

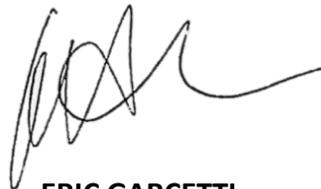
## TRANSMITTAL

To: **THE COUNCIL**

Date: **11/16/22**

From: **THE MAYOR**

**TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.**



(Andre Herndon) for

**ERIC GARCETTI**  
Mayor

# CITY OF LOS ANGELES

CALIFORNIA

CAROLYN M. HULL  
GENERAL MANAGER



ERIC GARCETTI  
MAYOR

**ECONOMIC AND WORKFORCE  
DEVELOPMENT DEPARTMENT**

1200 W. 7TH STREET  
LOS ANGELES, CA 90017

November 1, 2022

Council File: 21-0259 / 14-0425

Council District No: 10

Contact Person: Fred Jackson

Contact Phone: (213) 744-9723

The Honorable Eric Garcetti  
Mayor, City of Los Angeles  
Room 303, City Hall

Attention: Heleen Ramirez, Legislative Coordinator

## **REQUEST AUTHORIZATION TO PREPARE AND EXECUTE AN EXCLUSIVE NEGOTIATION AGREEMENT WITH HUDSON PACIFIC PROPERTIES, INC. FOR THE PURCHASE AND DEVELOPMENT OF CITY-OWNED AND CITY-OPTIONED PROPERTIES LOCATED AT MARLTON SQUARE**

The General Manager of the Economic and Workforce Development Department (“EWDD”) respectfully requests that your office review this transmittal and forward to the City Council for further consideration.

### **SUMMARY**

The recommendations in this report are related to the authorization to enter into negotiation with Hudson Pacific Properties, Inc., to construct a mixed-use project at Marlton Square, located on eight (8) City-owned parcels and eight (8) City-Optioned, CRA/LA-DLA, a Designated Local Authority owned parcels located at various addresses on West Martin Luther King Jr. Boulevard and South Marlton Avenue, as further described herein, and to request the City Attorney to prepare transactional documents for the City to enter into a Disposition and Development Agreement (“DDA”) with the intention to convey the Marlton Square Parcels to the Hudson Pacific Properties, Inc.

Future approvals by the City Council and the Mayor will be required to approve the Disposition and Development Agreement and to authorize the execution of the remainder of the transactional documents and adoption of a sale ordinance.

### **RECOMMENDATIONS**

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

1. APPROVE the selection of Hudson Pacific Properties, Inc., (“Hudson Pacific” or “Buyer”), as the preferred developer/buyer to purchase and develop the Marlton Square Project;
2. AUTHORIZE the General Manager of EWDD, or designee, to, on behalf of the City, enter into an Exclusive Negotiation Agreement (“ENA”) with Hudson Pacific Properties, Inc. to construct a mixed use development on the City- owned property at 3782 and 3838 – 3916 West Martin Luther King Jr. Boulevard (APNs: 5032-005-902 and 5032-004-910, 911, 912, 913, 914, 915, and 916) (“City Parcels”) and the City-Optioned, CRA/LA owned parcels located at 3700, 3738 – 3772 West Martin Luther King Jr. Boulevard, 3800 – 3824 West Martin Luther King Jr. Boulevard, and 4011 - 4027 South Marlton Avenue (APNs: 5032-003-900, 901, 902, 903, 904, 905, 906 and 5032-004-900) (“CRA/LA Parcels”) (collectively the City Parcels and CRA/LA Parcels are referred to herein as “Marlton Square Parcels” or “Marlton Square Properties” or “Site”) and effectuate the purchase and sale of the Marlton Square Parcels for the purposes of constructing a mixed-use office, retail, and commercial project (“Marlton Square Project”),
3. AUTHORIZE the term of the Exclusive Negotiating Agreement to be 12 months, with the potential for up to two (2) 90-day extensions, solely at the discretion of the City;
4. AUTHORIZE the General Manager of EWDD, on behalf of the City, to execute a First Amendment to the Contract with Keyser Marston Associates (Contract T7077), amending the term of the agreement to end on December 31, 2024, and amending the not-to-exceed compensation to \$100,000, in order to provide real estate advisory services on the Marlton Square and other real estate economic development projects.
5. REQUEST the City Attorney, with the assistance of EWDD, to prepare a Disposition and Development Agreement, a Grant Deed, a Covenant Agreement, a Sale Ordinance, and any additional documents necessary to effectuate the City’s sale of the Marlton Square Parcels to Buyer, at values to be negotiated;
6. AUTHORIZE the General Manager of EWDD, with the assistance of the Chief Legislative Analyst and the City Administrative Officer, to prepare any additional documents necessary to effectuate the purchase and sale of the Properties;

7. AUTHORIZE the General Manager of EWDD, with the assistance of the City Attorney, to pursue a determination that the City-Optioned, CRA/LA parcels are “exempt surplus property” for the purpose of the Surplus Lands Act under Government Code Section 54221 (f) (1) (F) (ii) and, with such determination, no further compliance action will be required under the Act;
8. AUTHORIZE the General Manager of EWDD, on behalf of the City, to retain consultants necessary to evaluate the proposed Marlton Square development; ACCEPT up to \$ 300,000 from Hudson Pacific Properties, Inc. for the reimbursement of consultant services including, but not limited, to real estate advisory services, appraisals, environmental conditions due diligence and review, and any other associated project-related consultant costs to the City;
9. AUTHORIZE the Controller to:
  - a. Accept and deposit up to \$300,000 from Hudson Pacific Properties into the Economic Development Trust Fund No. 62L.
  - b. Establish a new appropriation Account No. 22W5AJ, titled “Marlton Square – Hudson Pacific Properties,” and appropriate up to \$300,000, upon presentation of proper documentation by EWDD.
  - c. Expend up to \$300,000 from Account No. 22W5AJ, titled “Marlton Square – Hudson Pacific Properties,” for various consultant services related to this project, upon presentation of proper documentation by EWDD.
10. AUTHORIZE the General Manager, or designee, to prepare Controller’s instructions and/or make any technical adjustments that may be required to implement the actions approved by the Mayor and Council on these matters, subject to the approval of the City Administrative Officer, and authorize the Controller to implement these instructions;
11. INSTRUCT the General Manager of EWDD to provide regular status updates during the Exclusive Negotiating Agreement Process to the Municipal Facilities Committee;
12. INSTRUCT the General Manager of EWDD and pertinent City departments to report back to the City Council with a final development agreement for consideration, and
13. AUTHORIZE the General Manager of EWDD to make technical corrections consistent with the Mayor and Council Action on this matter.

## **BACKGROUND**

On December 22, 2014, the City Council authorized the Mayor to enter into Option Agreements to purchase ten (10) future development sites from CRA/LA, the successor agency to the former Redevelopment Agency of the City of Los Angeles (C.F. 14-0425). The City Council also authorized the EWDD and the Los Angeles Housing and Community Investment Department (HCID), with the assistance of other City departments, to determine the City's best use of the ten (10) CRA/LA development sites for economic development and/or affordable housing purposes and solicit development proposals. The eight parcels at the Marlton Square Site owned by CRA/LA are subject to one of the ten City - CRA/LA Option Agreement (specifically Contract C-125179).

The Marlton Square Project consists of eight (8) City Parcels that are owned by the City of Los Angeles, and eight (8) CRA/LA Parcels that are currently owned by CRA/LA and are categorized as a Future Development Property in CRA/LA's Long Range Property Management Plan. Through the term of the Option Agreement, the City has the right to acquire the CRA/LA Parcels for the appraised fair market value as defined in Section 12.b. of the Option Agreement ("Fair Market Value"), as well as the right to solicit, and sell the Property to a buyer that will use the Property consistent with the provisions of the Redevelopment Plan, the Five Year Implementation Plan, and the Community Plan for the Project Area.

On April 6, 2019, City Council designated EWDD (C.F. 21-0259) as the lead agency of the Marlton Square project to perform activities necessary to allow the City to exercise the City - CRA/LA Option Agreement to obtain ownership of the CRA/LA Parcels and then partner with industry leaders to revitalize the entire publicly owned site (including both City and CRA/LA Parcels) and facilitate development to fully realize the economic potential of this valuable community asset and link area residents to new job opportunities.

### Request for Proposal Process

On November 29, 2021, EWDD issued a Request for Proposals (RFP) for the Marlton Square Project seeking development teams with experience and capacity to develop the site to promote local job creation, create economic opportunities for members of the surrounding community, and contribute to the growth and vitality of the Crenshaw Corridor and South Los Angeles. Suggested uses in the RFP included bioscience, research and development, training, media and creative office, and technology-related commercial space. Requirements included a strong understanding of the unique urban fabric of the neighborhood, maximum community benefits, and financial sustainability. The RFP notice was posted to the Los Angeles Business Assistance Virtual Network (BAVN), the EWDD website, and with the assistance of the CAO e-

blasted to the development firms on the CAO Asset management list of real estate database to ensure the broadest reach possible.

On January 24, 2022, EWDD received four (4) proposal responses from the following development teams: Hudson Pacific Properties, Inc.; South LA Studios; Harridge Development Group; and Nvision Development Group.

On February 15, 2022, the RFP evaluation panel comprised of staff from EWDD, Los Angeles City Planning, the Chief Legislative Analyst (CLA), and two members from the local community convened to review, score, rank and recommend a developer.

In addition to the adherence of standard submission requirements, the scoring criteria included: 1) team experience and qualifications; 2) development concept; 3) financial strategy and capability; 4) community engagement and benefits; and 5) business profile.

To support the work of the evaluation panel, EWDD retained Keyser Marston Associates, Inc. (KMA), a real estate economic advisory firm, to produce an assessment of the financial portion of the proposals. That assessment was shared with the evaluation panel.

After reviewing the four proposals received and evaluating the proposals based on the RFP criteria, the final scores , out of a possible 100 points, for the four proposals received were:

<b>RFP Response Development Team</b>	<b>Score</b>
Hudson Pacific Properties, Inc.	96.2
South LA Studios	83.6
Harridge Development Group	61.4
NVision Development Group	N/A

Hudson Pacific Properties, Inc. scored the highest with an average score of 96.2 and is recommended for entering into an ENA with the City for further negotiation of a Disposition and Development Agreement for the Marlton Square Project.

Hudson Pacific Properties, Inc. received the highest score due to their experienced and qualified development team, a proposed financial strategy that appears feasible, the team’s financial capability to secure funding, the proposed community engagements and benefits, and the development concept to create a development that offers “equitable business and meaningful job opportunities.”

Request For Proposal Appeal Process

On March 22, 2022, the three development teams that were not selected were notified and given the opportunity to appeal, as outlined in the RFP.

On March 28, 2022, Harridge Development Group (Harridge) notified the City that they wished to appeal the decision. On March 25, 2022, Harridge also submitted a California Public Records Act (CPRA) request, requesting documents related to the proposal responses of the other development teams, the evaluation panels scoring, and communication with all the development teams.

On May 19, 2022, those documents were provided to the Harridge Development Group to the CPRA.

Harridge was given the opportunity to re-submit their appeal letter based on the documents provided in response to the CPRA. On May 27, 2022, a supplemental appeal was received.

On June 2, 2022, a three-member panel consisting of executives from EWDD, the Los Angeles Housing Department (“LAHD”) and Bureau of Contract Administration (“BCA”) met and reviewed the entire file pertaining to Harridge’s submission in response to the RFP and its appeal.

On June 7, 2022, upon the unanimous recommendation of the Appeal Panel, EWDD notified Harridge that their appeal was denied.

### Proposed Project

Hudson Pacific Properties, Inc. is proposing to develop a Class A mixed-use project with both high-end office and retail destinations aimed specifically at addressing food equity issues historically present in South Los Angeles and will include a linear park along Martin Luther King Jr Blvd with paths that extend into programmed interior pocket parks.

The project is proposed to include two 5-story office buildings totaling 300,000 square feet; a 19,000-square foot-grocery store called Diaspora that will provide organic food options and healthcare training; a 10,000-square-foot Food Incubator operated by Good Vibes Only (a Black-owned food and beverage company) that will prioritize job training and small business development for local food entrepreneurs located in South Los Angeles; and an urban farm operated by Cropswap LA that will provide fresh produce for the on-site food incubator and grocery store as well as job training and full-time employment.

### The Marlton Square Project Site

The Marlton Square Property is an approximately 5.7-acre vacant area comprised of eight (8) City-owned parcels and eight (8) parcels owned by the CRA/LA. The Marlton Square Parcels are located in Council District 10, on a block (the “Marlton Square Block”) bounded by Martin Luther King Jr. Boulevard, Marlton Avenue, and Buckingham Place. . Also located on the Marlton Square Block are a recently completed, state-of-the-art 100,000 sq. ft. Kaiser Permanente medical facility, and

two senior housing developments.

### Selected Developer/Buyer

Hudson Pacific Properties, Inc. is a full-service, vertically integrated real estate company managed by an executive team with an average of over thirty (30) years of experience acquiring, developing, operating, and leasing premier office and studio properties in Los Angeles, San Francisco, Silicon Valley, Seattle, Vancouver BC and most recently, the UK. Today, Hudson Pacific's portfolio is comprised of office, studio and retail properties totaling nearly twenty (20) million square feet, including land for development. Hudson Pacific Properties, Inc. is publicly traded on the NYSE under the symbol HPP. Hudson Pacific Properties, Inc. has over a decade of experience delivering innovative and award-winning development projects throughout the West Coast. Hudson Pacific Properties, Inc. is a long-term owner and operator.

Relevant developments in the area include state-of-the-art office buildings in Hollywood leased by Netflix, and One Westside, formerly the Westside Pavilion shopping mall, which Hudson Pacific Properties, Inc. transformed and redeveloped into a Class A indoor/outdoor campus fully leased by Google.

Hudson Pacific's development team includes architect Perkins & Will and landscape architects Agency Artifact.

### Anticipated Schedule for Acquisition

The City anticipates acquiring the Property from the CRA/LA and conveying it to the Developer in a double escrow; the Developer will submit the purchase price and CRA/LA will submit the grant deed to convey the Property. Although the City will be a party to the escrow and the transaction, no General Funds will be used for the acquisition.

### Proposed Purchase Terms

The Hudson Pacific Properties, Inc. submission includes a proposal to purchase the City parcels for a price equal to Thirteen Million Dollars (\$13,000,000.00). The final purchase price value will be the Fair Market Value of the City Parcels, determined by an MAI-certified appraisal within six (6) months of the sale of the property.

The Hudson Pacific Properties, Inc. submission also includes a proposal to purchase the CRA/LA Parcels for a price that is equal to the amount to be determined pursuant to the formula set forth in Section 12(b) of the CRA/LA Option Agreement, which is based on appraisals by the City and CRA/LA completed within six (6) months of the

sale of the CRA/LA properties. This amount will be the gross purchase price established by the Option Agreement, and will not be offset by any program income received by the City from CRA/LA under the Community Development Block Grant (CDBG) regulations governing the previous use of funds used by the City and CRA/LA for Marlton Square activities.

The final purchase price for the City and CRA/LA parcels will be subject to further negotiations with the City and will be established in the future Disposition and Development and Purchase and Sales Agreements.

The proposed project will be owned by a to-be-formed limited liability company, which will be a single purpose entity wholly owned by Hudson Pacific Properties, Inc. Hudson Pacific Properties, Inc. intends to finance the acquisition of the property entirely with equity.

## **ADDITIONAL BACKGROUND**

### Surplus Land Act

The Surplus Land Act (Government Code Section 54220, et seq.) (“Act”) was amended by the California State Legislature by the adoption of AB 1486, effective on January 1, 2020. Under the Act, before commencing the property disposition process, governmental entities must declare the property as either “surplus land” or “exempt surplus land.”

On October 8, 2021, the City Council adopted a Resolution (C.F. 21-0259) declaring “exempt surplus land” status for the eight (8) City Parcels for the purposes of the Act under (1) Government Code Section 54221(f)(1)(G) based on the valid legal restrictions imposed by HUD that the City Parcels must be used for economic development purposes and cannot be used for the construction of new housing, and (2) Government Code Section 54226 based on the conflict between the requirements of the HUD regulations and the Act.

On November 8, 2021, the California Department of Housing and Community Development (“HCD”) provided confirmation via email to the City that HCD reviewed the documentation the City had provided and found that the eight (8) City Parcels are exempt surplus land pursuant to Government Code Section 54221(f)(1)(G).

On August 22, 2022, the City received a letter that confirmed and expanded on the Department of Housing and Community Development findings that the Marlton Square City Parcels qualify as “exempt surplus land” under Government Code section 54221, subdivision (f)(1)(G).

As the eight (8) CRA/LA Parcels were acquired with similar funding sources, comprised of a mixture Section 108 and CDBG regulations which impose identical

limitations, it is anticipated that the CRA/LA Parcels will also be qualify as exempt surplus land pursuant to Government Code Section 54221(f)(1)(G).

EWDD will continue to work with HCD with respect to this issue and will present any action requiring Council approval prior to disposal of the CRA/LA Parcels.

#### Extension of the City-CRA Option Agreement

The City-CRA/LA Option Agreement currently expires on December 31, 2022. In February 2022, California State Senator Kamlager introduced legislation (SB 1373), to extend the time allowed for redevelopment agencies in jurisdictions of over two million people to have an additional two years for disposition of property held in their Community Redevelopment Property Trust Fund, until December 31, 2024.

On September 29, 2022 the Governor approved Senate Bill 1373 (Chapter 725, Statutes of 2022). The City will request CRA/LA to amend the current Option Agreement to extend the Term to September 30, 2024.

#### Exclusive Negotiation Agreement

Should Council approve the selection of Hudson Pacific Properties, Inc., City staff would immediately begin negotiating the terms and conditions of the Exclusive Negotiation Agreement. During the term of the ENA, the City and Hudson Pacific Properties, Inc. 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. Future approvals by the City Council and Mayor will be required to authorize the execution of the above referenced documents as well as other transactional documents and adoption of the Sales Ordinance.

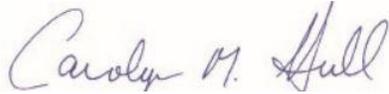
#### Environmental Conditions and Review

The selected developer will be responsible for coordinating with the Los Angeles Sanitation Department regarding environmental conditions of the site and buildings.

Future use of the Property and the actions of the City set forth in the Development and Disposition Agreement will be subject to environmental review compliance pursuant to CEQA.

### **FISCAL IMPACT STATEMENT**

The proposed actions regarding the purchase and sale of the Property will have no immediate impact on the General Fund. Upon the future sale of the CRA/LA Parcels, the City, as an Affected Taxing Entity under the Redevelopment Dissolution Statutes, will receive approximately 26% of the sales proceeds from the County Auditor-Controller. These funds will be deposited the General Fund. The City will also receive the proceeds from the sale of the City Parcels.

A handwritten signature in blue ink that reads "Carolyn M. Hull". The signature is written in a cursive, flowing style.

CAROLYN M. HULL  
General Manager

CH:FJ:CK:BLM