

PLANNING & PROGRAMMING COMMITTEE **FEBRUARY 18, 2004**

WILSHIRE/VERMONT METRO RED LINE STATION JOINT **SUBJECT:**

DEVELOPMENT

ACTION: AUTHORIZE THE EXECUTION OF CERTAIN JOINT

DEVELOPMENT RELATED AGREEMENTS

RECOMMENDATION

Authorize the Chief Executive Officer to execute the following documents and agreements:

- A. A purchase and sale agreement (the "Purchase & Sale Agreement") with the Los Angeles Unified School District ("LAUSD"), which agreement will provide for the sale to LAUSD of a 2.59-acre portion of the 5.83-acre, MTA-owned block at the Wilshire/Vermont Metro Red Line Station (such portion, the "School Site"), for the construction and development of a public school thereon, and will contain the key terms and conditions set forth on Attachment A.
- A grant deed ("Grant Deed") and related documents necessary to convey the School Site to LAUSD and effectuate the intent of the Purchase & Sale Agreement.
- C. An amendment to the existing MTA/Wilshire Vermont Housing Partners LLC ground lease (the "Ground Lease Amendment") covering that 3.24-acre portion of the 5.83acre block not comprising the School Site, which amendment: (a) will allow Wilshire Vermont Housing Partners LLC ("WVHP") to offset up to \$479,954 in rent thereunder to cover a portion of the cost to construct a new MTA bus layover facility on the 1.02-acre MTA-owned parcel on the northeast corner of Wilshire and Shatto (the "Wilshire/Shatto Parcel"), and (b) will require WVHP to refund such abated rent to MTA in the event the sale of the School Site to LAUSD fails to close.
- D. An option to ground lease ("Option to Ground Lease") with a development affiliate of Urban Partners LLC (the "UP Affiliate"), which Option to Ground Lease will contain the business terms under which MTA would ground lease the School Site to the UP Affiliate, if the sale of the School Site to LAUSD does not occur, and, in particular, will contain the key terms and conditions set forth on Attachment B.
- A ground lease of the School Site with the UP Affiliate (the "Back-Up Ground Lease") pursuant to the terms and conditions set forth in the Option to Ground Lease, if the UP Affiliate exercises its option to lease under the Option to Ground Lease.

ISSUE

MTA owns a total of 6.85 acres of developable property over and near the Wilshire/Vermont Metro Red Line Station. This property consists of two, non-contiguous sites. The main site surrounds the station portal, and consists of a full, 5.83-acre block bounded by Wilshire Boulevard, Vermont Avenue, Sixth Street and Shatto Place. The 1.02-acre Wilshire/Shatto Parcel comprises the remainder of the property.

A 3.24-acre portion of the 5.83-acre block is currently undergoing commercial development. Such development is being performed by WVHP pursuant to a ground lease with MTA entered into on November 10, 2003 (the "Ground Lease"), pursuant to the Board's May 2003 authorization. When complete, such development will provide approximately 448 apartments, 35,000 square feet of retail space and a large, street level public plaza fronting on the subway portal.

The remainder of the block comprises the School Site, which was set aside for the development of an LAUSD middle school. Staff has now reached agreement with LAUSD on the key terms and conditions of a Purchase & Sale Agreement covering the sale of the School Site to LAUSD and the development of a public school thereon.

At present, a ten-bay bus plaza traverses the block from east to west. The existing bus plaza cuts across both the School Site and the commercial site, negatively affecting development of each. To maximize the block's development potential, the parties agreed long ago to replace this plaza with a new bus facility to be constructed on the Wilshire/Shatto Parcel. It was not until recently, however, that a tentative agreement was reached regarding funding of the new facility's construction.

Under the proposed agreement, MTA will allow WVHP to abate Ground Lease rent up to \$479,954, representing the full amount of the School Site's share of the new bus facility's estimated cost. (The remainder of the \$703,745 estimated cost will accrue directly to WVHP.) If LAUSD closes escrow on its purchase of the School Site, it will reimburse MTA for the abated rent. If LAUSD fails to close escrow, WVHP will refund the abated rent, in exchange for MTA's execution of the Option to Ground Lease with the UP Affiliate. In either event, MTA will be fully reimbursed for the amount of the rent abatement.

The proposed agreement permits LAUSD to defer its payment obligation until State funds are available at the close of escrow, which may be up to two years and four months away, and allows WVHP to construct the new bus facility immediately, thus freeing up needed developable space on their leased site. To effectuate this funding arrangement requires execution of the Ground Lease Amendment and the Option to Ground Lease, in addition to the Purchase & Sale Agreement. Board authorization to execute the Back-Up Ground Lease is necessary to allow staff to fulfill its obligations under the Option to Ground Lease and enter into the Back-Up Ground Lease upon the UP Affiliate's exercise of its option thereunder.

POLICY IMPLICATIONS

The recommended actions are consistent with MTA's Joint Development Policy to:

- 1. Promote and enhance transit ridership.
- 2. Enhance and protect the transportation corridor and its environs.
- 3. Enhance the land use and economic development goals of surrounding communities, and conform to local and regional development plans.
- 4. Generate value to MTA based on fair market return on the public investment.

OPTIONS

Execution of the Purchase & Sale Agreement, the Grant Deed and Related Conveyance Documents

The Board could elect not to authorize execution of the Purchase & Sale Agreement, the Grant Deed or the related conveyance documents. Such action is not recommended, however, as it would be contrary to the Board's desire to have a middle school on the site. Though MTA typically leases its developable sites to maximize return on its property and to control future development, such an approach is not available in this instance, as the State of California (LAUSD's funding source) will not fund ground lease payments for school sites. Execution of the Purchase & Sale Agreement is the first step in transferring ownership of the School Site to LAUSD. Execution of the Grant Deed and the related conveyance documents is the final step in this process.

Execution of the Ground Lease Amendment, Option to Ground Lease and Back-Up Ground Lease

The Board could elect not to authorize execution of the Ground Lease Amendment, the Option to Ground Lease or the Back-Up Ground Lease. Such action is not recommended, however, because such agreements, in combination with the Purchase & Sale Agreement, are necessary to provide funding for the construction of the new bus facility and assurance to MTA that its funds (in the form of abated rent) will be fully reimbursed.

FINANCIAL IMPACT

MTA will realize \$5,270,000 in sales proceeds, plus accrued interest, net of closing costs and fees, in FY '07, if the MTA sale of the School Site to LAUSD closes, as scheduled, in the third quarter of calendar year 2006. If escrow fails to close and if the UP Affiliate exercises its option under the Option to Ground Lease, MTA would realize ground rent under the Back-Up Ground Lease in the amounts detailed on Attachment B. Execution of the Purchase & Sale Agreement will result in \$120,000 in estimated relocation expenses accruing in either FY '04 or FY '05. This obligation arises as a result of MTA's deferred obligation to relocate the County from the 45,138 square foot office building situated on the School Site. Such obligation stems from MTA's acquisition of the property for Metro Red Line Segment 2, and will be covered by the Segment 2 project budget. At the time of acquisition, the County

agreed to continue its occupancy of the office building, in exchange for retention of its relocation rights with respect to any future termination of its lease.

DISCUSSION

On June 1, 2001, MTA, in cooperation with LAUSD, issued a Request for Proposals for the joint development of MTA's 6.85 acres of developable property over and near the Metro Red Line Wilshire/Vermont Station site. The RFP requested two separate proposals from each prospective development team: one, with an LAUSD middle school included in its development plan, and one without the school. After a thorough analysis of the submitted proposals, the evaluation panel selected and recommended a development team headed by Urban Partners, LLC as the preferred developer of the site under both the "school" and the "no school" development scenarios, and, in June 2002, the Board authorized staff to enter into an Exclusive Negotiation Agreement ("ENA") with Urban Partners for development of a mixed-use, residential/retail development on a 3.24-acre portion of the 5.83-acre block, an 800-student middle school on the block's remaining 2.59-acre School Site (oriented along Sixth and Shatto), and a bus plaza on the Wilshire/Shatto Parcel.

Shortly after execution of the ENA, Urban Partners and LAUSD requested that they each be allowed to negotiate and contract separately with MTA. LAUSD was concerned that issues specific to the apartment/retail development would delay or derail the development of their school. Urban Partners had similar concerns about negative impacts to the apartment/retail development resulting from LAUSD's lengthy property acquisition and funding approval process. At the same time, it became clear that the apartment/retail development and the school development did not need to be physically integrated. Staff consented to each party's request early last year and has pursued separate development arrangements since then. Staff informed the Board of this matter in May 2003, with its request for authorization to enter into the Ground Lease.

The Purchase & Sale Agreement provides for the sale of the School Site to LAUSD and development of a middle school on the same. Key terms and conditions of the Purchase & Sale Agreement are set forth on Attachment A and a conceptual site plan and elevations for the proposed school are illustrated on Attachment C. The Purchase & Sale Agreement contemplates a due diligence period that could take up to 28 months to complete. This lengthy due diligence period results, in part, from State funding and school construction requirements, and is typical for LAUSD acquisitions. To compensate MTA for such period, LAUSD will pay MTA, at closing, accrued interest on the \$5,207,000 purchase price accruing from the date occurring four months after the opening of escrow.

At present, a three-story, 45,138 square foot office building exists on the School Site. This building is occupied by the County of Los Angeles, under a lease with MTA. MTA has agreed, under the Purchase & Sale Agreement, to relocate the County from the office building, at MTA's sole cost, prior to the close of escrow. The obligation to relocate the County already exists under the County's lease, and would be an MTA requirement with any private developer. The estimated cost to relocate the County is \$120,000, including the cost of a relocation consultant. LAUSD has agreed to reimburse MTA's lost rent resulting from

the County's relocation. Such reimbursement will cease upon close of escrow, or, in the event escrow terminates, not more than six (6) months thereafter, subject to specific conditions and limitations set forth on Attachment A.

One of the parcels comprising the School Site (totaling approximately 0.40 acres in area) was purchased with federal funds as part of the Southern California Rapid Transit District's Advanced Land Acquisition Program. The use of federal funds requires the Federal Transit Administration to concur with the proposed School Site sale, which concurrence will be a contingency to both the commencement of LAUSD's due diligence period and the close of escrow under the Purchase & Sale Agreement.

The existing bus plaza, which is being eliminated to maximize the development potential of the Wilshire/Vermont station site, is a combination passenger loading/unloading area and layover facility. The new bus facility, however, will be a layover facility only, to accommodate Bus Operation's greater need for layover capacity. Six standard bus bays and five slots for 60-foot articulated buses will be provided on the 1.02-acre Wilshire/Shatto Parcel. The current plan for the layover facility is depicted on Attachment D.

Executing the Option to Ground Lease (and, ultimately, the Back-Up Ground Lease, if LAUSD fails to close escrow on the School Site) is consistent with the RFP evaluation panel's original selection of the Urban Partners development team as the preferred developer of the site under both the "school" and the "no school" development scenarios. Key terms and conditions of the Option to Ground Lease are set forth on Attachment B.

The \$5,207,000 valuation of the School Site was determined by an analysis of a February 14, 2003 appraisal of the site performed by Mason & Mason. The analysis was performed by the Sedway Group, an outside economic advisor to the MTA, and represents the fair market value of the site for joint development purposes. The pre-adjusted Back-Up Ground Lease Base Rent set forth on Attachment B is 9% of the \$5,207,000 valuation, and is both consistent with typical market valuation techniques and the method utilized to determine the base ground rent under the MTA's existing Ground Lease with WVHP.

NEXT STEPS

Upon approval of the recommended actions, the Chief Executive Officer will execute the Purchase & Sale Agreement with LAUSD, and, pursuant thereto, will subsequently execute a Grant Deed which will convey the School Site to LAUSD. The Chief Executive Officer will also execute the Ground Lease Amendment with WVHP and the Option to Ground Lease with the UP Affiliate.

ATTACHMENTS

- Attachment A Summary of Key Purchase & Sale Agreement Terms and Conditions
- Attachment B Summary of Key Option to Ground Lease Terms and Conditions
- Attachment C Conceptual Site Plan and Building Elevations for the Proposed Middle School
- Attachment D Conceptual Plan for the New Bus Layover Facility

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Executive Officer

Countywide Planning and Development

ROGER SNOBLE Chief Executive Officer

School Site: The School Site shall consist of the northeasterly 2.59-acre portion of

that total 5.83-acre block owned by MTA and bounded by Wilshire Blvd. on the south, Vermont Ave. on the west, 6th Street on the north, and Shatto Place on the east, including all appurtenances thereto, and

improvements and equipment thereon.

Retained Rights: LAUSD's purchase of the School Site shall be subject to certain

easements, reservations, restrictions and retained rights, reserved and retained for the benefit of MTA (the "Retained Rights"). Such

Retained Rights include easements covering the existing subway and its appurtenances, an easement allowing emergency exiting onto and through the School Site to "a safe point of refuge" from emergency exit hatches located on the site, and maintenance access to all surface

portions of the subway system located on the site.

"As Is" Sale Except as otherwise set forth herein, the School Site will be sold on an

"as is," "where is," and "with all faults" basis, subject to all conditions

which may exist affecting the same.

Improvements to be constructed by LAUSD:

LAUSD will develop and construct a public school on the School Site, which school will be operated as part of LAUSD's Los Angeles public school system (the "School"). MTA understands that it is LAUSD's intent to construct and operate a middle school for approximately 800 students on the School Site, but, that an elementary school, a high school or a different school population could be operated thereon, if

area demographics or LAUSD's needs should change.

Purchase Price: The purchase price for the School Site will be \$5,270,000, plus

accrued interest earned over the period commencing on the date occurring one hundred twenty (120) days following the opening of escrow and ending on the date occurring ten (10) days prior to the

close of escrow, net of typical closing costs and fees.

Earnest Money

Deposit:

Upon the opening of escrow, LAUSD will deposit \$150,000 into escrow, as an earnest money deposit toward the purchase of the School Site. In the event escrow does not close within one year, LAUSD will deposit an additional \$150,000 into escrow at that time. Until escrow closes, such deposits will be treated like rent to compensate MTA for taking the School Site off of the market for the benefit of LAUSD. Upon any early termination of escrow (except for any early termination of escrow) as LAUSD default and on the

termination of escrow resulting from an LAUSD default under the Purchase & Sale Agreement), the "unused portion" LAUSD's earnest

money deposits will be refunded to LAUSD.

LAUSD Reimbursement of MTA Expenditures:

LAUSD shall pay MTA, upon execution of the Purchase & Sale Agreement, that amount necessary to compensate MTA for those construction-related, engineering-related and design review costs MTA reasonably estimates it will incur in supporting construction and development of the School. LAUSD will provide MTA with additional funds for such purposes if the design of the School changes materially from that contemplated herein or does not logically evolve from the same, provided that such changes result in MTA incurring actual expenses in excess of the amounts previously provided by LAUSD for such purposes.

Term of Escrow:

The term of escrow is estimated to be 28 months, commencing on or about April 1, 2004, however, the parties will endeavor to close escrow prior thereto, if reasonably practicable.

Relocation of County from Office Building:

At present, a 45,138 square foot office building exists on the School Site and is occupied by the County of Los Angeles pursuant to a lease with MTA. MTA will terminate the County's lease and use reasonable efforts to relocate the County from the office building prior to the scheduled closing date. If, despite such efforts, MTA is unable to relocate the County from the office building prior to the scheduled closing date, the term of the escrow shall be extended for such reasonable time as is necessary to allow MTA to complete such relocation. Such relocation shall be at MTA's sole cost and expense. except that LAUSD shall reimburse MTA for that rent MTA would have received from the County, but for the termination of the County's lease and/or the County's relocation from the office building ("Gap Rent"). Gap Rent shall be due through close of escrow. If escrow is terminated, additional Gap Rent will be due until the earlier to occur of the following: (i) the date MTA secures a new tenant (or tenants) for the office building (if escrow is terminated) and such tenant(s) begin(s) paying rent equal to or greater than that rent which would have been due under the County's lease: (ii) the date MTA receives final compensation under a purchase & sale agreement for the sale of the School Site to a third party, (iii) the date MTA receives rent under a ground lease of the School Site to a third party which is equal to or greater than that rent which would have been due under the County's lease, and (iv) the date occurring six (6) months after the date escrow terminates. In the event MTA secures a tenant or more than one tenant for the office building or secures a ground lessee for the School Site, and such tenant(s) or ground lessee pay(s) rent that is less than the rent which would have been due under the County's lease, the amount of such new rent received by MTA shall be applied as a credit against the

Gap Rent due from LAUSD.

Reversion of School Site to MTA for failure to Construct and Operate the School in a Timely Manner:

To assure construction and operation of the School on the School Site, and, in the absence of the same, MTA control over any other development of the School Site, MTA will retain an option to have the School Site revert back to the MTA, in the event: (a) LAUSD does not commence construction of the School within two (2) years following the close of escrow; (b) LAUSD does not complete construction of the School within three (3) years after commencement of construction; and (c) LAUSD does not commence operation of the School within one (1) year after completion of construction (each a "Reversion Event"). (The deadlines set forth in the preceding sentence are all subject to extension due to force majeure.) In the event the School Site reverts to MTA as a result of a Reversion Event:

- 1. MTA shall refund to LAUSD the amount of the net purchase price received by MTA at close of escrow, plus accrued interest earned thereon from such date to the date that the School Site reverts to the MTA (the "Refunded Amount").
- 2. LAUSD will clear from title any intervening title matters that became of record after the Closing Date which MTA reasonably requests LAUSD to clear, will remove all improvements constructed by or on behalf of LAUSD on the School Site which MTA requests LAUSD to remove, and will deliver the School Site back to MTA in the same condition as such property was in when delivered to LAUSD on the close of escrow, ordinary where and tear and demolition of the office building excepted. (In the event LAUSD does not meet its obligations hereunder, MTA may perform the same and may deduct the reasonable cost of the same from the Refunded Amount.)
- 3. LAUSD will pay closing and transactional costs related to the reversion of the School Site back to MTA.

Design Review and Approval:

Upon receipt of MTA Board authorization to execute the Purchase & Sale Agreement, LAUSD shall develop more-detailed schematic plans and specifications for the School that are consistent with and logically evolve from the conceptual site plan and building elevations attached hereto as Attachment C (the "Conceptual Plan"). Such plans and specifications shall be submitted to MTA for review and approval, and once approved, shall be attached as a "baseline" to the Purchase & Sale Agreement as the "Approved Plans" thereunder. LAUSD will

construct the School pursuant to plans, specifications and other construction documents that are consistent with and logically evolve from the Approved Plans, and any proposed design or construction that is materially inconsistent with the Approved Plans, that does not logically evolve from the same, or that negatively affects MTA's exercise of its Retained Rights (or construction necessary to accommodate the same) will be subject to further MTA design review and approval. Throughout the design and construction process, LAUSD will consult and coordinate closely with MTA regarding the design and construction of the School.

New Bus Layover Facility/LAUSD's Share of Construction Cost: In order to free-up developable land on the School Site and on the adjacent 3.24-acre WVHP ground leased site, MTA will cease operations on the existing bus plaza (located primarily on the School Site and partially on WVHP's ground leased site) upon completion of a new bus layover facility to be constructed the 1.02-acre Wilshire/Shatto Parcel. The new bus layover facility will be constructed by an affiliate of WVHP pursuant to plans and specifications approved by MTA and consistent with the conceptual plan for the same attached as Attachment D. In addition to any other amounts to be paid to MTA by LAUSD pursuant to the Purchase & Sale Agreement, LAUSD shall pay to MTA, or to MTA's designee, at close of escrow, the amount of \$479,954, representing LAUSD's share of the cost to construct the new bus layover facility.

Summary of Key Option to Ground Lease Terms and Conditions

The Back-Up Ground

Lease:

The Back-Up Ground Lease covering the use of the School Site by the UP Affiliate shall be an unsubordinated ground

lease agreement.

The Leased Premises:

The premises to be leased shall consist of the School Site.

Retained Rights:

The Back-Up Ground Lease shall be subject to certain easements, reservations, restrictions and retained rights, reserved and retained for the benefit of MTA. Such retained rights include easements covering the existing subway and its appurtenances, an easement allowing emergency exiting onto and through the School Site to "a safe point of refuge" from emergency exit hatches located on the site, and maintenance access to all surface portions of the subway system located on

the site.

Proposed Improvements:

The UP Affiliate shall construct and develop a mixed-use housing and retail development, consistent with the mixed use development being developed by WVHP on the property lying adjacent to the School Site, in accordance with plans and specifications approved by MTA. Such mixed-use development will integrate architecturally and aesthetically with the WVHP development and will provide adequate public pedestrian linkages to the public plaza being constructed as part of the WVHP development from Vermont Avenue and

Sixth Street.

Term:

The initial term of the Back-Up Ground Lease shall be coterminus with the 55-year initial term of the WVHP Ground Lease. In addition, the UP Affiliate shall have four (4) successive 11-year options to extend the ground lease term (each, an "Option Period").

Pre-Construction Period:

The UP Affiliate shall be provided with a reasonable "Pre-Construction Period" under the Back-Up Ground Lease to conduct reasonable pre-construction due diligence on the School Site, and to design and obtain entitlements for their proposed development. It is anticipated that such Pre-Construction Period will last no more than one year.

Pre-Construction Rent:

The UP Affiliate shall make a non-refundable option payment to MTA upon execution of the Back-Up Ground Lease in an amount equal to \$8,333.33 per month (in February 2004

Summary of Key Option to Ground Lease Terms and Conditions

dollars, as adjusted for inflation pursuant to increases in the Consumer Price Index ("CPI")) multiplied by each month of the Pro Construction Paris d

the Pre-Construction Period.

Construction Period: MTA and the UP Affiliate shall negotiate a reasonable period

for construction of the proposed mixed-use development. Past experience indicates that such Construction Period should be

no more than 36 months long.

Construction Period

Rent:

The UP Affiliate shall pay monthly "Construction Period Rent" over the Construction Period equal to 50% of the Base

Rent defined below.

Base Rent: Starting upon expiration of the Construction Period, the UP

Affiliate shall pay "Base Rent" in the amount of \$39,525 per month (in February 2004 dollars, as adjusted for inflation pursuant to increases in the CPI, and as further adjusted to reflect MTA requested betterments or retained rights not contemplated in the \$5,270,000 valuation of the School Site) The public pedestrian linkages from the public plaza being constructed as part of the WVHP development to Vermont Avenue and Sixth Street would be an example of such

betterments and retained rights.

CPI Increases: Base Rent shall be increased by an amount equivalent to the

cumulative increase in the CPI on the 5th anniversary of commencement of the Back-Up Ground Lease and every 5

years thereafter, subject to the following limitations:

 Rent Increase in Lease Year:
 5
 10, 15
 20 - end

 Maximum Increase:
 10%
 15%
 20%

 Minimum Increase:
 5%
 7.5%
 10%

Market Adjustments: Base Rent shall be adjusted at each Market Adjustment Date

(as defined below) to the greater of (a) 9.00% of the thencurrent market land value, to be determined by an appraisal of the property as improved with the proposed development, or (b) the CPI-adjusted Base Rent in place immediately prior to

such Market Adjustment Date.

"Market Adjustment Dates" shall occur on the 35th anniversary of the commencement of the Back-Up Ground Lease and on

the commencement of each Option Period.

Summary of Key Option to Ground Lease Terms and Conditions

Right of First Offer: If MTA elects to offer the property underlying the School Site

for sale at any time during the term of the Back-Up Ground Lease, the UP Affiliate shall have an ongoing right of first offer, consistent with the right of first offer provided in the

WVHP Ground Lease.

MTA Right to MTA shall have termination rights under the Back-Up Ground

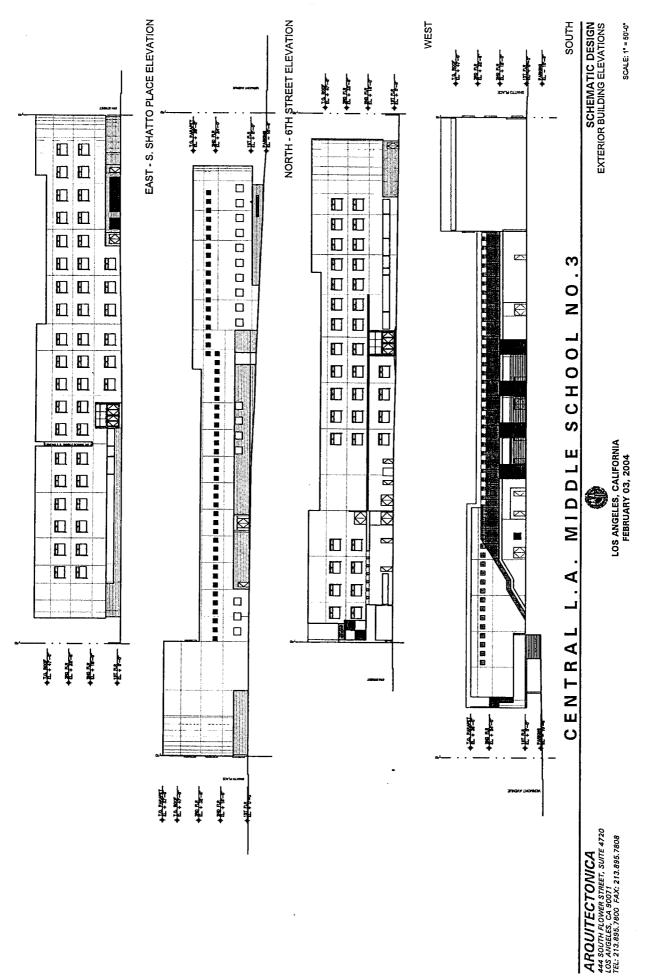
Terminate: Lease consistent with those provided in the WVHP Ground

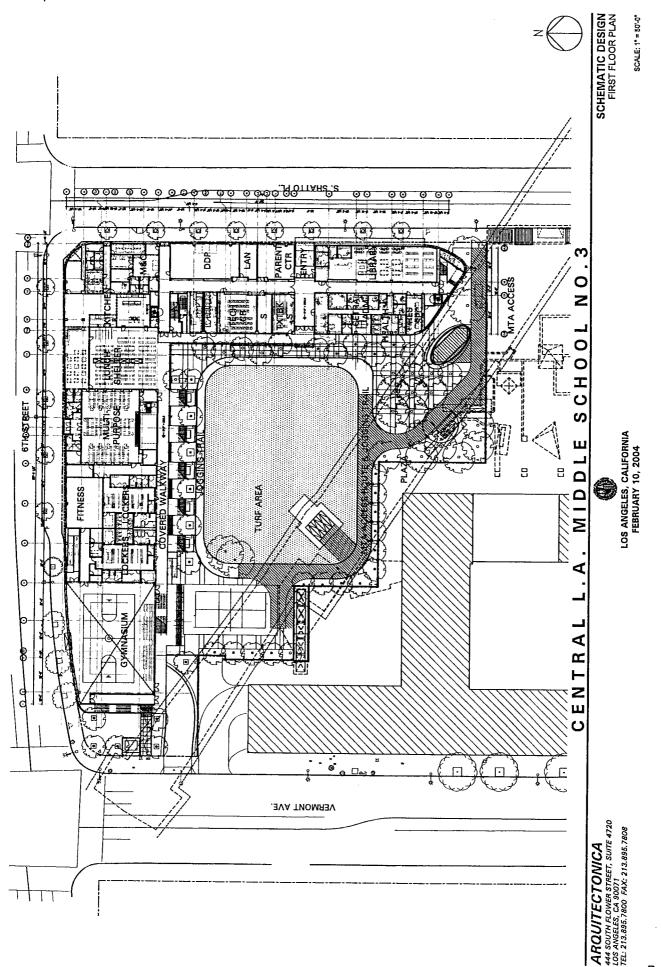
Lease.

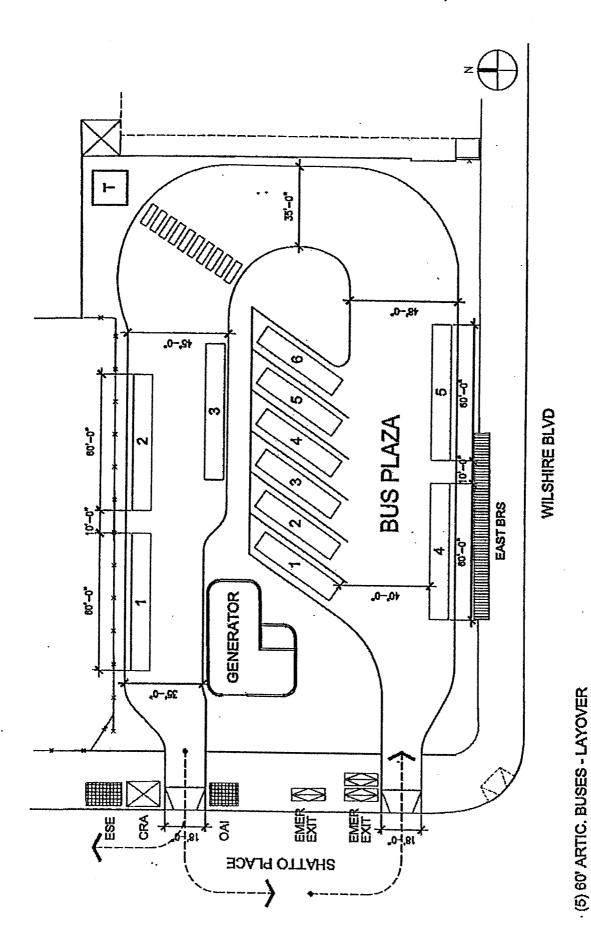
Other Provisions: Other provisions of the Back-Up Ground Lease will be

consistent with the terms and conditions of the WVHP Ground

Lease, to the extent applicable.







BUS PLAZA - REVISED SCALE: 1" - 40"0"

WILSHIRE-VERMONT MTA BUS PLAZA 01.23.2003

(6) 40' BUSES (2) DRIVER TOILETS

ARQUITECTONICA

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