THE PORT
OF LOS ANGELES

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: **NOVEMBER 9, 2011**

FROM: **PLANNING & ECONOMIC DEVELOPMENT**

SUBJECT: **RESOLUTION NO. _____ - PROPOSED PERMIT NO. 896 WITH CRAFTED AT THE PORT OF LOS ANGELES**

SUMMARY:

As part of the San Pedro Waterfront Project, Warehouse Nos. 9 & 10 were identified to be utilized for adaptive reuse. Consistent with this designation, the City of Los Angeles Harbor Department (Harbor Department) released a Request For Interest (RFI) to developers for the adaptive reuse of the warehouses. Three responses were received and the proposal to develop a visitor-serving crafts marketplace, submitted by Crafted at the Port of Los Angeles (Crafted), was selected. The proposal will promote, foster, accommodate, and enhance statewide public use of the waterfront.

It is recommended that the Board of Harbor Commissioners (Board) approve proposed Permit No. 896 for a twenty-five year term with two five-year renewal option periods with Crafted for the development of a crafts marketplace at Warehouse Nos. 9 & 10.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Adopt the Addendum to the Final San Pedro Waterfront Environmental Impact Report in accordance with California Environmental Quality Act Guidelines Section 15164(d);

2. Approve the proposed Permit No. 896 with Crafted at the Port of Los Angeles;

3. Direct the Board Secretary to transmit proposed Permit No. 896 to the City Clerk for approval by the City Council pursuant to Charter Section 606;

4. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Permit No. 896 upon approval by City Council; and

5. Adopt Resolution No. _____.

DISCUSSION:

Background – On September 29, 2009, the Board approved the San Pedro Waterfront Project and Environmental Impact Report (EIR). As part of the project, a potential adaptive reuse of Warehouse Nos. 9 & 10 was identified. Located in the Outer Harbor area of the Port of Los Angeles (Port), the 9.1-acre site includes two buildings totaling approximately 140,000 square feet (sf) of warehouse space and 6 acres of yard area (Transmittal 1). The warehouses have been vacant since 2010 and were previously used to store general cargo by Crescent Warehouse. Currently, the warehouses have a number of maintenance problems, including leaking roofs.

On November 16, 2010, the Harbor Department released an RFI for the warehouse site. The RFI was provided to 25 interested parties and was published in The Daily Breeze, The Maritime Executive, Globe St.com, Yahoo Finance-Business Wire, and CNBC Finance. A total of three responses were received by the submittal deadline on January 18, 2011. In addition to the Crafted proposal, a mixed use office space and specialty retail proposal was received by the Genton Property Group and a big box retail/specialty retail proposal was received from Burns and Bouchard. A multi-divisional evaluation committee, which included a representative from the Los Angeles Department of Water and Power recommended Crafted's proposal. The proposed crafts marketplace concept was selected because it best meets the strategic economic development goals of the San Pedro Waterfront Project by providing a visitor-serving attraction that will bring visitors to the San Pedro waterfront. A significant number of jobs are also expected to be created as the proposed development will accommodate up to 500 artists selling their crafts at the project's full build-out. Additionally, the proposed concept will enhance the viability of redeveloping Ports O' Call Village as it will add to the development of a critical mass of visitors along the San Pedro waterfront.

In correspondence dated July 7, 2011, California State Lands Commission (CSLC) staff inquired about the proposed concept's consistency with the Tidelands Trust (Transmittal 2). On July 26, 2011, the Harbor Department responded to the inquiry stating the proposed crafts marketplace is not a general commercial or retail use, but rather a visitor-serving development that will bring visitors to the waterfront (Transmittal 3). The developer anticipates approximately 40 percent of the marketplace patrons will come from outside the harbor area, including state, national and international visitors. Additionally, the developer anticipates that between 5 and 10 percent of cruise passengers through the Port will visit the marketplace. Based on the receipt of this information, the concerns raised by CSLC staff were satisfactorily resolved.

On June 16, 2011, the Board approved an Exclusive Negotiating Agreement (ENA) with Bergamot Station, Ltd. for development of the site (Transmittal 4). The principals of the Bergamot Station, Ltd. entity decided to create a new entity for the Warehouse Nos. 9 & 10 concept, forming Crafted at the Port of Los Angeles, a limited partnership. The ENA provided for a 120-day exclusive negotiating period to allow both parties to perform due diligence and refine the development concept. The Harbor Department prepared the ground lease, reviewed financial references, assisted in performing entitlement and permitting due diligence, and assisted in the public outreach effort for the proposed development. An analysis of the credit worthiness and financial means of the general partners of Crafted concluded that the entity has the financial strength and assets to support the contemplated development project. During the ENA period, Crafted refined their proposed development concept, thoroughly assessed the warehouse site (i.e. utility capacity, structural analysis, roof assessment and construction cost estimate), developed a business plan, provided information as requested by the Harbor Department to determine the need for any additional environmental analysis, and conducted public outreach efforts. On August 31, 2011, a public informational meeting was held where Crafted presented their proposal. Approximately fifty people attended and were supportive of the proposed concept.

The Harbor Department and Crafted are responsible for their respective due diligence costs. The ENA did not commit either party to proceed with the proposed redevelopment of the warehouses and allowed for a termination of the ENA should good faith due diligence not be exercised or the project was determined to be infeasible by either party.

Construction and operation of Crafted represents a minor modification to the project description of the San Pedro Waterfront EIR that does not trigger the preparation of a subsequent EIR. As such, the Environmental Management Division has prepared an addendum to the EIR in accordance with the California Environmental Quality Act (CEQA) in order to adequately assess the impacts associated with the construction and operation of Crafted (Transmittal 5).

Proposed Permit Terms and Conditions – The overall concept proposed by Crafted is aimed at capturing the current and forecasted market demand for high quality, hand-made crafts. The development would provide a permanent home for artists to exhibit, sell and demonstrate their crafts in a public marketplace setting. The permanent space would also serve as an incubator allowing artists to grow their businesses. In addition, food sales and craft demonstrations are also proposed. Consistent with the requirements of the RFI, Crafted has embraced an adaptive reuse strategy for the warehouses. Maintaining the authenticity of the warehouses and making minimal modifications to the buildings is a key element of the proposal. Improvements will

include necessary code compliance renovations, use of native landscape materials, exterior painting, the use of natural light and minimal paving.

Permitted Uses – Crafted will convert the two existing warehouses into a visitor-serving crafts marketplace with incidental commercial uses such as a restaurant and/or food carts, concessions, parking, and special events. Crafted will manage the construction, maintenance, and operations of the marketplace including acting as a landlord for up to 500 sub-tenants. The sub-tenants, which will be reviewed and approved by Crafted, will rent space in various 10 ft. by 10 ft. increments for the sale of their crafts. Revenue sources for Crafted will include sub-tenant rent, parking fees, and concession sales.

Permit Termination Option – The term of this permit is twenty-five years with two five-year renewal option periods (Transmittal 6). For a period of three months from the date of the Board's approval, Crafted has the option to terminate the permit if: (a) City Council approval extends beyond ninety (90) days after Board approval; or (b) Harbor Department confirms the costs to construct the marketplace exceeds Crafted's proposed $3,492,000 for construction of Phases I through III of the development. All costs or expenses incurred by Crafted prior to the conclusion of the termination option period shall be borne by Crafted and are unrecoverable from the Harbor Department.

The project will be constructed over a five-phase development period with a planned soft opening in June 2012 and final completion in June 2014.

Compensation – Rent collected from Crafted will be determined by the applicable rent compensation period. The permit has four rent compensation periods: (a) the first compensation period includes year one; (b) the second compensation period includes years two through seven; (c) the third compensation period includes years eight through ten; and (d) the fourth compensation period includes years eleven through the expiration of the agreement and any holdover period. During the first compensation period, Crafted is not required to pay a minimum or percentage rent amount. However, Crafted must report monthly gross receipts to the Harbor Department. Gross receipts will include the rental amounts paid to Crafted by all sub-lessees and concessionaires, the gross selling price of all food and beverage sales, parking fees, revenues associated with any special events or film production at the site, admission sales should they be charged and all sales on businesses operated directly by Crafted. During the second compensation period, Crafted is required to pay a minimum rent of $50,000 per year subject to annual Consumer Price Index (CPI) adjustment and percentage rent at a rate of 6.5% of gross receipts exceeding $5 million and up to $6,999,999, and 7.5% of gross receipts exceeding $7 million. During the third compensation period, Crafted shall pay minimum rent or percentage rent, whichever is greater. The minimum rent amount is $280,000 per year, subject to annual CPI adjustment. The percentage rent is

calculated at a rate of 6.5% of gross receipts up to $6,999,999, and 7.5% of gross receipts exceeding $7 million. During the fourth compensation period, Crafted shall pay minimum rent or percentage rent, whichever is greater. Crafted shall pay minimum rent amount of $280,000 per year (subject to second compensation period CPI adjustments); percentage rent at a rate of 6.5% of gross receipts up to $6,999,999, and 7.5% of gross receipts exceeding $7 million. During this period, the minimum rent shall be adjusted annually based on the greater of: (a) the previous compensation year's minimum rent subject to a CPI adjustment or (b) 75 percent of the past three year's average percentage rent. The resetting of compensation during compensation period four, by either utilizing a CPI adjusted minimum rent or 75% of the previous three year's average percentage rent received, is intended to best reflect market values for the proposed use of the site given the uniqueness of the concept and the lack of similar waterfront comparables in the region that could be used to complete an appraisal for establishing market rates. Additionally, establishing a minimum rent based on a land value of $22.00 per square foot to reflect current appraisal values cannot be supported by the proposed use. Due to the unique character of the concept, the proposed development meets a strategic economic development goal of the San Pedro Waterfront Project by serving as a visitor-serving attraction and will assist in creating a critical mass of visitors that will enhance the likelihood of success for the planned redevelopment of Ports O' Call Village.

Minimum Investment by Tenant – Crafted is required to spend a minimum investment of $4 million to develop and/or improve the marketplace by the end of the fifth compensation year, with no less than $3 million spent in the first compensation year and no less than $5 million spent by the end of the tenth compensation year. The Harbor Department will not make any investments in the development.

Beginning in the tenth compensation year and each year thereafter, Crafted shall establish and maintain a reserve fund for the purpose of revitalizing, updating and/or repositioning the marketplace concept to maintain or improve the aesthetics of the project or to adapt the concept to market circumstances or opportunities. The renovation fund will not be used to fund ordinary and on-going repairs or maintenance, which is also required under the permit. Deposits by Crafted into the account will be equal to two percent of gross receipts capped at $150,000 per year for the term of the permit and Crafted will have the authority to expend the renovation funds. While not obligated to utilize the renovation funds, every five years, Crafted will provide the Harbor Department with a detailed capital investment renovation plan for the upcoming five-year period for review and comment. Any proposed renovation will be subject to Harbor Department and City review and approval of any necessary building permits.

Parking – In lieu of an admissions fee, it is anticipated that Crafted will charge a nominal parking fee for the parking contained within their premises (approximately 600 spaces). As part of the gross receipts, the Harbor Department will receive a percentage of these revenues (6.5% over $5 million in gross receipts). To minimize Crafted customers from parking in the public lot immediately south of the warehouses to avoid the parking fee, Crafted is required to efficiently utilize the parking located on the warehouse premises by ensuring that no more than 25% of their customers occupy off-site parking during any given day. This efficiency requirement will not apply if Crafted demonstrates that the premise's parking area is more than 90% occupied solely by their customers and not including Crafted's sublessees or employees. The 90% occupancy rate will be determined by Crafted conducting parking counts at noon and 3:00 p.m. each day of operation. Crafted shall reimburse the Harbor Department for costs associated with conducting off-site parking assessments should the audit find that Crafted is in violation of the parking efficiency criteria. Crafted will have 30 days to submit a remedy to address any failures in meeting the parking efficiency requirements, and may include reduction or elimination of the parking fee. Crafted's failure to comply with this parking requirement shall be considered a permit default.

Harbor Department staff is currently developing a comprehensive San Pedro Waterfront Parking Management Plan (SPWPMP). Crafted agrees to ensure that parking on the premises will be consistent with the SPWPMP. The Harbor Department and Crafted shall work together in good faith to implement any measures or recommendations of the SPWPMP or any successor parking management plans.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of Permit No. 896 between the Harbor Department and Crafted to develop and operate a crafts marketplace at Warehouse Nos. 9 & 10. Crafted represents a change or addition to the San Pedro Waterfront EIR that does not trigger the preparation of a subsequent EIR, as described in Article 11, Section 15162 of the CEQA Guidelines. The Director of Environmental Management has determined that an addendum to the San Pedro Waterfront EIR assessing the environmental impacts associated with the construction and operation of Crafted was prepared in accordance with Article 11, Section 15164 of the CEQA Guidelines.

ECONOMIC BENEFITS:

Funding of construction for the proposed crafts marketplace will support approximately 38 direct construction jobs for the five-county region. In addition, increased employment would be generated to maintain and operate the marketplace once the construction is completed. At this time, it is premature to estimate economic benefits of operations.

FINANCIAL IMPACT:

Approval of the proposed permit is expected to generate a 4.56% annual rate of return. The Harbor Department's share of annual operating and maintenance costs associated with Warehouse Nos. 9 & 10 are anticipated to be reduced as the proposed permit would require the tenant to undertake maintenance and repair obligations at its sole cost.

SUBJECT: **PROPOSED PERMIT NO. 896 WITH CRAFTED**

CITY ATTORNEY:

The Office of the City Attorney has prepared and approved the proposed permit as to form and legality.

TRANSMITTALS:

1. Site Map of Warehouse Nos. 9 & 10
2. California State Lands Commission correspondence dated July 7, 2011
3. Port of Los Angeles correspondence dated July 26, 2011
4. Exclusive Negotiating Agreement
5. Addendum to the San Pedro Waterfront Environmental Impact Report
6. Proposed Permit No. 896

FIS Approval: KP (Initials)
CA Approval: TR (Initials)

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