

CITY OF LOS ANGELES

CALIFORNIA



ERIC GARCETTI
MAYOR

JAN PERRY
GENERAL MANAGER

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

June 1, 2016

Council File: 15-0565
Council District No: 9
Contact Person:
Samuel Hughes: (213) 744-9723

Economic Development Committee
Los Angeles City Council
c/o Maria Espinoza
City Clerk
Room 395 City Hall

COMMITTEE TRANSMITTAL: DIRECT SALE OF CITY-OWNED PROPERTY LOCATED AT 703 AND 703 ½ WEST 40th PLACE ALSO KNOWN AS 704-706 WEST MARTIN LUTHER KING JR. BOULEVARD TO CELEBRITY REALTY HOLDINGS, LLC

RECOMMENDATIONS

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

1. DETERMINE that the sale of the City-owned property located at 703 and 703 ½ West 40th Place also known as 704-706 West Martin Luther King Jr. Boulevard to Celebrity Realty Holdings, LLC will assist in the economic development of the City and that the public interest is best served by the direct sale of the property;
2. APPROVE the form and substance of Purchase and Sale Agreement, Grant Deed, and Covenant Agreement, prepared by City Attorney, based on the terms specific in this report for the sale of the property at 703 and 703 ½ West 40th Place also known as 704-706 West Martin Luther King Jr. Boulevard to Celebrity Realty Holdings, LLC for the fair market value of \$740,000;
3. REQUEST City Attorney to prepare an Ordinance providing for the sale of the property at 703 and 703 ½ West 40th Place also known as 704-706 West Martin Luther King Jr. Boulevard to Celebrity Realty Holdings, LLC as described in this report, without notice of sale or advertisement of bids, as justified by the economic benefits the Project will generate in the public interest;

4. AUTHORIZE the General Manager, Economic and Workforce Development Department (EWDD), to execute the Purchase and Sale Agreement and to complete the transaction if all contingencies are met, subject to completion of California Environmental Quality Act (CEQA) review, and process the necessary documents to execute the sale and deposit the proceeds into the appropriate accounts, as directed by the Los Angeles Administrative Code and as approved to form and substance by the City Attorney;
5. APPROVE receipt of sales proceeds into the Low and Moderate Income Housing Asset Fund; and
6. AUTHORIZE EWDD to make technical corrections or adjustments that may be required and are consistent with this action, subject to the approval of the City Administrative Officer (CAO).

FISCAL IMPACT STATEMENT

The proposed sale is for City-owned property located at 703 and 703 ½ West 40th Place also known as 704-706 West Martin Luther King Jr. Boulevard in Council District 9 to Celebrity Realty Holdings, LLC for the fair market value of \$740,000. Sale proceeds will be deposited into the Low and Moderate Income Housing Fund. Upon occupancy, the Project is projected to generate ongoing annual Property and Utility Users tax revenues. The proposed transaction is in accordance with Charter Section 385 (Sale of Property), and Los Angeles Administrative Code Sections 7.27 and 7.27.2.

BACKGROUND

On March 27, 2013, the California Department of Finance approved the transfer of housing assets consisting of 703 and 703 1/2 West 40th Place also known as 704 – 706 West Martin Luther King Jr. Boulevard from the former Community Redevelopment Agency of Los Angeles (“CRA/LA”). On May 8, 2014 the former CRA/LA transferred the property via quit claim deed to the Housing and Community Investment Department of Los Angeles (“HCID”). HCID subsequently determined that the property is too small to develop affordable housing and adjacent lots would need to be purchased in order to effectuate an affordable housing development

On December 22, 2015 HCID and EWDD executed a Memorandum of Understanding to facilitate the potential development of the property for economic development purposes and upon sale, deposit sales proceeds into HCIDLA’s Low and Moderate Income Housing Asset Fund (“LMIHF”). The Property is a vacant lot consisting of two parcels totaling approximately 7,830 square feet. It is partially zoned R3-1, Multiple Dwelling Zone use on the southern portion and C2-1, Commercial use on the northern portion. Surrounding the property there is a mixture of commercial and residential uses including commercial lots immediately to the north and west used as parking for the Los Angeles Memorial Coliseum and Sports Arena, Exposition Park, and USC swim stadium. The property has been vacant for nearly three decades since acquired by the former CRA/LA and there are no immediate plans to develop it for residential purposes. The private market has shown interest in developing the Property for commercial use and there is strong economic potential for the site as it’s located on a major commercial corridor and in close proximity to various special event venues and other commercial uses.

The Buyer

Celebrity Realty Holdings, LLC a California limited liability corporation (“Developer”) is a privately-held company established in 2014 and based in Los Angeles County. The Developer

or another entity managed by the Principal of the LLC has owned, managed and operated Velocity Motors, LLC/DBA Honda of Downtown Los Angeles as one of the City's successful New Car Dealerships for over 5 years. The Honda dealership currently employs 170 workers and with the new location will create 50 additional jobs for a total of 220 jobs.

The Project and Economic Benefits

The Project's minimum scope will include construction of a \$16,000,000 New Car Dealership including a showroom, sales floor area, service area and office space. Construction will occur over approximately 12 months. The following table describes the economic impacts estimated to be created by development of the Project.

Summary: Estimated Economic Impacts*	
Estimated Retained Jobs:	170
Total Permanent New Jobs Created:	50
Estimated City of Los Angeles Share of Property Tax: Year 1 <i>(19% Received by City of Los Angeles of \$271,000)</i>	\$35,100
Estimated NPV of City of Los Angeles Share of Property Tax: 30 years	\$539,573
Estimated Utility User Tax: Year 1 <i>(Revenue to the City of Los Angeles)</i>	\$29,148
Estimated NPV of Utility User Tax: 30 years <i>(Revenue to the City of Los Angeles)</i>	\$448,076

*The figures provided in the table above are for estimation purposes only; actual fiscal impact or job creation may be higher or lower than these estimates. Standardized formulas were used to generate these figures and are based on accepted econometric practices and basic tax calculations.

Direct Sale

A prior Council motion (C.F. 15-0565) directed the EWDD, with the assistance of HCID and Council District Nine, to develop an economic development plan for City owned property located at 703 and 703 ½ West 40th Place also known as 704-706 West Martin Luther King Jr. Boulevard including negotiating the terms and conditions of a sale of the property. The proposed transaction requires no public subsidy to accomplish significant public benefit. Given the proposed economic benefits of the Project, and the value of retaining and facilitating the growth of a Los Angeles company that otherwise will lose its lease and potentially leave Los Angeles, EWDD presents for consideration that a determination of public interest can be made and the direct sale of the property be approved to achieve valuable public purposes, including:

- Returning the property to the tax rolls as a site of economic activity;
- Retaining and facilitating the expansion of an established Los Angeles company, representing the retention and creation of 220 Living Wage jobs, at a minimum;
- Generating one-time funds for the Low and Moderate Income Housing Asset Fund; and
- Eliminating costs and liability associated with unnecessary real property ownership by the City.

The sale is in conformance with the City Attorney's guidance and the following Administrative Code Provisions governing the direct conveyance of real property, including:

LAAC 7.27 Private Sale

"The Council may determine that the public interest or necessity require the sale, conveyance or exchange of real property owned by the City or any City department...of any interest in real property without notice of sale or advertisement of bids. In the event of such determination the

Council may, by ordinance adopted by the vote of at least two-thirds of all its members authorize the execution of such deed... or other instrument as may be necessary to effect such sale..."

LAAC 7.27.2 Private Sale Procedures for Economic Development Purposes

Notwithstanding any other provision of this Code, the Economic and Workforce Development Department is authorized to convey any interest owned or controlled by the City in any real property below its fair market value, subject to the Council making a finding that the conveyance at the price with the terms and conditions imposed thereon serves a public purpose.

LAAC 22.1008(c) Conveyance of City Interests in Real Property

(EWDD) is authorized to convey any interest owned or controlled by the City in real property at its fair re-use value to carry out the public purposes and objectives of this Chapter in accordance with the procedures set forth in Section 7.27.2 of this Code. Any such conveyance shall be made pursuant to one or more agreements requiring the development, use and maintenance of such real property for economic development, and such agreement(s) shall additionally require as a condition precedent to the conveyance that one or more deed restrictions be recorded against the conveyed interest restricting the development and use and require the maintenance of such real property so as to insure that the economic development purpose for which the conveyance was made is fulfilled for such period of time as is determined to be appropriate. The conveyance of any such interest under the terms and conditions stated herein shall not render the real property as "surplus property" within the meaning of Chapter 1, of Article 4 of the LAAC (commencing with Section 7.21), nor shall it render the real property as "surplus land" within the meaning of Section 54221 of the California Government Code.

SUMMARY

On June 2, 2015, Council determined (C.F. 15-0565) that the City had no further municipal use for a vacant property located at 703 and 703 ½ West 40th Place also known as 704-706 West Martin Luther King, Jr. Boulevard (Property). This report proposes the sale of the Property to Celebrity Realty Holdings, LLC for the fair market value of \$740,000, for development of a new car dealership.

The sale will contribute to the economic development of the City by moving a public property onto the tax rolls as a site for employment and economic activity, and by providing a location for the expansion of a Los Angeles-based company that has a critical need to relocate to larger facilities. Development will include improving upon approximately 42,638 square feet of vacant land of which the City owns and seeks to sell to Buyer approximately 7,830 square feet as its contribution towards the project. Improvements include the construction of a showroom and sales floor area, service area, office space and other improvements necessary for a full service new Car Dealership (the "Project"). Development of the project shall be completed, as evidenced by the City's issuance of a Temporary Certificate of Occupancy within twelve months from the City's final approval of all required entitlements necessary to develop the Project on the Property.

The Project ensuring at least 220 permanent jobs on the site, representing the retention of 170 jobs currently located in the City, and 50 net new jobs to the City. Construction of the \$16,000,000 Project is also expected to generate construction jobs. Buyer will purchase the property at a fair market value of \$740,000, as indicated in an appraisal reviewed by the Housing and Community Investment Department. The terms of the transaction are described in more detail in Attachment A.

Pursuant to LAAC Sections 7.27.2 and 22.1008(c) the Property will be sold for the public purpose of providing ongoing economic development benefits to the City, rather than as a surplus asset. Prior to conveyance, the City will encumber the Property with a covenant agreement requiring the buyer to develop a new car dealership. In addition to relocating its existing dealership currently located at 1540 South Figueroa Boulevard in Los Angeles, the covenant agreement will require construction of a new facility, retention of 170 jobs and creation of 50 new jobs on the site for at least 10 years after completion. The covenant will require the development to meet appropriate design and land use standards, such as the Community Plan. The Project must be completed within eighteen (18) months from close of escrow. Additionally, the property cannot be sold or otherwise transferred to a third party during the term of the covenant without the City's consent.

The current recommendations will authorize the Economic and Workforce Development Department (EWDD) to enter into a Purchase and Sale Agreement with Celebrity Realty Holdings, LLC, open escrow, and provide Celebrity Realty Holdings, LLC a six (6)-month due diligence period, with an option to extend for an additional nine months, during which Celebrity Realty Holdings, LLC will investigate the site, and apply for and receive entitlements for development.

Further Council actions will be necessary to complete the transaction and convey the Property, including adoption of an Ordinance to sell the property, and instructions related to the receipt of funds, once the Project has received entitlement and completed an environmental review pursuant to the California Environmental Quality Act (CEQA). The current actions to enter into the Purchase and Sale Agreement are accordingly subject to completion of the CEQA review.

The recommendations contained in this report are consistent with the guidance and advice of the City Attorney regarding the sale of City-owned property to serve the public interest or necessity. Administrative Code Section 7.27 provides that the City may determine that the public interest is best served by the direct sale of property without notice of sale or advertisement for bids. The Project as described in this report will serve the public interest through providing economic development benefits to the City, including the retention of existing jobs, the addition of net new jobs, and moving a public property onto the tax rolls and into productive use.



JAN PERRY
General Manager

JP: SH

Attachment A: Term Sheet

PURCHASE – TERMS AND CONDITIONS

May 20, 2016

This non-binding Terms and Conditions Sheet provides an outline of the terms and conditions under which Celebrity Realty Holdings, LLC, a California limited liability corporation (the “Developer”), or another entity managed by Developer or any affiliate of Developer (collectively, the “Buyer”) is willing to purchase from City of Los Angeles (the “City”) the real property located at 703 and 703 ½ 40th Place also known as 704-706 West Martin Luther King, Jr. Boulevard Los Angeles, CA 90037 bearing APN 5019-025-911 and APN 5019-025-912 respectively (the “Property”).

The Buyer and Seller acknowledge that entering into this non-binding term sheet does not obligate the City to approve any project for development on the Property and that any decision by the City to approve, approve as modified or disapprove a project proposal by the Buyer will be subject to the City’s sole and absolute discretion after review and certification of the appropriate environmental documents pursuant to the California Environmental Quality Act (“CEQA”) and all other applicable laws, rules and regulations.

With the understanding that all parameters or principles concerning purchase terms set forth in this term sheet are conceptual guidelines only; and that the final components may only be approved by the City Council with approval by the Mayor, it is the present intent of Buyer and Seller (the “Parties”) to incorporate the following general terms of this term sheet into a Purchase and Sale Agreement.

- Property:** 703 and 703 ½ 40th Place/704-706 West Martin Luther King Jr. Blvd Los Angeles, CA 90037
- Buyer:** Celebrity Realty Holdings, LLC
- Seller:** City of Los Angeles
- Applicable Law:** The Parties acknowledge that title to the Property was transferred to the City by the successor to the City’s former redevelopment agency as an affordable housing asset. As such, disposition and use of the Property, including the proceeds of the sale, must be made in accordance with the California community redevelopment law, including, without limitation, the appraisal, notice and hearing requirements set forth in California Health and Safety Code Section 33433. The Parties further acknowledge that the Property has not been declared as surplus and is not being disposed of pursuant to the State of California’s surplus property law (Government Code Sections 54220-54232) because the City has preliminarily

the use of the Property to promote economic development in the City serves one or more public purposes. As such the conveyance of any interest in the Property to Buyer is subject to the requirements of Los Angeles Administrative Code Section 22.1008(c) which authorizes the City to convey an interest in real property without going through surplus property procedures and which reads in pertinent part as follows "Any such conveyance shall be made pursuant to one or more agreements requiring the development, use and maintenance of such real property for economic development, and such agreement(s) shall additionally require as a condition precedent to the conveyance that one or more deed restrictions be recorded against the conveyed interest restricting the development and use and requiring the maintenance of such real property so as to ensure that the economic development purpose for which the conveyance was made is fulfilled for ten (10) years. The conveyance of any such interest under the terms and conditions stated herein shall not render the real property as "surplus property" within the meaning of Chapter 1 of Article 4 of the Los Angeles Administrative Code (commencing with Section 7.21), nor shall it render the real property as "surplus land" within the meaning of Section 54221 of the California Government Code."

Purchase Price: Fair Market Value as determined by MAI licensed Appraiser of the City's choice or Housing and Community Investment Department (HCID) review and acceptance of an appraisal report prepared by the Buyer. Appraisal will be conducted prior to the City Council and Mayor approving the sale of the property to Buyer and no more than six months prior to the Close of Escrow. If escrow is not opened within four months of the appraisal date, the City retains the right to obtain an updated appraisal and adjust the Fair Market Value, accordingly. Buyer shall have the right, at Buyer's sole and absolute discretion, to terminate the transaction and receive all escrowed monies if the Fair Market Value, at Buyer's sole and absolute discretion, is unacceptable.

Purpose/Project: The purpose of this term sheet is to promote economic development in the City by providing for the disposition and development of the Property for the construction and operation of a New Car Dealership, as defined below. This term sheet is entered into solely for the purpose of Buyer developing the Property as well as other parcels (APN 5019-025-026, 5019-025-024, and 5019-025-023) not owned by the Seller as a branded New Car Dealership.

Terms of

Conveyance:

Any conveyance shall be made on an "as is" basis. Buyer shall be responsible for development of the Project at its sole cost and expense within the time frame set forth in a schedule or performance and scope of development to be approved by the City, which approval shall not be unreasonably withheld by the City. Buyer shall indemnify and defend the City from any claim arising from the conveyance of the Property to the Buyer and/or the development or operation of the Project. In the event that Buyer fails to develop the Project on the Property, subject to Force Majeure, the Buyer shall owe the City liquidated damages (amount to be negotiated) as payment in full for failure to comply with the foregoing covenant.

Escrow Period:

Commencing on full execution of Purchase and Sale Agreement, escrow period should be for sixty (60) days or sooner with a 45-day due diligence period, to be extended up to two thirty (30) day periods upon mutual written agreement. Escrow can close following the City Council and the Mayor's approval of the Property disposition, City's approval of all entitlements required to develop a New Car Dealership on the Property, and the City's certification of a CEQA document, including the expiration of all applicable appeal periods and statute of limitations to challenge the project approvals or the CEQA analysis.

Escrow Deposit:

Within ten (10) days of mutual execution of the PSA, Buyer will deposit earnest money in the amount of \$20,000 in an escrow account at a title company to be selected by Buyer. The earnest money will be nonrefundable (except in the event of a default by the City or, pursuant to the terms of the PSA, when the Buyer is permitted to cancel for specific reasons, including, without limitation, environmental issue, title issue, due diligence issue, etc.) Other than for the refundable reasons set forth above, the earnest money deposit will be released only upon expressed written instructions of the Buyer after all contingencies have been met or waived and applied towards the Purchase Price, subject to Buyer's discretionary approval of customary due diligence of the Property, including its satisfaction with (i) City's approval of all entitlements for development of the Project, (ii) Phase I, and if necessary Phase II, Environmental Assessment Report(s), and (iii) Geology Report regarding condition of the soils.

Development:

Development will include improving upon approximately 42,638 square feet of vacant land of which the City owns and seeks to sell to Buyer approximately 7,837 square feet as its contribution

towards the Project. Improvements include the construction of a showroom and sales floor area, service area, office space and other improvement necessary for a full service New Car Dealership (the "Project"). For purposes hereof, the term "New Car Dealership" shall mean a car dealership that sells new or used cars at the retail level, based on a dealership contract with an automaker or its sales subsidiary, and it employs automobile salespeople to sell its automotive vehicles. Development of the Project shall be completed, as evidenced by the City's issuance of a Temporary Certificate of Occupancy (COO), within twelve (12) months from the City's final approval of all required entitlements necessary to develop the Project on the Property, subject to reasonable extension of Project completion period by the City, delays caused by the City, and Force Majeure.

**Covenant
Provisions:**

As a condition of the City conveying the Property to Buyer, Buyer (and for all purposes hereof, references to "Buyer" include Buyer's affiliated tenant of the property who will actually be the automotive dealer) must utilize the Property as a New Car Dealership or other comparable new car dealership with associated improvements for a period of not less than 10 years.

Buyer shall additionally create and retain not less than 50 Living Wage Jobs onsite (including the contiguous parcels that are integrated into the business conducted onsite referred to herein as "Onsite") within the first ten years (subject to extension due to Force Majeure) after a Certificate of Occupancy has been issued for an aggregate total of 50 Job Years (as defined below) ("Job Creation Requirement"); enter into a Cooperation Agreement with Los Angeles Trade Technical College Automotive and Related Technology training program to identify prospective mechanics, as needed, and make opportunities for hire and training available for the 1st ten (10) years of the covenant; enter into an MOU with the City's local workforce development center to post all available positions with the Workforce Center as part of their normal recruitment process for the 1st five (5) years of the covenant. For purposes of meeting the Job Creation Requirement, Buyer will be deemed to satisfy such requirement if during any five years of the first ten years (which need not be consecutive years), the number of Living Wage Jobs aggregates at least 50. The Property cannot be sold or otherwise transferred to a third party during the term of development with certificate of occupancy without the City's consent, which consent the City shall not unreasonable withhold, condition or delay. Buyer agrees for a period of ten (10) years that

it will not make or create or suffer to be made or created, any transfer, either voluntarily or by operation of law, without the prior written approval of City, which approval shall not be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, the Property may be sold or otherwise transferred to a third party for a similar commercial use without the prior written approval of City.

Notwithstanding the aforementioned, a transfer creating a Security Finance Interest for construction of the improvements, transfer directly resulting from the foreclosure of a permitted Security Financing Interest or the granting of a deed in lieu of foreclosure on such a permitted Security Financing Interest or the leasing of space by Buyer to a third party in furtherance of the project shall be permitted.