

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: December 8, 2017

TO: Honorable Members of the City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No: 14-0425-S4
Assignment No: 17-12-1126

CRA/LA FUTURE DEVELOPMENT OPTION SITE ANGELS LANDING

SUMMARY

On March 21, 2017, Motion (Huizar-O'Farrell, C.F. 14-0425-S4, Attachment A) was introduced instructing the Office of the Chief Legislative Analyst (CLA), with the assistance of the Economic and Workforce Development Department (EWDD), City Administrative Officer (CAO), and City Attorney, to serve as the lead City Department in soliciting development interest of real property located at 361 South Hill Street (A.P.N. 5149-010-939) in Downtown Los Angeles (Site). The Site is owned by CRA/LA, A Designated Local Authority, but controlled by the City of Los Angeles (City) through an Option Agreement dated January 8, 2015 (C.F. 14-0425). The Option Agreement allows the City to market and develop the Site in a manner that is consistent with the redevelopment objectives of the Bunker Hill Redevelopment Plan and in a manner that best serves the needs of the City and affected taxing entities.

Through EWDD, the City hired Jones Lang LaSalle as its consultant to assist in the public solicitation and evaluation process to identify and select a preferred development team for the Site. As a marketing strategy, the Site was branded "*Angels Landing*" to pay homage to the City and its neighboring parcel, the Historic Angels Flight. Marketing material was distributed on a global scale to draw as much interest as possible.

On April 12, 2017, the City released a Request for Qualifications (RFQ) via its Los Angeles Business Virtual Network to seek qualified developers capable of building a product that not only meets the development potential of the Site, but also meets key City objectives. Responses were due on May 22, 2017, and the City received 10 qualified responses. The Angels Landing Review Panel, comprised of representatives from various City departments and the business community, evaluated and scored the proposals. The top four scored development teams were invited to participate in the next phase of the public solicitation process.

On August 7, 2017, the City released a Request for Proposals (RFP) to the four selected development teams from the RFQ process. Responses were due on October 16, 2017, and the City received three qualified proposals: Angels Landing Development Partners, LLC; Angels Landing Partners, LLC; and the Onni Group. The same Angels Landing Review Panel that served during the RFQ process evaluated the proposals and interviewed the development teams on October 23, 2017. A community presentation was held the same night to allow the public an opportunity to comment on the proposed project concepts.

At the conclusion of this process, Angels Landing Partners, LLC (ALP), received the highest overall score of the three development teams. ALP, which is joint venture of The Peebles Corporation, MacFarlane Partners, and Claridge Properties, is proposing to build a world-class mixed-use development

(Project) consisting of two hotels, multifamily housing, condominiums, restaurant and retail spaces, open space, and a K-5 public charter school. Some of the key tenant partnerships include SBE as the hotel operator with two complementary brands, the SLS and Mondrian Hotels, and Los Angeles Academy of Arts and Enterprise as the public charter school operator. The Project looks to provide community benefits in the form of affordable housing opportunities, business opportunities for Minority and Women Business Enterprises, an academic institution, and a hospitality training program. During construction, the project would generate an estimated \$54.3 million in one-time fiscal impacts to the City and \$12 million in annual on-going revenue once the project reaches stabilization.

The CLA's Office has reviewed the recommendation provided by the Angels Landing Review Panel and recommends that the City Council select ALP to develop the Angels Landing Site and provide the CLA the authority to negotiate and execute an Exclusive Negotiation Agreement with ALP.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. DETERMINE that the City-controlled property referred to as Angels Landing located at 361 South Hill Street (A.P.N. 5149-010-939) (Angels Landing) is an Economic Development property under the Asset Management Strategic Planning Asset Evaluation Framework;
2. APPROVE the selection of Angels Landing Partners, LLC, as the preferred development team to purchase and develop the Angels Landing in accordance with the terms of the Option Agreement by and between the City of Los Angeles (City) and CRA/LA, A Designated Local Authority (CRA/LA), dated January 8, 2015 (Contract No. C125178);
3. INSTRUCT the Chief Legislative Analyst (CLA) and REQUEST that the City Attorney, with the assistance of the City Administrative Officer (CAO) and Economic and Workforce Development Department (EWDD), to negotiate and execute an Exclusive Negotiation Agreement (ENA) with Angels Landing Partners, LLC (ALP), a joint venture between The Peebles Corporation, MacFarlane Partners, and Claridge Properties, to effectuate the purchase and sale of Angels Landing and incorporate requirements that the proposed project provide the City with certain community benefits;
4. INSTRUCT the CLA and CAO, with the assistance of EWDD, to report to Council on the proposed term sheet for a Disposition and Development Agreement with ALP; proposed term sheet for a Purchase and Sale Agreement with CRA/LA for the purchase of Angels Landing; proposed term sheet for a Purchase and Sale Agreement with ALP for the subsequent sale of Angels Landing, and terms for any other necessary documents to effectuate the purchase and sale, and that will include a list of required community benefits; and
5. AUTHORIZE and INSTRUCT the CLA to hire consultants necessary to evaluate the proposed Angels Landing development; ACCEPT \$150,000 for consultant services from ALP to analyze the economic and financing associated with this instruction; REQUEST/AUTHORIZE/INSTRUCT the City Controller to deposit/appropriate/expend all funds received as a result of this action in Fund 100, Department 28, Contractual Services Account 3040; and AUTHORIZE the CLA to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action.

FISCAL IMPACT STATEMENT

Approval of the recommendations in this report will not have an impact on the General Fund. The extent of any future impact on the General Fund is unknown at this time.

BACKGROUND

Option Agreement

On December 16, 2014 (C.F. 14-0425), the City Council authorized the Mayor, or designee, to execute Option Agreements related to the transfer of 10 real property interests held by CRA/LA, A Designated Local Authority (CRA/LA) classified as “Property Retained for Future Development” (Future Development) under the Long Range Property Management Plan approved by the State Department of Finance. CRA/LA is the successor agency to the former Community Redevelopment Agency of the City of Los Angeles. AB1484 (Blumenfield) affords an opportunity for successor agencies to retain certain assets for future development to fulfill redevelopment objectives within the redevelopment plans and five-year implementation plans. CRA/LA does not have the capacity to carry out any new development activity so the City has been provided the opportunity to take on this effort. The Option Agreements allow the City to market and develop the 10 Future Development sites in a manner that is consistent with the redevelopment objectives and best serves the needs of the City and affected taxing entities. Most of the Option Agreements were fully executed in January 2015 and eight of the 10 properties are now under the control of the City. Two properties were returned to CRA/LA due to the City’s inability to exercise the Option.

Consistent with the State redevelopment dissolution statutes, the Option Agreement requires that the property be purchased from CRA/LA at fair market value (FMV). In accordance with the terms of the Option Agreement between the City and CRA/LA, the FMV of the property will be determined by an average of appraised values obtained by the City and CRA/LA. The FMV only represents the transfer value between the City and CRA/LA. Under the terms of the Option Agreement, the final transfer value between the City and CRA/LA must be based on appraisals completed within six (6) months of the sale and will ultimately represent the minimum sales price the City will accept as compensation from the selected developer for the underlying fee interest in the property.

Site Description

Among the eight remaining Future Development sites is real property located at 361 South Hill Street (A.P.N. 5149-010-939) (Site). The Site, commonly referred to as Bunker Hill Parcel Y-1, is a 2.24 acre commercially zoned parcel located on the southern edge of Bunker Hill in Downtown Los Angeles. It is bordered by Hill Street to the east, Olive Street to the west, 4th Street to the south, and the Historic Angels Flight parcel to the north. It also serves as a nexus between the Historic Core and Bunker Hill neighborhoods and includes a portal to the Metro Pershing Square Station providing for access to transit throughout the City. The Site was originally purchased by the former redevelopment agency as part of its Bunker Hill renewal project and remains one of the last sizeable development parcels in the Downtown Los Angeles.

The Bunker Hill Specific Plan, in conjunction with the Site’s C2-4D zoning, allows for residential and commercial mixed-uses, and provides the Site with a floor area ratio of approximately 13:1. This allows for development potential of up to 1.3 million square feet with unlimited developable height, making it an unrivaled opportunity to make a significant mark on the Downtown Los Angeles skyline. The FMV of the Site was last appraised in early 2017 for \$45,700,000.

Public Solicitation Process

In an effort to effectively market the Site, the City hired Jones Lang LaSalle as its consultant to assist in a public solicitation and evaluation process to identify and select a preferred development team. Pre-marketing efforts were conducted in the first quarter of 2017 to draw developer interest. As part of this effort, the Site was branded "*Angels Landing*" to pay homage to the City of Los Angeles and its neighboring parcel the Historic Angels Flight. Marketing material was distributed through various forms of media to reach interest on a global scale.

The pre-marketing process was followed by a RFQ and subsequent RFP to identify qualified developers capable of building a product that not only met the development potential of the Site, but also met key City objectives as follows:

1. Maximize density and floor area ratio (FAR) on the Site with the highest level of intensity, creating a high-energy urban experience with a mix of uses;
2. Provide publicly accessible open space and incorporate community amenities into the development including the Historic Angels Flight funicular; and
3. Provide active and accessible linkage between the residential, office, and cultural amenities on Bunker Hill and the Los Angeles County Metropolitan Transportation Authority (Metro) regional transportation system portal for pedestrians, transit users, and cyclists.

Request for Qualifications

On April 12, 2017, the City released a RFQ through its Los Angeles Business Assistance Virtual Network to solicit development interest in Angels Landing. Interested parties were allotted 40 calendar days to provide responses to the RFQ which were due on May 22, 2017. The City received 10 qualified responses to the RFQ that were evaluated and scored by the Angels Landing Review Panel made up of representatives from various City departments and the business community. The evaluation criteria was based on the following:

- Financial – an evaluation of the team’s financial information submitted; the team’s past ability to commit sufficient equity to the project to satisfy conventional lending requirements; the team’s past ability to secure financing for similar projects, including relationships with current lenders; the team’s financial standing, capacity, experience, and resources to undertake, finance and the deliver the project; an evaluation of the team’s experience over the last 10 years in closing the financing of at least three projects of similar size and nature to that described in the RFQ, each in excess of \$100 million of debt and/or equity; and confirmation that the team’s experience with at least one of the projects meeting the requirements above was under the control of the equity member for at least four years following the financial close and the project is currently in operations.
- Technical – an evaluation of the proposed project concept; the assembled team includes a Developer with experience in planning, designing, and constructing projects in a downtown urban environment similar to the respondent’s proposed concept, within the last ten years; the Designer/Architect with experience, as lead architect, in designing projects in a downtown urban environment similar to the respondent’s proposed concept, within the last ten years; any other key personnel; and the team’s experience and capability to successfully entitle projects from the concept state, through construction, and post construction mitigation; and an evaluation of the team’s past projects and performance.

- **Key Personnel Evaluation** – an evaluation of the assembled team members; an evaluation of the respondent's key personnel and their ability to meet the applicable minimum qualifications outlined in the RFQ.

The top four scoring development teams were selected to participate in the subsequent RFP phase. The final scores for the ten proposals received are listed below.

No.	RFQ Response Development Team	Score
1	Angels Landing Partners*	563
2	Trammell Crow*	563
3	Angels Landing Development Partners*	537
4	Onni Group*	519
5	Mack Urban	485
6	CIM Group	392
7	Carpenter & Company	378
8	Project Development Enterprise	374
9	Intergulf	350
10	Brookfield/Rising Realty	n/a

*Top four scores

Request for Proposals

On August 7, 2017, the City released a Request for Proposals (RFP) to the four development teams with the highest scores from the RFQ process. The teams were allotted 65 days to prepare their responses to the City, with required milestones along the way.

On August 17, 2017, the City conducted a Technical Briefing that included in-depth presentations on relevant technical issues such as land use and entitlements, the Pershing Square Metro Station, the Historic Angels Flight Railway, and Grand Performances. Representatives from City Planning, the Department of Building and Safety, the Fire Department, the Los Angeles County Metropolitan Transportation Authority, Angels Flight Railway Foundation, and Grand Performances presented information to help guide the project concepts being contemplated by each individual team.

On September 11, 2017, the City held a Design Review that was an opportunity to provide participants with feedback on how the design of the project meets key City objectives, as previously mentioned and further described in the RFP. Representatives from various City Departments including the Chief Legislative Analyst, City Administrative Officer, Mayor's Office, Council District 14, City Planning, the Bureau of Engineering, and the Angels Landing Review Panel were given an opportunity to provide constructive feedback to the development teams on their preliminary design concepts. The goal was to help guide the design process to make certain City policies and objectives were being incorporated.

Responses to the RFP were due on October 16, 2017, and the City received three qualified responses: Angels Landing Development Partners, LLC; Angels Landing Partners, LLC; and the Onni Group. The three proposal were evaluated and scored by the same City panel that served during the RFQ stage. The evaluation criteria was based on a review of the following categories:

- **Project Concept** – overall design of the project; open space and public integration; accessibility and linkages; sustainability; and degree to which respondent's project schedule presents a credible approach to efficient execution of the project.

- Development Team – expertise of the project team and personnel’s ability to plan, design, finance, construct, manage, and operate the proposed project; relevant experience of the individual personnel assigned to the project.
- Financial Capabilities and Pricing – development team’s ability to commit sufficient equity to the project to satisfy conventional lending requirements; development team’s ability to secure financing for similar project, including relationships with current lenders; project financing plan; evaluation of value offered for the Site; and economic benefits and revenue generated by the project.
- Community Outreach – degree to which the community outreach plan presents a credible approach to engaging the community and stakeholders and soliciting input during the development process.

On October 23, 2017, the Angels Landing Review Panel interviewed the three participating development teams to allow for an opportunity to gain further insight on the proposed project concept, the financial strategy and capacity to finance the project, and on the plan to engage the community throughout the development process. Later the same day, the three development teams participated in a community presentation to provide residents and the business community an opportunity to review the project concepts and provide feedback.

At the conclusion of the above, the Angels Landing Review Panel finalized their scores, which resulted in Angels Landing Partners, LLC, receiving the highest overall score the group. ALP received 553 out of 600 points total and were ranked first by five out of the six review panelists. Their proposal excelled above the other teams in the Project Concept and Community Outreach component. They were on par with the other teams in the Development Team category and fell slightly below their competitor with a project of similar nature in the Financial Capabilities and Pricing category. The final scores for the three proposals received are listed below.

No.	RFP Response Development Team	Score
1	Angels Landing Partners, LLC	553
2	Onni Group	543
3	Angels Landing Development Partners, LLC	438

Angels Landing Partners, LLC

Angels Landing Partners, LLC (ALP), is a joint venture between The Peebles Corporation, MacFarlane Partners, and Claridge Properties. Founded in 1983 by Chairman and Chief Executive Officer R. Donahue Peebles, The Peebles Corporation (Peebles) is recognized as one of the largest minority-owned real estate development companies in the nation, having acquired and developed a multi-billion dollar portfolio of luxury hotels, high-rise residential, and class-A commercial properties over the course of its history. Peebles is headquartered in New York City and Miami. MacFarlane Partners Investment Management (MacFarlane) was founded in 1987 by Victor B. MacFarlane, Chairman and Chief Executive Officer. MacFarlane is a minority-owned real estate investment management firm that develops, acquires, and manages properties on behalf of some of the world’s largest pension plans and institutions. The firm is headquartered in San Francisco and operates a regional office in Los Angeles. Claridge Properties (Claridge) is a real estate firm with an 18-year history of successfully acquiring, developing, and operating urban in-fill real estate assets with a primary focus on major U.S. gateway cities including New York City, Detroit, and Los Angeles. Claridge was founded by Ricardo Pagan, Chief Executive Officer. ALP is partnered with Handel Architects (Handel), an architecture, interior design, and planning firm that began in New York City in 1994. Handel is regarded as a world-class

design architect firm responsible for many iconic projects primarily in San Francisco and Los Angeles. Glenn Rescalvo FAIA, Partner-in-Charge, is a founding partner of Handel.

Together, ALP and Handel have demonstrated a strong track record of successful and innovative developments of residential, commercial, and mixed-use properties in Los Angeles and throughout the United States. A shortlist of successful developments include The Hotel & Residences at L.A. Live, Wilshire Grand Center, Ten Thousand Santa Monica, Times Warner Center (New York), 15 Central Park West (New York), and the Beach Club (Miami). ALP is a 100 percent minority-owned development entity committed to exceeding the Minority and Women Business and Enterprise (M/WBE) participation requirements and generating significant and diverse employment opportunities.

Project Concept

ALP's vision for the Angels Landing Site is to create an active, vibrant, unique, and regionally significant mixed-use landmark by creating a distinctive urban design that connects and enhances the multifaceted character of the neighboring areas through diversity of program and activity. This vision is presented in their proposal to build a 1.27 million square foot world-class mixed-use development that includes two towers over a shared podium with a multitude of uses including residential, hotel, restaurant and retail space, a public institution, and an array of open space elements (Project). One tower is 24 stories and the second tower is 88 stories, rising above its neighboring Cal Plaza One and Two buildings. A summary of the proposed development in approximate figures is as follows:

- 400 residential rental units
- 250 condominium units
- 500 luxury/lifestyle hotel rooms (operated by SBE and divided between the SLS and Mondrian Hotels)
- 50,000 square feet of restaurant and retail space
- 32,500 square feet for a K-5 public charter school operated by the Los Angeles Academy of Arts and Enterprise (LAAAE)

ALP has indicated they are committed to providing five percent or approximately 20 units of affordable rental housing units, reserved for individuals earning between 80 to 120 percent of the area median income.

Another highlight of ALP's project concept is the inclusion of approximately 54,000 square feet of publicly accessible open space which translates to approximately 58 percent of the Site. The open space component includes a 13,700 square foot plaza and a 25,400 square foot flexible-use, multi-season public terrace located in the center of the project. The open space will be programmed to host year-round recreational, entertainment, and arts-oriented activities and events to engage the public and activate the site and surrounding neighborhoods.

Proposed Purchase Terms

The following is a summary of the proposed purchase terms under which ALP would acquire the Site:

- Purchase Price: \$50 million
- Deposits: \$1.1 million provided in various stages and conditions as described in the ALP proposal
- Due Diligence Period: 120 days but subject to extensions if a due diligence report, as described in the ALP proposal, reports a recommendation that additional time is necessary to investigate

- Contingencies / Conditions: Subject to environmental studies and issues requiring mitigation, levels of affordable housing and community space outlined, receipt of a Hotel Incentive Agreement from the City, design and use flexibility in response to changing situations and environments

Although ALP has offered to purchase the Angels Landing Site for \$50 million, which exceeds the current appraised value of \$45.7 million, the Option Agreement requires that the property be purchased from CRA/LA at fair market value. As a result, the final purchase price will be subject to an updated appraisal completed within six (6) months of the sale of the property and will be the minimum purchase price the City will accept for the Site. The final purchase price will be subject to further negotiations with the City and will be established in a future Purchase and Sale Agreement.

The Deposits, Due Diligence Period, Contingencies/Conditions, and any other terms and conditions not mentioned here are subject to further negotiations with the City and will be included in an Exclusive Negotiation Agreement between the City and ALP.

Proposed Project Financing

ALP's cost to acquire the Site and develop the proposed project is approximately \$1.2 billion. Of that amount, 70 percent, or approximately \$827 million, would come from debt financing and the remaining 30 percent, or approximately \$355 million, would come from equity financing. Letters of interest for financing were included in ALP's proposal from the Bank of the Ozarks for debt financing and Ares Management for equity financing.

The ALP project also contemplates receiving gap financing in the form of a Hotel Development Incentive Agreement from the City similar to those provided to other hotel developments in the Downtown Los Angeles area. The City has entered into such Agreements with developers in an effort to boost the amount of hotel rooms available to attract more tourism and increase use of the Los Angeles Convention Center. As the project scope is further defined, the project financing will be further evaluated for eligibility of a Hotel Development Incentive Agreement and value engineering will be part of the project moving forward in an effort to minimize the need for a Hotel Development Incentive Agreement. A Hotel Development Incentive Agreement from the City is not guaranteed. The City will further refine the financing elements in negotiations, including any proposed Hotel Development Incentive Agreement and the impacts on City revenues. During this process, the City will evaluate the request for Hotel Development Incentive Agreement and work with ALP to value engineer the design to reduce project costs. ALP has indicated that the project timeline and feasibility are not dependent on receipt of a Hotel Development Incentive Agreement and that the City would receive a world-class mixed-use development regardless of receiving such a Hotel Development Incentive Agreement.

Projected Economic Benefits

During the construction period, the Project is estimated to generate a direct, indirect, and induced total output of approximately \$1.6 billion in the Los Angeles County economy. Direct, indirect, and induced earnings during the same period are projected to be approximately \$731 million and 8,285 worker years would be generated. Construction employment is expressed in total job-years, where a job-year is defined as one year of employment for one employee. The City would receive approximately \$54.3 million in one-time fiscal impacts generated from the Project.

During the ongoing operations of the Project, the economic impacts would result in approximately \$105.9 million in direct, indirect, and induced annual output in the Los Angeles County economy. There would be approximately \$28.6 million in direct, indirect, and induced earnings and 709 jobs would be generated.

The on-going annual fiscal revenue to the City is projected to be approximately \$12 million in the first stabilized year projected to be 2027. This amount does not factor out any proposed Hotel Development Incentive Agreement included in the financing of the Project. The figures presented above are current projections and are subject to change as the project is further refined.

Proposed Community Benefits

The Community Benefits provided by the Project include an affordable housing component that would reserve five percent, or 20 apartment units, for individuals or families earning 80 to 120 percent of the Area Median Income. The final percentage of affordable housing included in the Project will be subject to further negotiations with the City.

The Project would generate business opportunities for Minority and Women Business Enterprise (M/WBE) firms with a target participation rate of 25 percent. The inclusion of a K-5 public charter school would benefit the growing population of residents in the Downtown Los Angeles area. ALP also proposes to include a hospitality training program that would provide career building opportunities for the community.

Proposed Development Schedule

Upon selection as the “Developer” of the Angels Landing Site, ALP has estimated entering into an Exclusive Negotiation Agreement (ENA) with the City within three months, depending on their due diligence period findings. State and City approvals needed to obtain environmental clearances and secure entitlements is projected to take 17 months. The Design development period would take up to 24 months. Construction is estimated to take 41 months with a projected completion date of December 31, 2024.

Option Agreement Schedule

The initial term of the Option Agreement for Angels Landing expires on January 10, 2018. On November 6, 2017, the City, through the Office of the Mayor, submitted a written request to the CRA/LA to exercise an 18-month extension already contemplated in the Agreement. The CRA/LA Governing Board will consider the request at its regular meeting on January 4, 2018. According to the proposed development schedule, the additional 18 months would provide ALP with sufficient time to obtain the necessary State and City approvals that will allow them to enter into a Disposition and Development Agreement and related Purchase and Sale Agreement for Angels Landing.

Exclusive Negotiation Agreement

Should Council approve the selection of Angels Landing Partners, LLP, City staff would immediately begin negotiating the terms and conditions of the ENA. A sample draft of an ENA was included in the RFP to allow participants an opportunity to familiarize themselves with the document and provide any comments if they were selected as a result of the RFP. During the term of the ENA, the City and ALP will work to complete a Disposition and Development Agreement and Purchase and Sale Agreement that would allow the City to exercise its Option with CRA/LA.


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