

ECONOMIC DEVELOPMENT AND JOBS COMMITTEE REPORT relative to authority to accept a short sale payment for the current balance of \$4,736,964.12 for a Section 108 loan for the Vineland Fitness Center and Office Project located at 7634 North Vineland Avenue (Contract No. C-118174).

Recommendation for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

AUTHORIZE the General Manager, Economic and Workforce Development Department (EWDD), to:

- a. Approve the acceptance of a payment from the closing of the sale of the Vineland Fitness Center and Office Project, for an amount less than the total payoff of a Promissory Note made in connection with a Section 108 Loan Agreement by and between Valenzuela Properties, LLC and the City (Contract No. C-118174), as secured by a Deed of Trust with Assignment of Rents as Additional Security and Fixtures Filing (Los Angeles County Recorder's Office, Doc. No. 20101899708).
- b. Execute related documentation to complete the transaction, subject to approval of the City Attorney as to form and legality.
- c. Utilize Section 108 Program Income to repay the outstanding amount on the HUD Section 108 Guarantee Loan.
- d. Negotiate and execute any amendment of the HUD Documents that may be necessary, subject to approval of the City Attorney as to form and legality.
- e. Prepare Controller instructions, with concurrence of the City Administrative Officer (CAO) to effectuate this action, including any further technical adjustments related to the intent of this report; and, request the Controller to implement these instructions.

Fiscal Impact Statement: The EWDD reports that there will be no fiscal impact on the City General Fund.

Community Impact Statement: None submitted.

Summary:

On May 11, 2021, your Committee considered a March 16, 2021 EWDD report relative to authority to accept a short sale payment for the current balance of \$4,736,964.12 for a Section 108 loan for the Vineland Fitness Center and Office Project located at 7634 North Vineland Avenue (Contract No. C-118174). According to the EWDD, the Project is a mixed-use, fitness center and office building located at 7634 North Vineland Avenue, Los

Angeles, that is owned by Valenzuela Properties LLC (Developer). In 2010, the construction of the Project was financed with a City loan provided through a Section 108 Guarantee Loan from HUD. The total loan amount was approved for \$7,120,000, and there is a current outstanding principal balance of \$6,736,964.12. The City Section 108 Loan is currently delinquent. In 2013, the Project started construction but the final certificate of occupancy for the anchor fitness tenant was not issued until April 2018, due to the delays of the owner not obtaining proper permits. Since that time, the Project has experienced trespassing, graffiti, and vandalism issues. The Project never reached the expected stabilization in order to carry out the minimal property management responsibilities such as paying property taxes, hiring a property manager or security to address trespassing and vandalism problems, and debt servicing of the City loan for both principal and interest. Since 2018, the EWDD had numerous meetings with the Developer to devise an exit plan, which included the option to sell the Project. Unfortunately, over the years, the Developer has not been able to sell the Project at a price to pay off all outstanding obligations, estimated at \$7.7 million (\$6.7 million of Section 108 principal, \$400,000 loan interest, \$250,000 final payment to General Contractor, and \$280,000 in outstanding property taxes). In September 2020, the Developer was made an offer by Winston Continental LLC (Buyer, newly formed entity) for \$4,793,000, which would result in an approximate \$2.9 million short principal and interest payment to the Section 108 loan due to HUD. The shortfall amount was calculated after the required payments to the General Contractor and to the County Tax Collector. In November 2020, the EWDD conducted an in-house evaluation that estimated the Project between \$4,800,000 to \$5,200,000. Even though the offer is presented at the low end of the estimation, the short sale request is considered to be a reasonable option for both the City and the Developer. Due to the COVID-19 pandemic, the fitness center has permanently closed, which was the property's anchor tenant. The remaining four office tenants have been affected by the pandemic and are behind on lease payments. Lastly, the current permitted use for most of the retail space on the first floor is for a gymnasium/fitness center. However, due to the pandemic, it has posed a challenge in getting a new anchor tenant. A change of use will be required for the fitness center space to be leased to a different business type. After consideration and having provided an opportunity for public comment, the Committee moved to recommend approval of the short sale as detailed in the above recommendations as amended. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

Economic Development and Jobs Committee

COUNCILMEMBER VOTE

PRICE: YES

COUNCILMEMBER VOTE

KREKORIAN: YES

BLUMENFIELD: YES

RAMAN: YES

HARRIS-DAWSON: YES

ARL

5/11/21

-NOT OFFICIAL UNTIL COUNCIL ACTS-