

CRA/LA, A DESIGNATED LOCAL AUTHORITY
(Successor Agency to the Community Redevelopment Agency of the City of Los Angeles, CA)

M E M O R A N D U M

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DATE: SEPTEMBER 5, 2019

TO: GOVERNING BOARD

FROM: STEVE VALENZUELA, CHIEF EXECUTIVE OFFICER

SUBJECT: **WIGGINS SETTLEMENT AGREEMENT – CECIL HOTEL.** Approval of a Replacement Housing Plan for the Cecil Hotel located at 640 S. Main Street in the City Center Redevelopment Project Area.

RECOMMENDATION

That the Governing Board take the following actions:

1. Rescind action of June 25, 2018 approving a Replacement Housing Plan for 301 residential units at the Cecil Hotel; and Approve a Revised Replacement Housing Plan for 291 residential units at the Cecil Hotel, pursuant to the Wiggins Settlement Agreement and Development Guidelines and Controls for Residential Hotels in the City Center and Central Industrial Redevelopment Project Areas (the “Guidelines”); and
2. Authorize the Chief Executive Officer to execute an Agreement Containing Covenants Affecting Real Property, requiring specific affordability levels for the 291 single occupancy residential units at the Cecil Hotel for no less than 55 years.

SUMMARY

The recommended action will facilitate the proposed renovation of the Cecil Hotel (“Cecil”), which currently consists of 299 hotel rooms and 301 single occupancy residential (SRO) units. The residential units are subject to the Guidelines and require Governing Board approval of a Replacement Housing Plan prior to clearance and issuance of any building permits involving the rehabilitation or conversion/demolition of residential units.

The replacement housing plan prepared by the developer, SB Hotel LA, LLC (“Developer”), proposes the in-place rehabilitation of 261 residential units and construction of 30 replacement units. The Developer and the Wiggins Plaintiffs entered into a memorandum of understanding in 2019 that, among other things, acknowledged a reduction in the Cecil unit count from 301 to 291 units and to allow for 10 unrestricted manager units. Importantly, the Wiggins Plaintiffs have acknowledged that unrestricted units at the Cecil will not impact the Baseline Count being monitored by CRA/LA, pursuant to the Wiggins Settlement Agreement.

In 2018, the Developer submitted a plan to rehabilitate 301 residential hotel units. The plan was approved by the Governing Board, but a covenant was not recorded. In the intervening months, the Developer has concluded: (a) it needs to retain an experienced nonprofit operator to manage the residential units in the building, and (b) thirty (30) residential units must be demolished to make room for amenities to provide supportive services to residents and for manager units. The

Developer has also agreed to construct 30 replacement units at an adjacent property it has also leased. The 30 replacement units will be restricted for occupancy by very low-income persons (i.e., household income not exceeding 40% AMI) for a term of 55 years.

Currently, there are 9 residents that would be impacted by the renovations, the remaining residential units are vacant. The Plan details how tenants in affected units would be temporarily relocated within the building to an available unit during the renovation process. Should a tenant need to be relocated off property, the Developer is required to pay for relocation assistance, with the tenant having the right to return to the Cecil at the same rental rates as charged at the time of displacement.

The Developer has agreed to restrict the rent levels at 291 units as follows:

Area Median Income (AMI)	Rehabilitated Units	Replacement Units	Total
30%	141	--	141
40%	60	30	90
50%	50	--	50
60%	10	--	10
Total	261	30	291

In 2015, the Developer entered a 99-year lease with the property owner (248 Haynes Hotel Associates, LLC) to renovate and operate the residential and hotel components of the Cecil. As the Guidelines require an affordability covenant to be recorded against the property and the Developer is not the property owner, the affordability covenant will be recorded against the leasehold interest (and acknowledged by the property owner). The affordability covenant will have a term of 55 years from date of recording and has the support of the Wiggins plaintiffs.

DISCUSSION AND BACKGROUND

The Cecil Hotel, located at 640 S. Main Street in the City Center Project Area, was constructed in 1924. According to Los Angeles County records, the Cecil contains 600 units with an average of 266 square feet. The composition of the 600 units is 299 hostel/hotel rooms and 301 single residential units (SRO).

The Wiggins Settlement Agreement lists the Cecil as containing 600 SRO units. However, the City of Los Angeles previously approved the Cecil to operate as 301 SRO units and 299 hotel rooms. The Developer and Wiggins' Plaintiffs' representatives (i.e., Los Angeles Community Action Network or LA CAN) entered into a memorandum of understanding dated April 12, 2018 which, among other things, acknowledges the 301 SRO unit count, provides for a reduction of 10 unrestricted units for managers, ensures that the rehabilitated SRO units will be made available to low income residents, and that the work will be performed subject to local hiring policies. This side agreement among the parties is important to CRA/LA inasmuch as the unit count acknowledgment will not require any adjustment in reporting of the Baseline Count pursuant to the Settlement Agreement.

The SRO portion of the Hotel is subject to the Guidelines. The Guidelines stipulate that no permit for Demolition, Rehabilitation or Conversion of a Residential Hotel Unit(s) will be approved by CRA/LA, unless: the proposed new use is an Affordable Housing Project with recorded

affordability covenants for not less than 55 years; or the Residential Units are replaced on a one-for-one basis pursuant to the methods set forth in the Guidelines; and a Replacement Housing Plan is approved by CRA/LA's Governing Board.

CRA/LA's clearance of a building permit for the Hotel's renovation is subject to approval of the Replacement Housing Plan and affordability covenant by the CRA/LA Governing Board. In its review of the Plan, CRA/LA staff has concluded that the Plan satisfies the provisions of the Guidelines, and recommends approval of the Plan by the Governing Board.

Per the Settlement Agreement, the Wiggins Plaintiff's representatives were provided copies of the Plan and 10 days' notice, in writing, of the scheduled Governing Board meeting.

SOURCE OF FUNDS

No funding is required for this action.

ROPS AND ADMINISTRATIVE BUDGET IMPACT

There is no impact on the Successor Agency's administrative budget.

ENVIRONMENTAL REVIEW

The recommended actions do not constitute the approval of a "project" for purpose of the California Environmental Quality Act ("CEQA").



Steve Valenzuela
Chief Executive Officer

There is no conflict of interest known to me which exists with regard to any CRA/LA officer or employee concerning this action.

ATTACHMENTS

Attachment A - Replacement Housing Plan

REPLACEMENT HOUSING PLAN

Cecil Hotel – Residential Units and Hotel

August 16, 2019

This Replacement Housing Plan (the "**Replacement Plan**") sets forth the obligations of SB Hotel LA, LLC, a Delaware limited liability company ("**SB Hotel**" or "**Lessee**"), the ground lessee of the property located at 640 South Main Street in downtown Los Angeles, California, known as the "Cecil Hotel" (the "**Property**"). The fee owner and ground lessor of the Property is 248 Haynes Hotel Associates, LLC, a New Jersey limited liability company (the "**Owner**"). The Replacement Plan was prepared in discussion with CRA/LA, a Designated Local Authority ("**CRA/LA**"), and successor to The Community Redevelopment Agency of the City of Los Angeles, in satisfaction of (1) the Development Guidelines and Controls for Residential Hotels in the City Center and Central Industrial Redevelopment Project Areas (the "**Development Guidelines**"); and (2) the Wiggins Settlement Agreement for *Wiggins et al. v. Community Redevelopment Agency of the City of Los Angeles, City of Los Angeles, et al.* (LASC BD276472) (the "**Wiggins Settlement**") with respect to the proposed rehabilitation of the Cecil Hotel. This Plan is written in accordance with Sections IV.B and VII of the Guidelines and Section 2.A-2.c. of the Wiggins Settlement. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Development Guidelines.

I. Introduction

On February 7, 2016, SB Hotel entered into a 99-year lease for the Cecil Hotel, which was previously approved by the City of Los Angeles to operate as 301 residential units ("**units**") and 299 hotel rooms ("**hotel rooms**"). There are currently nine (9) residential tenants in the residential units, and the remaining residential units are vacant. Many of the residential units have been vacant for several years. As of January 28, 2017, the building has been designated as a City historic-cultural monument (HCM #1140). There is currently no parking on-site.

All of the residential units and hotel rooms include sinks, but only some have showers and toilets. There are shared shower and bathroom facilities on each floor. However, none of the facilities or units are ADA-compliant. In addition, existing elevators are not gurney compliant and cannot be modified due to the existing shaft size. The mechanical, electrical, plumbing, and fire-life safety systems were not previously upgraded to support the number of units and hotel rooms.

SB Hotel desires to rehabilitate the Property, including without limitation, the refurbishment of 301 residential units; 299 hotel rooms; common spaces; meeting, dining, bar, and lounge areas; and retail and other space incidental to the Property's residential and hotel uses, including rooftop uses, as well as updating the Property's mechanical, electrical, plumbing, and fire-life safety systems and seismic retrofitting (the "**Project**"). SB Hotel intends

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to apply for and obtain the necessary permits and approvals for the Project from the appropriate governmental authorities, including, without limitation, approvals from CRA/LA, Los Angeles Department of City Planning ("**Planning**"), Los Angeles Department of Housing and Community Investment Development ("**HCID**"), and other governmental authorities (collectively, the "**Entitlements**").

The Project will accomplish several significant goals, including: (i) preserving and extending affordability for the 301 residential units, at affordability levels for households ranging from thirty (30) to sixty (60) percent of Los Angeles County Area Median Income ("**AMI**") for a household of one; (ii) retrofitting major building systems (e.g. roof, windows, mechanical, electrical, plumbing, and seismic) to increase the physical lifetime and energy efficiency of the Property; (iii) adding amenities, such as common spaces; (iv) maintaining and preserving a local historic-cultural monument; and (v) accepting Section 8 vouchers from tenants of the rehabilitated residential units. In addition, a long-term affordability covenant will be recorded against title to the Property and remain in effect for a period of not less than fifty-five (55) years.

II. The Project

The Cecil Hotel is an existing residential hotel with 301 residential units and 299 hotel rooms located at 640 South Main Street in downtown Los Angeles, California. SB Hotel proposes to rehabilitate the Cecil Hotel into a building that continues to include 301 residential units and 299 hotel rooms. Residential units will be refurbished, and kitchenettes may be added. Hotel rooms will have individual bathrooms. The building's infrastructure, including MEP, fire-life safety systems, and seismic, will be upgraded to take into account the new occupancy. The building is a City historic-cultural monument (HCM #1140), and the Project will maintain and preserve the historic character-defining features.

SB Hotel is applying for low income tax credits and historical tax credits to assist in funding construction.

III. Description of Dwelling Units to be Refurbished

The refurbishment work at the Cecil Hotel will result in the temporary removal of 301 units during the period of time that the units are being rehabilitated. The 301 units range in size from 100 square feet to 200 square feet in floor area.

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Table 1: Replacement Housing Need

<i>Project Address</i>	<i># of Removed Units</i>	<i># of Bedrooms</i>	<i>Avg. SF per Unit</i>	<i>Very Very Low Income (30% or below AMI)</i>	<i>Very Low Income (40% or below AMI)</i>	<i>Very Low Income (50% or below AMI)</i>	<i>Low Income (60% or below AMI)</i>	<i>Total Replaced On-Site</i>
Cecil Hotel, 636-640 South Main Street, Los Angeles, CA	301	0	145	141	100	50	10	301

IV. Replacement Housing Requirements

The Development Guidelines require that one hundred percent (100%) of the replacement units shall be made available at or below the same affordability level of the destroyed or removed units. Therefore, the Project complies with the chart in Table 1. SB Hotel agrees to provide the following rent affordability levels for the 301 units for a period of not less than 55 years. At least 141 of the 301 units will be reserved for Very Very Low Income Households, in order to protect the most vulnerable individuals.

Table 2: AMI Levels of Replacement Units

<i>LA County AMI Levels</i>	<i>Number of Units</i>
30%	141
40%	100
50%	50
60%	10

SB Hotel has agreed to replace two hundred ninety-one (291) units at Very Low and Very Very Low income levels, and up ten (10) units are set aside for support services for the tenants.

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Replacement Housing Project:

SB Hotel has entered into a letter of intent (“**LOI**”) with Skid Row Housing Trust (“**Skid Row**”) to co-develop and operate the residential units. Skid Row has spent the past three months analyzing the building and understanding the operations needed to support the resident population, many with special needs. Skid Row and SB Hotel have concluded that, in addition to the ten (10) units described above that are set aside for support services for the tenants, up to thirty (30) additional units of the existing 301 units may be taken offline and used as residential services support offices, communal lounges and kitchens, laundry facilities, and the creation of single user restrooms, in order to enhance residents quality of life and for the building to succeed in supporting the covenanted community.

Of the 301 residential units that SB Hotel is obligated to provide, SB Hotel may provide units at an alternate site other than the Property (the “**Alternate Site**”) up to thirty (30) of such units (collectively, the “**Off-Site Units**”), provided that such Off-Site Units must be provided no later than July 1, 2028 (the “**Off-Site Units Delivery Date**”). The affordability level of the Off-Site Units shall be at an average of forty percent (40%) of Los Angeles County AMI for the duration of the 55-year term of the covenants.

If SB Hotel fails to provide the Off-Site Units at either the Property or at an Alternate Site by the Off-Site Units Delivery Date, then (i) SB Hotel shall provide eighteen (18) units from the hotel room inventory on the 8th floor of the Project, and (ii) SB Hotel shall remit an in-lieu fee in respect of the remaining twelve (12) Off-Site Units in an amount that is the lesser of (x) Six Million Dollars (\$6,000,000.00) or (y) the in-lieu fee defined in the Wiggins Settlement as of the Off-Site Units Delivery Date.

Table 3: Replacement Housing Project

Project Address	# of Replacement Units	# of Bedrooms	Avg. SF per unit	Very Very Low Income 30% or below AMI	Very Low Income 40% or below AMI	Very Low Income 50% or below AMI	Low Income 60% or below AMI	Total Eligible Replacement Units
Cecil Hotel, 636-640 South Main	261 (301 units, less 10 units for support services and	0	140	141	60	50	10	261

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Street, Los Angeles CA	less an additional 30 units as described above)							
Alternate Site	30	0	Minimum new construction standards at the time of development	0	30	0	0	30

The anticipated date of removal, subject to the approval timeline of the Los Angeles Department of Building and Safety, is January 2020 and the anticipated date of replacement is October 2021, assuming a 20-month construction period.

V. Leasing Restrictions

SB Hotel may not refuse individuals or households with federal Section 8 Housing Vouchers, or any equivalent similar local or state program, for any vacant units. If units at multiple affordability levels are vacant, the subsidy will be placed in higher affordability units first. SB Hotel will not discriminate in any way in the selection of tenants based on a tenant being the recipient of a federal Section 8 Housing Voucher, including if the tenant’s ability to pay rent is based in part on the subsidy provided by the Section 8 Housing Voucher or any other similar program. Nothing herein is intended to limit SB Hotel's ability or right to utilize other types of affordable housing programs, or to rent to tenants meeting the requisite affordability levels with no program affiliation.

As noted above, SB Hotel has entered into a LOI with Skid Row to co-develop and operate the residential units. Whenever a vacancy occurs, Skid Row, as operator, shall market the units for lease-up within the community at the following locations (not an exclusive list):

- New Image Emergency Shelter
- Downtown Mental Health (LA County facility)
- People Concerned
- Homeless Health Care Los Angeles
- Downtown Women’s Center
- Weingart Center Association

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- Los Angeles Mission
- St. Vincent's Cardinal Manning Center
- Midnight Mission
- Union Rescue Mission
- VA Outpatient Clinic
- AIDS Project Los Angeles (APLA)
- Chrysalis
- Department of Vocational Rehabilitation.

The foregoing requirement is waived if SB Hotel master leases the entire Property to a program such as Housing for Health.

VI. Current Tenant Relocation

During construction, the current residential tenants will be temporarily relocated off-site and be allowed to return to the Cecil Hotel after the completion of construction. SB Hotel has retained a relocation consultant that has been working with the existing tenants, and SB Hotel will continue to retain a relocation consultant during the construction and temporary relocation process.

SB Hotel agrees to preserve the rights of the current tenants in accordance with the Wiggins Settlement, the Los Angeles Tenant Habitability Program and associated regulations (Los Angeles Municipal Code § 152.00 *et seq.* and RAC Regulations Section 710.00 *et seq.*) (the "**Applicable Law**"), including, without limitation, providing current tenants with (i) relocation assistance as required by Applicable Law, and (ii) the right to return to the Property in accordance with Applicable Law at the same rental rates charged at the time of displacement (subject to allowable increases under the Rent Stabilization Ordinance, Los Angeles Municipal Code § 151.00 *et seq.*, upon completion of the Project. SB Hotel shall abide by all applicable provisions of the Applicable Law. Nothing in this Replacement Housing Plan shall prevent the Los Angeles Community Action Network from assisting current tenants in obtaining relocation benefits or exercising their tenant rights, including their right to return upon completion of the Project.

VII. Timing of Funding and Development for Cecil Hotel

SB Hotel intends to secure financing for the Project by December 2019. Construction is anticipated to take twenty (20) months, and completion is anticipated by October 2021 with the goal of 100% occupancy by June 2022. In the event of a delay in the commencement of

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construction, the construction completion will also be extended. However, SB Hotel will allow the existing tenants to remain until the commencement of construction, or as otherwise required through a Tenant Habitability Plan approved by HCID.