



## Agenda Report

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File #: 20-0593

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### PLANNING AND HOUSING COMMISSION STAFF REPORT

DATE: 8/10/2020

TO: Honorable Chair and Commissioners

FROM: Economic Development Department

#### APPLICATION REQUEST:

Amendment Nos. 2A and 2B to Disposition and Development Agreement between the City of Corona and Lab Holding, LLC, for the acquisition and development of (17) Corona Housing Authority properties and (9) City of Corona properties generally located East of Main Street between East Fourth Street and West Eighth Street, and West of Ramona Avenue (Corona Mall Property) originally approved May 17, 2017. (Applicant: Lab Holding, 709 Randolph Ave., Costa Mesa, CA 92626)

#### RECOMMENDED ACTION:

**That the Planning and Housing Commission** recommend APPROVAL to the City Council and Corona Housing Authority of:

1. Amendment No. 2A to the Disposition and Development Agreement with Lab Holding, LLC (Authority South Mall Property - Rest Area, LLC).
2. Amendment No. 2B to the Disposition and Development Agreement with Lab Holding, LLC (Authority South Mall Property - Sun Circle, LLC).

#### PROJECT SITE SUMMARY

##### Area of Property:

**Existing Zoning:** D (Downtown) of the Downtown Revitalization Specific Plan (SP98-01)

**Existing General Plan:** MUD (Mixed-Use Development)

**Existing Land Use:** C (Commercial), CP (Commercial Professional)

**Proposed Land Use:** Rehabilitation and/or Redevelopment of Existing Structures

##### Surrounding Zoning/Land Use:

**N:** East Fourth Street and Commercial Parcel beyond Gateway Business District zone of SP98-01

**E:** South Ramona Avenue and Commercial parcels beyond / Downtown zone of SP98-01

**S:** West Eight Street and Commercial parcels beyond / Community Services zone of SP98-01

**W:** Sixth Street and Commercial parcels beyond / Downtown zone of SP98-01

## **BACKGROUND**

Beginning in the early 2000's, the Corona Redevelopment Agency began acquiring properties within the Corona Mall area in hopes of assembling sufficient properties for a complete redevelopment of the area. On June 29, 2011, Governor Brown signed Assembly Bill 1X 26 (AB 1X 26) eliminating Redevelopment Agencies in the State of California. Pursuant to Resolution 2012-04, adopted on January 11, 2012, the City of Corona became the Successor Agency to the Redevelopment Agency. As part of Corona's wind down of redevelopment activities, and as required by AB 1X 26, the properties within the Corona Mall area were transferred to the Corona Housing Authority. The transfer allowed for the development of housing, if feasible, or the sale of such properties at market value with proceeds being returned to the Corona Housing Authority. Ultimately, it was determined that a housing development in the Corona Mall was not in the best interest of the community and the City pursued a commercial development on the site.

On May 17, 2017, the City and the Housing Authority entered into a Disposition and Development Agreement ("DDA") with Lab Holding, LLC ("Developer"), for the Developer's acquisition and development of the 17 parcels of real property owned by the Corona Housing Authority ("Corona Mall Property"), as well as an option to acquire and develop 9 parcels of real property owned by the City of Corona that are currently used for parking and common area purposes ("City Option Property"). On May 15, 2019, a first amendment to the DDA was approved to allow for additional flexibility in assigning or transferring the rights under the DDA. As a result of approving the first amendment, the Developer transferred the properties to Sun Circle, LLC, which holds ownership of the Authority North Property and Rest Area, LLC, which holds ownership of the Authority South Property. The Developer indicated to staff that it was necessary to transfer the properties to project-specific entities in order to successfully execute their development strategies and secure financing.

On March 19, 2020, as a result of the COVID-19 pandemic, California Governor Gavin Newsom issued executive order N-33-20, requiring all individuals living in the state of California to stay home or at their place of residence except as needed to maintain critical infrastructure sectors. This order severely disrupted commercial real estate markets and, consequently, commercial lending for construction and development. Prior to the pandemic, the Developer had successfully negotiated terms with a commercial lender for a construction loan to finance initial improvement to the Authority South Property. Shortly after, the Developer was notified by the prospective lender that the construction loan would be temporarily placed on hold until the long-term economic impacts related to COVID-19 are better understood.

## **STAFF ANALYSIS**

The current DDA imposes certain obligations on the Developer to develop the Corona Mall Property in accordance with a schedule of performance. City staff worked with the Developer for several months to draft Amendment No. 2A to the DDA for the Authority South Property and Amendment No. 2B to the DDA to the Authority North Property, both of which are attached to this report. Below is a summary of the substantive revisions to the DDA:

Amendment No. 2A (Authority South Mall Property)

- Schedule of Performance. Amendment No. 2A would update the schedule of performance to give the Developer additional time to obtain building permits and commence and complete construction on the Authority South Mall Property. With the updated schedule of performance, construction of the façade improvements would need to be completed by December 10, 2021.
- South Mall Option Property: The City of Corona is currently the owner of two parking lots generally located at the southwest corner of East Sixth Street and South Main Street, which are used for parking and vehicular ingress/egress for the benefit of properties located within the South Mall. The Developer now wishes to acquire an option to purchase two portions of these parking lots located on the north and south sides of the northern-most driveway entrance on Main Street and consisting of approximately 3,075 square feet and 4,688 square feet, respectively ("South Mall Option Property"). The option period for the South Mall Option Property would be thirty-six months from the execution date of Amendment No. 2A. As a condition of escrow, the Developer will be required to prepare, for the City Manager's approval, a new parking design (for that portion of the City property remaining), that provides sufficient parking for the South Mall, as required by the Corona Municipal Code and/or other applicable laws, rules or regulations, and maintains reasonable vehicular and pedestrian access. An appraisal of the South Mall Option Property was completed on March 31, 2020, and the as-is market value was determined to be \$15 per square foot for a total purchase price of \$116,000.

Amendment No. 2B (Authority North Mall Property)

- Schedule of Performance. Amendment No. 2B would update the schedule of performance to give the Developer additional time to obtain building permits and commence and complete construction on the Authority North Mall Property. With the updated schedule of performance, construction of the façade and tenant improvements would need to be completed by January 12, 2024.
- Maintenance of City Option Property: The current DDA requires that the Developer assume responsibility for all maintenance of the City Option Property after the existing Business Improvement District (BID) expires on June 30, 2020. The Developer's original intent was to acquire additional privately owned properties, and work with any remaining private property owners on the creation of a property owners' association responsible for common area rehabilitation and maintenance. So far, the Developer has not been successful in securing a significant portion of the privately-owned properties or creating a property owners' association. Consequently, the Developer has requested that the obligation to assume maintenance of the City Option Property be delayed for a period not-to-exceed twenty-four months after the expiration of the BID or until such time that the Developer establishes a new BID. The City would be responsible for the maintenance of the City Option Property until such time that the maintenance obligation is assumed by the Developer or the BID.

- **Business Improvement District:** As alluded to above, the Developer is considering the possibility of creating a new BID for the Authority North Property (and potentially the Authority South Property). The Developer views a BID as the only viable option for the rehabilitation and maintenance of the City Option Property. The Developer wishes to amend the DDA so that if the Developer initiates the process to establish a new BID, the City will pay for any consultant expenses incurred by the Developer to prepare the necessary documentation to form the BID, in an amount not-to-exceed \$135,000.

#### **ENVIRONMENTAL DETERMINATION:**

This action is exempt pursuant to section 15061(b)(3) of the Guidelines for the California Environmental Act (CEQA), which states that a project is exempt from CEQA if the activity is covered by the general rule that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. This action merely amends the conditions of the disposition and development agreement and any future development of the property will be subject to review under CEQA prior to development. Therefore, there is no possibility that approving this amendment will have a significant effect on the environment and no environmental analysis is required at this time.

#### **FISCAL IMPACT**

The total purchase price of the Corona Housing Authority Properties was \$1,860,000, of which \$970,000 was for the Authority North Mall properties and \$890,000 for the Authority South Mall properties. The Corona Housing Authority financed the purchase price of the Authority North Mall property as well as Authority South Mall property, less the earnest deposit, for an amount equal to \$873,000 and \$801,000 as evidenced by two separate promissory notes. Additionally, the Developer has an option to purchase the City-owned common area property for \$1, and the City-owned parking lot property for \$6,000,000 minus reasonable and documented expenses incurred by the Developer for improvements made to the Corona Mall properties acquired from the Housing Authority and acquisition of fee title interest in any of the privately-owned real property within the Corona Mall. Sales price for these parcels has not been renegotiated as part of this second amendment.

The estimated cost for the yearly maintenance of the City Option Property is \$45,000. Any reimbursable cost related to the Developer's initiation to establish a new Business Improvement District is not-to-exceed \$135,000. The appraised value for the South Mall Option Property was established to be \$116,000 based upon a value of \$15.00 per square foot.

**REVIEWED BY:** RYAN CORTEZ, ECONOMIC DEVELOPMENT COORDINATOR

**REVIEWED BY:** JAMIE RAYMOND, CHIEF DEPUTY CITY ATTORNEY

**RECOMMENDED BY:** JESSICA GONZALES, ECONOMIC DEVELOPMENT DIRECTOR

**EXHIBITS**

1. Locational Map
2. Exhibit A - Proposed Amendment 2A to Disposition and Development Agreement (Clean)
3. Exhibit B - Proposed Amendment 2B to Disposition and Development Agreement (Redline)
4. Exhibit C - Proposed Amendment 2B to Disposition and Development Agreement (Clean)
5. Exhibit D - North Mall Schedule of Performance (Redline)
6. Exhibit E - North Mall Schedule of Performance (Clean)
7. Exhibit F - South Mall Schedule of Performance (Redline)
8. Exhibit G - South Mall Schedule of Performance (Clean)
9. Exhibit H - South Mall Option Property Depiction
10. Exhibit I - South Mall Option Property Appraisal