

## TRANSMITTAL

To: **THE COUNCIL**

Date: **03/17/21**

From: **THE MAYOR**

**TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.**

A handwritten signature in blue ink, appearing to be 'Eric Garcetti', written over a white background.

(Ana Guerrero) for

**ERIC GARCETTI**  
Mayor

# CITY OF LOS ANGELES

CALIFORNIA

CAROLYN M. HULL  
GENERAL MANAGER



ERIC GARCETTI  
MAYOR

**ECONOMIC AND WORKFORCE  
DEVELOPMENT DEPARTMENT**

1200 W. 7TH STREET  
LOS ANGELES, CA 90017

March 16, 2021

Council District Number: 6  
Contact Persons & Phone Nos:  
Daisy Hernandez (213) 744-9340  
Joanne Lu (213) 744-9346

The Honorable Eric Garcetti  
Mayor, City of Los Angeles  
Room 303, City Hall

Attention: Heleen Ramirez, Legislative Coordinator

**TRANSMITTAL: REQUEST AUTHORITY TO ACCEPT A SHORT PAYMENT FOR THE CURRENT BALANCE OF A \$4,736,964.12 SECTION 108 LOAN FOR THE VINELAND FITNESS CENTER AND OFFICE PROJECT LOCATED AT 7634 NORTH VINELAND AVENUE LOS ANGELES**

The General Manager of the Economic and Workforce Development Department (EWDD) respectfully requests that your office review and approve this transmittal and forward to the City Council for further consideration.

## **SUMMARY**

EWDD is requesting authorization to approve the acceptance of an approximate \$2.9 million short principal payment for the Vineland Fitness Center and Office Project (Project). The Project is privately owned by Valenzuela Properties, LLC (Developer) and whose construction was financed with a City Section 108 Guarantee Loan from the U.S. Department of Housing and Urban Development (HUD). The total construction loan amount was originally approved in 2011 for \$7,120,000, and there is a current outstanding principal balance of \$6,736,964.12, which is now delinquent. The Project, for various reasons outside the control of EWDD, has 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 debt servicing of the City loan for both principal and interest. Even though the loan repayment offer is presented at the low end of the current estimated value, the request is considered to be a reasonable option for both the City and the Developer.

## RECOMMENDATIONS

The General Manager of EWDD respectfully requests that the City Council, subject to approval of the Mayor, as required:

1. AUTHORIZE the General Manager of EWDD to 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 (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);
2. AUTHORIZE the General Manager of EWDD to execute related documentation to complete the transaction, subject to approval of the City Attorney as to form and legality;
3. AUTHORIZE the General Manager of EWDD to work with the City's CDBG Administrator for a payment plan to use future year CDBG funds, beginning in Program Year 48, to repay the outstanding principal amount on the HUD Section 108 Guarantee Loan (Section 108) subject to the availability of the City's CDBG allocation;
4. AUTHORIZE the General Manager of EWDD to 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; and
5. AUTHORIZE the General Manager of EWDD to 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 instruct the Controller to implement these instructions.

## FISCAL IMPACT STATEMENT

There will be no fiscal impact on the City General Fund.

## PROJECT BACKGROUND AND CONCERNS

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. However, 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, 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, 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 (4) 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.

## **CONCLUSION**

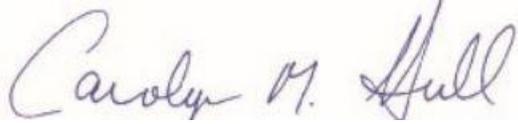
After assessing the current workload, staff capacity, and available budget, EWDD does not have the resources to manage and maintain the Project if the City opted to foreclose on the property instead of accepting the proposed short sale. Therefore, EWDD provided a conditional acceptance letter to the Developer on December 18, 2020, documenting that the acceptance of the reduced loan principal is contingent on City Council and Mayor approval, with the review on all the reasonable closing expenses and process, subject to City Attorney's satisfaction. The escrow of this sale is scheduled to close as soon as all the contingencies are met.

EWDD will work with City's CDBG Administrator for a payment plan in requesting CDBG funds, approximately \$2.9 million in total over a certain number of years to payoff the shortfall on the Section 108 principal and interest due to HUD beginning in Program Year 48. The payment plan will be considered based on the availability of CDBG funds and City's current principal payment schedule with HUD.

The use of CDBG funding to payoff Section 108 balances is an eligible activity under CDBG regulations. If this request is approved, EWDD will work with the City's CDBG administrator to close out this activity.

**NECESSARY AND APPROPRIATE STATEMENT**

The request is deemed appropriate under the federal assistance guidelines.

A handwritten signature in blue ink that reads "Carolyn M. Hull". The signature is written in a cursive style with a large initial 'C'.

CAROLYN M. HULL  
General Manager

CMH:FJ:DH:JL