



City Council

Date: June 18, 2018
To: City Council
Through: Christopher J. Brady, City Manager
From: Jeff McVay, Manager of Downtown Transformation
Jeff Robbins, Management Assistant II

Subject: Amendments to the Development Agreement and Real Estate Purchase and Sale Agreement for the second phase of the Encore project at the southeast corner of West 1st Avenue. **(District 4)**

Purpose and Recommendation

Consider the proposed First Amendment to the Amended and Restated Development Agreement and Second Addendum to the Purchase and Sale Agreement and Escrow Instructions (collectively, “the Agreements”) between the City of Mesa and MHA III, LLC. The proposed Agreements facilitate the conveyance of approximately 1.6 acres of real property supporting the construction of no less than 72 units of market-rate residential development in downtown.

Background

The Mesa City Council approved the agreements on December 19, 2016 for the Encore development, a proposed residential, project, generally located at the southeast corner of West 1st Avenue and Macdonald.

This second phase of the development was originally designated as an affordable housing project contingent upon receiving Low Income Housing Tax Credit (LIHTC) from the Arizona Department of Housing. In the event that the Developer was unsuccessful in obtaining a 2017 allocation of tax credits, the Amended and Restated Development Agreement provided an option whereby the Developer could elect to construct market-rate housing of similar scale and quality on the property. The Developer did not receive the tax credit and has, per the agreement, elected to construct a market-rate development by opening escrow on the property on July 12, 2017.

Consistent with their obligations in the development agreement, the Developer began construction in 2017 on a 24 unit, three story market-rate development on Lot 2 adjacent to the 1.6 that is the second phase of the development. MHC III, LLC has made substantial progress on the first market-rate project which is currently receiving exterior detailing and finishes. The anticipated completion of this building is summer 2018.

Encore is the first new market-rate residential development in the downtown core in over 20 years. Because there is no historical data available, the proposed amendments provide extended timelines to analyze demand and pace the development timeline to fit the local housing market.

Discussion

The following provides a summary of the primary deal points for the First Amendment to the Amended and Restated Development Agreement and the Second Addendum to the Purchase and Sale Agreement And Escrow Instructions.

Description of Project:

1. Developer will construct at least 72 units of market-rate residential on the approximately 1.6 acres of property.
2. The development will consist of multiple buildings not less than three stories high and each building with no less than 24 units.
3. Developer has the option to purchase an additional 9,100 square feet for on-site amenities. If the Developer decides to purchase the additional land, the purchase will close simultaneously with Lot 1.

Terms of Agreements:

1. City will agree to amend and extend the deadline for closing by 18 months from June 28, 2018 to December 28, 2019.
2. Developer may, but is not required to, develop the property in phases. Each phase would consist of no less than one building.
 - a. Developer must complete the first building within 485 days of Closing. If the Developer phases the project, each subsequent building will be completed within 1 year of the previously completed building.
2. City will sell to MHA III, LLC no more than 9,100 square feet of land adjoining Lot 1 for on-site amenities. Developer must demonstrate to City's satisfaction the benefits of the additional amenities before Closing.
3. Developer will receive and pay the first building's permits in full before closing on the property.

Fiscal Impact

At closing, the City would receive \$380,591.37 for 63,356 square feet of real property. If the developer elects to purchase the additional property for on-site amenities, the City would receive an additional estimated \$72,000.