



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 5, 2024

TO: Mayor and Councilmembers

FROM: City Attorney's Office/City Administrator's Office

SUBJECT: Paseo Nuevo Redevelopment [Resolution; Agreement]

RECOMMENDATION: That Council:

- A. Authorize the City Administrator to execute a Project Agreement for redevelopment of the Paseo Nuevo Shopping Center substantially as presented in the agenda packet and subject to approval as to form by the City Attorney; and
- B. Adopt, by reading of title only, a Resolution of the Council of the City of Santa Barbara Declaring Designated Parcels of City-Owned Property to be Exempt Surplus Land Pursuant to Subparagraph (J) of Paragraph (1) of Subdivision (f) of California Government Code Section 54221 – Paseo Nuevo.

BACKGROUND

In 1987, the former Redevelopment Agency of the City of Santa Barbara (RDA) and Paseo Nuevo Associates entered into a Disposition and Development Agreement that provided for the development of the Paseo Nuevo Mall, which included the in-line mall shops, two anchor tenants, and associated on-site and off-site parking. In 1989, 75-year term ground leases were entered into between the RDA (as landlord) and Santa Barbara Associates (as tenant for the in-line shops main mall parcel ("Paseo Nuevo Parcel")), Carter Hawley Hale Stores (as Tenant for the now the vacant Macy's parcel ("Macy's Parcel")), and Nordstrom's, Inc. (as tenant for the now vacant Nordstrom's parcel ("Nordstrom's Parcel")). The Paseo Nuevo Parcel Lease has a remaining term of approximately 42 years, the Nordstrom's Parcel and the Macy's Parcel leases have remaining terms of approximately 41 years. The last expiration date is December 31, 2065. The RDA dissolved in 2012 and in 2016 ownership of all property underlying the ground leases transferred to the City of Santa Barbara. The City assumed the leases and all of the obligations and restrictions of the many easements and restrictive covenant agreements relating to use of the leased property.

Ownership of the Paseo Nuevo Parcel lease and Macy's Parcel lease have changed hands many times over the years until most recently in 2022 when AB Commercial Real Estate Debt Fund (AB) acquired the two leases through a deed-in-lieu of foreclosure agreement with Paseo Nuevo Owner LLC and Paseo Nuevo Owner II LLC. AB assigned the two leases to Paseo Propco LLC, a Delaware limited liability company, an affiliate of AB. For convenience and to avoid confusion both AB and Paseo Propco LLC are referred to in this report as "AB Commercial." AB Commercial has continued management of the mall property and, in consultation with the City, has evaluated the potential for redevelopment of the property.

The City retained Strategic Economics and The Maxima Group to assist the City with an objective third-party evaluation of the City's options regarding redevelopment of the Paseo Nuevo and the Macy's Parcels. Both firms have extensive experience advising public agencies on real estate feasibility and complex redevelopment projects.

City staff, together with the consultant, evaluated the encumbrances and obligations restricting redevelopment of the Paseo Nuevo and Macy's Parcels under the current ownership structure and assessed options available for redevelopment working in collaboration with AB Commercial. Those options were presented to the City Council on September 19, 2023. At the September 19, 2023, meeting the City Council authorized staff to negotiate a project agreement with AB Commercial for potential redevelopment of the Paseo Nuevo and Macy's Parcels.

DISCUSSION:

Project Agreement

City Staff negotiated a recommended Project Agreement with AB Commercial according to the authorization and direction given by the City Council on September 19, 2023. A copy of the negotiated Project Agreement is attached to this report. The Project Agreement is not a final approval for development. Rather, it is a necessary first step as an agreement between the City and AB Commercial to work in good faith to process the proposed project and to commit resources to do so in a timely manner.

The Project Agreement is for a proposed project that includes the following general components:

- Approximately 500 total rental units comprised of studios, 1-bedroom, 2-bedroom and 3-bedroom units. A designated number of units will be affordable to a variety of income-levels pursuant to the California Density Bonus Law. The quantity and location of the affordable units will be determined before approval of the DDA.
- Approximately 500,000 total square feet of residential.
- Approximately 85,000 square feet of retail focused on smaller restaurant and shop space, with a possible grocery (approximately 15,000 square feet) and gym (approximately 20,000 square feet).

- Approximately 96,700 square feet of open space, approximately 49,600 square feet of which will be public space (owned and managed by Paseo Propco).
- Development to be a mix of 2-7-story structures and 1 level of underground parking.
- Approximately 640 parking spaces.

The proposed project is subject to change, and the Project Agreement is not a commitment by either the City or AB Commercial to develop the property according to this description. Any development is subject to approval of a Disposition and Development Agreement (DDA) which will be processed according to the state statutes and City codes and policies governing statutory development agreements. This is similar to the process that was used for development of the housing project at 400 W. Carrillo Street.

Following approval of the Project Agreement, City Staff and AB Commercial will work cooperatively and in good faith to develop a mutually agreed final project description that will be the basis for a formal application submitted to the Community Development Department for processing, including appropriate environmental and land use review. The land use approvals will be incorporated into a DDA that will establish the terms and conditions for development of the project, including such matters as the overall height, number of units, the number of affordable units, open space, project construction schedule and phasing, the community benefits provided, and potential public financial support. The DDA will also provide for the City to transfer fee title to the property in exchange for AB Commercial's commitment to develop and the final project as approved in the DDA. Approval of the DDA requires public hearings by the Planning Commission and City Council and adoption of an ordinance.

The Project Agreement acknowledges that development of the proposed project requires a height in excess of 60 feet at certain locations of the property. However, AB Commercial is proposing affordability restrictions that qualify for a waiver of development standards pursuant to the provisions of California's Density Bonus Law (Cal. Gov. Code Sections 65915-65918). The final height of the project along with the number, size, and income-levels for the restricted affordable units will be determined as part of the review process and before execution of the DDA.

Surplus Land Act

Implementation of the project requires transfer of underlying fee title. Before the City may transfer title or otherwise dispose of the property it must comply with the Surplus Land Act (California Government Code §§ 54220 et seq.) In this case, compliance is accomplished by adoption of a resolution declaring the Paseo Nuevo property to be exempt surplus land pursuant to California Government Code § 54221(f)(1)(J).

The California Department of Housing and Community Development (HCD) is responsible for the enforcement of the Surplus Land Act. The proposed resolution was submitted to HCD for review as recommended by HCD's Surplus Land Act Guidelines. The City received notice on February 6, 2024 that HCD had approved the proposed resolution with a request

that the City add the applicable addresses and assessor parcel numbers for the property to the resolution. The requested edit has been made and the final resolution as attached to this Council Agenda Report is presented for approval. The resolution covers all of the leased parcels including the Macy's Parcel, the Nordstrom's Parcel, and the Paseo Nuevo Parcel. Once adopted, the resolution will be submitted to HCD for final approval as required by the HCD Surplus Land Act Guidelines. Under Government Code § 54222.3 the property will no longer be subject to the Surplus Land Act following adoption of the resolution declaring it to be exempt surplus land.

BUDGET/FINANCIAL INFORMATION:

Redevelopment of Paseo Nuevo as contemplated by the Project Agreement will likely require some public financial participation in addition to conveyance of fee title to the property. The nature and scope of that participation is currently unknown. City Staff, in consultation with Strategic Economics and The Maxima Group, are continuing to evaluate the economics of the proposed development and will continue to work cooperatively with AB Commercial as contemplated by the Project Agreement to identify a final project that is both beneficial to the community and financially feasible.

ATTACHMENT: Project Agreement

PREPARED BY: Daniel S. Hentschke, Assistant City Attorney

SUBMITTED BY: Sarah J. Knecht, Interim City Administrator
Tava Ostrenger, Acting City Attorney

APPROVED BY: City Administrator's Office