



City Council Report

Date: June 2, 2025
To: City Council
Through: Christopher J. Brady, City Manager
From: Jeffrey McVay, Manager of Urban Transformation
Stefanie Monge, Downtown Transformation Project Manager

Subject: Bankruptcy Sale to Soltrust Main QOZB, LLC of a project on City-owned land formally known as The Grid, generally located at the southwest corner of Main Street and Pomeroy (233 East Main Street and 34 South Pomeroy).
District 4

Purpose and Recommendation

Approving and authorizing the City Manager to enter into a Ground Lease with Option to Purchase Premises, Parking License Agreement, Purchase and Sale Agreement for each phase, and Declaration of Property Restrictions between the City of Mesa and Soltrust Main QOZB, LLC. Staff recommends approval of these documents.

Background

City Council approved the original development agreement, ground and air lease, and license agreement with 3W Management, LLC in November 2017. 3W Management and then Palladium GRID, LLC were succeeded by The Grid at Mesa, LLC as the developer responsible for meeting the development obligations set forth in the agreements. After five years of construction and six amendments to the development agreement, of which five amendments extended compliance dates for commencing and/or completing construction, The Grid at Mesa, LLC was unable to timely complete Phase 1 of the project. Due to this lack of progress, the City issued an official notice of default in February 2024. In March 2024, The Grid at Mesa, LLC (hereinafter referenced as Debtor) filed for Chapter 11 bankruptcy.

Early on, it was apparent the Debtor's bankruptcy estate had little to no assets, other than the Debtor's purported interest in the partially completed improvements at the site. At the request of the Debtor's lender and supported by the City, the bankruptcy court appointed a Trustee to manage the assets of the bankruptcy estate, negotiate the settlement of claims against the bankruptcy estate, and negotiate the sale of the assets of the bankruptcy estate. The City viewed this process as the best opportunity to restart the project with a new developer in as timely manner as possible. Following a robust marketing campaign, the Trustee received proposals to purchase the project from four

qualified developers. Working closely with the City in the selection process, the Trustee selected Soltrust Main QOZB, LLC (Soltrust) to purchase the project from bankruptcy.

On April 7, 2025, City Council approved a Memorandum of Understanding (MOU) between the City of Mesa and Soltrust that established the framework and high-level business terms for future agreements. Since that date, the City and Soltrust have negotiated a Ground Lease and Option to Purchase Premises, Parking License Agreement, Purchase and Sale Agreement for each phase, and Declaration of Property Restrictions (collectively, Transaction Documents). The Transaction Documents will allow Soltrust to complete construction on, and purchase Phase 1 (North Building) of the project and, thereafter, will provide the structure and milestones for Soltrust to construct and purchase Phase 2 (Courtyard Building) and Phase 3 (Row Homes) of the project.

Following is a summary of the Transaction Documents:

Ground Lease and Option to Purchase Premises (Ground Lease):

- The project will be completed in three phases
 - Phase 1 will be completed within 9-months of the effective date of the Ground Lease.
 - a. Phase 1 includes the North Building, consisting of 76 micro-apartments, 9,000 SF of first-floor retail, 13,000 SF of second floor commercial space, and associated minimum public improvements.
 - b. Rent during construction will be \$5,000.00. The construction rental period expires 180 days after issuance of a Certificate of Occupancy (CoO) for Phase 1.
 - c. If the land comprising Phase 1 (Parcel 1) is not purchased by the end of the construction rental period, the rental rate will increase to market rate, as determined by an appraisal.
 - Phase 2 construction will commence on a date to be agreed upon in a future amendment to the Ground Lease, and completion of construction will be within 18 months of the commencement of construction.
 - a. Phase 2 includes the Courtyard Building, consisting of a minimum of 21,000 SF under roof, and associated minimum public improvements.
 - i. The specific components and features to be included in the Phase 2 minimum improvements have not been agreed upon by City and Soltrust. Such minimum improvements will be agreed upon in a future amendment to the Ground Lease.
 - b. Rent during construction will be \$5,000.00. The construction rental period expires 180 days after issuance of a CoO for Phase 2.
 - c. If the land comprising Phase 2 (Parcel 2) is not purchased by the end of the construction rental period, the rental rate will increase to market rate, as determined by an appraisal.
 - Phase 3 construction will commence on a date to be agreed upon in a future amendment to the Ground Lease, and completion of construction will be within 18 months of the commencement of construction.

- a. Phase 3 consists of 12 Row Homes and associated minimum public improvements.
 - b. Rent during construction will be \$5,000.00. The construction rental period expires 180 days after issuance of a CoO for Phase 3.
 - c. If the land comprising Phase 3 (Parcel 3) is not purchased by the end of the construction rental period, the rental rate will increase to market rate, as determined by an appraisal.
- Prior to issuance of a CoO for any Phase, Soltrust will execute and deliver to the City a parking license agreement.
- While subject to the Ground Lease, Soltrust will be responsible for paying any assessments associated with SID 228, as if owner.
- City, at its cost and expense, will complete the installation of public electrical utility infrastructure necessary for the development of Phase 1. Soltrust will be responsible for all costs relating to any remaining public and all private electric infrastructure for development of Phase 2 and Phase 3.
- The Project will use City of Mesa utilities (water, sewer, electricity, solid waste, and gas).
- The Ground Lease provides Soltrust with an option to purchase the land consisting of each Phase. The total purchase price for all Parcels is \$2,985,000.00.
 - a. The purchase price of Parcel 1 is \$1,015,000.00.
 - i. The Phase 1 option price of \$285,000 is due upon execution of the Ground Lease and is non-refundable except for City's failure to convey Parcel 1 to Soltrust.
 - b. The total purchase price for Parcel 2 and Parcel 3 is \$1,970,000, which may be reallocated between the Parcel 2 and Parcel 3 purchase price as agreed upon by the Parties in a future amendment to the Ground Lease.
 - i. The Phase 2 option price of \$152,000 is due upon close of escrow on the sale of Parcel 1 and is non-refundable except for City's failure to convey Parcel 2.
 - ii. The Phase 3 option price of \$45,000 is due upon the close of escrow on the sale of Parcel 2 and is non-refundable except for City's failure to convey Parcel 3.

Parking License Agreement:

- Required parking will be provided through a separate parking license for spaces within the City-owned Pomeroy Garage for each phase of the project.
 - Phase 1: Minimum of 76 spaces, and maximum of 114 spaces licensed (1 space/unit to 1.5 spaces/unit).
 - Phase 2: Minimum of 24 spaces licensed, which minimum will be modified through a future Ground Lease amendment (future minimums will be based on the Phase 1 and Phase 2 parking ratios).
 - Phase 3, Minimum of 24 spaces (2 spaces/Row Home).
 - City will ensure sufficient public parking within the Pomeroy Garage for customers of commercial tenants of the project.
- The term for each parking license will be 50 years.
 - The license rate for the first 10 years of each parking license is \$10/month/space.

- The license rate for Years 11 through 50 will be the then-current City Council approved monthly rate for covered parking spaces.

Purchase and Sale Agreement:

- As set forth in the Ground Lease, the purchase price for Parcel 1 is \$1,015,000.00. Upon completion of construction on Phase 1, Soltrust will have 180 days to close escrow on Parcel 1.
- As set forth in the Ground Lease, the purchase price for Parcel 2 is \$1,520,000.00 but may be reallocated in a future amendment. Upon completion of construction on Phase 2, Soltrust will have 180 days to close escrow on Parcel 2.
- As set forth in the Ground Lease, the purchase price for Parcel 3 is \$450,000.00 but may be reallocated in a future amendment. Upon completion of construction on Phase 3, Soltrust will have 180 days to close escrow on Parcel 3.
- Soltrust will pay all title, escrow, and closing fees.

Declaration of Property Restrictions:

- Soltrust and all future property owners must use all available City Utility Services, including but not limited to electric, water, sewer, gas, solid waste, and recycling, to the extent such services are available.
- Soltrust and all future property owners will use the property consistent with the Mesa Zoning Ordinance and in accordance with a list of prohibited uses, including but not limited to pawn shops, non-chartered financial institutions, tattoo parlors, and marijuana sales.
- Soltrust and all future property owners will be responsible for the maintenance of all non-standard public improvements installed as part of the project.
- Soltrust and all future property owners are subject to the terms of an encroachment permit concerning the encroachment of building elements (i.e., balconies) over and above the City Right-of Way, including responsibility for the maintenance of any encroachment.

Additional City Obligations:

- The City previously completed public site improvements funded by \$1,700,000.00 in escrowed funds deposited by Debtor, in accordance with the provisions of the previous development agreement, to restore the site upon Debtor's default.
Restoration of public site improvements included:
 - Along Main Street: Sidewalk installation, landscaping, irrigation installation, and conduit installation
 - Along Pomeroy: Sidewalk installation, pavement installation, storm drain completion, electric utility conduit completion, and conduit installation for future lighting
 - Pomeroy Parking Garage: Reconstructed both entrances, filled openings in the East wall, and repaired the basement concrete
- Review of construction plans, applications, and other submissions by Soltrust may be completed in accordance with a customized review schedule, agreed upon between the City and Soltrust.

- City staff will partner with Soltrust to provide support in any required revision to zoning entitlements for the project and will provide a dedicated City staff member as a single point of contact.

Other Considerations:

- Soltrust's proposal includes the potential for both Phase 1 and Phase 2 to be used as hospitality. The Transaction Documents have been negotiated to allow the use of Phase 1 and Phase 2 as either residential or hospitality.
- Completion of Phase 1 requires approximately \$285,000 in remaining public electric infrastructure improvements, which the City will complete at its cost and expense.

Discussion

The City commissioned an appraisal dated February 27, 2025, which established an overall value of \$2,985,000.00 (Parcel 1: \$1,015,000, Parcel 2: \$1,520,000, Parcel 3: \$450,000). As initially contemplated by Soltrust, a 12-unit townhome project for Phase 2 is not economically feasible based on a Parcel purchase price of \$1,520,000. For that reason, the Ground Lease includes provisions allowing modification to the minimum improvements required for Phase 2 through a future amendment to the Ground Lease. Such modification provisions will allow the City and Soltrust to work cooperatively to determine the appropriate development for Phase 2 that supports an economically feasible project. Provided the modifications are a minimum of 21,000 SF under roof, the amendment to the Ground Lease may be approved by the City Manager.

Similarly, the Ground Lease includes provisions allowing reasonable modification in the allocation of the total purchase price between Parcel 2 and Parcel 3 through a future amendment to the Ground Lease. Provided the allocation of the total purchase price between Parcel 2 and Parcel 3 is not less than \$1,970,000, the amendment to the Ground Lease may be approved by the City Manager. No re-allocation of the purchase price as between Parcel 2 and Parcel 3 in a future amendment to the Ground Lease will reduce the total purchase price of all three parcels below the appraised value of \$2,985,000.

The Ground Lease includes a flat construction lease rate of \$5,000 for each Phase of the project (\$15,000 total). The below-market construction lease rate reflects a compromise between Soltrust's desire to purchase all Parcels immediately and the City's desire to ensure that construction of each Phase is completed timely prior to the sale of each Parcel. Upon completion of each Phase, Soltrust will have six months to close on the purchase of each Parcel; if Soltrust does not purchase the applicable Parcel, the rent for that Parcel will become a market-rate rent based on a future appraisal.

Although not directly related to the Transaction Documents between the City and Soltrust, the City's previous agreements with Debtor and the City's fee-simple ownership in the land required the City's participation in the bankruptcy proceedings. The Transaction Documents currently under consideration are fundamental to the bankruptcy court's order

concerning the disposition of the bankruptcy estate. In addition, following Debtor's filing for Chapter 11 bankruptcy, numerous creditors of the bankruptcy estate (i.e., the general contractor and subcontractors who worked on the construction before Debtor's default and bankruptcy) separately filed claims against the City. Although several of these claims were released without further action, two pending state-court lawsuits filed against the City's fee-simple interest in the property remain, pending the outcome of the bankruptcy proceedings. The City also asserted approximately \$774,000 in pre-petition claims against the Debtor's bankruptcy estate for unpaid rent, electric service agreement fees, transportation fees, permit fees, and attorney costs.

To resolve all of the claims and issues in all pending court cases, the Chapter 11 Trustee negotiated a Global MOU as between the Trustee (on behalf of the bankruptcy estate), Soltrust, the Debtor's lender, the Debtor's general contractor, and the City of Mesa. As a required condition of the Trustee's Global MOU, the City, the Debtor's general contractor, and the subcontractors agreed to release and waive all claims against the bankruptcy estate and all claims and liens against each other and the real property; the state-court lawsuits will be dismissed with prejudice. In addition, Soltrust successfully negotiated the settlement of all outstanding contractor and subcontractor claims against the bankruptcy estate and is engaging several of the original subcontractors to complete Phase 1. Finally, Soltrust successfully negotiated a lease for the majority of the first-floor commercial space in the North Building (Phase 1) with Crust Italian Eatery for three unique concepts.

At a hearing held on May 20th, the bankruptcy court approved the sale order as proposed by the Trustee, including the Trustee's Global MOU, contingent upon City Council approval of the Transaction Documents between the City of Mesa and Soltrust.

Fiscal Impact

The City will receive \$15,000 in rent during the construction period and, upon sale of all three Parcels, a total of \$2,985,000.00.

The City will waive its claim of \$774,234.09 against the bankruptcy estate.

The City will complete approximately \$285,000 in public electric infrastructure work at the City's cost and expense. This cost is offset by payment of the non-refundable Parcel 1 option price of \$285,000 due at the execution of the Ground Lease.

Coordinated With

The terms of the proposed MOU were coordinated with the City Manager's Office, City Attorney's Office, and Energy Resources Department.