluate its ability to complete the project under varying market conditions.

Recommended Developer

JPI West was unanimously ranked first by the Evaluation Panel and had a significant lead overall for the following reasons:

1. JPI West submitted a development project that was well thought out and planned and incorporated requirements contained in the RFP in a sound, efficient and superior design.
2. The JPI Project Team is well balanced and qualified and its members have worked together on other JPI projects. It had extensive development and management experience, in addition to highly experienced entitlement and architectural team members.
3. JPI's financial offer to us represents the highest financial value among those offered by all proposers, with a good combination of minimum and percentage rents based on reasonable and achievable assumptions. It does not require subsidies from us or any public entity and does not rely on a public funding source. Additionally, its financial submittals shows a strong balance sheet and indicate good capitalization. It proposes a traditional funding structure with a 75:25 loan-to-equity ratio.
4. JPI West presented a development plan that is consistent with its proposed project, financial proposal and market conditions. It also included mitigations that appropriately addressed Victory Park neighborhood concerns along Erwin Street.
5. This firm has a long and good development track record in various parts of the country and in the City of Los Angeles.

Proposed Development Project

JPI West proposed a 560-unit for-rent multifamily residential project that includes 20 town homes along Erwin Street and 10 live-work units on the southeastern side of the site. Retail use is proposed on the ground floor of two five-story residential buildings adjacent to the station. JPI's proposal includes construction of 103 spaces at its cost on approximately one acre on the southwest corner of the site for Metro Orange Line riders. However, we need to consider building a parking structure as part of the joint development to accommodate more than 103 spaces. (Attachments F)

JPI anticipates completion of the project in a single phase within 42 months from the execution of the Joint Development and Lease agreements and full lease-up in 24 months.

Financial Offer

JPI's financial offer includes a base rent of \$1,500,000 a year at project stabilization. In addition, JPI would be responsible for an option payment of \$400,000; a holding rent of \$750,000 a year; leasing period rent of \$1,000,000 a year until 95% occupancy is reached and annual percentage rent equal to 10% of effective gross income and payments of 10 % of proceeds from sale after equity preferences. (Attachment G)

Selected Developer Team Membership

The development team includes:

- Developer: JPI West
- Architects: Togawa Smith Martin Residential/AC Martin Partners, Inc.
- Land Use Consultant: Craig Lawson & Co., LLC
- Legal Counsel: Gibson, Dunn & Crutcher
- Public Relations: Marathon Communications
- Civil: Diamond West Engineering, Inc.

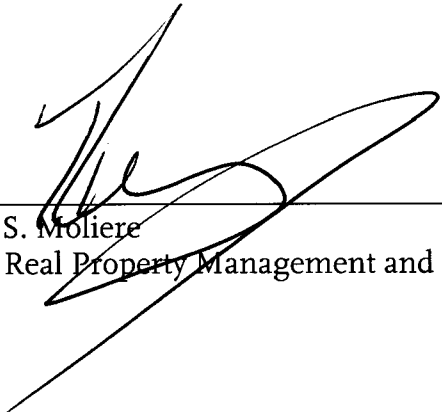
Attachment H includes a description of the financial evaluation methodology while Attachment I summarizes RFP objectives, development guidelines and requirements.

NEXT STEPS

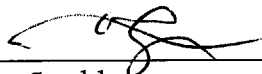
Staff will negotiate terms and conditions with the selected firm and return to the Board for a request to enter into a Joint Development Agreement and Land Lease.

ATTACHMENTS

- ATTACHMENT A: Project Description
- ATTACHMENT B: Site Plan
- ATTACHMENT C: Metro Orange Line Station
- ATTACHMENT D: Site Context
- ATTACHMENT E: Summary of Proposers' Development Proposals
- ATTACHMENT F: Project Summary
- ATTACHMENT G: Financial Offer
- ATTACHMENT H: Financial Evaluation Methodology
- ATTACHMENT I: Summary of RFP Objectives, Guidelines and Requirements



Roger S. Moliere
Chief, Real Property Management and Development

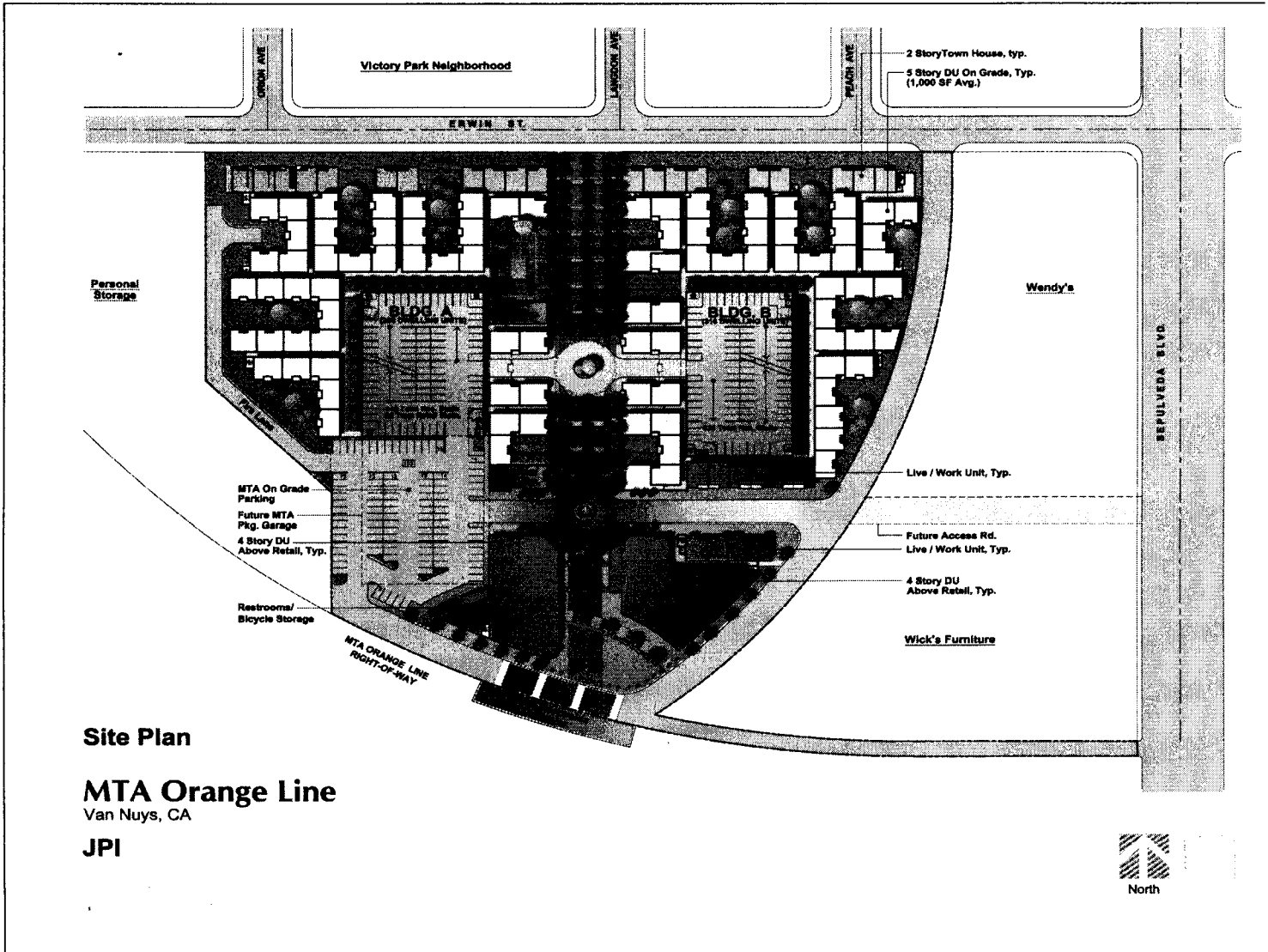


Roger Snoble
Chief Executive Officer

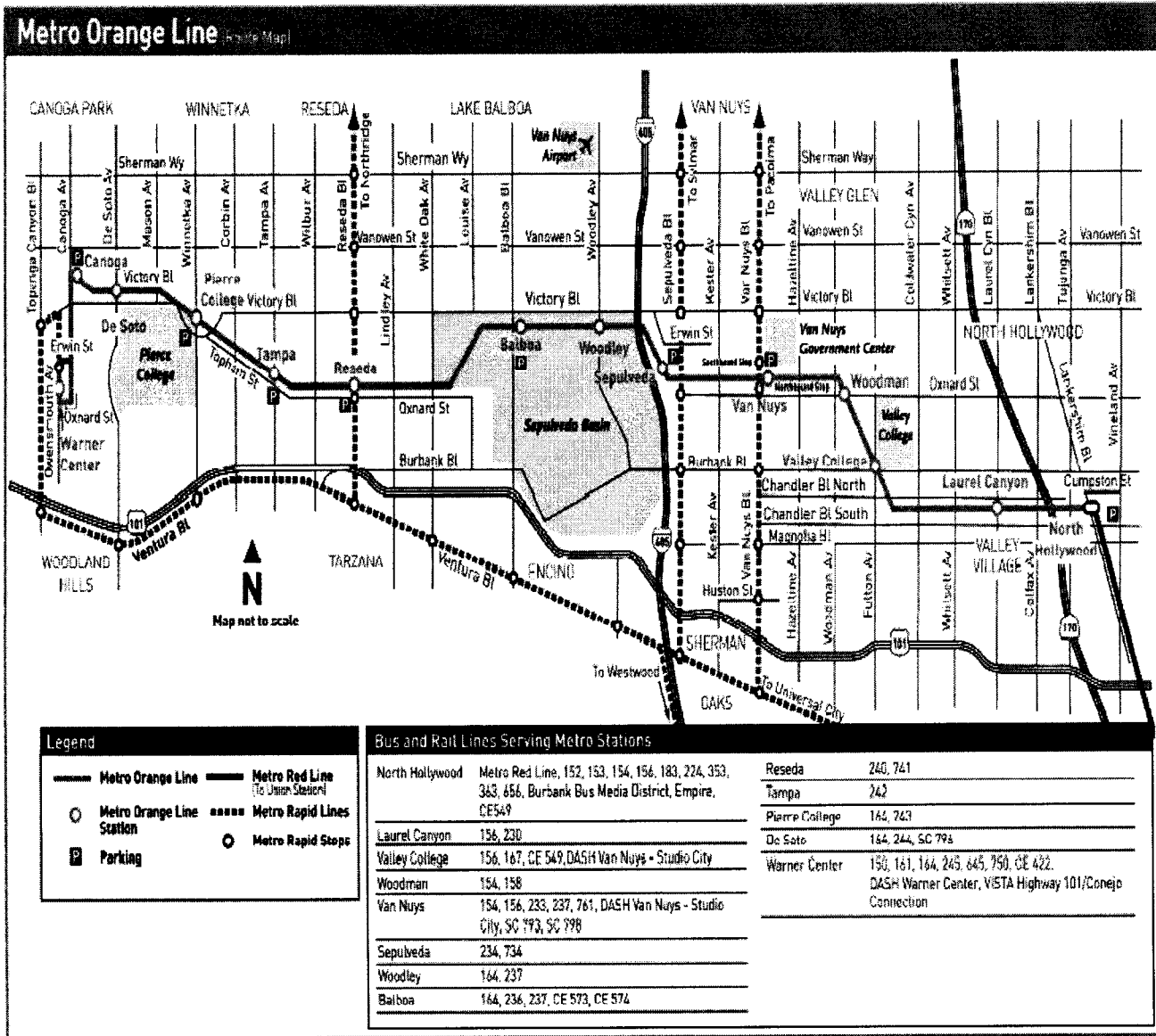
PROPOSED PROJECT

- 560 for-rent multi-family residential units including 20 two-story townhouses along Erwin Street and 10 live-work units on the southeastern side of the project
- 103 parking spaces for Metro included in developer project cost but parking area can accommodate structure with 400 or more spaces; Development proposal assumes a parking structure will be built to accommodate more than 103 spaces.
- 30,000 s.f. of retail on ground floor of five-story residential building adjacent to the Metro Orange Line station

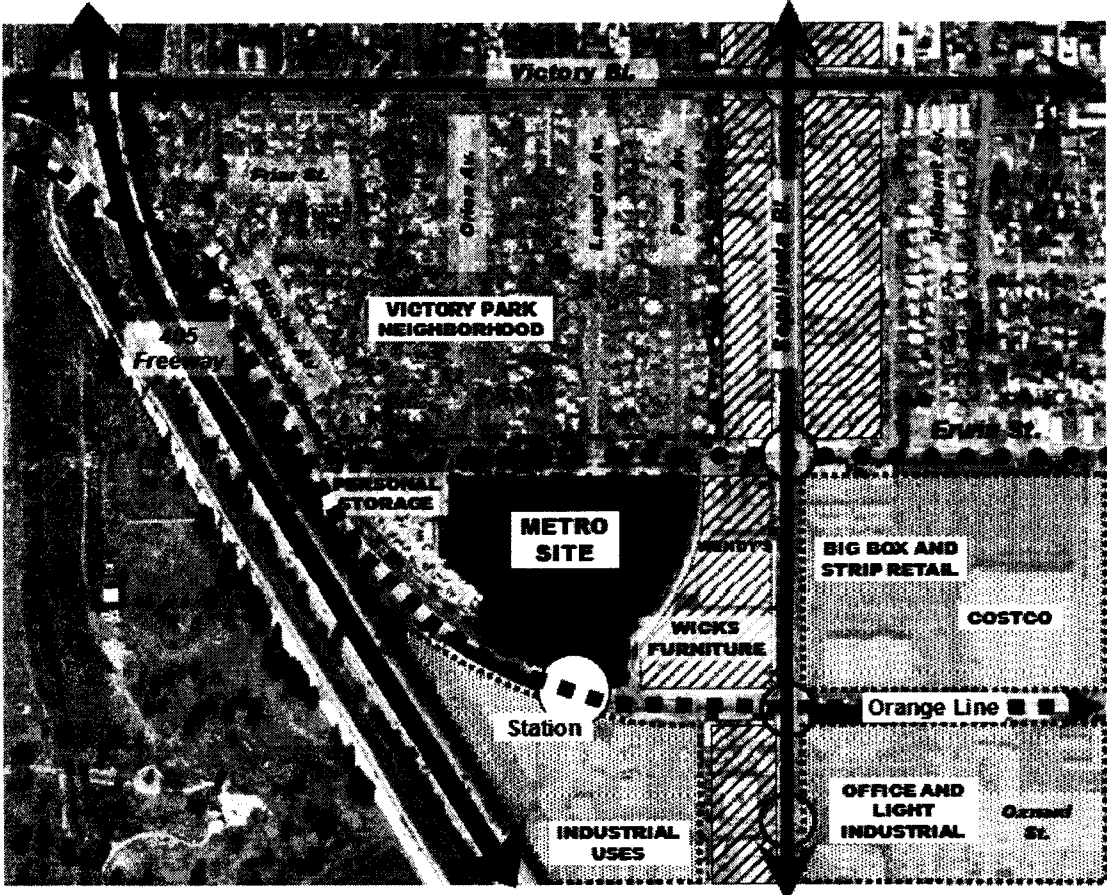
ATTACHMENT B SITE PLAN



ATTACHMENT C METRO ORANGE LINE SYSTEM MAP



ATTACHMENT D
SITE CONTEXT



ATTACHMENT E

SUMMARY OF DEVELOPER PROPOSALS						
Proposers	For Sale	For Rent	Live-Work	Total Residential	Retail	Childcare
City View/Trammel Crow	18	650	0	668	0	0
Fairfield Residential	0	712	0	712	0	0
Goldrich & Kest	0	400	0	400	0	0
JPI West	0	550	10	560	30,000	0
Lee Homes/CIM Group	All -Plan 1	0	0	0	0	0
Sepulveda Niemann	57	318		375	9,238	7,223
Sepulveda Raintree/EQR	0	246	0	246	0	0

Project Summary

Site Area	546,312 S.F. (12.54 ACRES)			
Proposed No. of Units	560			
Unit Mix	Type	Quantity (%)	Area SF	Total SF
A1	1Bd / 1Ba	265 (47%)	800	212,000
A2	2Bd / 2Ba	265 (47%)	1,200	318,000
TH	3Bd / 3Ba	20 (4%)	1,600	32,000
L/W	1Bd / 1Ba	10 (2%)	1,600	16,000
TOTAL		560	1,039 Avg.	578,000
Proposed Retail				30,000 SF
Open Space				
	Required			71, 125 SF
	Provided			130,000 SF
	Common Courtyards			92,500 SF
	Common/Rec. Area			4,500 SF
	Private Open Space (balcony @ 60 SF/U x 550U)			33,000 SF
Parking				
	MTA Station Provided			103
	Retail Provided (30,000 + 16,000 L/W @ 2 Stalls/1,000 SF)			92
	Residential - Required/Provided			968

FINANCIAL PROPOSAL

Lease Term	65 years	
Lease Area	11.59 acres	
Option Payment	\$400,000 a year	From ENA approval thru JDA execution, capped at \$1 million
Holding Rent	\$750,000 a year	From JDA execution to 47.5 % Occupancy
Leasing Period Rent	\$1,000,000 a year	From 47.5% Occupancy to 95% Occupancy
Project Stabilization Rent	\$1,500,000 a year	From 95% Occupancy
Annual Percentage Rent	5% of Effective Gross Income	During Leasing Period
	10% of Effective Gross Income	From 95% Occupancy
Proceeds on Sale	10% of profit after equity preferences	

Sepulveda Station Proposal Evaluation Financial Evaluation Methodology

The proposals for Sepulveda Station development differed considerably with respect to the type and character of development, development timing and phasing, and the terms of the financial offer to us. Assumptions about market rental rates, development costs, and financing terms also varied widely. The challenge for financial analysis was to establish a “common vocabulary” that would allow comparison of the proposals in a meaningful and consistent way. There are two goals for the financial analysis: establish a meaningful basis for comparing the various development proposals and financial offers, and identify any areas of potential risk to us.

The first step in the analytical process was to establish a consistent set of assumptions that could be applied in an appropriate manner to the various proposals. The Maxima Group LLC updated previous market assumptions about market rental rates by unit type, annual operating costs, construction costs for both units and parking (proposals included a wide range of different parking solutions), and financing terms including interest rates and amortization terms.

Maxima’s financial assumptions were applied to the development programs of each of the proposers. Where necessary, assumptions about project development timing were also adjusted to reflect more realistic schedules for negotiation, entitlement, construction, and lease up.

Development proformas were re-run using standardized assumptions and certain key performance measures were benchmarked. Net present value of ground rent to us was used as a “big picture” measure of the financial value of the offer. Debt service coverage in the year of stabilization was an indication of overall project feasibility. Debt/equity ratios measured the level of financial commitment each of the developer teams was making to the proposed projects.

Qualitative aspects of the financial analyses were also considered. The dependence of any proposal on contingent outside financing (e.g. grants and special regulated financial sources) was a qualitative factor. The financial strength of the development teams was also a consideration for overall financial viability.

I. DEVELOPMENT OBJECTIVES

As part of its approved Joint Development Policies and Procedures, Metro's joint development objectives are as follows:

- A. To create a transit-oriented development that:
 - Enhances and increases transit ridership
 - Provides transportation-related services and conveniences
 - Enhances the transfer connection between rail passengers to bus and other transportation services
 - Is pedestrian-oriented
- B. To sponsor a project that generates economic development benefits such as jobs and fiscal revenues to the local area and the City of Los Angeles
- C. To create a project that responds to the social and design context of the local community
- D. To achieve transit, land use, economic development and urban planning goals while providing at a minimum a financial return equal to the current and future fair market value of the offering

Metro requires that the development attain the above development objectives and meet the following minimum requirements:

- Support and enhance transit use at this location and the entire Metro transit system
- Propose a development that is financially feasible and does not rely on Metro subsidies
- Propose a high-quality, well-planned development that respects transit-oriented planning and urban design principles
- Propose a project that integrates its design and functional components with surrounding uses and area-wide development plans
- Propose a project that maximizes the financial value of Metro assets, creates long-term revenue streams to Metro and provides participation in future long-term up-side economic growth of the project

II. DEVELOPMENT CONCEPT

Metro envisions a primarily residential use at the Sepulveda Station park-and-ride site. Any development proposed for this site shall demonstrate compatibility with adjacent uses, particularly with the Victory Park Neighborhood to the north, and include

proposals to mitigate any adverse impacts to neighboring properties. A key concern of the Victory Park neighborhood is the use of Erwin Street. Current access to the Metro park-and-ride is provided by Erwin Street on the north, the Metro access road located south of the park-and-ride and north of the busway, and Haskell Avenue from the northwest side of the 405 Freeway.

III. DEVELOPMENT AND DESIGN GUIDELINES

A. Conceptual Development Guidelines

The Metro Board adopted conceptual development guidelines for the Metro Orange Line Sepulveda Station Park-and-Ride in July 2007. These conceptual guidelines are intended to provide a set of development and planning principles that are applicable to the site and consistent with Metro's adopted Joint Development Policies and Procedures.

The guidelines are not intended to provide specific design and construction-related criteria associated with a particular project. They are meant to provide the first step in a series of steps towards planning, developing and constructing a joint development project.

1. Urban Design

Proposed development shall adhere to urban design principles that achieve the following goals:

- a. **Promote transit:** Through coordination with Metro and the City of Los Angeles Department of Transportation, the development should enhance public transit by supporting the integration of available transit modes, especially in the immediate vicinity of the station.
- b. **Maintain and enhance existing residential neighborhoods:** Development should be sensitive to and be buffered from existing neighborhoods.
- c. **Create a sense of place:** Development should create a location that is vibrant, visually pleasing, and generally improves the urban fabric and district of which it is a part.
- d. **Provide a secure environment:** The design and operation of proposed development uses shall promote safety for transit patrons, potential private development patrons, and current adjacent uses.

2. Land Use

Metro envisions a primarily residential use at this site. Single-family housing use is located immediately to the north of the site. Residential use extends further north to multi-family housing. The site is within an interior parcel and housing provides a good fit as residential uses do not need the type of prominent street frontage retail and other commercial uses

typically require. Development densities for newer multifamily projects in the San Fernando Valley are within the range of 50 to 65 dwelling units per acre.

Any development proposed for this site shall demonstrate compatibility with adjacent uses, particularly with the Victory Park Neighborhood to the north, and include proposals to mitigate any adverse impacts. A key concern of the Victory Park neighborhood is the use of Erwin Street. Current access to the Metro park-and-ride is provided by Erwin Street on the north, the Metro access road located south of the park-and-ride and north of the busway, and Haskell Avenue from the northwest side of the 405 Freeway.

Working with representatives of the Victory Park Neighborhood and the Office of Councilman Cardenas, Metro identified two strategies to mitigate future development impacts on Erwin Street. The first strategy is for Metro to continue to monitor opportunities for sharing access from Sepulveda Boulevard with the ownership of the adjacent Wickes/Wendy's property as it may be redeveloped. The second strategy is to limit project-based vehicular access on Erwin Street west of Sepulveda Boulevard. Both strategies address Victory Park Neighborhood concerns. (See Attachment 5, Development Mitigation Strategies.)

The Metro site is enclosed by a landscaped concrete wall on the north with a single access off Erwin Street from Sepulveda Boulevard. Proposed developments should be sensitive to both the additional traffic on Erwin Street and potential visual impacts on the existing neighborhood and include mitigation strategies such as retention of the wall and installation of effective buffers, such as trees, along the north side of the Metro property.

3. Metro Transit Station Facilities

Metro Station: Any proposal including elements that will alter the Sepulveda Orange Line Station or its location shall ensure that the design and function of the station are maintained. Metro reserves the right to approve such modifications.

Public Transit Parking: The project site is a Metro parking facility. Any joint development proposal shall provide sufficient parking spaces to accommodate existing capacity and include provisions to accommodate future demand. Metro policy requires existing parking capacity to be maintained during construction and fully replaced prior to any joint development.

Current parking demand is less than 10 percent of the existing 1,200-space park-and-ride. Because of low parking utilization and the high cost of fully replacing the existing capacity in a parking structure, Metro requires that

an approximately three-acre area adjacent to the busway be reserved and developed as surface parking to provide up to 400 spaces with the intent of converting it to a parking structure to accommodate future demand. The parking structure shall be planned and designed as an integral part of the joint development, and may support a housing development.

The parking lot shall be designed and situated to allow an efficient link to the station, minimize parking development costs and create vehicular and pedestrian access compatible with adjacent uses.

Bicycle Parking: Bicycle parking facilities shall be with included in the overall transit parking strategy and integrated with the extensive bicycle path along this transit corridor.

Public Restroom: Metro policy requires that a public restroom must be available within the joint development project site that would accommodate transit patron use.

C. Project Funding

Metro will not provide any subsidies. Subject to the approval of Metro, developer may propose allocation of costs to Metro for project elements primarily benefiting Metro or its transit patrons.

D. Environmental Clearance, Entitlements and Related Activities

The developer shall be responsible for all activities and costs related to compliance with the California Environmental Quality Act including the preparation of any required Environmental Impact Report (EIR), entitlements, permits and all associated work and costs relating to the implementation of developer's proposed project. The preparation of the EIR will be subject to review by Metro, the City of Los Angeles and other affected agencies.

E. Sustainable Building Practices

Metro supports sustainable building and development practices. Proposers are encouraged to submit a plan that meets sustainability criteria developed by the United States Green Building Council (USGBC) for Leadership in Energy and Building Design (LEED) at the "Silver" level. Proposers should also include a base plan to demonstrate the added costs, if any, in developing projects that meet LEED Silver certification. Preference will be given projects that meet sustainability criteria in a cost-effective manner. Further information on LEED may be obtained from the USGBC website, <http://www.usgbc.org>.

