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City Council Okays Sale Of 'City Hall East' Building

Lyon Capital Ventures, LLC Partners With Howard CDM For \$4 Million Purchase



Lyon Capital Ventures, LLC has received approval to purchase a vacant 10-story office building, called City Hall East, at 100 Long Beach Blvd., pictured here. Plans include 99 one-bedroom rental units with 10,000 square feet of ground floor retail space. The building was acquired by the city from Southern California Edison in 2000. (Photograph by the Business Journal's Thomas McConville)

■ By **SEAN BELK**
Staff Writer

After taking more than five years to determine what to do with a vacant 10-story office building about to be declared “surplus property,” it appears the city has found an offer it couldn’t refuse. The city council, at its September 21 meeting, agreed to sell the building, known as “City Hall East,” at 100 Long Beach Blvd., to Lyon Capital Ventures, LLC for \$4 million.

The sale comes after the economic downturn halted a previous plan for commercial space, at a price of about \$5 million, by local developer Howard CDM, which is now partnering with Lyon on the new residential proposal, according to city staff. The mixed-use project includes redeveloping

the building into 99 one-bedroom rental units and 10,000 square feet of ground floor retail space.

The city council expressed interest in using a portion of the \$4 million in revenue from the sale to go toward fixing a projected \$12 million revenue shortfall. But Councilmember James Johnson raised concerns of the city “liquidating a city asset” as a one time revenue source to patch up ongoing operating expenditures. Councilmember Gary DeLong echoed these concerns.

City staff later agreed to come back to the council with an update once the city finalizes its revenues of whether to use the funds. The council ended up voting 6-2 to approve the purchase, with Councilmembers Johnson and Gerrie Schipske voting against the sale, while Councilmember Rae Gabelich was absent.

The city acquired the 149,160-square-foot building and adjoining 149-space parking structure in 2000 as part of a substantial contract with Southern California Edison. It has remained mostly unused ever since. In 2002, the bottom three floors were renovated and temporarily occupied by the Long Beach Police Department as the city's public safety building on Broadway was being renovated. But since the police units left after their building was completed in 2005, the structure has been vacant.

Victor Grgas, property services bureau manager, told the Business Journal that a total of four proposals were brought to the table since July 2009, including a plan for a hotel and to keep the building as office space. But, after two rounds of Requests for Proposals (RFPs) on the property, the latest RFP stipulated the building should be used for residential purposes. When asked how the purchase price was evaluated, Grgas said the Lyon proposal was the only bid that met the RFP requirements as the highest and best use offer while others were asking for a lower price.

"In two previous attempts to sell the building, for various reasons, including the general downturn in the economy, the sale was never consummated," he said. "The city's been trying for some time to dispose of that particular facility and since July of last year we've gotten renewed interest in the property by getting unsolicited proposals to sell the building. It was based upon those unsolicited proposals that the city council directed staff to issue an RFP to clarify their bids and specify conditions in which the property would be sold. And that's what resulted in those particular offers. We had offers that were lower than the four million received."

Out of the \$4 million purchase, the developer has agreed to pay \$2.65 million in cash at closing while receiving a \$1.35 million loan (10 years at 5 percent interest compounded annually) from the city to cover the rest, according to a city staff report. With the average unit size of the apartments at 872 square feet each, the estimated rent for the one-bedroom units equates to approximately \$2,219 per month, with current market rents estimated at \$2.55 per square foot, based on an August 25 analysis by the developer, a staff report states.

Affordable Units

The current RFP also allows for an affordable low-income housing component, which Lyon Capital Ventures has proposed for 10 units. However, in order to do so the developer has asked for a \$1.8 million loan from the Long Beach Housing Development Company (LBHDC). The LBHC board approved that transaction at its September 23 board meeting, according to Patrick Ure, housing development officer. The loan is being paid for by redevelopment housing "set aside" funds, restrictive funds for affordable housing.

The loan comes with a 55-year covenant on the 10 affordable units in which time the loan would be repaid. If at any time the developer were to convert the affordable units to market rate units or try to sell the space as condos it would have to pay back the loan, plus whatever it owed in the way of interest, according to staff.

The request for the loan, known as gap financing, is mainly due to the developer taking a loss of approximately \$184,100 per affordable unit, once marking down rents from market price. Based on 2010 income information published by the California Housing and Community Development Department, one-bedroom units restricted to low-income households in Los Angeles County have a maximum monthly rent of \$714, which is net of the \$42 month utility allowance, according to a staff report.

Ure indicated the developer decided to go with some affordable housing to even out the prices that typically are high in the downtown area "I imagine that if the project goes forward, that the market rate units are going to be a little bit on the pricier side," he said. "I think they're just trying to give an opportunity for those people in the area who [can't afford it] to live there as well."

This isn't the first time Lyon has received a loan from LBHDC to provide low-income housing. The LBHDC had also approved gap financing for the developer under the name Lyon Communities on the recent Gallery421 development located at the intersection of Broadway and Magnolia, Ure said. That project included making 26 of its 291 luxury rental units into affordable low-income housing. "This kind of loan is something that we do on a regular basis with other developers in all projects that are affordable," he said. "Basically, we're providing gap financial or the financial required [loan] that's not available through any other source to make the units affordable." ■