



THE PORT  
OF LOS ANGELES  
Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: SEPTEMBER 5, 2014**

**FROM: REAL ESTATE**

**SUBJECT: ORDER NO. \_\_\_\_\_ AND RESOLUTION NO. \_\_\_\_\_ -  
PROPERTY EXCHANGE AGREEMENT BETWEEN THE CITY OF LOS  
ANGELES HARBOR DEPARTMENT AND SEAHAWK DEVELOPMENT,  
LLC FOR PROPERTIES LOCATED AT 211-241 N. MARINE, 214 N.  
FRIES AND 121-133 N. AVALON BOULEVARD IN WILMINGTON AND  
REVOCABLE PERMITS FOR ADJACENT PROPERTIES**

**SUMMARY:**

The proposed transaction is the private exchange of properties between the City of Los Angeles Harbor Department (Harbor Department) and Seahawk Development, LLC (SDL) for the furtherance of the Wilmington Waterfront Development Project (WWD Project). SDL is the owner of the property on Avalon Boulevard (SDL Property) that will be exchanged with the Harbor Department's properties on Marine Avenue and Fries Avenue (Harbor Department Property). SDL is a real estate holding company that has the same owners as the Harbor Department's tenant, Marine Technical Services, Inc. (MTS) dba Dockside Machine & Ship Repair. The proposed exchange includes a cash payment to the Harbor Department of \$1,006,885 due to the difference in values of the parcels being exchanged. Also included in the transaction are the lease of adjacent Harbor Department vacant properties, and a leaseback of the exchanged property under revocable permits.

The WWD Project was designed to provide waterfront access, commercial and economic development opportunities to the Wilmington community.

The property exchange was analyzed in the Final Environmental Impact Report (FEIR) for the WWD Project certified by the Board of Harbor Commissioners (Board) in June 2009.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners:

1. Find that pursuant to Section 385 of the City of Los Angeles Charter, the Harbor Department Property is not needed for Harbor Department purposes and authorize its private exchange;

**SUBJECT: PROPERTY EXCHANGE AGREEMENT - SEAHAWK DEVELOPMENT, LLC AND REVOCABLE PERMITS FOR ADDITIONAL PROPERTIES**

2. Find that pursuant to Section 7.27 of the City of Los Angeles Administrative Code, the proposed private exchange of real property owned by the Harbor Department with the SDL Property without notice of sale or advertisement for bids, including the lease of adjacent vacant properties, and leaseback of the Seahawk Development, LLC property is in the public interest, is a public necessity, and is in the best interest of the City of Los Angeles Harbor Department for the following reasons: a) the Seahawk Development, LLC property is required to further the ultimate development and completion of the Wilmington Waterfront Development Project; b) it allows the City of Los Angeles Harbor Department to realize rent revenues from the vacant properties adjacent to the exchanged properties until planned development is implemented; and c) it allows the City of Los Angeles Harbor Department to realize cost savings in ongoing maintenance and opportunities to rent vacant properties adjacent to the exchanged properties;
3. Approve the Property Exchange Agreement and Joint Escrow Instructions authorizing the exchange of City of Los Angeles Harbor Department property valued at \$2,332,170 with Seahawk Development, LLC's property valued at \$1,325,285, resulting in a cash payment to the City of Los Angeles Harbor Department of \$1,006,885. The exact amount will be subject to pro-rates incurred in escrow, per the terms of the Property Exchange Agreement and Joint Escrow Instructions;
4. Adopt Order No. \_\_\_\_\_;
5. Direct the Board Secretary to transmit to the City Council for approval the Order and Ordinance approving and authorizing the Property Exchange Agreement and Joint Escrow Instructions to the City Council pursuant to City Charter Section 385 and City Administrative Code and Section 7.27;
6. Authorize the Executive Director to execute and the Board Secretary to attest to the Property Exchange Agreement and Joint Escrow Instructions, Grant Deeds, and associated documents upon approval by City Council;
7. Approve the proposed Revocable Permits and Joint Revocable Permit to Marine Technical Services, Inc.;
8. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Revocable Permits and Joint Revocable Permit; and
9. Authorize the transfer of \$225,000 from the Fiscal Year 2014-2015 Unallocated Capital Improvement Program Funds to Account 54260, Center 0330, Program 000, Job 637-00, Work Order 78067 to fund the soil contamination remediation activities on Harbor Department Property for the current year; and
10. Adopt Resolution No. \_\_\_\_\_.

**SUBJECT: PROPERTY EXCHANGE AGREEMENT - SEAHAWK DEVELOPMENT, LLC AND REVOCABLE PERMITS FOR ADDITIONAL PROPERTIES**

**DISCUSSION:**

Background/Context - The proposed transaction will allow the Harbor Department to further its plans to connect the community to the waterfront under the WWD Project (Transmittals 1 and 2). The Harbor Department's acquisition of the SDL Property at 121-133 N. Avalon Boulevard (Transmittal 3), and leasing of properties adjacent to the Harbor Department Property (Transmittal 4) furthers the objective of the WWD Project to enhance the livability and economic vitality of the Wilmington community by keeping MTS' operations in the area, and retaining the jobs and tax revenues in the City of Los Angeles (City).

MTS operates a full-service ship repair facility serving shipping companies at both the Port of Los Angeles (POLA) and the Port of Long Beach (POLB). MTS provides structural repairs, machine parts fabrication, general engineering, and electrical contracting services. MTS's operations are important services to customers and shipping lines of both POLA and POLB, provide 110 living wage jobs in the community, and generate significant sales, employment, and property tax revenue for the City.

The property exchange with the Harbor Department is beneficial to SDL as it keeps its operations in proximity to its port customers: shipping lines, marine terminals and cargo-handling facilities.

A bigger property allows MTS to meet the growing demand for its services by consolidating its operations (that are currently two blocks apart), thereby improving operational efficiency and eliminating trips between the two facilities. With MTS owning the land, it will also be able to redevelop the area with much more substantial improvements than if it leased the land from the Harbor Department. MTS will lease back the property it is transferring to the Harbor Department on a temporary basis for storage under a revocable permit.

In June 2009, the WWD Final Environmental Impact Report was certified by the Board, which fully analyzed the concept of the property exchange and acknowledged that SDL would pay cash for the difference in the properties' sizes. The proposed property exchange will allow for redevelopment that is in line with the design elements, as contemplated in the WWD Project. The SDL Property is zoned Commercial (not compatible for the industrial nature of their operations) and the exchange will allow the Harbor Department to move forward with its plans to connect the community to the waterfront. As instructed by the Board's Leasing Committee, the Real Estate Division proceeded with negotiations for the proposed exchange.

The Harbor Department property currently leased to MTS generates \$6,649 per month. In addition to these leased properties, this transaction will include the exchange and lease of adjacent Harbor Department-owned vacant parcels (214 and 204 N. Fries Avenue, respectively), measuring almost 25,000 square feet (s.f.) which has been underutilized in the last few years (Transmittal 4). Including these vacant properties in the transaction will return these properties to the tax rolls, as well as relieve the Harbor Department from ongoing maintenance obligations and liability associated with the build-up of trash and debris, illegal dumping, vandalism, and unpermitted uses. MTS's

**SUBJECT: PROPERTY EXCHANGE AGREEMENT - SEAHAWK DEVELOPMENT, LLC AND REVOCABLE PERMITS FOR ADDITIONAL PROPERTIES**

use and future plans for expansion and redevelopment are consistent with the light industrial land use plan for the area and will continue to support the service requirements of the POLA and its customers.

The two revocable permits (Transmittals 5 and 6) and joint revocable permit (Transmittal 7) are being submitted for approval, as they are part of the proposed transaction; additionally, the total annual rent exceeds \$150,000. The month-to-month tenancies are as follows:

- a. a strip of land along Harry Bridges Boulevard slated for the California Coastal Trail;
- b. a right-of-way parcel, jointly owned by POLA and POLB; and
- c. a leaseback of the former SDL Property.

**Proposed Property Exchange (Transmittal 8)**

**A. Appraised Values:**

In February 2013, Norris Realty Advisors, commissioned by the Harbor Department, appraised the values of both properties and improvements. Based on the appraisal of the land and improvements of the subject properties, both parties agreed to the appraiser's opinion of value. The land value of the Harbor Department Property is \$30/s.f. and the SDL Property is \$35/s.f. The difference in valuation was attributable to the zoning designations of light industrial and commercial, respectively. The values of the improvements were \$270,000 for the Harbor Department Property and \$115,000 for the SDL Property. The value of the SDL Property was reduced by \$20,000 for soil contamination.

The Environmental Management Division, through its consultant Source Group, Inc. (SGI), conducted Phase I and Phase II site assessments on both properties. All relevant information related to both sites has been disclosed to SDL. Although there is soil contamination on the Harbor Department Property, it is not attributable to MTS's operations. As such, the Harbor Department will conduct soil contamination remediation activities costing approximately \$370,000. The soil clean-up is expected to begin within a year, and will be coordinated with MTS to minimize the adverse impacts on its operations.

Additionally, there is also pervasive groundwater contamination in the area which goes beyond Harbor Department properties. Groundwater remediation shall only take place under the direction of the regulatory agency and only after a comprehensive plan is developed.

SGI also identified soil contamination on the SDL Property. It is estimated that the remediation, which will be undertaken by the Harbor Department, will cost \$20,000 based on the contamination identified in the SGI survey. It is reasonably certain that the cost of the remediation will not exceed \$20,000. However, if the contamination identified in the report costs more than \$20,000, the Harbor Department will bear the increase in costs. In the unlikely event that there is contamination that was not identified in the report, SDL will bear the additional cost.

**SUBJECT: PROPERTY EXCHANGE AGREEMENT - SEAHAWK DEVELOPMENT, LLC AND REVOCABLE PERMITS FOR ADDITIONAL PROPERTIES**

Both parties have agreed to the exchange of properties as follows:

Owner	Property Address	Area (sf)	Land Value (sf)	Appraised Amount	Improvements	Soil Contamination Discount	Total
City of Los Angeles	211-241 N. Marine Avenue and 214 N. Fries Avenue	68,739	\$30	\$2,062,170	\$270,000		\$2,332,170
Seahawk Development, LLC	121-133 N. Avalon Boulevard	35,151	\$35	\$1,230,285	\$115,000	(\$20,000)	\$1,325,285
						SDL Cash	\$1,006,885

The difference between the property values is \$1,006,885 and shall be paid in cash to the Harbor Department at the close of escrow.

**B. Joint Revocable Permit and Revocable Permit:**

Based on the values in the appraisal, SDL will lease the following parcels as follows:

<u>REVOCABLE PERMIT AND JOINT REVOCABLE PERMIT RENT</u>						
Parcel	Description	SF	Value/SF	ROR	Annual Rent	Monthly Rent
Parcel 1	Joint Property (POLA/POLB RR ROW)*	4,055	\$30	10%	\$12,165	\$507
Parcel 2	Red Car Line & California Coastal Trail (Bridges)	13,760	\$30	10%	\$41,280	\$3,440
*Represents 50% of total rent paid						<b>\$3,947</b>

**C. Leaseback to SDL of Property on Avalon Boulevard:**

Based on the land and improvement values in the appraisal, SDL will leaseback the following parcels on a revocable month-to-month basis as follows:

<u>LEASEBACK RENT</u>						
Parcel	Description	SF	Value/SF	ROR	Annual Rent	Monthly Rent
Parcel 1	Avalon Land less Building	31,051	\$35	10%	\$108,679	\$9,057
Parcel 2	Avalon Building #5	4,100	\$45	12%	\$22,140	\$1,845
						<b>\$10,902</b>

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of a property exchange agreement between the Harbor Department and SDL. Acquisition of the SDL Property by the Harbor Department is necessary for the development of the WWD Project. Acquisition of the property at 121-133 N. Avalon by the Harbor Department, potentially through a property exchange, was analyzed in the Wilmington Waterfront Development Project FEIR/FEIS, which was certified by the Board in June of 2009. This action is limited to approval of the property exchange. Any improvements undertaken by SDL at their new location at 211-214 N. Marine and 214 N. Fries would be analyzed separately for environmental impacts in accordance with the California Environmental Quality Act (CEQA). Therefore, as an activity for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of CEQA, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the CEQA in accordance with Article II Section 2 (i) of the Los Angeles City CEQA Guidelines.

SUBJECT: PROPERTY EXCHANGE AGREEMENT - SEAHAWK DEVELOPMENT, LLC AND REVOCABLE PERMITS FOR ADDITIONAL PROPERTIES

ECONOMIC BENEFITS:

Approval of the proposed Agreement will have minimal employment impact (less than one full-time equivalent job in the five-county region).

FINANCIAL IMPACT:

The Harbor Department will receive cash in the amount of \$1,006,885, resulting from the difference in the values of the properties exchanged. Expenditures for remediation are expected to be \$370,000. In order to proceed with the soil remediation process as soon as possible, \$225,000 is available from the Fiscal Year 2014-2015 Unallocated Capital Improvement Program Funds, and the remaining amount of \$145,000 will be requested during the regular budget process for Fiscal Year 2015-2016. There will also be a net increase in rent revenues resulting from the lease of Harbor Department property in the amount of \$8,197 per month, or \$98,363 per year.

CITY ATTORNEY:

The Property Exchange Agreement and Joint Escrow Instructions, revocable permits, Board Order (Transmittal 9), and Ordinance (Transmittal 10) have been prepared by the City Attorney's Office and are approved as to form and legality.

TRANSMITTALS:

- 1. Exhibit A: Property Exchange Parcels
- 2. Exhibit B: Wilmington Waterfront Development Projects
- 3. Exhibit C: SDL Property
- 4. Exhibit D: Harbor Department Property
- 5. Revocable Permit
- 6. Revocable Permit
- 7. Joint Revocable Permit
- 8. Property Exchange Agreement and Joint Escrow Instructions
- 9. Board Order
- 10. Ordinance

  
 JACK C. HEDGE  
 Director of Real Estate

FIS Approval:  (initials)  
 CA Approval:  (initials)

  
 DAVID L. MATHEWSON  
 Interim Deputy Executive Director

APPROVED:  
  
 EUGENE D. SEROKA  
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