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September 8, 2010

VIA PERSONAL DELIVERY

PROTEST

Los Angeles City Council
Ms. June Lagmay
Los AngelesCity Clerk
Los Angeles City Hall
200 N. Spring Street, Rm. 395
Los Angeles CA 90012

Re: Objections to Items # 21 and 44 on City Council Meeting Agenda
1601 & 1605 Vine Street Tower Project, CFs 08-3458 and 08-3458-S1

Honorable City Council Members and Ms. Lagmay:

I. INTRODUCTION

The undersigned represents Robert Blue, an individual and City of Los Angeles resident, property owner, taxpayer and concerned stakeholder, in objecting to the proposed approval of the project to be located at 1601 N. Vine Street in Hollywood ("the Project"). Please ensure that the undersigned is placed on all mailing lists and receives notices of all meetings, hearings and proposed actions related to the project.

This letter and attached evidence constitutes Mr. Blue's initial objections to the proposed approval of the Project.

The decision of the Community Redevelopment Agency of the City of Los Angeles ("CRA") to sell this property to the proposed developer for $825,000 after previously having purchased the property from the same developer for $5,450,000 in 2006, as well as the City's and CRA's allowing the developer to continue to collect rent on the property during the time the CRA owned the property constitutes an unconstitutional gift of public funds. The calculations used to justify the sale of the property at below market cost are not supported by independent evidence, but are based primarily on projections provided by the developer, who not only stands to gain financially by the approval of the Project, but who has a long track record of bankruptcies, defaults, law suits, business failures and legal problems associated with similar projects.

Additionally, any approvals under Health and Safety Code section 33433 are improper because, among other things, the land value calculated by the CRA in its reports falls short of recouping for the taxpayers the reasonable value of the price paid for the property. Moreover, approval of the Project under Section 33433 would be improper because CRA has provided insufficient evidence that the property is blighted.

Accordingly, any approvals under Section 33433 would violate Article XVI, Section 6 of the California Constitution, the Community Redevelopment Law and Code of Civil Procedure section 526a as a waste of public funds.

Finally, the CRA's failure to perform even rudimentary due diligence, and any possible rush to approve this Project – particularly in light of the outpouring of evidence suggesting that the developer is not qualified to pursue such a project – raises issues of possible fraud, undercapitalization, inability to deliver on promises, waste, abuse and gross mismanagement of public funds.

II. The Decision to Sell the Property to the Developer at Below Market Cost Constituted an Unconstitutional Gift of Public Funds as well as Waste within the Meaning of Code of Civil Procedure Section 526a.

The Developer, 1601 North Vine, LLC ("the Developer") originally purchased the property from Ullman Investments, Ltd.,[1] in September 2006 for $5,450,000. One month later, the CRA purchased the property from the Developer for the identical price of $5,450,000.

CRA now seeks approval to sell property back to the same Developer for $825,000, a markdown of $4,625,000. (See September 18, 2009, Authorization to Execute a Disposition and Development Agreement for the conveyance of 1601 N Vine St to 1601 North Vine, LLC at the below-market price of $825,000 for the development of the Vine Street Tower Project, attached hereto as "Exhibit B.")

CRA determined the $825,000 sale price of the property based upon the "fair reuse value" of the property. That figure is determined by deducting development costs from supportable investment. According to CRA's Section 33433 Summary Report, "the Developer estimates total and indirect costs of $56,728,000, and a stabilized NOI ["Net Operating Income"] of $4,795,000." According to CRA's analysis, since the Developer is "willing to accept a lower threshold return on investment of 8.33%," dividing the stabilized NOI by 8.33% results in a supportable private investment of $57,553,000. Subtracting the Developer's estimated development costs results in a fair reuse value of $825,000. (See Section 33433 Summary Report at pp. 11-15, attached hereto as "Exhibit C.")

According to CRA, "the total project costs to the Agency are approximately $6.30 million. Of this amount, approximately $4.4 million of the costs are related to acquisition of the Site. The total Project costs also include approximately $1.32 million in interest on bonds issued by the Agency. On a nominal dollar basis, the total cost to the Agency is $7.86 million." (Exhibit C at p. 6.)

CRA further estimates that "the Agency is projected to receive $13.00 million (nominal dollars) in tax increment revenues including housing set asides, which has a present value of $5.77 million, discounted at 6%. .... Taking into account the $825,000 payment by the Developer to the Agency for the Site, the Project yields net revenue to the Agency of $292,249 on a present value basis." (Exhibit C at p. 7.)

CRA's analysis, and estimates of costs and benefits, is flawed, however, because the source of virtually all of its information – the Developer – has a long-established track record of law suits, bankruptcies, failed business ventures, undelivered promises and misuse and abuse of public funds.

The Developer – 1601 North Vine, LLC – was created in 2006 with the sole purpose of developing the Vine Street Tower Project. 1601 North Vine, LLC, is comprised of two members: Selma and Vine Partners, LLC, and Workers Realty Trust II, L.P. The Sponsor of the Project is Pacifica Ventures, whose two Principals are Hal Katersky and Dana Arnold. Katersky and Arnold are also the principals of Selma and Vine Partners.

Katersky, Arnold and Pacifica Ventures have a track record which should cause any potential business partner or lender to think twice about getting involved in deals involving large sums of money – particularly when those sums are tax-payer dollars.

Providence Journal noted in a story on Pacifica Ventures:

"Pacifica Ventures is no stranger to the movie business. The company opened a similar studio in Albuquerque, N.M. Neither is it a stranger to controversy. The developer is currently embroiled in a California fraud lawsuit

[1] In 1997, CRA entered into a Purchase and Sale Agreement with Ullman Investments, Ltd., to purchase a piece of property for $1,489,785. At the time CRA purchased the property, the only available appraisal valued the property at $795,000. The City Controller ordered an independent audit of the transaction, which determined that "the subject property acquisition was not conducted in a prudent business manner." (See October 30, 2000, Community Redevelopment Agency Review of Capitol Records Parking Lot Transaction, attached hereto as "Exhibit A.) Steve Ullman is a principal in Ullman Investments, Ltd., as well as Grant Parking, Inc. Per an agreement with the Developer, as approved by CRA, Grant Parking, Inc., will operate the new underground parking structure in the completed Project.

alleging that it misspent more than $1 million while managing another Hollywood studio. Company chief executive Hal Katersky was previously involved in a New Orleans start-up company that failed to generate promised employment and defaulted on a multimillion-dollar lease, according to media reports." at: http://www.projo.com/generalassembly/MOVIE_STUDIO_02-08-08_I98UCJI_v18.38d7bdb.html

In November 2007, the Pittsburgh Tribune Review noted that:

"Hal Katersky led a failed technology startup company that defaulted on a multimillion-dollar lease in New Orleans, where expected jobs never materialized." at: http://www.pittsburghlive.com/x/pittsburghtrib/news/state/s_537308.html

Similarly, the Philadelphia Bulletin ran a story in November 2007 that:

"When Hal Katersky signed a 10-year deal for office space in New Orleans, he told city officials his company, a technology start-up, would create at least 200 jobs in the area. That never happened. In fact, the lease, signed in 2000, turned out to be barely worth the paper it was written on. Only one rent payment for the space was ever made, according to court documents, and the company eventually defaulted on the lease. Seven years later, Mr. Katersky, now the head of a studio management company, is planning to bring a movie studio to the suburbs of Philadelphia. Again, he promises it will create jobs." at: http://www.thebulletin.us/articles/2007/11/16/import/20071116-archive6.txt

ABC Money, reported in November 2007 that:

"Katersky also faced lawsuits while chairman of InterGlobal Waste Management Inc., a start-up technology company that aimed to develop wastewater treatment systems for animal farms. State regulators in Oklahoma named him and the company in a securities fraud case in 2004. Authorities charged, in part, that shares of InterGlobal were improperly sold by a third party to Oklahoma residents beginning in 2001. The suit alleged the salespeople were not forthcoming about the 'substantial risk' of the investment and that the stock was not registered in the state, said Patty Labarthe, who prosecuted the case for the Oklahoma Department of Securities." at: http://www.abcmoney.co.uk/news/102007162572.htm

Despite all evidence to the contrary, CRA is willing to take the Developer at its word that it will "demand at least a 25% premium over existing Hollywood office buildings," and maintain "a 5% stabilized vacancy for the Project," despite a current 15% vacancy rate in Hollywood expected to approach 18%. (Exhibit B at pp. 7-8.)

On August 17, 2010, the LA Times ran an article discussing this very Project and noting that "Katersky's business career has been entangled in law suits over failed ventures and clashes with former partners." (See "Lawsuits, failed ventures mark developer's past," latimes.com, August 17, 2010 http://www.latimes.com/business/la-fi-ct-katersky-20100817,0,5176114.story) The story noted that Katersky "was sued for alleged fraud by former business partners in Culver Studios, which he once managed, and by a company that says it helped him expand into New Mexico."

In its report to the CRA Loan Committee, CRA describes Katersky, Arnold and Pacifica Venture's involvement in Albuquerque Studios and Culver City Studios as evidence of the Developer's ability to bring the Project to fruition. The LA Times notes, however, that "[l]ast month, Pacifica Mesa, the owner of Albuquerque Studios, filed for Chapter 11 bankruptcy protection, claiming debts of nearly $105 million." According to Katersky, "the bankruptcy filing would not affect the viability of his other projects, even though Workers Realty Trust, the financial backer of the Vine Street project, is seeking to foreclose on the Albuquerque property."

In a pattern that Katersky appears to display in all of his previous deals gone bad, "he predicted [the Project] would create hundreds of construction and entertainment-related jobs", and although "no tenants had been secured" for the Project, he "predicted strong demand for the space, possibly from a division of a major studio or video game company."

The LA Times went on to describe how "Katersky's previous foray into L.A.'s entertainment business culminated in a legal fight. In 2007, the owners of historic Culver Studios in Culver City sued Katersky and his partner Dana Arnold, alleging that `various acts of fraud and embezzlement' occurred when Katersky and

Arnold managed the studio from 2004 to 2006. The lawsuit alleged that the men improperly charged more than $1 million in expenses to the studio and falsely claimed to be the owners."

According to the Times, '[t]he case was settled confidentially in 2008. 'They made a large financial settlement to us and gave up all their financial interests here,' said James Cella, chief executive of Culver Studios.

The Times further detailed how "Pacifica was targeted in another lawsuit last year. New Mexico-based Digital Media Group, which claims to have pitched Katersky and Arnold on the idea of building a studio in New Mexico and to have helped line up financing for it, sued the men in January 2009. It accuses Katersky and Arnold of fraudulently misrepresenting that they owned Culver Studios and of pushing Digital Media out of the Albuquerque project."

The Times describes how "Pacifica has pursued studio projects in other states, including Connecticut and Pennsylvania. The company is building a movie studio in the Philadelphia area with the help of a $10-million grant approved by the state." In stark contrast to CRA, a spokesperson for Pennsylvania Governor Ed Rendell has stated: "We're not sure how this bankruptcy filing will affect this deal in Pennsylvania. We'll have to look into it before any money is paid out."

Finally, the Times describes Katersky's previous involvement with InterGlobal Waste Management, a start-up technology company which aimed to develop wastewater treatment systems for animal farms. "In late 2000, a subsidiary of InterGlobal received a grant to launch a much-touted manufacturing plant that was expected to create as many as 400 jobs. But the project fizzled, and the New Orleans Business Improvement District later won a judgment against InterGlobal for defaulting on its lease." The Times noted further that "[i]n 2004, InterGlobal and Katersky also were named in an investigation by the Oklahoma Department of Securities, which alleged that the company violated state law by improperly selling stock that was unregistered in the state."

Clearly there is enough information available to raise a red flag that perhaps the Developer of this Project is not qualified to entrust with millions of dollars of other people's money.

In determining whether an appropriation of public funds is an unconstitutional gift, the primary question is whether the funds are to be used for a public of private purpose. *Sturgeon v. County of Los Angeles* (2008) 167 Cal.App. 4th 630, 637. Expenditures of public funds amount to "waste," under CCP section 526a if they are wasteful, improvident or completely unnecessary. *Id* at 639.

Here, the improvidence of giving this Developer more than $4 million of taxpayer money based upon pie-in-the-sky assurances of job creation, premium rents and filled to capacity occupancy could not be more obvious. Indeed, such a gift of public funds is so unsupported, so improvident, so reckless and so contrary to all the evidence, that any alleged public purpose behind the grant vanishes upon close examination.

The City Council should decline to approve this Project and direct the CRA to seek a valid public purpose for the millions in redevelopment funds available for Hollywood.

III. <u>CRA's Finding of Blight with respect to this Property is Not Supported by the Evidence, Accordingly, the Grant of Redevelopment Funds is Improper.</u>

CRA contends in its Section 33433 Summary Report that the property at 1601 N. Vine Street is blighted because:

> The Site is currently underutilized containing a surface parking lot and two small dilapidated commercial structures. Conveyance of the Site for the development of the Project will eliminate the current physical and economic blighting conditions. Thus, the proposed development fulfills the blight elimination requirement.

Under the Community Redevelopment Law, "blight must be found before redevelopment can be authorized, because ... without evidence of blight there is no solid justification for compelling taxpayers in one section of the community ... to subsidize the cost of development of another section of the community." *Regus v. City of Baldwin Park* (1977) 70 Cal.App.3d 968, 982.

Here, the property is simply not blighted. Indeed, as noted by the CRA in its Project Description, East of the Project across Vine Street is the future site of the Hollywood and Vine Project, which will include a residential hotel. Directly South of the Project is the Sunset + Vine Mixed Use Project, which consists of ground-floor retail and upper-floor residential units. The site is just Southwest of the new Hollywood W Hotel. Clearly this property is not a blighted property in need of redevelopment with public funds.

Moreover, currently existing on the site is Molly's Burgers, which was originally built in 1929 and was added onto in 1953 to bring the seating area out to the street. Without regard to the architectural significance of Molly's Burgers, the fact that it has been an institution in the heart of Hollywood for more than 50 years, surely carries more historical significance than the CRA's description of the site as a "small dilapidated commercial structure." Indeed, Molly's is *rich* in history, and is, in fact, a community asset rather than an example of blight. (See June 2, 2010, Letter from Attorney Robert Silverstein on behalf of Molly's Burgers, attached hereto as "Exhibit D.)

There is no evidence to support the finding of blight in the CRA's report. Accordingly, any approval of the project – including the grant of public funds to the Developer – is improper under the Community Redevelopment Law, the California Constitution and Section 526a of the Code of Civil Procedure.

The City should reject any approval of the Project and direct CRA to develop the existing assets of Hollywood in such a manner as to benefit the community as a whole.

IV. <u>CRA's Failure to do Proper Due Diligence on the Project Amounts to a Gross Mismanagement of Public Funds.</u>

In light of the many red flags raised by the public and the media concerning this Project and this Developer, CRA's determination to push forward with the Project demonstrates a complete breakdown in the type of due diligence required for the expenditure of public funds and amounts to a reckless and unsupportable gift of public funds to a private developer and a waste of taxpayer dollars.

The reports concerning Pacifica, Katersky and Arnold – as well as the suspicious connection of Ullman Investments, Ltd., which was the subject of a previous audit and determination that CRA had not acted "in a prudent business manner" – raise alarming red flags concerning possible fraud, speculation, inability to deliver on promises, undercapitalization and risk of bankruptcy and total loss of taxpayer funds.

The bankruptcy alone should be enough to kill the deal.

Yet still CRA continues to seek approval and the City Council seems poised to sign off on this reckless and improvident grant of public money to a private developer. The Developer's promises to deliver a return on the public's unwitting investment in its Project cannot be trusted, as they have been demonstrated to be part of a pattern of fraud, waste and abuse of public and private investment funding.

V. <u>Conclusion</u>

The below-market sale of 1601 North Vine Street to the Developer in this case amounts to an unconstitutional gift of public funds and an illegal waste of taxpayer dollars. Accordingly, the City Council should not approve this Project and should direct CRA to use its public funds for the legitimate redevelopment of the City.

Yours truly,

David Lawrence Bell
Attorney for Robert Blue

“Exhibit A”

OFFICE OF
CONTROLLER

RICK TUTTLE
CONTROLLER

220 CITY HALL
LOS ANGELES 90012
(213) 485-5093

October 30, 2000

Honorable Richard Riordan, Mayor
And Honorable Members of the City Council
of the City of Los Angeles

SUBJECT: **COMMUNITY REDEVELOPMENT AGENCY REVIEW OF CAPITOL RECORDS PARKING LOT TRANSACTION**

Attached is a report on the review of the Community Redevelopment Agency's (Agency) Capitol Records Parking Lot Transaction. This is the first report in connection with the overall review of the Agency's acquisition/disposition of real estate and selection of relocation consultants. The independent audit firm of Thompson, Cobb, Bazilio & Associates, PC conducted the review at the direction of the Office of the Controller.

We sent a copy of the report separately to the Community Redevelopment Agency.

If you have any questions or comments, please contact Vicky Ancajas, Chief Auditor, at (213) 485-4525.

Very truly yours,

RICK TUTTLE, CONTROLLER

By
James P. Armstrong, CPA
Director of Auditing

Attachment

cc: Honorable James Hahn, City Attorney
Peggy Moore, Chairperson, Community Redevelopment Agency Board
Armando Vergara, Sr., Member, Community Redevelopment Agency Board
Javier Lopez, Member, Community Redevelopment Agency Board
Greta Hutton, Member, Community Redevelopment Agency Board
Doug Ring, Member, Community Redevelopment Agency Board
Christine Robert, Member, Community Redevelopment Agency Board
Coby King, Member, Community Redevelopment Agency Board
Kelly Martin, Chief of Staff, Office of the Mayor
Jennifer Roth, Deputy Mayor, Office of the Mayor
William T. Fujioka, Director, Office of Administrative and Research Services
Ronald Deaton, Chief Legislative Analyst
Antoinette Cristovale, Director of Finance
J. Michael Carey, City Clerk
Independent City Auditors

OFFICE OF
CONTROLLER

RICK TUTTLE
CONTROLLER

220 CITY HALL
LOS ANGELES 90012
(213) 485-5093

October 30, 2000

Jerry Scharlin, Administrator
Community Redevelopment Agency
354 S. Spring Street, 8th Floor
Los Angeles, CA 90013

Dear Mr. Scharlin:

Attached is a Summary of Significant Observations on the review of the Community Redevelopment Agency's (Agency) Capitol Records Parking Lot Transaction. This is the first report in connection with the evaluation of controls in the area of the Agency's acquisition/disposition of real estate and selection of relocation consultants. The audit of controls was instituted in response to your request to evaluate these areas because of concerns over controls at the Agency. The independent audit firm of Thompson, Cobb, Bazilio & Associates, PC (the consultant) conducted the review at the direction of the Office of the Controller.

In June 2000, the consultant started a review of the Agency's acquisition and disposition of land and the selection and use of contractors for relocation program. The objectives of the review were to determine:

1. If the Agency has a system in place to effectively perform the acquisition and disposition of real estate properties.
2. If Agency staff complied with Agency policies and procedures in the acquisition and disposition of real estate properties.
3. If the Agency has a system in place to effectively select and use contractors for the Agency's relocation program.
4. If Agency staff complied with Agency policies and procedures in the selection and use of contractors for the Agency's relocation program.

In September 2000, information was published in a Los Angeles newspaper regarding the Agency and property to be sold to Capitol Records for a parking lot. Our Office received individual requests from several City Council members to look into the purchase of the property as reported. We asked the consultant to include the purchase of the property known as the "Argyle" property in their review.

The attached "Summary" is the first of three reports that will be issued in connection with the consultant's review of Agency controls. The other two reports will address internal controls in the Agency's acquisition/disposition of real property and internal controls for the Agency's relocation program. We expect to release the next letter report on the Agency's Internal Control environment within the next two weeks. The last report will be a comprehensive report on the areas reviewed and will include details of all transactions evaluated. We expect this report to be released by the end of November.

Before the attached "Summary" was finalized, a copy was provided to your offices for information. We are transmitting the final summary at this time to provide the City Council with requested information during any subsequent discussion about transactions involving the property.

If you would like to prepare written comments on the attached summary, we will attach your comments to any subsequently released copies of the document. If you have any questions about the attached summary, please call Vicky Ancajas, Chief Auditor, at (213) 485-4525.

Very truly yours,

RICK TUTTLE, CONTROLLER

By
James P. Armstrong, CPA
Director of Auditing

Attachment

cc: Honorable Richard Riordan, Mayor
Honorable Members of the City Council
Honorable James Hahn, City Attorney
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October 30, 2000

Mr. Rick Tuttle, Controller
Office of the Controller
1200 City Hall
Los Angeles, CA 90012

COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES
REVIEW OF CAPITOL RECORDS PARKING LOT TRANSACTION
(Property location at 1751 Argyle Street, Hollywood, CA)

Dear Mr. Tuttle:

Per your request, Thompson, Cobb, Bazilio & Associates, PC has completed its independent review of the transaction detail related to the Community Redevelopment Agency's (CRA) acquisition of the above referenced property. Below we provide a summary of our significant observations and a detailed description on the chronology of events leading up to the acquisition of the subject property. Our review procedures primarily consisted of 1) reviewing acquisition documents, 2) reviewing appraisal reports, 3) reviewing CRA Board and City Council memoranda, and 4) inquiring with pertinent CRA officials.

<u>Summary of Significant Observations</u>

1. Based on our review of CRA Board and City Council memoranda prepared by CRA staff, we found that CRA staff did not clearly disclose that an appraisal did not exist in support of CRA staff's recommended and budgeted acquisition price of $1,490,000.

2. In a July 1997 CRA Board memorandum to City Council requesting approval for acquiring the subject property, CRA staff gave an erroneous impression by stating that "staff have completed independent appraisals of this property". In truth, only one appraisal had been performed valuing the subject property at $795,000, which was significantly less than the recommended and budgeted acquisition price of $1,490,000.

3. The CRA entered into a purchase and sale agreement with the subject property owner for a purchase price of $1,489,785, without an appraisal report in support of the purchase price.

4. An appraisal report which valued the subject property at $1,530,000 was not completed until one week after the close of escrow on the subject property. Furthermore, the appraiser hired by the CRA was not on the CRA's Appraisal Department's contracted list of approved appraisers. The appraiser was hired through a law firm that serves as special counsel to CRA.

Detailed Description of Property Acquisition - Chronology of Events

Based on our review of documentation provided to us by CRA staff relative to the subject property acquisition, below is a detailed chronology of significant events.

1. In February 1997, the CRA contracted with Universal Appraisal & Consulting to perform an appraisal of the subject property. The appraisal valued the subject property at $795,000. Appraisal report notes that subject property owner was "looking for a price in the $1,300,000 range".

2. In March 1997, CRA staff prepared and submitted a request to City Council to negotiate and enter into a $3,750,000 sub-grant cooperation agreement with the Mayor's office to receive Economic Development Administration (EDA) funds to support the subject property acquisition and proposed construction of a parking structure. The memorandum submitted to City Council listed the budgeted acquisition price of the subject property at $1,490,000. The memorandum did not disclose that an appraisal did not exist in support of the subject property acquisition price nor did the memorandum disclose that a current appraisal had been performed valuing the property at $795,000.

3. In July 1997, CRA staff sought authorization to acquire the subject property utilizing EDA funds. CRA Board memorandum to City Council states "staff has completed independent appraisals of this property". In truth, only one appraisal had been performed valuing the subject property at $795,000.

4. On November 24, 1997, the CRA entered into a Purchase and Sale Agreement with Ullman Investments for a purchase price of $1,489,785 for the subject property. The only appraisal performed to date valued the subject property at $795,000.

5. In February 1998, CRA staff learns that EDA funds can only be reimbursed after the subject property has been acquired. CRA staff requests City Council approval to utilize other CRA funds for the purchase of the subject property as a temporary advance until such time the CRA is reimbursed from EDA funds.

6. On February 26, 1998, the CRA notifies the Housing and Community Redevelopment Committee that EDA funds will only reimburse for the appraised value of the subject property, plus closing costs. Thus, given that the only appraisal performed was for $795,000, only 59% of the negotiated purchase price of the subject property would be reimbursed by EDA funds. In approving funding for the purchase of the subject property, the Committee admonished the CRA saying that "in future instances, the CRA should be instructed to conduct real estate appraisals prior to completion of negotiations on the purchase of the property". (Note: EDA funds were ultimately not used to purchase the subject property).

7. On March 25, 1998, escrow closes on the sale of subject property.

8. On April 1, 1998 (one week after the close of escrow), an appraisal was performed by James J. Reid valuing the subject property at $1,530,000. This appraiser was not on the CRA's Appraisal Department's contracted list of approved appraisers. The appraiser was hired through a law firm that serves as special counsel to CRA.

9. On August 30, 2000, the CRA obtained a more current appraisal on the subject property. The appraiser (Lea Appraisals) valued the subject property at $1,000,000.

<u>Conclusion</u>

Given the facts stated above, we believe the subject property acquisition was not conducted in a prudent business manner. Furthermore, we believe that the lack of adequate internal controls over the property acquisition process at the CRA contributed to this situation.

In closing, we are completing a separate review of CRA's internal controls over the acquisition and disposition of real estate and selection of relocation consultants/contractors. The results of this review will be issued in a separate report and will detail the internal control weaknesses we have found over CRA's property acquisition process.

If you should have any questions, please do not hesitate to contact me at 310 792-7001

Sincerely,

Michael J. deCastro

Michael J. deCastro
Principal

“Exhibit B”

CRA/LA
Building Communities with Jobs & Housing

DATE: September 18, 2009

SUBJECT: Authorization to Execute a Disposition and Development Agreement for the conveyance of 1601 N Vine St to 1601 North Vine, LLC at the below-market price of $825,000 for the development of the Vine Street Tower Project

COMMITTEE REVIEW: CRA/LA Loan Committee

Project Name:	Vine Street Tower	**RD Area:**	Hollywood Redevelopment Project Area
Project Address:	1601 North Vine St Los Angeles, CA 90028	**Council District:**	4
Borrower:	1601 North Vine, LLC	**Project Type:**	8-story Class A office building with ancillary retail
Developer:	1601 North Vine, LLC	**Site Size:**	18,208 Sf (.42 acres)
		Project Components:	Office (112,548 Sf)
Sponsor:	Pacifica Ventures (Hal Katersky, Dana Arnold), Workers Realty Trust II, L.L.P (Equity Partner)		Retail (2,012 Sf) Parking - 194 spaces, 5-level subterranean garage
		Target Tenant(s):	Entertainment Industry
		Leveraging Source:	Private Equity, Conventional Loan

Amount Requested:	$4,625,000
Funding Type:	Land Conveyance at reduced cost to Developer
Use of Funds:	Land Conveyance
Source of Funds:	Land was purchased with Hollywood Project Area Bond Proceeds and Tax Increment Funds.

FUNDING REQUEST

1601 North Vine, LLC (Developer) is requesting that the Community Redevelopment Agency of the City of Los Angeles (CRA/LA) sell the 18,208 square foot site located at 1601 North Vine St. (Site) to the Developer for a price of $825,000, for the development of an 8-story Class A office building containing 2,000 square feet of ground floor retail and a 5-level subterranean parking garage (Project). Conveyance of title to the Developer will be contingent upon the closing of the Developer's construction loan.

BACKGROUND

The Site is located at 1601 North Vine St. in the Hollywood Redevelopment Project Area (Project Area). The Site is adjacent to the Ricardo Montalban Theater on the north; the Sunset and Vine mixed-use project across Selma St. to the south; and the Hollywood and Vine mixed-use project across Vine St. to the east. The Site is approximately .42 acres and is currently occupied by two users: Molly's Restaurant, a hamburger stand; and Grant Parking, Inc., which operates a surface parking lot on the Site containing 55 spaces and two billboards. Per an agreement with the Developer, and as approved by the CRA/LA, Grant Parking, Inc. will operate the new underground parking structure in the completed Project. CRA/LA will be responsible for the relocation of the existing tenants. However, the Developer will indemnify the CRA/LA against all claims by Grant Parking, Inc. arising from the relocation of the parking operation during construction.

The Developer originally purchased the Site from Ullman Investments Ltd. in September 2006 for $5,450,000. CRA/LA purchased the property from the Developer in October 2006 for a purchase price of $5,450,000. The purchase price for the property was based on a fee simple market value appraisal by CB Richard Ellis, dated 5/13/2006. The Developer is requesting that the CRA/LA resell the Site to the Developer for $825,000, which equates to a land write-down of $4,625,000.

PROJECT DESCRIPTION

The Vine Street Tower will be a Class A office building containing 8 floors of approximately 112,548 leasable square feet of office space and 2,012 square feet of ground floor retail space. The building is being developed to attract top quality companies in the entertainment industry, and is designed by Gensler, featuring a jewel box design. In addition, the building is registered with the U.S. Green Building Council for LEED Gold status. Sustainable elements of the Project will include:

- Location adjacent to public transport;
- Bicycle parking, lockers and showers;
- Cool roof;
- Sustainable tenant fit-out guidelines;
- Water efficient landscaping and plumbing features;
- Use of recycled and locally available materials;
- Construction waste management program;
- Utilization of renewable energy sources; and
- Use of low VOC-emitting materials.

The building features 133,369 square feet of gross building area (GBA), which results in a Floor Area Ratio (FAR) of 7.32. Parking will be provided in a 5-story subterranean garage, which will be accessible to the public during non-office hours. The Project's 194 parking spaces equates to approximately 1.45 spaces per 1,000 square feet of commercial space. The Developer's parking calculation is based on a 2 spaces per 1,000 square feet requirement; a 10% parking reduction due to the Site's location in a transit corridor; and a net square footage of 107,000. However, according to the pro forma, the net square footage of the site is approximately 114,000 square feet, which results in a parking requirement of 203 spaces. The Developer will have to resolve this discrepancy before obtaining entitlements.

The Developer has stated that the Project's EIR is complete and has received initial approval from the CRA/LA. However, an update to the EIR may be required due to a possible classifying of the Molly's hamburger stand as an historic structure. The Developer does not believe this would delay the Project schedule. The Developer expects final City Council approval by May 2010; to obtain building permits by the end of the June 2010; and to break ground by September 2010.

BORROWER/SPONSOR

<u>Borrower: 1601 North Vine, LLC</u>

1601 North Vine, LLC will be the Borrower for the Project. The company was created in 2006 with the sole purpose of developing the Vine Street Tower Project. The Developer is comprised of two members: Selma & Vine Partners, LLC, and Workers Realty Trust II, L.P.

<u>Sponsor: Pacifica Ventures (Principals – Hal Katersky, Dana Arnold)</u>

Pacifica Ventures is an owner, operator, and developer of filming and production facilities for motion picture and television production, based in Santa Monica, CA. The company's mission is to become the dominant provider of first-class, technologically advanced entertainment production facilities in the world.

Pacifica developed, owns and operates Albuquerque Studios (ABQ), which opened in Spring 2007. ABQ is a state-of-the-art production facility for films, television and post-production services that features eight (8) soundstages. Pacifica purchased the Culver Studios from SONY Pictures in 2004, along with venture partners Lehman Brothers, PCCP, and Picbengro. The firm initiated and managed an expansion of the facility, including the construction of a 50,000 square foot office production building. Currently, Pacifica is engaged in new studio ventures in Philadelphia, Connecticut, Prague, and several other cities.

Hal Katersky is Chairman and CFO of Pacifica Ventures, and he is the Managing Member of 1601 North Vine, LLC. He is also the CEO of Albuquerque Studios in Albuquerque, New Mexico, which he developed along with Dana Arnold. He was Chairman and CFO of The Culver Studios, and takes responsibility for the fiscal turnaround of the studio. He was active in redevelopment efforts in downtown Culver City, and also served as Chairman of the Board of the Chamber of Commerce in Culver City. He was also Chairman of the Board and CFO of Pacifica Media Affiliates. He was a partner at Touche Ross Management Consulting, specializing in mergers and acquisitions. He has real estate development experience as CFO and Sr. Vice President of the Taubman Company, and as founder of Katersky Financial, a developer and manager of shopping centers in Southern California.

Dana Arnold founded Pacifica Ventures in 1982. As CEO of Pacifica Media Affiliates, Dana led the company through a period of acquisition transactions that resulted in the firm becoming the second largest sound post-production group in Southern California. As President and CEO of The Pacifica Corporation in the early 1990s, he led a staff of 350 employees and completed the financing and construction of more than one billion in completed real estate projects, including planned communities, office buildings, schools, and a golf course. More recently, he was CEO of The Culver Studios, and acted as lead negotiator in the acquisition of The Culver Studios from SONY Pictures. He is currently President of Albuquerque Studios in New Mexico.

Statements of net worth were provided for Hal Katersky and Dana Arnold. The statements show that for both individuals, the majority of their net worth is in real estate and entertainment studio assets. Each has provided an equity contribution of $125,000 to the Project. It does not appear that either has sufficient cash or liquid assets to provide additional equity contributions in the event there are significant financial shortfalls during development of the Project.

<u>Minority Member of Borrower: Selma & Vine Partners, LLC</u>
Selma & Vine Partners, LLC owns a 6% membership interest in 1601 North Vine, LLC, as confirmed in the September 2006 operating agreement. Selma & Vine is comprised of two equal members: Hal Katersky and Dana Arnold, the principals of Pacifica Ventures.

See Sponsor above for information on Hal Katersky and Dana Arnold.

<u>Majority Member of Borrower: Workers Realty Trust II, L.P.</u>
Workers Realty Trust II, L.P. (WRT) owns a 94% membership interest in 1601 North Vine, LLC, as of the September 2006 operating agreement. WRT is a Delaware limited partnership, formed in 2005. The partnership is a $124 million nationally focused closed-end fund. The principal objective of the fund is to provide benchmark-exceeding real estate investment performance by developing and/or redeveloping dominant properties in both primary and secondary markets. The fund focuses on value enhancement opportunities utilizing all union labor. The investors in the Fund are Taft-Hartley Pension Plans. The Amalgatrust Company, Inc. is the Limited Partner, with a $55,000,000 initial capital contribution dated 8/16/05. Commonwealth Realty Advisors, Inc. is the General Partner.

The financial statements from WRT were not available for review at the time of this report. CRA/LA staff anticipates that these statements will be available for review prior to the loan committee meeting.

DEVELOPMENT TEAM

Developer: 1601 North Vine, LLC
See Borrower / Sponsor section.

Architect: Gensler
Gensler is a global architecture, design, planning, and consulting firm with over 2,100 employees in 32 locations. The company is based in San Francisco. The Developer has worked with the Architect and General Contractor on the Project since its inception. John Adams, Principal, is the contact for the Project. He has been with the firm since 1988, and has been involved with the 2000 Avenue of the Stars project in Century City; the AT&T Center building in South Park; and the hotel and residences at LA Live.

General Contractor: MATT Construction
MATT construction is a Southern California-based general contractor. The company was founded in 1991, has over 200 employees in two offices, and has over $380 million in annual building volume. The firm received a Green Building Award from the Los Angeles Business Council for the Broad Contemporary Art Museum at LACMA. MATT Construction has been involved with numerous high-end design projects, including the Skirball Center and Disney Concert Hall. James A. Muenzer is the contact for this Project. He is a Vice President and Senior Project Manager with 25 years of construction experience.

Property Management: Selma & Vine Partners, LLC
See Developer.

CREDIT REPORT ANALYSIS
On June 26, 2009, Experian prepared a credit report for 1601 North Vine, LLC. The report includes a credit score of 70, which corresponds to a Low-Medium Risk. When compared to all businesses, 69% of businesses indicate a higher likelihood of severe delinquency than this business. It should be noted that the credit report indicates very little business transaction activity in the three years the business has been on file.

On September 17, 2009, Experian prepared a credit report for Pacifica Ventures, indicating a credit score of 53. This corresponds to a Medium-Low risk, and means that 52% of businesses indicate a higher likelihood of severe delinquency than this business. The report listed one continuously reported trade from September 2009, with a balance of $0, and 0 days beyond terms.

On September 17, 2009, Experian prepared a credit report for Selma & Vine Partners, LLC. A credit score could not be calculated for this entity, seemingly due to a lack of business transaction activity.

A credit report does not exist for Workers Realty Trust II, L.P. The Developer confirmed that this is an entity without a credit record. It is a partnership funded by contributions from partners, and it receives net cash flow that from its investments.

PRIOR AGENCY FINANCIAL ASSISTANCE
The CRA/LA has not provided the Borrower/Developer or Sponsor with any previous financial assistance.

FINANCING STRUCTURE
Project financing will consist of Developer equity and conventional construction and permanent loans.

The following table summarizes the proposed sources and uses for the Project:

SOURCES AND USES		
SOURCES	**CONSTRUCTION**	**PERMANENT**
Developer Equity	$5,755,000	$5,755,000
Construction Loan	51,798,000	0
Permanent Loan	0	51,798,000
TOTAL	**$57,553,000**	**$57,553,000**
USES		
Acquisition Costs	$1,025,000	$1,025,000
Hard Construction Costs	43,293,000	43,293,000
Soft Construction Costs	13,235,000	13,235,000
TOTAL	**$57,553,000**	**$57,553,000**

The following describes the proposed funding sources as well as the status of each funding source:

- Developer Equity: The Developer anticipates that approximately $5.8 million in equity will be provided to finance the project. To date, the Developer has contributed $4,150,000, broken down as follows: Selma & Vine Partners, LLC - $250,000 (6% ownership interest); Workers Realty Trust II - $3,900,000 (94% ownership interest).

  To date, the Developer has expended $3,512,000 for predevelopment activities, as follows:

Predevelopment Expenditures	
Architecture and Engineering	$2,409,000
Legal and Accounting	244,000
EIR, Fees, and Permits	782,000
Reproduction and Prints	9,000
Miscellaneous	68,000
Total Equity Draw Downs to Date	**$3,512,000**

- Construction Loan: The Developer has identified Amalgamated Bank of New York, NY as the source of construction financing, and they have been working together since the inception of the project in 2006. The lender is a 100% union-owned bank, and requires union labor as a loan term. Although an updated term sheet is not available, the Developer indicated that final terms of the construction loan will remain similar to the terms of the May 30, 2008 draft term sheet. The lender is prepared to provide a loan at a 90% loan-to-cost ratio. The term sheet also specified the following terms: a maximum loan amount of 80% of the appraised value; a minimum interest rate of 7.75%; and a term of 30 months with options for two 3-month extensions. In addition, the Developer expects the lender to require 60% of the building to be pre-leased prior to a loan commitment. The Developer expects the revised terms to be negotiated when the Project obtains entitlements & CRA/LA Board approval for land conveyance.

- Permanent Loan: The Developer has not identified a permanent loan provider for the Project. The Developer anticipates that it will seek take-out financing two or three years into stabilization, and that the loan will have the following terms: 72% Loan to Value based on a 7.5% cap rate; 6.5% interest rate; a 1.22 debt coverage ratio; and a 30 year amortization. Based on the Project economics and the above terms, KMA estimates a permanent loan in the range of $46 million to $51 million.

FINANCIAL ANALYSIS

The Developer provided a pro forma for the proposed Project, which illustrates a total development cost of $56,728,000, not including the $825,000 proposed land purchase price. The Developer shows a stabilized net operating income of $4,795,000. The Developer indicated that the projected development costs are based on a cost estimate from March 2009. Summary level information was reviewed by KMA, although the Developer indicated that the Architect and Contractor have worked closely together on detailed cost estimates, which will continue to be revised as the Project moves forward. The following analyzes the Developer's assumptions.

Total Development Costs

- Transaction costs related to land acquisition are estimated at $200,000.
- The Developer estimates the direct costs, inclusive of prevailing wage, at $43,293,000, or $325 per square foot. The direct costs include a factor of approximately 16% for general conditions, contractor fees, insurance, bonds, and contingency. Details of the direct cost estimate are as follows:
  - The off-site improvement costs are estimated at $951,000. The off-site improvements include electrical conduit connections, manholes, fire water connections, removal of power poles, telephone lines, and other costs. The Developer provided a schedule identifying several additional costs as to-be-determined.
  - The subterranean parking costs are estimated at $11,094,000 or $57,190 per space. The high cost appears to be due to the small building footprint and resulting inefficiency of the parking structure. Review of the floor plans and construction cost estimate suggests that the subterranean spaces may average approximately 500 gross square feet per space. This equates to a $114 per square foot cost, which includes a prevailing wage premium. This is within the range of costs for subterranean parking of three or more levels, in KMA's experience.
  - Building shell costs are estimated at $26,674,000 or $200 per square foot of GBA, which is at the high end of the range for similar office building projects.
  - Tenant improvements are estimated to total $4,574,000 or $40 per square foot of gross leasable area (GLA). These costs indicate an average across standard office space, executive space, and ground floor retail space. This is within the range of standard tenant improvement costs for similar projects.
  - The Developer did not include a separate allowance for hard cost contingency. The Developer has stated that the current cost estimate may have room to be revised downward. Therefore, it may not be necessary to include a contingency cost in the pro forma at this time.
- The Developer estimates the indirect costs at $7,675,000. The following summarizes the components of the indirect cost estimates:
  - The architecture, engineering and consulting costs are estimated at approximately $3,166,000, or 7.3% of the direct costs, which is higher than a typical 6% seen in similar construction projects. The Developer has already spent in excess of $2 million on

architecture and engineering expenses, which may contribute to the above average cost estimate.

- The Permits and Fees are estimated at $1,416,000 or $11 per square foot of GBA. KMA recommends that the City staff verify this estimate.

- The taxes, insurance, legal and accounting costs are estimated at $470,000, or 1.1% of the direct costs. This is lower than the typical 2% seen in similar projects.

- The marketing and leasing costs are estimated at $1,613,000 or $14 per square foot of GLA, which is slightly higher than the typical $12 per square foot.

- Development management costs are estimated at $250,000, which represents only .6% of direct costs. A typical development management fee for a project of this size would be 3% of direct costs.

- The indirect contingency allowance is estimated at $760,000, or 11.4% of other indirect costs excluding development management. This is higher than the 5% indirect cost contingency allowance typically seen for new construction projects.

- Financing costs, including construction loan interest and fees, total approximately $5,560,000.

- The total development costs are $56,728,000 or $425 per square foot of GBA. These costs are at the high end of the normal range for typical office development. However, based on the scope of development, the development costs appear to be reasonable considering the high-end nature of the building.

Net Operating Income

The Project stabilized net operating income is estimated at $4,795,000. The following summarizes the operating assumptions:

- The Developer estimates the full service gross average office lease rate at $4.50 per square foot of GLA per month ($54 per square foot annually). This equates to $6,078,000 in annual gross potential rental revenue. This rental rate is very aggressive for the Hollywood office market, with a current estimate top end of the Class A market at approximately $40 per square foot ($3.33 per square foot per month). The Developer's rationale is that the proposed Project will demand at least a 25% premium over existing Hollywood office buildings, and draw tenants from the Century City and Santa Monica markets. In these markets, the current average for prime Class A office space is in the range of $4.50 to $5.00 per square foot.

- The Developer estimates the triple net (NNN) rent for the 2,000 square feet of ground floor retail at $6.00. This amounts to $145,000 in annual gross revenue. This rate is also aggressive for the Hollywood area. However, as the space will be located on the ground floor of a landmark building, the Developer believes it will command a premium over similar retail space in the area. As a comparison, current asking rents for the ground floor space at the Sunset and Vine Tower are $6.75.

- The Developer assumes a 5% stabilized vacancy for the Project. This is a typical pro forma vacancy rate, but it may be aggressive for such a pioneering project. In addition, it should be noted that the current vacancy rate in the Hollywood submarket is approximately 15%, and it is forecast to approach 18% before falling back to 17% by 2012.[1]

- Parking revenues are projected as follows:

  - Monthly spaces are projected at $200 per space per month, for a total of $466,000 in annual revenues. This assumption assumes 100% utilization of the 194 spaces. The proposed rate is very aggressive for the Hollywood area. A Walker Parking Consultants study from April 2008 found that the range of monthly parking rates in the area is in the range of $70 to $100 per space.[2] CRA/LA staff has confirmed that the current monthly rent at the Cinerama Dome is $100. The Developer assumes that the Project's tenants will be willing to pay a premium for the convenience of parking on Site. In addition, the Developer anticipates an overall reduction of relatively inexpensive surface parking in the area in the next several years, due to redevelopment activity.

  - Weekend revenues are projected at $16 per space for Friday and Saturday nights, at 75% utilization. This results in an annual amount of $242,000 in weekend parking revenue. The Walker study found that weekend rates range between $5 and $20 per night in the vicinity of the Project.

  - Weeknight revenues are projected at $12 per space Sunday through Thursday, at 50% utilization, for a total of $303,000 in annual weeknight parking revenue. The Walker study found that weeknight rates range between $5 and $10 per night in the vicinity of the Project.

  - Gross parking revenues are projected at $1,010,000 annually.

  - Parking expenses are estimated at 15% of gross revenues, or $152,000 annually. This figure is conservative, as it is typical to assess an annual charge of $500 per space, which amounts to approximately $97,000 per year.

- Operating expenses are estimated at $15.60 per square foot, on an annual basis. This figure is within the range of typical expenses for Class A office buildings.

- Management fees are estimated at 2.5% of annual office and retail rental revenue, net of vacancy. This is slightly below the typical 3% seen in similar projects.

- Operating reserves are estimated at $.35 per square foot of GLA. It is typical to assess a $.25 per square foot charge against the entire gross building area.

- The stabilized NOI is estimated at $4,795,000.

SUPPORTABLE LAND VALUE

The Developer estimates total direct and indirect costs of $56,728,000, and a stabilized NOI of $4,795,000. In addition, the Developer assumes an 8.33% threshold return on total development costs. This results in a supportable private investment of $57,553,000. Less the development costs of $56,728,000, the resulting supportable land value is $825,000, as shown below.

[1] According to a May 8, 2009 report from REIS.

[2] The study, dated 4/18/08, was commissioned by the CRA/LA for the nearby Cinerama Dome parking facility.

Supportable Land Value Calculation	
Stabilized Net Operating Income	$4,795,000
Threshold Return	8.33%
Supportable Investment Value	**$57,553,000**
(Less) Total Development Costs	$56,728,000
Supportable Land Value	**$825,000**
Per SF of Land	$45

The Developer's threshold return of 8.33% is likely to be below what investors would demand from a speculative project of this nature. KMA estimates a more realistic threshold return would be closer to 9%. At this rate of return, the Supportable Land Value of the Project would be negative. This suggests that in order for the Project to provide a 9% return, the land would have to be conveyed at no cost, and in addition, the Project would require a subsidy. However, CRA/LA has negotiated the $825,000 land price with the Developer. It is the responsibility of the Developer to fill any remaining financial gap with private equity and loan proceeds.

FINANCIAL ANALYSIS METRICS

The following summarizes the profit returns to be provided to the Project's investors:

Metric	
Return on Investment (ROI)	8.33%
Return on Costs (ROC)	8.33%
Capitalized Value at 7.5%	$ 63,933,000
Construction Loan-To-Cost (LTC)	90%

The Developer has not identified a source of permanent financing. Therefore, hard debt service requirements during the operating period are not available.

LOAN REPAYMENT ANALYSIS

The Disposition and Development Agreement (DDA) specifies that the CRA/LA will not convey the Site to the Developer until the Developer closes on a construction loan. In addition, to secure the CRA/LA's interest in developing a Class A office project that is targeted to entertainment tenants, the DDA will contain a covenant that binds the Developer and all successors, for a period of 5 years from the completion of the project.

The DDA specifies the following:

- The site shall only be used for Class A office use, and at least 60% of the tenants must be entertainment industry-related;
- Condominium conversion is not allowed;
- All relevant CRA/LA policies will be adhered to, including anti-discrimination, prevailing wage, community benefits, and others;
- Prior to the conveyance of the land, the Developer must submit a financing plan to be approved by CRA/LA, which will include a cash flow projection, a detailed cost breakdown, copies of commitment letters from all financing sources, a detailed sources and uses table, and evidence

that the Developer has sufficient additional funds available to complete the Project in the event that the costs of the Project exceed the funds available from external financing sources.

- The CRA/LA must approve all final construction drawings, finish grading plan, and landscaping plan prior to the start of construction;

- The CRA/LA must review a final management/marketing plan before the completion of construction;

- No transfer, sale, assignment, or lease of the property without CRA/LA approval; and

- If a sale of the Project occurs within 5 years of project completion, the CRA/LA is entitled to receive 8% of the amount of sale proceeds in excess of the development costs.

ISSUES AND CONCERNS

The following summarizes the issues identified in relation to the funding request:

- Proposed Rent Structure:
  The Developer's proposed rent structure is very aggressive. The proposed office, retail, and parking rents are all above market for the Hollywood area. However, there is no comparable product in the Hollywood marketplace, and it is likely that tenants and users will pay a premium to be located in this building. This is mitigated by the fact that the construction lender will require 60% of the building to be pre-leased before closing on a construction loan. Therefore, 60% of the building will be pre-leased prior to land conveyance by CRA/LA.

- Developer/Sponsor Track Record:
  The Developer is not a typical developer of speculative office buildings, having focused more in the past on entertainment industry uses such as production studios and soundstages. However, the Developer has put together a skilled team with Gensler and MATT Construction, both of which have significant experience developing high quality office projects. In addition, Hal Katersky and Dana Arnold have significant real estate development experience in the past.

- Equity Partner:
  The financial statements for Workers Realty Trust II, L.P. were not available for review at the time of this report. There is a risk that the Developer will not be able to fulfill its equity obligations to the Project, or have sufficient capital to cover any cost overruns that occur during construction. This is mitigated by the fact that $4.15 million in equity has already been funded (94% attributed to WRT and 6% to Selma & Vine Partners, LLC), which represents 72% of the estimated required equity contribution.

RECOMMENDATION

Approval contingent upon the following conditions:

- Land conveyance occurs only upon CRA/LA approval of the Developer's funding plan, including confirmation of commitments from all private sources, including the construction lender and any additional equity sources;

- The DDA covenants that the Site may only be used as a Class A office building, of which 60% of the tenants are based in the entertainment industry; and

- CRA/LA review and approval of the equity partner financial statements.

CRA/LA
BUILDING COMMUNITIES

MEMORANDUM

TO:	Loan Committee, CRA/LA
FROM:	Diana Cardenas, Senior Finance Officer Sen Sugano, Capital Finance Intern
CC:	Franco Pacelli, Neelura Bell
DATE:	September 18, 2009
SUBJECT:	**Vine Street Tower – Loan Committee Report Addendum – Hollywood Office Market Analysis**

Pacifica Ventures and union-backed equity fund partner Workers Realty Trust II, L.P. ("Sponsors") propose to develop Vine Street Tower, a Class A office building at 1601 N. Vine Street containing 112, 548 sf of office space and 2,012 sf of ground-floor retail. The Sponsors request that the CRA/LA sell the 18,208-sf site to the Developer/Borrower single-purpose entity, 1601 North Vine, LLC, for the below-market price of $825,000. The lease-up of the office space at Vine Street Tower is critical to the success of the Project given that proposed lender Amalgamated Bank requires 60% pre-leasing in order to fund loan proceeds, and the CRA/LA requires that 60% of office tenants be entertainment industry-related. CRA/LA has therefore further examined the current state of the Hollywood office market and forecasted trends.

LOS ANGELES OFFICE MARKET

With the economy continuing to decline and unemployment continuing to rise, the 195-million-square-foot Los Angeles office market continues to suffer. According to the Los Angeles Economic Development Corporation, the local economy deteriorated more rapidly than expected in 2009, and by 2010, the unemployment rate is expected to rise to 12.8%. As a result, office buildings have been forced to lower rents in order to absorb vacancies. According to REIS, Los Angeles has the 9th lowest vacancy rate among the top markets; however, they also had the sixth worst asking rent decrease in the second quarter of 2009. **Table 1** shows current vacancy rates for the Los Angeles market. Although rents have decreased, Class A vacancy has been rising more slowly than the overall rate due to recent movement toward quality office space.

Table 1: Los Angeles Market Vacancy Rates (REIS, Q209)

Overall	Class A	Class B & C
12.4%	11%	14%

HOLLYWOOD/SUNSET OFFICE SUBMARKET

In the Hollywood/Sunset submarket, the story is similar, where the economy has depressed the rents and vacancy rates have risen. The submarket has a total of 59 office properties with a total of 3.99 million square feet of office space. Of the 3.99 million, about half, or 2.3 million square feet are designated as Class A office, despite no significant "newer" supply in the market. **Table 2** shows the submarket inventory detail by age, of which most was built before the 1970's. In fact, only 4% of the office space offered in the submarket was built in the past two decades. However, a few buildings have been recently renovated, including the CNN Building (built 1968) and most recently, 7060 Hollywood Boulevard (built 1971). 7060 Hollywood was renovated in 2008 and has current asking rents of $3.25 to $4.00 psf FSG. According to Ramsey-Shilling (the Project's leasing broker), Live Nation recently signed a 105,000-sf lease at $3.35 FSG at this building. Technicolor signed a lease this year at its new 75,000-sf build-to-suit building for $2.75 psf NNN ($3.75 psf FSG). Additionally, asking rents at the Sunset Media Tower at 6255 W. Sunset (built 1971) and the Stephen J. Cannell Building at 7083 Hollywood (built 1985) are currently $3.50 psf FSG. In comparison, the subject's proposed rent at $4.50 psf FSG represents an aggressive 29% premium over the $3.50 psf current asking rates at these buildings, which are some of the most comparable buildings in the submarket. Given decreasing rents and negative rent growth trends in the submarket, it may be an optimistic assumption that tenants will pay this premium to be in a brand new building unless economic conditions significantly improve.

CRA/LA

Table 2: Hollywood/Sunset Office Inventory By Building Age (REIS, Q209)						
Year Built	Before 1970	1970-1979	1980-1989	1990-1999	After 1999	Total/Avg
% Bldg Supply	63%	19%	14%	1%	3%	100%
Avg Asking Rent	$3.04	$3.27	$2.73	$2.73	$2.60	$3.14
% Vacancy	9.4%	35.9%	14.6%	n/a	23.1%	14.9%

According to REIS, the Hollywood/Sunset submarket has had a rent growth rate less than the Los Angeles average at -2.7%, or -1.2% less than the market. Between 2005 and 2006, the submarket peaked with a 15% rent growth rate, holding on until 2007 and declining rapidly in 2008 and 2009. Although the rent growth rates are less than the market average, REIS forecasts that the Hollywood/Sunset submarket will align with the market's average by 2011. The Class A submarket vacancy rates are currently higher than the Los Angeles Class A average. According to REIS, in the first quarter of 2009, Hollywood/Sunset vacancy rates for Class A office reached 14.3% compared to Los Angeles' 10.2% rate. Class A submarket inventory improved slightly in the second quarter of 2009 with a vacancy rate of 13.0%, while the Class A stock rose to 11.0%. REIS forecasts that the submarket's vacancy rates will continue to rise until 2010 before the office space will slowly begin to absorb and the rates begin to drop off.

SUPPLY AND DEMAND

In the Hollywood submarket, the only planned new development is the subject property. The Project is expected to add 113,000 sf of Class A office into the submarket, bringing the total Class A office inventory to 2.42 million sf and the total office inventory to 4.11 million sf REIS forecasts that when the Vine Street Tower is complete, there will be a 17.9% vacancy rate in the submarket with an average annual asking rent of $2.93 psf FSG. Additionally, there has been a trend toward converting office buildings into lofts, condominiums and apartments over the last few years in the Los Angeles market, as evidenced in Downtown Los Angeles especially. This trend has also been seen in the Hollywood submarket. Roughly 43,000 sf of Class A office space has been removed from the submarket inventory in the second quarter of 2009, while 30,000 sf of Class B/C was removed.

OTHER COMPETITIVE SUBMARKETS

The leasing brokerage team at Ramsey Shilling is confident that they will be draw upon other submarkets to fill the subject property. The brokers are targeting firms in entertainment, internet, technology, architecture and advertising from targeted markets including Santa Monica, Century City and Burbank. A recent leasing report shows a prospective tenant list of 27 firms looking for 10,000 to 100,000 sf. Below is a brief summary of the current state of the individual submarkets in regards to asking rents, vacancy rates, and absorption. Additionally, although not listed below, another submarket to be considered is West Hollywood. Although this area is not traditionally known for office space, the 400,000-sf Center Red at the Pacific Design Center is slated to open in April 2010, which will likely draw upon a similar target tenant base. Overall, however, the subject's proposed $4.50 psf FSG rents are more "in line" with rents seen in these competitive markets.

- ***Santa Monica*** – Currently, the Santa Monica submarket has 7.6 million sf of office space and has faired decently given economic conditions. According to REIS, the submarket had a 9.8% vacancy rate in Q2 2009, bringing it up 160 basis points from the quarter before as a result of 132,000 sf of negative net absorption. The asking rents are now second highest in the Los Angeles market at $4.09 psf FSG. The most recent major lease transaction was Sony, which leased 48,000 sf at the Water Garden for roughly $6.00 psf FSG.
- ***Century City*** – In Q1 2009, Century City became first in highest average asking rents at $4.10 psf FSG. However, this represents a 1.5% decrease in asking rents from the previous quarter. The 11.1% vacancy rate for the submarket is up 250 basis points from the quarter before because of 262,000 sf of negative net absorption.
- ***Burbank*** – The 7 million-sf Burbank office submarket had an average second quarter asking rent of $2.87 psf FSG. The submarket had a positive 178,000 sf of net absorption, but also 488,000 sf of added office space from the recently completed "The Pointe," which currently sits completely vacant. This caused the vacancy rate to increase 390 basis points to 11.9%, according to REIS.

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CLASS A SIGNED LEASE COMPARABLES

HOLLYWOOD CLASS A LEASE COMPARABLES (Source: Ramsey Shilling)						
Tenant	Address	City	RSF	Scheduled Rental Rate	Commencement Date	Notes
SUBJECT PROPERTY	**1601 N. Vine**	**Hollywood**		**$4.50 FSG**		
Live Nation	7060 Hollywood	Hollywood	105,000	$3.25 FSG	Jan-10	$70/TI Allowance
BLT	CNN 6430 Sunset	Hollywood	44,143	$2.85 FSG	Oct-09	Renewal
Technicolor	6040 Sunset	Hollywood	75,000	$2.75 NNN (NNN = $1.00)	Sep-09	Ground up Build to Suit
Trailer Park	6922 Hollywood	Hollywood	56,880	$3.00 FSG	Oct-08	Expanded by 2 floors and renewed for 2 floors
EMI	1800 N. Highland	Hollywood	49,848	$2.85 FSG	Jul-07	$68 Tenant Improvement Allowance

CLASS A ASKING RENTS

HOLLYWOOD CLASS A ASKING RENT COMPARABLES						
Building	Address	City	Vacancy Rate	Asking Rent	Source	Notes
SUBJECT PROPERTY	**1601 N. Vine**	**Hollywood**	**100%**	**$4.50 FSG**		
7060 Hollywood	7060 Hollywood	Hollywood	94.80%	$3.25-$4.00 FSG	CoStar 9/14/09	Built 1971, Renovated 2008
Sunset Media	6255 W. Sunset	Hollywood	6.00%	$3.50 FSG	CoStar 9/14/09	Built 1971, Renovated 1986
Stephen J. Cannell Building	7083 Hollywood	Hollywood	5.60%	$3.50 FSG	CoStar 9/14/09	Built 1985
1800 N. Highland	1800 N. Highland	Hollywood	9.10%	$2.70-$3.20 FSG	CoStar 9/14/09	Built 1972, Renovated 1999
Klasky CSUPO	6353 Sunset	Hollywood	19.00%	$3.15 FSG	CoStar 9/14/09	Built 1986
Hollywood Entertainment Plaza	7080 Hollywood	Hollywood	18.00%	$2.90 FSG	CoStar 9/14/09	Built 1965, Renovated 1989
Sunset/Hudson	6464 W. Sunset	Hollywood	7.70%	$2.65 FSG	CoStar 9/14/09	Built 1968
6565 W. Sunset	6565 W. Sunset	Hollywood	2.00%	$2.50 FSG	CoStar 9/14/09	Built 1966

“Exhibit C”

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BUILDING COMMUNITIES

SECTION 33433 SUMMARY REPORT

SUMMARY REPORT PURSUANT TO SECTION 33433 OF THE CALIFORNIA HEALTH AND SAFETY CODE ON A DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES AND 1601 NORTH VINE, LLC

The following Summary Report has been prepared pursuant to Section 33433 of the California Health and Safety Code. The report sets forth certain details of the proposed Disposition and Development Agreement (Agreement) between the Community Redevelopment Agency of the City of Los Angeles (Agency) and 1601 North Vine, LLC (Developer). The purpose of the Agreement is to effectuate the Redevelopment Plan for the Hollywood Redevelopment Project (Redevelopment Plan) by providing for the disposition and development of certain real property situated within the Hollywood project area (Project Area).

The Agency will sell the 18,208 square foot site located at 1601 North Vine Street (Site) in Hollywood in Los Angeles, California to the Developer for a price of $825,000, for the development of an 8-story Class A office building containing 112,548 square feet of office space, 2,012 square feet of ground floor retail, and a 5-level subterranean parking garage (Project). Conveyance of title to the Developer is contingent upon the closing of the Developer's construction loan. Located at the northwest corner of Vine Street and Selma Avenue, the Site consists of two Los Angeles County Assessor's parcels totaling 0.42 acres, or 18,208 square feet (Agency Parcels). It is zoned for commercial uses.

Existing improvements on the Site that will be relocated and or demolished consist of a surface parking lot and two small retail buildings (one of which is occupied by the hamburger stand, Molly's Restaurant). There is also a one-sided billboard on the Site.

The following Summary Report is based upon information contained within the Agreement, and is organized into the following seven sections:

I. **Salient Points of the Agreement:** This section summarizes the major responsibilities imposed on the Developer and the Agency by the Agreement.

II. **Cost of the Agreement to the Agency:** This section details the total cost to the Agency associated with implementing the Agreement.

III. **Estimated Value of the Interest to be Conveyed Determined at the Highest Use Permitted under the Redevelopment Plan:** This section estimates the value of the interests to be conveyed determined at the highest use permitted under the Site's existing zoning and the requirements imposed by the Redevelopment Plan.

IV. **Estimated Reuse Value of the Interest to be Conveyed:** This section summarizes the valuation estimate for the Site based on the required scope of development, and the other conditions and covenants required by the Agreement.

V. **Consideration Received and Comparison with the Established Value:** This section describes the compensation to be received by the Agency, and explains any difference between the compensation to be received and the established highest and best value of the Site.

VI. **Blight Elimination:** This section describes the existing blighting conditions on the Site, and explains how the Agreement will assist in alleviating the blighting influence.

VII. **Conformance with the AB1290 Implementation Plan:** This section describes how the Agreement achieves goals identified in the Agency's adopted AB1290 Implementation Plan.

This report and the Agreement are to be made available for public inspection prior to the approval of the Agreement.

I. SALIENT POINTS OF THE AGREEMENT

A. Developer Responsibilities

The Agreement requires the Developer to accept the following responsibilities:

1. The Developer will purchase the Site in "as is" condition from the Agency for the fair reuse value based on the Development Cost Budget in the amount of $825,000 in accordance with the Agreement.

2. The Developer agrees to develop a mid-rise class "A" commercial office building containing no less than 124,033 square feet of gross building area; no less than 108,324 square feet of gross leasable area with a floor to area ratio (FAR) equal to the lesser of 6:1 and the FAR in effect when building permits are issued; and a five-level subterranean parking garage on the Site.

3. The Developer agrees to lease at least 60% of the net rentable area to entertainment industry-related tenants or companies involved with the entertainment industry (as approved by the Agency).

4. The Developer agrees to maintain the development and all improvements in conformity with the Agreement.

5. The Developer agrees to not convert the Project to condominium or cooperative ownership or sell condominium or cooperative conversion rights to the Project during the terms of the Agreement Containing Covenants.

6. The Developer agrees, without prior written approval of the Agency, not to allow or permit any billboards, supergraphics, or other similar forms of commercial advertising to be placed on the Site.

7. The Developer agrees to pay to the Agency 8% of the amount of sale proceeds in excess of the development costs (Profit Participation) if a sale of the Project occurs within 5 years of project completion, in accordance with the Profit Participation Agreement.

8. The Developer agrees to cause the Memorandum of DDA, Agreement Containing Covenants, Grant Deed, and such other instruments and documents to be recorded against the Site in accordance with the Agreement.

9. Prior to conveyance, the Developer shall submit to the Agency a proposed Financing Plan including the following:

    a. A cash flow projection for operation of the Project;

    b. A detailed cost breakdown for development based upon government permits and approvals and any design documents;

    c. If the Developer intends to borrow money for the construction costs of the development of the site, a true copy of each firm binding commitment for loans for construction and permanent financing and for other financing from external sources in the amounts necessary to fully finance and develop the Project;

    d. A detailed sources and uses table identifying the proposed use of each source of funding for the Improvements during the construction period;

    e. Evidence that the Developer is contributing equity in an amount not less than $5,755,000, and

    f. Evidence reasonably satisfactory to the Agency that the Developer has sufficient additional funds available and is committing such funds to cover the difference between costs of development of the Project and the amount available to Developer from external sources.

10. The Developer is responsible for the Scope of Development based on terms in the Agreement and within the time provided in the Schedule of Performance.

11. The Developer must submit all final construction drawings, a finished grading plan, and landscaping plan prior to the start of construction.

12. The Developer must submit a final management/marketing plan before the completion of construction demonstrating how the Project will be marketed to potential tenants in the entertainment industry or companies involved with the entertainment industry.

13. The Developer shall delivery to the Agency copies of construction bonds, each not less than required by any lender of the Project and naming the Agency as a dual obligee.

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14. The Developer agrees to jointly open Escrow with the Agency, and pay for the following:

    a. The Escrow fee;

    b. Recording fees for the Grant Deed, the Agreement Containing Covenants, and any other encumbrance placed on the Site by or for the benefit of the Developer;

    c. The premium for a title insurance policy and any endorsement requested by Developer, Agency, or Developer's lender; and

    d. Any other costs, expenses, and fees of the Escrow not otherwise provided for.

15. The Developer shall purchase, at Developer's cost and expense, and American Land Title Association Lender's Policy of title insurance insuring that title to the Site is vested in the Developer in accordance with the Agreement.

16. The Developer is responsible for obtaining all entitlements, land use approvals, zoning changes, variances, demolition and building permits, remediation permits and all other governmental permits or approvals required for the construction of the Site improvements.

17. The Developer shall solely be responsible for all aspects of Developer's conduct in connection with the Project, including, but not limited to, the quality and suitability of the Project Documents, the supervision of construction work, and the qualifications, financial condition, and performance of all architects, engineers, contractors, subcontractors, suppliers, consultants, and property managers.

18. The Developer shall cause all work performed in connection with the construction of the Improvements to be performed in compliance with:

    a. All applicable laws, ordinances, rules and regulations of federal, state, county, or municipal governments or agencies (including, without limitation, prevailing wage provisions); and

    b. All directions, rules, and regulations of any fire marshal, health officer, building inspector, or other officer of every governmental agency.

19. The Developer shall incorporate into the Project signage construction site signs in accordance with the Agency's standards prior to commencement of construction.

20. The Developer is responsible, at its sole cost and expense, to ensure that the zoning of the Site shall be such as to permit the development and use of the Site in accordance with the provisions of the Agreement.

21. The Developer shall pay to all workers employed in connection with the development of the Project, not less than the prevailing rates wages, as provided in the statutes applicable to Agency public work contracts.

22. The Developer shall use commercially reasonable efforts to promote and ensure economic advancement of minorities and women as well as other economically disadvantaged persons through employment and in the award of contracts and subcontracts for Project construction.

23. The Developer shall establish a Community Outreach Plan to, at a minimum, include:

    a. Estimated dollar amount of all contracts and subcontracts to be let by Developer or its prime contractor for the Improvements;

    b. List of all proposed contractors that will be awarded a contract by Developer or the prime contractor(s);

    c. Estimated dollar value of all proposed contracts;

    d. Evidence of Minority/Women Business Enterprise (M/WBE) Certification of all firms listed as M/WBE in the Plan.

24. The Developer agrees to grant a lease option to Molly's Restaurant, an existing tenant at the existing Site, to lease a maximum of 1,000 square feet of gross leasable area on the first floor of the Project per the terms outlined in the Agreement.

25. The Developer shall bear all costs and expenses incurred in connection with the construction and maintenance of all Improvements.

26. The Developer agrees to conform to all the requirements of the Agency's Art Policy in accordance with the Agreement.

27. The Developer and its subcontractors shall be required to comply with all relevant Agency policies, including Living Wage, Contractor Responsibility, Service Worker Retention, Equal Benefits, Community Benefits, Construction Careers and Project Stabilization, Healthy Neighborhood, anti-discrimination, and others.

28. The Developer is responsible for maintaining the Site and Project in a neat and orderly condition and making all necessary and proper repairs.

29. The Developer shall pay any and all real estate taxes and assessments assessed and levied on the Site.

30. The Developer must not transfer, sell, assign, or lease the Project without CRA/LA approval.

B. Agency Responsibilities

Under the Agreement the Agency must complete the following responsibilities:

1. The Agency will convey the Site in "as is" condition to Developer for the fair reuse value based on the Development Cost Budget in the amount of $825,000 in accordance with the Agreement.

2. The Agency agrees to cause the Memorandum of DDA, Agreement Containing Covenants, Grant Deed, and such other instruments and documents to be recorded against the Site in accordance with the Agreement.

3. The Agency is responsible for paying relocation costs for the existing tenants at the Site. Per the terms of the Agreement, the Agency is responsible for providing rental assistance in lieu of paying relocation costs should existing tenant Molly's Restaurant exercise its option to lease space at the Project.

4. The Agency is responsible for paying half of the Escrow fee costs associated with the Developer's purchase of the Site per the terms outlined in the Agreement.

5. Should existing tenant Molly's Restaurant exercise its option to lease space at the Project, the Agency is responsible for paying the escrow fees associated with rental assistance payments to Molly's Restaurant per the terms outlined in the Agreement.

6. The Agency is responsible for approving or disapproving the Financing Plan in accordance with the Agreement.

7. The Agency is responsible for approving or disapproving all final construction drawings, a finished grading plan, and landscaping plan prior to the start of construction.

8. The Agency must review and approve or disapprove a final management/marketing plan before the completion of construction.

9. The Agency agrees to jointly open Escrow with the Developer, and pay and associated documentary transfer tax.

10. The Agency shall furnish Developer with a Certificate of Completion upon written request from the Developer.

11. The Agency agrees to reasonably approve or disapprove potential tenants that are companies involved with the entertainment industry in accordance with the Agreement.

II. COST OF THE AGREEMENT TO THE AGENCY

The Agency's cost to implement the Agreement includes costs related to the Agency's original acquisition of the Site from the Developer in October 2006, as well as relocation, legal, consultant, and Agency staff costs. The Agency cost is offset by tax increment revenues to be received by the Agency in addition to the Developer payment in the amount of $825,000. On a present value basis, the total Project costs to the Agency are approximately $6.30 million. Of this amount, approximately $4.44 million of the costs are related to the acquisition of the Site. The total Project costs also include approximately $1.32 million in interest on bonds issued by the Agency. On a nominal dollar basis, the total cost to the Agency is $7.86 million. These costs assume a conservative estimate for the relocation costs for Molly's Restaurant of $300,000.

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Over the remaining term of the Project Area, the Agency is projected to receive $13.00 million (nominal dollars) in tax increment revenues including housing set asides, which has a present value of $5.77 million, discounted at 6.0%. This estimate excludes potential sale proceeds received by the Agency as part of the Profit Participation Agreement. Taking into the account the $825,000 payment by the Developer to the Agency for the Site, the Project yields net revenue to the Agency of $295,249 on a present value basis.

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COST OF THE AGREEMENT TO CRA/LA
1601 North Vine, LLC
Los Angeles (Hollywood), CA

	NOMINAL DOLLARS		PRESENT VALUE	
AGENCY COSTS				
Acquisition - Purchase Price	$5,449,856		$4,429,875	
From HW Bond Proceeds Series D	*$3,000,000*		*$2,006,342*	
From HW Bond Proceeds Series E	*$35,000*		*$8,677*	
From TI	*$2,414,856*		*$2,414,856*	
Acquisition - Consultant [1]	$13,905		$9,621	
Total Acquisition Costs		$5,463,761		$4,439,496
Relocation [2]	$314,227		$303,982	
Escrow Fees [3]	$8,000		$8,000	
Legal [4]	$138,076		$77,634	
Other Consultants [5]	$36,741		$28,225	
CRA/LA Staff Salary [6]	$90,722		$90,722	
Labor	$35,572		$35,572	
Total Other Costs		$623,338		$544,135
SUBTOTAL		$6,087,099		$4,983,632
Bond Interest [7]		$1,775,594		$1,317,119
TOTAL AGENCY COSTS		**$7,862,693**		**$6,300,751**
AGENCY REVENUES				
Developer Purchase Price	$825,000		$825,000	
Total TI Less Housing Set Aside [8]	$7,876,372		$3,575,000	
TI - Housing Set Aside [9]	$5,116,840		$2,196,000	
TOTAL AGENCY REVENUES		**$13,818,212**		**$6,596,000**
NET AGENCY COSTS / (NET AGENCY REVENUES)		**($5,955,519)**		**($295,249)**

1. From HW Bond Proceeds Series D.

2. Includes a conservative $300,000 estimate for relocation expenses associated with Molly's Restaurant, whether the tenant decides to relocate to the newly-constructed Project, another location, or opt for a settlement payment. Also includes $14,227 paid from HW Bond Proceeds Series E.

3. Includes estimated escrow fees of: 1) $3,000, equal to half of the estimated Escrow costs for the Developer's purchase of the property as agreed to be paid by CRA/LA; and 2) $5,000, the escrow fee estimate for the possible administration of rental assistance to Molly's, per the terms outlined in the Agreement.

4. Includes $83,590 from HW Bond Proceeds Series E. Includes a de minimus amount paid from HW Bond Proceeds Series F.

5. Includes $27,642 paid from HW Bond Proceeds Series D.

6. Includes a de minimus amount paid from HW Bond Proceeds Series B.

7. The bond interest represents payments made on $3.04 million of Hollywood Bond Proceeds Series D (True Interest Cost 5.45%, matures 7/1/22) and $133,000 of Hollywood Bond Proceeds Series E (True Interest Cost 6.25%, matures 7/1/36) from time of use through the bond maturity dates. The PV is calculated using the bond interest rate.

8. Site Specific Tax Increment (SSTI) calculation assumes an assessed value of $63.9 million ($4.795 million NOI capped at 7.5%). The present value of the SSTI stream through the life of the project area (2037) is calculated using a 6% discount rate.

9. Stream of TI - Housing Set Aside is assumed to be 25% of gross tax increment proceeds. PV is calculated using a 6% discount rate.

III. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED DETERMINED AT THE HIGHEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

Section 33433 of the California Health and Safety Code requires the Agency to identify the value of the interests being conveyed at the highest use allowed by the Agency's Site zoning and the requirements imposed by the Redevelopment Plan. The valuation must be based on the assumption that near-term development is required, but the valuation does not take into consideration any extraordinary use, quality, and/or income restrictions being imposed on the development by the Agency.

The site is currently zoned for commercial uses. Multifamily residential uses are also permitted. Given the reuse value of the Site, the highest and best value of the Site as though vacant is for office development. Alternatively, a multifamily residential project may be considered a viable development option.

Based on recent land sale comparables, vacant land has a value of approximately $185 per square foot. Using this value the 18,208 square foot site has a value of approximately $3,368,480.

IV. ESTIMATED REUSE VALUE OF THE INTERESTS TO BE CONVEYED

Keyser Marston Associates, Inc., the Agency's financial consultant, prepared a financial analysis of the Project, dated September 18, 2009, based on the financial terms and conditions imposed by the Agreement. The analysis concluded that the supportable land value, otherwise known as the fair reuse value, of the Agency Parcels is $825,000.

V. CONSIDERATION RECEIVED AND COMPARISON TO THE ESTABLISHED VALUE

The Agreement requires the Developer to purchase the Agency Parcels for $825,000, which is equal to the fair reuse value.

VI. BLIGHT ELIMINATION

The Site is currently underutilized containing a surface parking lot and two small dilapidated commercial structures. Conveyance of the Site for the development of the Project will eliminate the current physical and economic blighting conditions. Thus, the proposed development fulfills the blight elimination requirement.

VII. CONFORMANCE WITH THE AB1290 IMPLEMENTATION PLAN

The Project conforms to several of the objectives defined in the Hollywood Redevelopment Project 5-Year Implementation Plan, the Agency's AB1290 implementation plan for the Project Area adopted on May 15, 2008.

The pertinent goals and objectives that are satisfied by the Project are:

1. To encourage the involvement and participation of residents, businesspersons, property owners, and community organizations in the redevelopment activities conducted by the Community Redevelopment Agency;

2. To preserve and increase employment and business and investment opportunities

3. Promote a balanced community, addressing the needs of the residential, commercial, industrial, arts and entertainment sectors

4. Support and promote Hollywood as the center of the entertainment industry and a tourist destination through the retention, development, and expansion of all sectors of the entertainment industry

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VIII. APPENDIX – 1601 NORTH VINE, LLC REUSE ANALYSIS

A. DEFINITION OF FAIR REUSE ANALYSIS

The fair reuse value can be defined as the highest value in terms of monetary consideration which a property is expected to bring for a specific use in a competitive and open market given the conditions established by a public agency. The fair reuse value is predicated on the assumption that the buyer and seller are each acting prudently, knowledgeably and that the price is not affected by external stimulus. Also, essential to an estimate of fair reuse value is the notion that the public agency is interested in selling land for near-term development, and that the land is not sold for speculation.

Implicit in this definition is the consummation of a sale as of the specified date, and the passing of title from seller to buyer under conditions whereby:

- Both parties are well informed and well advised, each party is acting prudently in their own best interest.
- The property will be cleared in a reasonable time.

The definition of fair reuse value may further be augmented due to certain conditions imposed by the public agency as follows:

- The public agency as the seller has definite controls over the development. Due to the complexity of the overall development plan, the Developer must contend with a series of regulations and controls that are not common in the conventional real estate market. The public agency must maintain a continuing surveillance with respect to the ability of the Developer to perform within the prescribed conditions.

- The Developer is faced with various development requirements and time restrictions imposed by the development program. This limits the pool of potential developers to those with adequate financial and productive resources to fulfill the specific agency requirements. To appeal to a limited market of potential buyers, the fair reuse value must be equated to the maximum price a restricted and limited market is warranted in paying based upon risk and investment return factors.

- A project being developed under the auspices of an Agreement may also be provided with financial and non-financial incentives. The value enhancement created by these incentives must also be considered in the determination of the fair reuse value for the property.

B. PROJECT DESCRIPTION

The Project will be a Class A commercial office building developed to attract top quality companies in the entertainment industry in an effort to revitalize Hollywood's position as the pre-eminent location for the entertainment industry. Located in Hollywood on the northwest corner of Selma and Vine, the Project contains 8 floors of approximately 112,548 leasable square feet of office space and 2,012 square feet of ground floor retail space. The building is designed by Gensler, featuring a jewel box design. In addition, the building is registered with the U.S. Green Building Council for LEED Gold status. Sustainable elements of the Project will include:

- Location adjacent to public transport;
- Bicycle parking, lockers and showers;
- Cool roof;
- Sustainable tenant fit-out guidelines;
- Water efficient landscaping and plumbing features;
- Use of recycled and locally available materials;
- Construction waste management program;
- Utilization of renewable energy sources; and
- Use of low VOC-emitting materials.

The building features 133,369 square feet of gross building area (GBA), which results in a Floor Area Ratio (FAR) of 7.32. Parking will be provided in a 5-story subterranean garage, which will be accessible to the public during non-office hours. The Project's 194 parking spaces equates to approximately 1.45 spaces per 1,000 square feet of commercial space. The Developer's parking calculation is based on a 2 spaces per 1,000 square feet requirement; a 10% parking reduction due to the Site's location in a transit corridor; and a net square footage of 107,000. However, according to the Developer's proforma, the net square footage of the site is approximately 114,000 square feet, which results in a parking requirement of 203 spaces. The Developer will have to resolve this discrepancy before obtaining entitlements.

The Developer has stated that the Project's EIR is complete and has received initial approval from the Agency. The Developer expects final City Council approval by May 2010; to obtain building permits by the end of the June 2010; and to break ground by September 2010.

C. DEVELOPER OBLIGATION

See **Section I** of the Section 33433 Summary Report.

D. AGENCY OBLIGATION

See **Section I** of the Section 33433 Summary Report.

E. REUSE ANALYSIS

Keyser Marston Associates (KMA) prepared a financial analysis of the Developer's proforma dated September 18, 2009. The proforma as prepared by the Agency is presented in Section IX of this summary report, and is organized as follows:

Exhibit 1: Total Development Costs
Exhibit 2: Estimated Stabilized Net Operating Income
Exhibit 3: Estimated Residual Land Value

In summary, the KMA analysis concluded that the supportable land value, otherwise known as the fair reuse value, of the Agency Parcels is $825,000. The Developer provided a proforma for the proposed Project, which illustrates a total development cost of $56,728,000, not including the $825,000 proposed land purchase price. The Developer shows a stabilized net operating income of $4,795,000. The Developer indicated that the projected development costs are based on a cost estimate from March 2009. Summary level information was reviewed by KMA, although the Developer indicated that the Architect and Contractor have worked closely together on detailed cost estimates, which will continue to be revised as the Project moves forward.

The following summarizes KMA's analysis of the Developer's assumptions of the estimated development costs and stabilized net operating income.

1. **Estimated Development Costs**

   a) **Acquisition Costs**
   Transaction costs related to land acquisition are estimated at $200,000.

   b) **Direct Costs**
   The Developer estimates the direct costs, inclusive of prevailing wage, at $43,293,000, or $325 per square foot. The direct costs include a factor of approximately 16% for general conditions, contractor fees, insurance, bonds, and contingency. Details of the direct cost estimate are as follows:

   - The off-site improvement costs are estimated at $951,000. The off-site improvements include electrical conduit connections, manholes, fire water connections, removal of power poles, telephone lines, and other costs.
   - The subterranean parking costs are estimated at $11,094,000 or $57,190 per space.
   - Building shell costs are estimated at $26,674,000 or $200 per square foot of GBA.
   - Tenant improvements are estimated to total $4,574,000 or $40 per square foot of gross leasable area (GLA). These costs indicate an average across standard office space, executive space, and ground floor retail space.
   - The Developer did not include a separate allowance for hard cost contingency. The Developer has stated that the current cost estimate may have room to be revised downward. Therefore, it may not be necessary to include a contingency cost in the proforma at this time.

   c) **Indirect Costs**
   The Developer estimates the indirect costs at $7,675,000. The following summarizes the components of the indirect cost estimates:

   - The architecture, engineering and consulting costs are estimated at approximately $3,166,000, or 7.3% of the direct costs.
   - The Permits and Fees are estimated at $1,416,000 or $11 per square foot of GBA.

- The taxes, insurance, legal and accounting costs are estimated at $470,000, or 1.1% of the direct costs.

- The marketing and leasing costs are estimated at $1,613,000 or $14 per square foot of GLA.

- Development management costs are estimated at $250,000, which represents only 0.6% of direct costs.

- The indirect contingency allowance is estimated at $760,000, or 11.4% of other indirect costs excluding development management.

d) Financing Costs
Financing costs, including construction loan interest and fees, total approximately $5,560,000.

e) Total Development Cost
The total development costs are $56,728,000 or $425 per square foot of GBA.

2. Estimated Stabilized Net Operating Income (NOI)
The Project stabilized net operating income is estimated at $4,795,000. The following summarizes the operating assumptions:

- The Developer estimates the full service gross average office lease rate at $4.50 per square foot of GLA per month ($54 per square foot annually). This equates to $6,078,000 in annual gross potential rental revenue.

- The Developer estimates the triple net (NNN) rent for the 2,000 square feet of ground floor retail at $6.00. This amounts to $145,000 in annual gross revenue.

- The Developer assumes a 5% stabilized vacancy for the Project.

- Parking revenues are projected as follows:

    - Monthly spaces are projected at $200 per space per month, for a total of $466,000 in annual revenues. This assumption assumes 100% utilization of the 194 spaces.

    - Weekend revenues are projected at $16 per space for Friday and Saturday nights, at 75% utilization. This results in an annual amount of $242,000 in weekend parking revenue.

    - Weeknight revenues are projected at $12 per space Sunday through Thursday, at 50% utilization, for a total of $303,000 in annual weeknight parking revenue.

    - Gross parking revenues are projected at $1,010,000 annually.

- Parking expenses are estimated at 15% of gross revenues, or $152,000 annually.

- Operating expenses are estimated at $15.60 per square foot, on an annual basis.
- Management fees are estimated at 2.5% of annual office and retail rental revenue, net of vacancy.
- Operating reserves are estimated at $0.35 per square foot of GLA.
- The stabilized NOI is estimated at $4,795,000.

3. Estimated Residual Land Value / Fair Reuse Value

The residual land value, or fair reuse value, is determined by deducting development costs from the supportable investment. The supportable investment is derived by dividing the stabilized year NOI by a market rate return on investment. Per KMA's summarized analysis above, the Developer estimates total direct and indirect costs of $56,728,000, and a stabilized NOI of $4,795,000.

Assuming today's market conditions, a developer would require a minimum return on investment of 9.00%. However, given the extended history that the Developer and Agency have with this Project, in addition to the time, effort, and sunk costs that the Developer has invested into this Project, the Developer is willing to accept a lower threshold return on investment of 8.33%. As determined in KMA's analysis, dividing the stabilized NOI by 8.33% results in a supportable private investment of $57,553,000. Less the development costs of $56,728,000, the resulting supportable land value estimated by KMA, also known as the residual land value or fair reuse value, is $825,000. The following table outlines the calculation:

Residual Land Value Calculation	
Stabilized Net Operating Income	$4,795,000
Threshold Return	8.33%
Supportable Investment Value	$57,553,000
(Less) Total Development Costs	$56,728,000
Residual Land Value / Reuse Value	$825,000
Per SF of Land	$45

F. CONCLUSION

The KMA financial analysis indicates that the Site has a supportable land value, also known as the residual land value or fair reuse value, of $825,000. Therefore, the Agency has agreed to convey the Site to the Developer at a cost of $825,000.

CRA/LA
BUILDING COMMUNITIES

IX. EXHIBITS

Exhibit 1: Total Development Costs
Exhibit 2: Estimated Stabilized Net Operating Income
Exhibit 3: Estimated Residual Land Value

CRA/LA
BUILDING COMMUNITIES

EXHIBIT 1 - TOTAL DEVELOPMENT COSTS
1601 North Vine, LLC
Los Angeles (Hollywood), CA

LAND COSTS				
Transaction Cost			$200,000	
Total Acquisition Costs	18,206 SF Land	$11 /SF Land		$200,000
DIRECT COSTS [1]				
Off-Site Improvements	Allowance		$951,000	
On-Site Improvements	18,208 SF Land	$0 /SF Land	$0	
Parking	194 Spaces	$57,190 /Space	$11,094,000	
Building Shell Costs	133,369 SF GBA	$200 /SF GBA	$26,674,000	
Tenant Improvement Costs	114,560 SF GLA	$40 /SF GLA	$4,574,000	
Contingency	0.0% of Other Direct Costs		$0	
Total Direct Costs	133,369 SF GBA	$325 /SF GBA		$43,293,000
INDIRECT COSTS				
Architecture, Engineering & Prof.	7.3% of Direct Costs		$3,166,000	
Permits & Fees	133,369 SF GBA	$11 /SF GBA	$1,416,000	
Art Policy Fee [2]	0.0% of Eligible Costs		$0	
Taxes, Insurance, Legal & Acctg.	1.1% of Direct Costs		$470,000	
Marketing / Leasing [3]	114,560 SF GLA	$14 /SF GLA	$1,613,000	
Development Management	0.6% of Direct Costs		$250,000	
Contingency [4]	11.4% of Other Indirect Costs, Excl. Dev Mgmt.		$760,000	
Total Indirect Costs				$7,675,000
FINANCING COSTS				
Construction Loan Interest			$4,030,000	
Loan Points + Fees			$780,000	
Financing Placement Fee			$750,000	
Total Financing Costs				$5,560,000
TOTAL DEVELOPMENT COSTS	**133,369 SF GBA**	**$425 /SF GBA**		**$56,728,000**

1. Assumes Developer's projections dated 8/3/09, which are based on prevailing wage.
2. The Developer's estimate of the Art Fee ($580,000) is included in the Permits & Fees line item.
3. Assumes leasing commissions.
4. Includes $560,000 in soft cost contingency plus $200,000 for items to be determined.

CRA/LA
BUILDING COMMUNITIES

EXHIBIT 2 - ESTIMATED STABILIZED NET OPERATING INCOME
1601 North Vine, LLC
Los Angeles (Hollywood), CA

GROSS POTENTIAL REVENUE				
Retail Rental Income	2,012 SF GLA	$6.01 /SF GLA/mo. (NNN)	$145,000	
Office Rental Income	112548 SF GLA	$4.50 /SF GLA/mo. (NNN)	$6,078,000	
Total Rental Income	114,560 SF GLA	$4.53 /SF GLA/mo. (NNN)		$6,223,000
Monthly Parking	194 Spaces	$200 /Space/mo.	$466,000	
Weekend Parking [1]	194 Spaces	$16 /Space Visit	$242,000	
Week Night Parking [2]	194 Spaces	$12 /Space Visit	$303,000	
Total Parking Income				$1,010,000
Total Gross Potential Revenue				$7,233,000
(Less) Vacancy	5.0% Total Rental Income			($311,000)
Effective Gross Income				$6,922,000
OPERATING EXPENSES				
Reimbursable Expenses	114,560 SF GLA	($15.60) /SF GLA	($1,787,000)	
Parking Expenses	15.0% Parking Revenues		($152,000)	
Management Expense	2.4% Total Rental Income		($148,000)	
Capital Reserves	133,369 SF GBA	($0.30) /SF GBA	($40,000)	
Total Operating Expenses	133,369 SF GBA	($15.95) /SF GBA		($2,127,000)
NET OPERATING INCOME	**133,369 SF GBA**	**$36 /SF GBA**		**$4,795,000**

1. Parking for Friday and Saturday night estimated for 52 weeks at 75% utilization.
2. Parking for Sunday through Thursday for 52 weeks at 50% occupancy.

CRA/LA
BUILDING COMMUNITIES

EXHIBIT 3 - ESTIMATED RESIDUAL LAND VALUE
1601 North Vine, LLC
Los Angeles (Hollywood), CA

SUPPORTABLE PRIVATE INVESTMENT			
Net Operating Income	see Exhibit 2		$4,795,000
Threshold Return on Investment			8.33%
Total Supportable Private Investment			$57,553,000
(Less) Total Development Costs	see Exhibit 1		($56,728,000)
RESIDUAL LAND VALUE	**18,208 SF Land**	**$45 /SF Land**	**$825,000**

“Exhibit D”

Housing Comm.

THE SILVERSTEIN LAW FIRM

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June 2, 2010

VIA HAND DELIVERY

Los Angeles City Council
Ms. June Lagmay
Los Angeles City Clerk
Los Angeles City Hall
200 North Spring Street, Rm. 395
Los Angeles, CA 90012

Re: Objections to Item # 4 on City Council Meeting Agenda
1601 Vine Street Tower Project, CF 08-3458
Environmental Impact Report (Clearinghouse No. 2006121097)

Honorable City Councilmembers and Ms. Lagmay:

I. INTRODUCTION.

This firm and the undersigned represent Mrs. Kyok Yi, tenant and owner of Molly's Burgers, located at 1601 N. Vine Street, the site of the proposed 1601 & 1605 Vine Street Project ("Project"). Please ensure that this firm is placed on all mailing lists and receives notice of all meetings, hearings, and proposed actions related to the Project.

This letter and attached evidence constitute our initial objections to the proposed approval of the Project and adequacy of the environmental impact report ("EIR") certified by the Community Redevelopment Agency of the City of Los Angeles ("CRA") (collectively referred herein as "the Project Approvals").

The approval process for the Project must comply with the California Environmental Quality Act ("CEQA"), or the Project Approvals are subject to invalidation in litigation. The purpose of any EIR is to disclose potential project impacts and require that those impacts be mitigated to the greatest extent feasible. An EIR is not to be a rubber stamp for a proposed project, but to provide a forum for changing and improving a proposed project, and to obtain the most public benefit with the least environmental harm.

The EIR certified by the CRA is inadequate and defective because, since the date of certification, new information has issued from the CRA itself finding that the Molly's Burger building is eligible for listing on the City's List of Cultural Historical Monuments. Attached at **Exhibit 1** is a copy of relevant excerpts of this recent CRA-sponsored historic resource study of the Hollywood Redevelopment Project area.

The existence of such new information, issued to the public in March or April, 2010 by the Lead Agency itself, triggers a mandatory duty to perform additional environmental review of the Project <u>before</u> proceeding to the proposed demolition and destruction of a historic/cultural resource, and before Project Approvals can occur.

Additionally, the decision of the CRA to sell this property to the proposed developer for $825,000 ($4,625,000 less than the $5,450,000 purchase price paid by the CRA in 2006), and the City and CRA's allowing of the prior owner to collect rents on the property during the time that the CRA has owned the property, constitutes an unconstitutional gift of public funds. (See recent article, attached at **Exhibit 2** hereto.)

We also object to any approvals under Health and Safety Code Section 33433 because, *inter alia*, the residual land value calculated by the CRA in the report falls short of recouping for the taxpayers the reasonable value of the price paid for the property. Approvals under Section 33433 would also constitute a violation of Section 526(a), regarding taxpayer waste or fraud, and objection is made on that additional ground. The CRA is carrying on its books approximately a half-billion dollars in "residual receivables," the CRA's code name for all of the bad/defaulted loans, forgiven loans (gifts), uncollectible loans, etc. This case and Project are part of a pattern and practice of gross fiscal mismanagement by the CRA.

II. APPROVAL OF THE PROJECT IS PREMATURE BECAUSE THERE IS INFORMATION SHOWING A NEW SIGNIFICANT ENVIRONMENTAL IMPACT IF THE PROJECT IS IMPLEMENTED AS PROPOSED.

A. Legal Standard Requiring New Environmental Review Of An EIR.

Once an EIR is certified, typically no additional environmental review is required unless there are substantial changes to the project which require major revisions to the EIR, or substantial changes occur with respect to the circumstances under which the project will be undertaken which require major revisions of the EIR, or new information of substantial importance, which was not known and could not have been known with the exercise of reasonable diligence at the time the previous EIR was certified, shows project implementation might trigger or increase the severity of a significant impact.

CEQA Guidelines Section 15162(a)(3) sets forth the rule that a subsequent EIR shall be prepared for the Project when:

> "**New information of substantial importance, which was not known and could not have been known with the exercise of reasonable diligence at the time the previous EIR was certified as complete** or the Negative Declaration was adopted, **shows any of the following**:
>
> (A) **The project will have one or more significant effects not discussed in the previous EIR** or negative declaration;
>
> (B) Significant effects previously examined will be substantially more severe than shown in the previous EIR;
>
> (C) Mitigation measures or alternatives previously found not to be feasible would in fact be feasible, and would substantially reduce one or more significant effects of the project, but the project proponents decline to adopt the mitigation measure or alternative; or
>
> (D) **Mitigation measures or alternatives which are considerably different from those analyzed in the previous EIR would substantially reduce one or more significant effects on the environment**, but the project proponents decline to adopt the mitigation measure or alternative. (Emphasis added.)

If new information showing a new potential significant effect comes to the attention of the lead agency, there is a duty to prepare a Subsequent EIR to analyze and mitigate the potential impacts. In other words, the original obligation to prepare a sufficient analysis required in an original EIR applies again. There are several key concepts of EIR preparation for an original EIR that apply with equal force to a subsequent EIR.

Under CEQA and the CEQA Guidelines, if a project may cause a significant effect on the environment, then the lead agency must prepare an EIR. Pub. Res. Code §§ 21100, 21151. A project "may" have a significant effect on the environment if there is a "reasonable probability" that it will result in a significant impact. No Oil, Inc. v. City of Los Angeles, supra, 13 Cal.3d at 83 n. 16. If any aspect of the project may result in a significant impact on the environment, an EIR must be prepared even if the overall effect of the project is beneficial. CEQA Guidelines § 15063(b)(1).

> "The EIR has been aptly described as the heart of CEQA. Its purpose is to inform the public and its responsible officials of the environmental consequences of their decisions *before* they are made. Thus, the EIR protects not only the environment but also informed self-government. [T]he ultimate decision of whether to approve a project, be that decision right or wrong, is a nullity if based upon an EIR that does not provide the decision-makers, and the public, with the information about the project that is required by CEQA. The error is prejudicial if the failure to include relevant information precludes informed decision making and informed public participation, thereby thwarting the statutory goals of the EIR process."

Napa Citizens for Honest Government v. Napa County Bd. of Supervisors (2001) 91 Cal.App.4th 342, 355-356 (internal quotations marks and citations om.; italics in original).

Additionally, if the new information identifies a potential significant negative impact on a historic resource, evaluation of the impacts and potential mitigation must be performed. CEQA Guidelines Section 15064.5(b) provides:

> "A project with an effect that may cause a substantial adverse change in the significance of an historical resource is a project that may have a significant effect on the environment."

CEQA Guidelines Section 15064.5(b)(1) defines what constitutes a substantial adverse change:

> "Substantial adverse change in the significance of an historical resource means **physical demolition, destruction,** relocation, or alteration **of the resource** or its immediate surroundings such that the significance of an historical resource would be materially impaired." (Emphasis added.)

Thus, information that shows that a project's implementation would result in the demolition of the resource is without doubt a substantial adverse change in the significance of the historical resource.

B. Substantial New Evidence, Issued By The Lead Agency Itself, That The Project May Have A Significant Environmental Effect On An Historic Resource Requires New Environmental Review Before Project Approval.

In this case, the Draft EIR prepared for the Project found no cultural resources at the project site or its vicinity. During the period after release of the Draft EIR, the CRA's attention was drawn to both the Ricardo Montalban theatre, immediately north of the Project site, and Molly's Burger, located on the Project site, as a result of preliminary work on the Historic Resources Survey for the Hollywood Redevelopment Project Area prepared for the CRA by Chattel Architecture, Planning & Preservation ("Chattel Report").

In response to the draft conclusions of the Chattel Report, during preparation of the Final EIR, the developer retained the services of Galvin Preservation Associates and principal Teresa Grimes. Galvin prepared a Historic Evaluation Report which is included as Appendix A to the Final EIR for the Project. The Galvin Report focused on the National Register significance factors and the seven factors of integrity. The Galvin Report focused upon the changes made to the original buildings on the property, concluding that such changes made Molly's Burger allegedly ineligible for listing on the National or California Register of historic places.

In the Galvin Report, there are only passing mentions of the major addition to the building made in the late 1940s or early 1950s which brought Molly's right up to the sidewalk of Vine Street. Bringing the building out to the sidewalk allowed the placement of stools adjacent to the sidewalk where patrons could eat "on the street" and interact with passersby. Consistent with this, the restaurant was known in the 1950s as "The Curb Charboiler."

The only references in the Galvin Report to the later addition to the original 1929 Colonial Revival-style building are found in the context of conclusions that the original building has lost its integrity and historical significance. Here are some examples of how the Galvin Report analyzed the early 1950s addition:

> "Molly's is no longer recognizable as a Spanish Colonial Revival style building due to extensive alterations."
>
> "The newer portion of the building was a later addition, the date of which is unknown, and appears to have been altered over time."
>
> "Due to the dramatic alterations described above, the overall integrity of Molly's is low."

The entire Galvin Report analysis of the eligibility of Molly's for Los Angeles Historic-Cultural Monument status is as follows:

> "Molly's is ineligible for designation as a Los Angeles Historic-Cultural Monument for the same reasons outlined above. Molly's is not comparable to the other restaurants designated as Monuments in social history or design, such as Cole's P.E. Buffet, Original Pantry, La Fonda, and Finney's Cafeteria."

Furthermore, in the Galvin Report conclusion, there is a statement that: "Molly's is not currently designated a landmark at the national, state, or local levels. <u>Nor has it been previously evaluated as significant in any historic resource surveys</u>." (Emphasis added.)

Based upon the Galvin Report, the Final EIR, like the Draft EIR, concluded that the Project would have no adverse impact on any historic resource, including Molly's Charbroiler. The Final EIR containing these conclusions was issued in October 2009. On February 18, 2010, the CRA certified that the EIR was "complete."

On March 30, 2010, Hollywood Heritage, the local historic preservation organization in Hollywood, received a copy of the Historic Resources Survey for the Hollywood Redevelopment Project Area which was the final version of the Chattel Report. On pages 116 to 118 of the comprehensive 152-page Historic Resources Survey, there is a discussion about roadside eateries and their building design elements – including curbside access. The Chattel Report, acknowledging that there were three roadside eateries extant in Hollywood, then stated: **"One appears eligible for local listing. Located at 1601 Vine Street, Molly's Charbroiler was constructed in 1953."** Thus, unlike the conclusion contained in the Galvin Report that Molly's has not "been previously evaluated as significant in any historic resource surveys," the CRA's own new Historic Resource Survey for the Hollywood Redevelopment Project Area, which was not made public until after the CRA's certification of the FEIR, does conclude that Molly's is significant and eligible for local listing. This new information was not available at the time the EIR was certified on February 18, 2010, nor could it have been provided with reasonable diligence because the CRA itself just released the report.

It might be argued that the Galvin Report from 2009 addressed the historic resources "problem" for the developer, but that would simply be untrue. From reading the Galvin Report as a whole, it is clear that it focused its analysis on the question of whether or not the original 1929 building retained its significance. <u>The Galvin Report never asks the question whether the late 1940s or early 1950s addition, which nearly doubled the floor area and moved the roadside eatery closer to the roadside, was itself significant.</u> All discussion of the addition in the Galvin Report indicates that no research was done to determine its history and permits with the City. It is simply dismissed as having been modified over the years, without citation to any substantial evidence to confirm that asserted "fact," or, more importantly, without any analysis of the historic significance of the building, as identified in the Chattel Report.

The new CRA Historic Resources Survey concludes that Molly's Charbroiler appears eligible for local listing and its date of significance, as identified in the Survey, is 1953 – not 1929 which was the focus of the Galvin Report. Thus, the final Historic Resources Survey constitutes new information of substantial importance that was not known at the time the CRA certified the EIR in February 2010 and could not have been with reasonable diligence produced by our Client. This information was not discussed in the EIR because the Galvin Report focused almost exclusively on the historic significance of the original 1929 building, unlike the Chattel Report that identifies Molly's Charbroiler as significant in 1953, which is the approximate date of construction of the significant addition that almost doubled the floor space to reach toward the roadside. (See sample historic photos at **Exhibit 3** hereto.)

For all of the foregoing reasons, the proposed Project may not be approved until the CRA completes a supplemental EIR to address the results of the new Historic Resources Survey, possible mitigation of impacts, and makes a determination regarding alternatives, including how to proceed with protection, relocation, or re-creation of Molly's at a nearby location. "The EIR is the heart of CEQA, and the **mitigation and alternatives discussion forms the core of the EIR.**" In re Bay-Delta etc. (2008) 43 Cal.4th 1143, 1162 (emphasis added).

III. MOLLY'S BURGERS IS PROTECTED UNDER THE HOLLYWOOD REDEVELOPMENT PLAN.

Molly's Burger hereby invokes the protections of Section 511 of the Hollywood Redevelopment Plan. As a result, the City Council must reject the proposal to approve the Project. No action should be taken to allow the Project to go forward at this time until Section 511 has been complied with pending discussions with the applicant, CRA, and Molly's Burger regarding the Project's effects on the historic use and maintenance of the historic building at 1601 N. Vine Street.

Section 511 of the Hollywood Redevelopment Plan states as follows:

> "No grading, foundation, demolition, building or any other kind of permit shall be issued by the City for any property within the Redevelopment Project Area which involves or is determined by the Agency to adversely affect any building or resource determined by the Agency to be architecturally or historically significant, unless and until the following procedure occurs:
>
> "Upon notice to the City of such determinations by the Agency, the issuance of any such permit shall be delayed for a reasonable period of time requested by the Agency, not to exceed one hundred and eighty (180) days, **to permit negotiations to occur and opportunities to be explored by all parties concerned** to seek to avoid or mitigate any adverse impact on any such architecturally or historically significant building or resource. (Emphasis added.)
>
> "If the Agency determines that arrangements for the preservation of the building or resource cannot be

accomplished within the original 180 day period and further determines that such arrangements are likely to be satisfactorily completed within an additional period not to exceed one hundred and eighty (180) days, then the Agency may extend the initial 180 initial day delay period, up to a maximum extension of an additional 180 days.

"No application for any grading, foundation, demolition, building or any other kind of permit filed with the City shall be considered to conform with this Redevelopment Plan unless and until the requirements of this Section are satisfied." (Emphasis added.)

"The Agency shall coordinate the implementation of this section with the efforts of the Cultural Heritage Commission of the City."

Section 300 of the Hollywood Redevelopment Plan sets forth its goals which, among other things, address the fundamental importance of preservation of cultural and historic resources. It states in pertinent part:

"(5) Improve the quality of the environment, promote a positive image for Hollywood and provide a safe environment through mechanisms such as:

(d) Encouraging maintenance of the built environment.

"(6) Support and promote Hollywood as the center of the entertainment industry and a tourist destination through the retention, development and expansion of all sectors of the entertainment industry and the preservation of landmarks related to the entertainment industry." (Emphasis added.)

"(11) Recognize, promote and support the retention, restoration and appropriate reuse of existing buildings, groupings of buildings and other physical features especially those having significant historic and/or architectural value and ensure that new development is sensitive to these features through land use and development criteria." (Emphasis

> added.) (See Hollywood Redevelopment Plan excerpts, attached collectively at **Exhibit 4** hereto.)

The 2003 EIR for the Hollywood Redevelopment Plan Amendment also sets forth procedures which must be implemented for future development within the area which is located in proximity to parcels containing identified cultural and/or historic resources. These measures are summarized as follows:

> "(1) A 'qualified architectural historian' shall conduct a study to determine whether the proposed development project would result in substantial adverse change in significance of the historical resource. . . .
>
> "(2) If the study finds substantial adverse change in significance of the historical resource, the <u>issuance of permits shall be delayed for a reasonable period requested by CRA – up to 180 days. During such period, CRA shall negotiate and explore opportunities with all parties concerned to seek to avoid or mitigate any adverse impact on the historical resource.</u> If CRA finds that arrangements for preservation of building cannot be accomplished in the180 day period, the time may be extended. (Emphasis added.)
>
> "(3) If CRA cannot make proper arrangements for preservation within these time frames, <u>the environmental impact shall be deemed to be a new significant environmental effect requiring major revisions of the previous EIR as it applies to the project per State CEQA Guidelines 15162 and a Supplemental EIR shall be prepared</u> for the project which addresses the impacts to the affected historical resource." (Emphasis added.) (See 2003 EIR for the Hollywood Redevelopment Plan Amendment excerpts, attached collectively at **Exhibit 5** hereto.)

If the Project goes forward, Molly's Burger will suffer severe economic damage such that it will lose its business location and a structure, just two months ago identified by the CRA as eligible for listing as a historic resource. With complete demolition of the building at risk, the City Council must send this Project back to the CRA to resolve the significant historic resource issue and finalize appropriate mitigation of the potential impacts.

IV. THERE APPEARS TO BE A HEALTH AND SAFETY CODE VIOLATION REGARDING THE NOTICE GIVEN TO THE PUBLIC FOR THIS HEARING.

Under Health and Safety Code Section 33433, the City is required to provide specific and timely published notice in a newspaper of general circulation of this hearing. We object to the extent that the City has not provided the public with the required notice.

V. CONCLUSION.

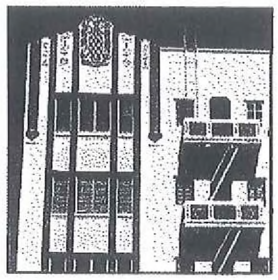
For all of the reasons set forth above, the City Council may not approve the proposed actions before it. Instead, it must return the Project to the CRA to prepare, circulate and review a supplemental EIR. Thank you for your consideration of these objections.

Very truly yours,

Robert P. Silverstein / [illegible]

ROBERT P. SILVERSTEIN
FOR
THE SILVERSTEIN LAW FIRM

RPS:aa




HISTORIC RESOURCES SURVEY
HOLLYWOOD REDEVELOPMENT PROJECT AREA

Prepared for
Community Redevelopment Agency

Prepared by
Chattel Architecture, Planning & Preservation, Inc.
13417 Ventura Boulevard
Sherman Oaks, CA 91423

February 2010

CRHR –To be eligible for the CRHR under Criterion 1, the property meets the Eligibility Standards and:

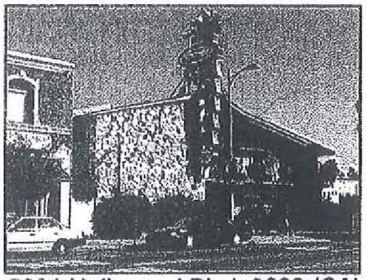
- Demonstrates highest quality of design
- Retains all aspects of integrity, unless they are not essential in conveying the significance
- Warrants a CHR status code of 3CS

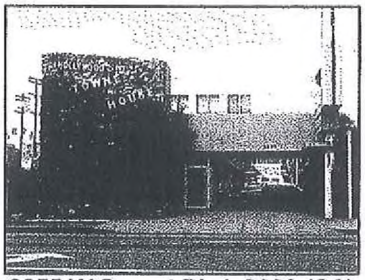
LA – To be eligible under a local designation, the property meets the Eligibility Standards and:

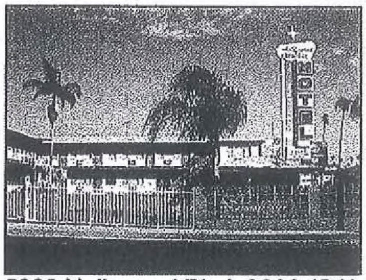
- Demonstrates highest quality of design
- Retains all aspects of integrity, unless they are not essential in conveying the significance
- Warrants a CHR status code of 5S3.

Four (4) properties appear to meet state and local eligibility criteria. They are:

1. Hollywood Center Motel, 6722 West Sunset Boulevard, original building constructed in 1901, motel addition construction date unknown. As the oldest extant property in Hollywood, this property appears eligible for listing in the National Register. It also appears significant as an early motel.
2. Hollywood Downtowner Inn, 5601 Hollywood Boulevard, constructed in 1956. This property appears eligible for listing in the California Register for its association with this property type.
3. Hollywood Towne House, 6055 West Sunset Boulevard, constructed in 1958. This property appears eligible for listing in the California Register for its association with this property type.
4. Hollywood Premiere Motel, 5333 Hollywood Boulevard, constructed in 1960. This property appears eligible for listing in the California Register for its association with this property type.


5601 Hollywood Blvd, 2009 (CA)


6055 W Sunset Blvd, 2009 (CA)


5333 Hollywood Blvd, 2009 (CA)

<u>Property Type: Roadside eateries</u>

By the mid-1920s, the Hollywood district had become very commercial in character. Most commercial buildings, however, were no longer styled primarily in the dignified Beaux-Arts Classicism characteristic of many earlier commercial buildings. The automobile had vastly widened the range of available venues for shopping and entertainment from which people could easily choose. "Roadside architecture," buildings fancifully designed as large-scale representations of common objects, such as food items or animals, became commonly employed as a means of attracting passing motorists and their dollars. The buildings essentially functioned as signs, although the object represented on the outside did not always correspond to the goods sold within.

While roadside eateries grew popular in the years immediately preceding the 1920s, and were characterized by fast service, close proximity to roadways, and ease of automobile parking, the need for fast fare was not a novel concept when roadside eateries gained popularity in the early part of the 20th Century. Quick-service food establishments were built in the United States as early as the mid-19th Century. Settlement of the west, expansion of the railroad system, and industrialization and rapid growth of urban areas initially created the demand for quick meals for travelers, workers, and busy families. Cafeterias, sandwich shops, and lunch counters were developed in response.[295] The number of restaurants in the United States grew by 40% from 1910-1927.[296] The rapid growth in number of roadside dining establishments can be attributed not only to the increase in car travel but also the nation-wide prohibition of alcohol in the 1920s, which temporarily eliminated competition from bars, and the rising number of women entering the workplace, which decreased the amount of time families had to prepare food at home.[297] The market for speedy, convenient dining options targeted at automobile travelers grew substantially during this time, spawning the proliferation of roadside eateries, which appeared in a variety of architectural forms.

Roadside eateries built from the 1920s through the 1940s tended to be individual or family-owned operations often constructed quickly using low-cost materials gathered from local sources. Despite the economic problems affecting the nation during the Great Depression, roadside eateries continued to open throughout the 1930s. Barriers to entry for roadside restaurateurs were low and any individual capable of creating a frame-and-stucco building, cooking, and cleaning could open a roadside eatery.[298] It has been particularly noted that cafes located along Route 66 have a history distinguished by "independent ownership, unregimented appearance, and frequently casual approach to business."[299] Because many of the early roadside eateries were makeshift structures not meant to last through the years, few remain. Despite the ephemeral nature of the vernacular roadside architecture of the first half of the 20th Century, these buildings have been defined as an architectural type, termed "programmatic," by architectural historian David Gebhard, who writes, "the vocabulary employed in these buildings hinged on a program organized to convey meaning not directly but by indirection."[300]

Early roadside eateries were generally constructed as simple buildings containing large signs boasting the name of the establishment, and they relied on visibility to generate customers. As noted in the National Park Service's *Route 66 Corridor National Historic Context Study*, "these businesses did not follow a standard architectural typology except that they often began as lunchrooms, commonly held a counter and stools as well as tables and chairs (and later, booths), and were separated from the cooking area by a service window, although this separation was sometimes dispensed with in smaller operations."[301] While some owners constructed simple, inexpensive structures, others sought to gain maximum visibility and traveler interest by constructing buildings with dramatic, unconventional forms that both housed and acted as advertisement for the business. During the 1920s and 1930s, property owners often constructed eateries that served as large-scale representations of the goods sold within. For example, an orange juice stand might have been designed as a colossal orange and a hot dog stand might have taken the shape of a gigantic dog. Simpler, more traditional buildings

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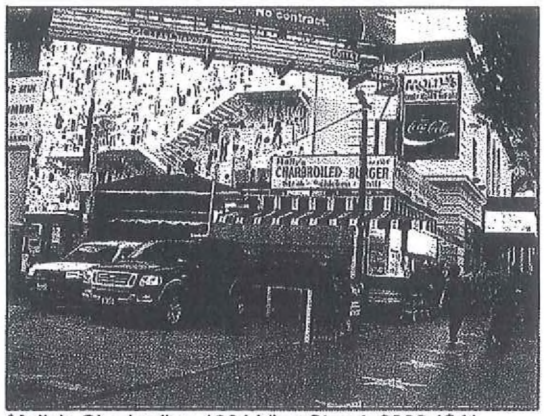
[295] Chester Liebs, *Main Street to Miracle Mile*, (Baltimore: Johns Hopkins University Press), 193-194.
[296] Liebs, 196.
[297] Liebs, 196.
[298] Scott, 22.
[299] Cassity, 305.
[300] Jim Heimann, *California Crazy & Beyond*, (San Francisco: Chronicle Books, 2001), 8.
[301] Cassity, 305.

were often crowned with eye-catching objects, such as large-scale doughnuts, statues of people, or ostentatious sculptural signage.

By the 1940s, inexpensive roadside dining became commonplace and small family-owned eateries were replaced by more substantial buildings and operations.[302] Although chain restaurants like Howard Johnson's and McDonald's initially developed whimsical architectural forms, the tendency to design flamboyant, distinct buildings fell away in favor of standardized building designs that better blended with the modern urban context.

Three roadside eateries are extant in Hollywood. One appears eligible for local listing. Located at 1601 Vine Street, Molly's Charbroiler was constructed in 1953.



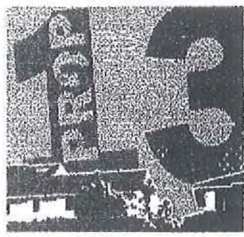
Molly's Charbroiler, 1601 Vine Street, 2009 (CA)

[302] Cassity, 206.

How CRA Dooms Prop 13

The City

By Richard Lee Abrams



We know that the Community Redevelopment Agency [CRA] is a charter agency of the City (each year the Mayor and the City Council approve its budget and its projects.

We know that when a property becomes a CRA project, it ceases to pay property taxes and equivalent amount of money to CRA (tax increment revenue). Over the past decades CRA hi coffers more than $1 BILLION in property tax dollars and each year CRA takes a large portio dollars.

We also know that in 2009, CRA took in $217.8 million in incremental property tax revenue, while the City told e million deficit.

Also, the CRA had $304.4 million in spendable cash for 2009. The City cannot pretend it has a deficit by simply l Oops, excuse me, I guess it can. It did and no one did anything about it.

Where's the City Attorney to advise the Mayor and the City Council that fraud is wrong? I guess he's lunching wit can't find anything wrong with Wall Streets' fraudulent mortgage scams.

Let's look at one example of how the CRA uses the property tax dollars to make multi-million dollar give-aways. File # 08-3458, 1601 N. Vine at Selma Avenue in Hollywood, as an example.

On May 19, the City Administrative officer approved the following deal. The CRA will sell the property located a developer for $825,000. In 2006, CRA paid this same developer $5.45 million for this same parcel. Yes, CRA pay cents on the dollar and then a few years later sells the same property back to the developer who pays only 15 ce

During this time, the developer does not pay one cent in property taxes as his property is technically owned by tl

Are we to believe that since 2006 the value of the property dropped from $5.45 million to only $825,000? That w property value.

No. The $825,000 is like a 15% down payment, but when dealing with CRA, the developer does not have to pay tl "over the remaining term of the Project Area, the Agency [CRA] is projected to receive $13 million in tax increm

Yes, instead of paying a mortgage and property taxes, the developer uses what should be property tax dollars to The net effect is that the developer pays 15 cents on the dollars.

The $13 million in tax increment revenue otherwise would have gone into the general fund to pay for roads, new hall employees. Thus, the developer only pays $825,000 which is about 15% of the value.

Wouldn't it be great if all the home owners could use their property tax dollars to pay off their mortgage?

What would happen if there were no CRA?

A developer would size up the property's income potential and decide what type of project is financially feasible for it himself. That's the way we buy a home or a car.

Although I've never tried it, I doubt I could buy a home for 15% down and tell the seller, "Don't worry I won't pa but instead I pay my property taxes to you." I am pretty sure that you only get this type of deal if you're really politicians.

I think I am beginning to see why developers make such large campaign contributions to the Mayor and Councilm the City Charter, the same Mayor and City Council who lay off staff and reduce fire services also approve giving a cents on the dollar. No wonder the Mayor and City Council don't want anyone looking into the CRA's shenanigan

But here is the real threat to homeowners. The CRA's taking of more and more property tax dollars dooms Prop

We already hear politicos clamoring to end Prop 13 because property tax revenue is too low. Each year CRA tran property off the property tax rolls, leaving an ever-increasing hole in governmental revenues of hundreds of milli

But the Mayor and no one on City Council tells the public that property tax revenues are down because the CRA i portion of property taxes in order to subsidize billionaire developers.

It comes down to this choice: You can have CRA or you can have Prop 13, but you can't have both.

Any councilmember who supports the CRA is also setting the stage for the repeal of Prop 13.

(Richard Lee Abrams is an attorney in Los Angeles.) -cw

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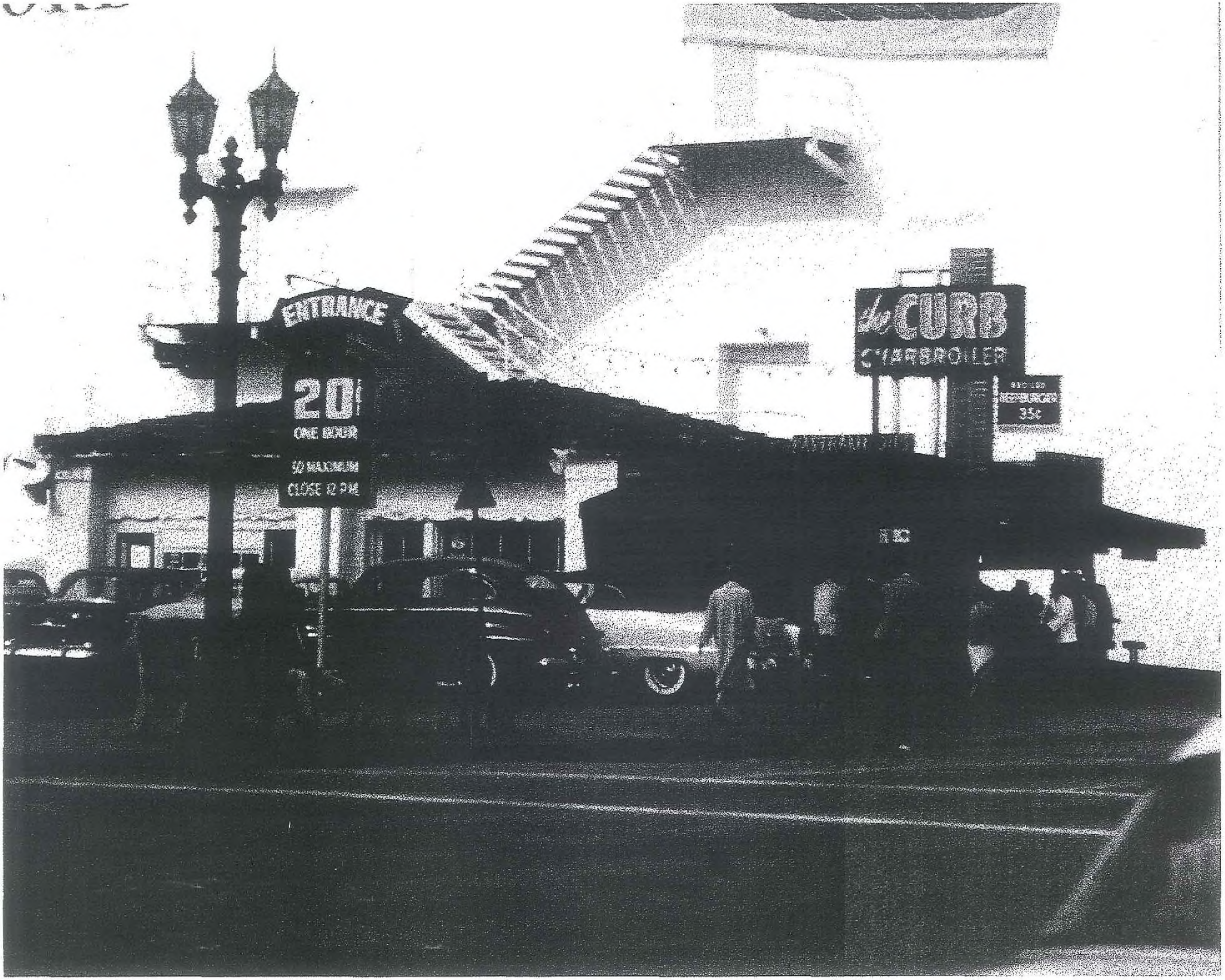
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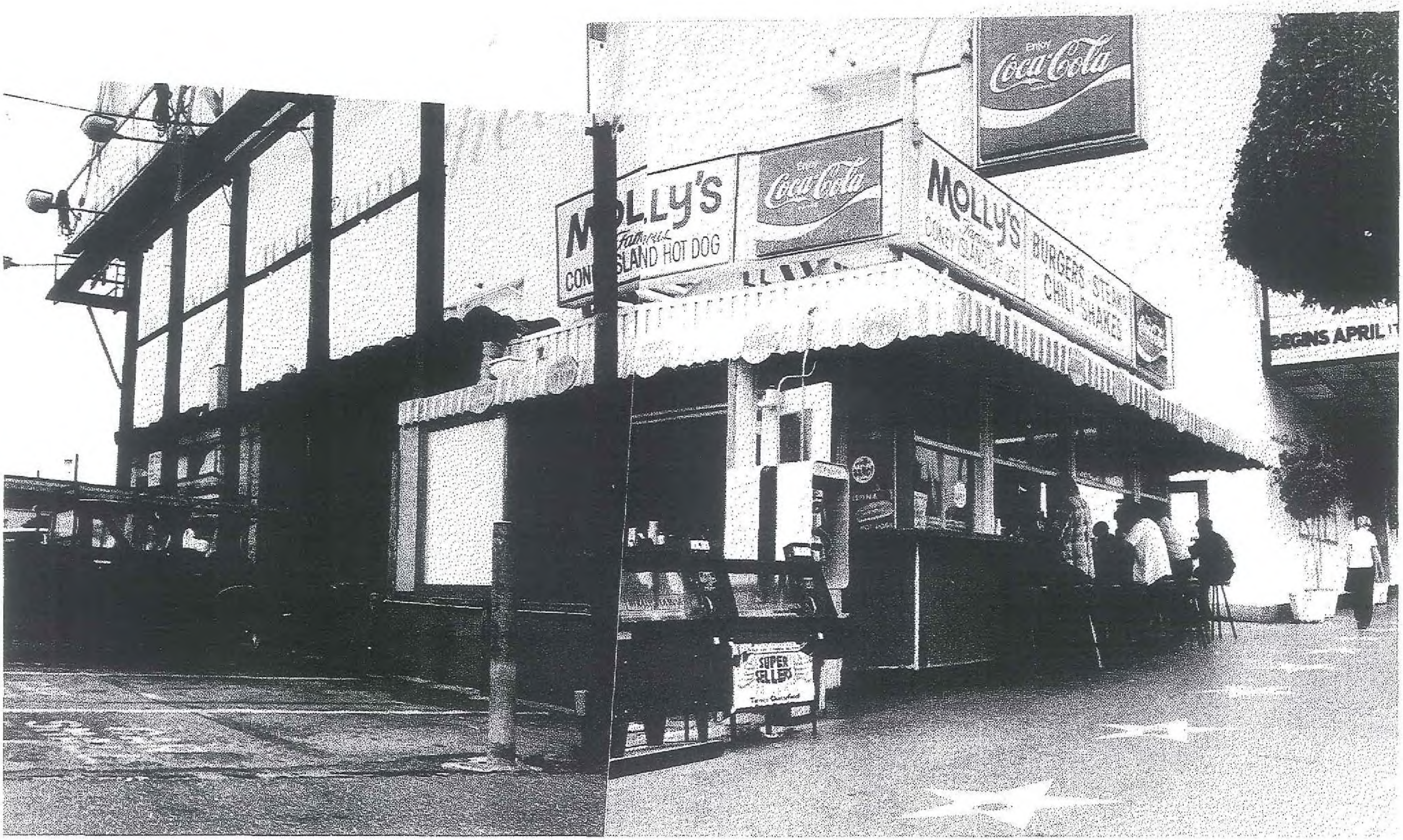
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REDEVELOPMENT PLAN

FOR THE

HOLLYWOOD REDEVELOPMENT PROJECT

I. 100. INTRODUCTION

This is the Redevelopment Plan (the "Plan") for the Hollywood Redevelopment Project (the "Project") in the City of Los Angeles (the "City"), County of Los Angeles, State of California. This Plan consists of text (Sections 100 through 1300) and the following exhibits: the Redevelopment Plan Map (Exhibit "A" (including Amended Exhibit A.1), Redevelopment Plan Map; and Exhibit A.3, Special Districts); a Legal Description of the Project boundary (Exhibit "B"); a Diagram Showing Limitations on Type, Size and Height of Buildings (Exhibit "C"); and a Diagram Showing Approximate Amount of Open Space and Property Devoted to Public Purposes (Exhibit "D"). This Plan was prepared by the Community Redevelopment Agency of the City of Los Angeles, California (the "Agency") pursuant to the Community Redevelopment Law of the State of California (Health and Safety Code, Section 33000 et seq.), the California Constitution, and all applicable local codes and ordinances, and is based on the Preliminary Plan as amended.

The Project Area (the "Project Area") includes all properties within the Project boundary shown on the Redevelopment Plan Map.

The proposed redevelopment of the Project Area as described in this Plan conforms to the General Plan for the City of Los Angeles, as applied in accord with local codes and ordinances.

This Plan provides the Agency with powers, duties and obligations to implement and further the program generally formulated in this Plan for the redevelopment, rehabilitation, and revitalization of the Project Area.

Redevelopment of the Project Area pursuant to this Plan will attain the purposes of the California Community Redevelopment Law: (1) by the elimination of areas suffering from depreciated values, impaired investments, and economic and social maladjustment; (2) by the replanning, redesign and rehabilitation and/or development of areas which are stagnant or improperly utilized and which could not be accomplished by private enterprise acting alone, without public participation and assistance; and (3) by protecting and promoting sound development and redevelopment of blighted areas and the general welfare of the citizens of the City by remedying such injurious conditions through the employment of appropriate means.

II. 200. PROJECT AREA BOUNDARY AND LEGAL DESCRIPTION

The boundary of the Project Area is shown on the Redevelopment Plan Map attached as Amended Exhibit A.1 and is described in the Legal Description attached as Exhibit B.

III. 300. REDEVELOPMENT PLAN GOALS

1) Encourage the involvement and participation of residents, business persons, property owners, and community organizations in the redevelopment of the community.

2) Preserve and increase employment, and business and investment opportunities through redevelopment programs and, to the greatest extent feasible, promote these opportunities for minorities and women.

3) Promote a balanced community meeting the needs of the residential, commercial, industrial, arts and entertainment sectors.

4) Support and encourage the development of social services with special consideration given to participating in projects involving community based organizations that serve runaways, the homeless, senior citizens and provide child care services and other social services.

5) Improve the quality of the environment, promote a positive image for Hollywood and provide a safe environment through mechanisms such as:

a) adopting land use standards;

b) promoting architectural and urban design standards including: standards for height, building setback, continuity of street facade, building materials, and compatibility of new construction with existing structures and concealment of mechanical appurtenances;

c) promoting landscape criteria and planting programs to ensure additional green space;

d) encouraging maintenance of the built environment;

e) promoting sign and billboard standards;

f) coordinating the provision of high quality public improvements;

g) promoting rehabilitation and restoration guidelines;

h) integrate public safety concerns into planning efforts.

6) Support and promote Hollywood as the center of the entertainment industry and a tourist destination through the retention, development and expansion of all sectors of the entertainment industry and the preservation of landmarks related to the entertainment industry.

7) Promote the development of Hollywood Boulevard within the Hollywood commercial core as a unique place which:

a) reflects Hollywood's position as the entertainment center;

b) provides facilities for tourists;

c) contains active retail and entertainment uses at the street level;

d) provides for residential uses;

e) is pedestrian oriented;

f) is a focus for the arts, particularly the performing arts; and

g) recognizes and reinforces its history and architecture.

8) Promote and encourage the retention and expansion of all segments of the arts community and the support facilities necessary to foster the arts and attract the arts through land use and development policies such as the creation of a theater district.

9) Provide housing choices and increase the supply and improve the quality of housing for all income and age groups, especially for persons with low and moderate incomes; and to provide home ownership opportunities and other housing choices which meet the needs of the resident population.

10) Promote the development of sound residential neighborhoods through mechanisms such as land use, density and design standards, public improvements, property rehabilitation, sensitive in-fill housing, traffic and circulation programming, development of open spaces and other support services necessary to enable residents to live and work in Hollywood.

11) Recognize, promote and support the retention, restoration and appropriate reuse of existing buildings, groupings of buildings and other physical features especially those having significant historic and/or architectural value and ensure that new development is sensitive to these features through land use and development criteria.

require, as part of a participation or development agreement, participation in the provision of parks and open spaces. It is recognized that the Project Area lacks adequate open space, recreational areas and landscaping. Throughout the Redevelopment process, in review of specific development proposals and in adopting Designs for Development, the need for additional publicly accessible open space and landscaping, including street trees shall be recognized and encouraged.

509. **Non-Conforming Uses**

A non-conforming use is the use of a building or land which does not conform to this Plan and which existed at the time the Plan became effective. A non-conforming use may continue.

The Agency may authorize additions, alterations, repairs or other improvements to such non-conforming uses in the Project Area if, in the determination of the Agency, such improvements would be compatible with surroundings and proposed uses and development.

The Agency may require the owner of such property to enter into a Participation Agreement and agree to the imposition of such reasonable restrictions as are necessary to meet the objective of the Plan.

510. **New Construction**

All construction and development shall conform to all applicable state laws and city ordinances and regulations and shall be subject to review and approval by regulatory governmental bodies as required by law and this Plan.

511. **Preservation, Rehabilitation and Retention of Properties**

It is recognized that the Hollywood Project Area contains numerous buildings and groups of buildings with architectural and historical significance examples of which include the Hollywood Boulevard Commercial and Entertainment Historic District, Crossroads of the World and the U.S. Post Office which are listed in the National Register of Historic Places. It is further recognized that these buildings represent an important resource and a link to Hollywood's past. These can provide the basis for the revitalization of the Hollywood Project Area.

Buildings listed as Cultural-Historic Monuments by the City and listed in, determined or appear to be eligible for listing in the National Register of Historic Places are determined to be of architectural and/or historic significance. The Agency shall use established criteria for determining additional architectural and/or historical resources and shall maintain a publicly available list of all buildings within the Project Area which it determines to be architecturally and/or historically significant.

To the extent practical, in the implementation of this Plan, including Sections 505.3 (Housing Incentive Units) and 506.2.3 (Regional Center Commercial Density), the Agency is authorized to provide for the retention, reuse and restoration of buildings and resources determined by the Agency to be architecturally or historically significant. The Agency shall deny requests for housing incentive units, development in the Regional Center Commercial designation above an F.A.R. of 4.5:1 and variations for sites on which a structure determined by the Agency to be significant was demolished after the adoption of this Plan or is proposed to be demolished; however, under exceptional circumstances where a significant structure has been substantially damaged and must be demolished due to circumstances beyond the control of the owner, the Agency may grant requests for housing incentive units, development within the Regional Center Commercial designation above an F.A.R. of 4.5:1 and variations. Nothing in Section 511 shall deny, modify or affect in any way housing density bonuses granted by the city pursuant to applicable state law.

In order to provide incentives to preserve architecturally and/or historically significant structures, the unused density from architecturally and/or historically significant structures may be transferred to other development sites. The Agency shall promulgate procedures for such transfer proposals consistent with the procedures and requirements as established in Section 506.2.3, Regional Center Commercial Density, the procedures and requirements of Section 505.3, Housing Incentive Units, for housing developments and the procedures of Section 521, Variations.

The Agency shall obtain adequate assurances that the buildings from which the density transfer is taken are preserved and that the development on the site to which the density is transferred will occur in conformity to the Redevelopment Plan, the objectives of special districts as established by the Plan and if applicable, any adopted Design for Development.

No grading, foundation, demolition, building or any other kind of permit shall be issued by the City for any property within the Redevelopment Project Area which involves or is determined by the Agency to adversely affect any building or resource determined by the Agency to be architecturally or historically significant, unless and until the following procedures occurs:

Upon notice to the City of such determination by the Agency, the issuance of any such permit shall be delayed for a reasonable period of time requested by the Agency, not to exceed one hundred and eighty (180) days, to permit negotiations to occur and opportunities to be explored by all parties concerned to seek to avoid or mitigate any adverse impact on any such architecturally or historically significant building or resource.

If the Agency determines that arrangements for the preservation of the building or resource cannot be accomplished within the original 180 day period and further determines that such arrangements are likely to be satisfactorily completed within an additional period not to exceed one hundred and eighty (180) days, then the Agency may extend the initial 180 day delay period, up to a maximum extension of an additional 180 days.

No application for any grading, foundation, demolition, building or any other kind of permit filed with the City shall be considered to conform with this Redevelopment Plan unless and until the requirements of this Section are satisfied.

The Agency shall coordinate the implementation of this section with the efforts of the Cultural Heritage Commission of the City.

The Agency shall develop historic preservation incentives in coordination with the City. Such incentives may include technical assistance and funding programs.

512. **Cultural and Artistic Development**

The primary impetus for Hollywood's residential, commercial and industrial growth in the early part of this century was provided by the presence of the motion picture industry. Hollywood's history is inextricably connected with its role as the capital of cinematic and broadcasting arts. Likewise, the continued and renewed vitality these arts forms (and their allied disciplines) generate will directly impact future growth.

Therefore, it shall be the policy of this Redevelopment Plan to incorporate cultural expression as a redevelopment tool through the support and development of publicly accessible cultural and artistic facilities and/or programs within the Project Area. At least one percent (1%) of the private development costs, excluding land and off-site improvements, for new industrial, commercial and residential development, excluding low and moderate income housing development, which the Agency has facilitated, and is subject to a participation or development agreement shall be allocated by the participant or

Hollywood Redevelopment Plan Amendment
Final Environmental Impact Report

Prepared Under the Supervision of:

Community Redevelopment Agency of the City of Los Angeles

Prepared By:

Christopher A. Joseph & Associates
environmental planning and research

February 2003

Mitigation Measures

The following mitigation measures shall be implemented for all future development projects within the Project Area that are located on or in proximity to parcels containing identified cultural resources:

Historical Resources

- In the event that a future development project within the Project Area is proposed on or in proximity to a site containing an historical resource identified in the survey contained in Appendix G to this EIR, the Agency shall require a study to be made by a qualified architectural historian to determine whether the proposed development project would result in a substantial adverse change in the significance of the historical resource. If the study concludes that the project would not result in a substantial adverse change in the significance of the historical resource, no further action would be required.

- If the study concludes that the project would result in a substantial adverse change in the significance of the historical resource, the issuance of any grading, foundation, demolition, building, or any other kind of permit issued by the City of Los Angeles shall be delayed for a reasonable period of time requested by the Agency, up to 180 days. During this time period, the Agency shall conduct negotiations and explore opportunities with all parties concerned to seek to avoid or mitigate any adverse impact on the historical resource. Potential modifications to the project to avoid or mitigate adverse impacts on historical resources would include, but not be limited to, design changes related to height, density, upper story stepbacks, architectural features, or materials, changes in the proposed development program to include compatible uses, site plan modifications that incorporate historic structures, or sale of the property to another party. If the Agency determines that arrangements for preservation of the building or resource cannot be accomplished within the original 180 day period and further determines that such arrangements are likely to be satisfactorily completed within an additional period not to exceed 180 days, then the Agency may extend the initial period up to a maximum extension of an additional 180 days.

- In the event that arrangements for preservation of the building or resource cannot be accomplished within the time frames set forth above, then the impact shall be deemed to be a new significant environmental effect requiring major revisions of the previous EIR as it applies to the project per State CEQA Guidelines Section 15162 and a Supplemental EIR shall be prepared for the project which addresses the impacts to the affected historical resource.

- Rehabilitation of architecturally or historically significant buildings shall meet the U.S. Secretary of the Interior's Standards for Rehabilitation, Rehabilitation of an historical resource in accordance with the Secretary's Standards is not a significant effect under CEQA.

item 4
06-02-2010
CF # 08-3451

RECEIVED
JUN 02 2010

Historical Resource Evaluation

Molly's Charbroiler
1605 N. Vine Street
South 35 Feet of Lot 11, Block 12 of Hollywood
28 MR 59 & 60

Prepared by:

Charles J. Fisher, Historian
140 S. Avenue 57
Highland Park, CA 90042

Table of Contents

Section I
Executive Summary

The purpose of this report is to evaluate the structure located at 1605 N. Vine Street, in the Hollywood community of Los Angeles, California, to determine whether it meets the requirements as a historical resource in accordance with Section 15064.5 of the California Environmental Quality Act (CEQA) guidelines. The ultimate conclusions in this report represent the professional opinions of the author and are based on the data that has been found through research of the historical and architectural background of the subject property that was available at the time of preparation. as well as the application of local. state and federal criteria of eligibility as well as the best professional practices.

The author is a professional historian with extensive experience in property research and historic preservation. dating from the mid 1980's. This background includes the research. preparation and/or advocacy of over 114 Historic Cultural Monument Nominations for the City of Los Angeles. as well as research and documentation of numerous other historic structures.

Other qualifications include work as a past president and board member of the Highland Park Heritage Trust. past co-chair of the Cultural Resources Committee of the Los Angeles Conservancy. president of the Heritage Coalition of Southern California and 28 years doing property research for Transamerica Real Estate Tax Service.

The resource to be evaluated is a 1-story. roadside diner consisting of a small restaurant constructed in front of an earlier 1929 structure. commonly known as "Molly's Charbroiler' or "Molly's Diner". It is sited on the South 35 feet of Lot 11 in Block 12 of Hollywood. which is recorded in Book 28. Pages 50 and 60 of Miscellaneous Records of Los Angeles County. and is identified with County Assessor's Parcel No. 5546-009-007.

The structure is not presently listed on any local. state or federal register nor is it listed as a contributor to any local. state or federal historic district. The nearest local district is the Whitley Heights Historic Preservation Overlay Zone (HPOZ) for the City of Los Angeles. which is situated approximately three quarters of a mile from the current location of the resource. Established in 1992 as the fifth of 25 present HPOZs. Whitley Heights is a hillside residential neighborhood developed during the

1920s that has little in common with the area of the resource other than an association with the history of the Hollywood community.

The site is located within the Hollywood Community Redevelopment Agency district. Records show that an original historic resources survey of the area was prepared in 1980 by Denver Miller and Christy Johnson (McAvoy) of Hollywood Revitilization did not cite the subject building as a resource. However, an updated survey produced in February of 2010 by Chattel Architecture, Planning and Preservation, Inc., did call out the structure as a resource eligible for local listing in its context statement.

An earlier report dated in August of 2009, prepared by Teresa Grimes of Galvin Preservation Associates state that the structure does not qualify for local listing due to a loss of integrity of the original 1929 building. However, it is important to note that the Chattel reports documents the building in its 1953 context as a post World War II roadside diner.

This report will therefore be looking at what was existing during the period of significance called out by the Chattel Context Statement, rather than the altered state of the 1929 structure, as far as whether the structure qualifies for local listing.

Section II
Methodology

In evaluating a potential historic property, several criteria are employed, including an analysis of architectural and historical significance, as well as specific evaluations as to whether the subject property meets the various requirements for it to be considered historic.

These requirements may include the age and rarity of the design, significance of an architect, builder or owner/resident of the property, along with how the structure relates to its historic context, how much of its own architectural integrity has survived as well as whether non-historic alterations can be easily reversed.

Age and integrity are just one of the criteria involved here as the true test will be how well the structure retains the integrity it had during its true period of significance.

A site visit was made on June 1, 2010 when photos were taken of the front façade. As well as the interior of the structure. In addition, there were several historic photos supplied by Marc Wannamaker of Bison Achieves for Hollywood Heritage, ranging from 1938 until 1981.

An analysis was also made of the history of the structure through some of the Los Angeles City Building Permits. It is important to note that due to time constraints, this analysis is not yet complete. Some historical context was also gathered from previously published books and articles as noted in the bibliography.

Much of the actual report will be an analysis of the two most recent documents that were cited in the second chapter.

Section III
Historic Property Regulations

In a determination of eligibility a potential historic resource must be considered under the California Environmental Quality Act (CEQA) to determine if it is either eligible for the California Register of Historic Resources (California Register). The California Register is modeled after the National Register of Historic Places (National Register). There are only a handful of differences in the standards for the National and California Registers. The California Register has a slightly lower integrity requirement than the National Register. A resource is also presumed to be historic if it is locally listed or has been identified as historically significant in a historic resources survey.

However, a preponderance of evidence could show that a property so is either no longer historic due to alterations subsequent to a survey or further examination has found that it does not meet the criteria and requirements set forth in the California Register. The National and California Register programs are discussed below.

National Register of Historic Places

The National Register is described in Title 36 of the Code of Federal Regulations as "an authoritative guide to be used by federal, state or local governments, private groups and citizens to identify the nation's cultural resources and to indicate what properties should be protected from destruction or impairment."

To be eligible for listing in the National Register, the resource must normally be at least 50 years of age and must possess significance in American history and culture, architecture or archeology. To be considered significant, a property must meet one or more of the following four established criteria:

A. It must be associated with events that have made a significant contribution to the broad patterns of our history; or

B. It must be associated with the lives of persons significant in our past; or

C. It must embody the distinctive characteristics of a type, period, or method of construction, or that represents the work of a master, or that possess high artistic values, or that represent a significant and distinguishable entity whose components may lack individual distinction; or

D. That it yield, or may be likely to yield, information important in prehistory or history.

The resource must also have integrity so that, according to National Register Bulletin #15 on How to Apply the National Register Criteria for Evaluation, "to be eligible for the National Register, a property must not only be shown to be significant under National Register criteria, but is must also have integrity", which is the ability of the resource to convey its significance. In other words, a property must not be so altered from the condition during the period of significance, that it fails to show the reasons for that significance.

A resource should also be significant within a historic context to be eligible for listing. According to National Register Bulletin #15, historic contexts are "those patterns, themes or trends in history by which a specific occurrence, property, or sit is understood and its meaning (and ultimately its significance) within history or prehistory is made clear." The significance of a historic property can be determined only when it is evaluated within its historic context. The resource must represent an important aspect of the area's history or prehistory and still have the integrity to convey that to qualify for the National Register.

The National Register also allows for the establishment of historic districts, where the properties may not be eligible for individual listing, but as a grouping, convey both the integrity and context to meet one or more of the four criteria.

California Register of Historic Resources

The California Register was established in 1992, when Governor Pete Wilson signed Assembly Bill 2881. Like the National Register, the California Register is used by state and local agencies, private groups and individual citizens to identify and list historic resources and to help determine which resources are to be protected, to the extent prudent and feasible, from substantial adverse impacts.

The California Register consists of all California properties that are listed on or determined eligible for the National Register and all California Landmarks from No. 770 up, which are automatically listed, as well as others that are directly nominated by an application processed through a public hearing process and are determined eligible for listing by the State Historic Resources Commission (SHRC). In addition, those California Points of Historical Interest that have been evaluated by the Office of

Historic Preservation (OHP) and have been recommended to the SHRC are automatically listed.

To be eligible for listing in the California Register, the resource must normally be at least 50 years of age and must possess significance in local, state or national, under one or more of the following four criteria:

1.) It is associated with events that have made a significant contribution to the broad patterns of local or regional history, or the cultural heritage of California or the United States; or

2.) It is associated with the lives of persons significant to local, California or national history; or

3.) It embodies the distinctive characteristics of a type, period, or method of construction, or that represents the work of a master, or that possess high artistic values; or

4.) It has yielded, or has the potential to yield, information important in prehistory or history of the local area, California, or the nation.

Historic resources eligible for listing in the California Register may include buildings sites, structures, objects and historic districts. Resources less then 50 years of age may be eligible if it can be demonstrated that sufficient time has passed to understand their historical importance. While the criteria for the California Register is less rigorous with regard to the issue of integrity, there is the expectation that the resources reflect their appearance during their period of significance.

Los Angeles Historic Cultural Monument

The Los Angeles Historic Cultural Monument (HCM) ordinance, along with the cities Cultural Heritage Board (now Commission) was established in 1962 by the Los Angeles City Council to block the imminent demolition of the Leonis Adobe (HCM #1) and to protect five other sites. Like the National Register and the California Register is used by state and local agencies, private groups and individual citizens to identify and list historic resources and to help determine which resources are to be protected, to the extent prudent and feasible, from substantial adverse impacts. There are presently over 980 Los Angeles HCMs. In addition, the city has established 25 Historic Preservation Overlay Zones (HPOZs) since 1982.

Those resources that are individually listed or are within an established HPOZ are also subject to CEQA review for issues of demolition or substantial alteration.

Historic-Cultural Monument designation is reserved for those resources that have a special aesthetic, architectural, or engineering interest or value of a historic nature. The Cultural Heritage Ordinance establishes criteria for designation; these criteria are contained in the definition of a Monument in the Ordinance. A historical or cultural monument is any site (including significant trees or other plant life located thereon), building, or structure of particular historical or cultural significance to the City of Los Angeles, such as historic structures or sites:

- in which the broad cultural, political, economic, or social history of the nation, state, or community is reflected or exemplified;

  or

- which are identified with historic personages or with important events in the main currents of national, state, or local history;

  or

- which embody the distinguishing characteristics of an architectural-type specimen, inherently valuable for a study of a period, style, or method of construction;

  or

- which are a notable work of a master builder, designer, or architect whose individual genius influenced his or her age.

There is no age requirement for designation, although a resource must have demonstrated its historic importance. At the present time there is no specific requirement that the resource display integrity, however the commission has always made their determinations taking integrity or lack of as a criteria. The Cultural Heritage ordinance is presently reviewed and the new language, once adopted, will most likely contain the following section on integrity:

"**Retains Integrity from its Period of Significance.** Proposed Monuments do not need to retain all aspects of Integrity, but should retain a sufficient degree of those aspects of Integrity that relate to why it is significant. Flexibility shall be used in assessing Integrity, particularly when a proposed Monument is significant under designation criteria 1 or 2 above. A proposed Monument's deferred maintenance or dilapidated condition shall not, on their own, be construed to equate to a loss of Integrity."

Section IV
Architectural Description

The current structure consists of a rectangular semi-open diner constructed along the sidewalk with a lunch counter along the front and the two sides of the front portion of the building. An aluminum awning stretches over the counter and the two sides are enclosed with thin walls. Stools are set out during business hours along the counter and taken in at night. The kitchen area is surrounded by the counter.

The rear half of the building is the front half of the original 1929 structure, this appears to have been altered several times, including the covering over of most of its windows and the removal of an original tile roof. A hipped roof rises from the rear of the diner portion but is cut off at the rear, forming a low gable. Seismic reinforcement from Section 88 compliance is seen forming an X brace at the rear of the structure.

The rear, original portion of the building is masonry covered in stucco and presently houses storage and the restroom facility.

A small roof sign is situated at the Southeast corner of the structure, with two lit box signs. The one at the top shows the faded word "Molly's", followed by the words "Famous Coney Island Hot Dog". The lower box is a Coca-Cola sign. A lower sign along the top of the low parapet calls out "Molly's", "Since 1929", "Charbroiled Burger House", "Steak / Chicken / Chili".

Section V
Construction History and Permits

Not all of the permits have, as of yet, been located for the structure. The initial research was done under the 1605 N. Vine Street situs address, but it now appears that addresses of 1607 and 1609 N. Vine Street may have been historically used for the space as well.

The permit history reveals that this property has had a number of changes made over the years. However, the full permit history is not yet available, but what has been so far reveals that the property was originally improved as a Richfield Service Station. A 1938 over head photo shows a small structure at the front of the building that most likely was the original restaurant facility. This small structure is called out as a restaurant in the 1950 Sanborn Map at 1607 N. Vine Street. By 1954, the present structure was on site.

As of this report and the full permit history has not yet been but together. However, the photographic history at the end of this report appears to accurately portray the evolution of the diner.

The Galvin Report cites the los of integrity of the original 1929 structure and at one point states that is gone altogether. It also states that the diner portion of the building may have been built without a permit. However, that report does not appear to have followed up on the 1607 and 1609 addresses called out on the Sanborn Map. Until that is done, the conclusion of no permits for the construction of the diner is premature.

Section VI
Architectural Significance

The architectural significance of Molly's Diner must be view in the context of the period of significance that was called out in the Chattel context statement, that of a Post World War II roadside diner. In this case, the site appears to have been used as a diner as early as 1929, in a structure that was half the size of the present one, located at the Southeast corner of the property. By 1953, the diner portion occupied the entire front of the lot between the sidewalk and the original building.

In a comparison of photographs taken in 1954, 1981 and 2010, very little physical change has occurred to the actual diner configuration. Earlier photos from 1938 and 1949 show the smaller original structure that was eventually enlarged by 1953.

These small diners were traditionally simple functional structures that were designed specifically to draw attention to themselves through highly visible signage. Molly's diner is exactly that type of structure. This type of structure, while once fairly common, has been rapidly disappearing, leaving only a few remaining intact extant examples.

The conclusion of the Chattel document is that of the three extant roadside eateries remaining in Hollywood, only Molly's Diner appears to be eligible for designation as a Los Angeles Historic Cultural Monument.

Section VII
Historical Outline

The report by Teresa Grimes gives a somewhat complete early history of the property. This report will not repeat the history that concurs.

However, one area of concern is the awkward and somewhat confusing set of building permits that deal with both the subject building and the structures on Lot 10 to the immediate South. These permits indicate the construction of several different building on the site during the late 1920s, including a gas station for Richfield Oil Company, a auto service building, an auto detailing shop, a restroom building and the subject building, which was used for an office for the complex. The diner appears to have opened in front of the service building around 1929, under the name of "Mom's Place".

No permits have yet been reviewed for the 1607 or 1609 addresses that are called out in the 1950 Sanborn map.

Photographs show the diner in 1954 as "The Curb Charbroiler" with basically the same design configuration as the present "Molly's Charbroiler". The Molly's name appears to date from the 1960s.

The remainder of the lot has for many years been operated as a parking lot by Grant Parking. The original gas station on the corner was demolished in the late 1950s and a small car rental office was built at the corner of Vine and Selma in 1961. It was still operated as "Allstate Rental Car" as late as 1981. Prior to 1961 the rental office appears to have been located in the rear of the Molly's building. The rear half of the original building was subsequently removed.

Section VIII
Historical Significance

Molly's diner is to be a rare fairly intact example of a post World War II roadside diner of the type that flourished during the 1940's and early 1950s. The current structure was build near the end of that period of significance and continues to display the various character defining features of its original design.

By original design, we are referring to the 1953-54 configuration of the building, rather than the 1929 configuration.

As such, Molly's Charbroiler is emblematic of it's time and place in mid 20th Century Hollywood. It's proximity to the corner of Hollywood and Vine is also worth mentioning, as this puts Molly's Charbroiler at the historic heart of Hollywood during a time when the corner of Hollywood and Vine was looked at as the center of the Hollywood experience.

Section IX
Conclusion

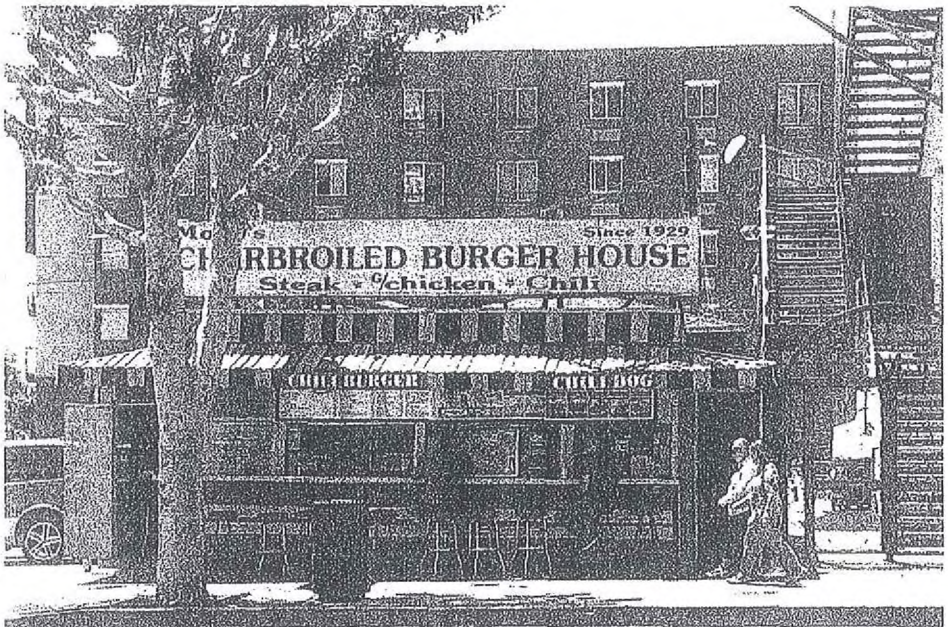
Molly's Charbroiler appears to meet at least one of the criteria for listing at the local level in that it embodies the distinctive characteristics of a type, period, or method of construction. Further research might show that it may meet one or more of the other categories dealing with social history.

This eligibility is based on the design of the building as it stood in 1953-54, rather that the 1929 configuration, with the most significant part of the building being the diner portion itself.

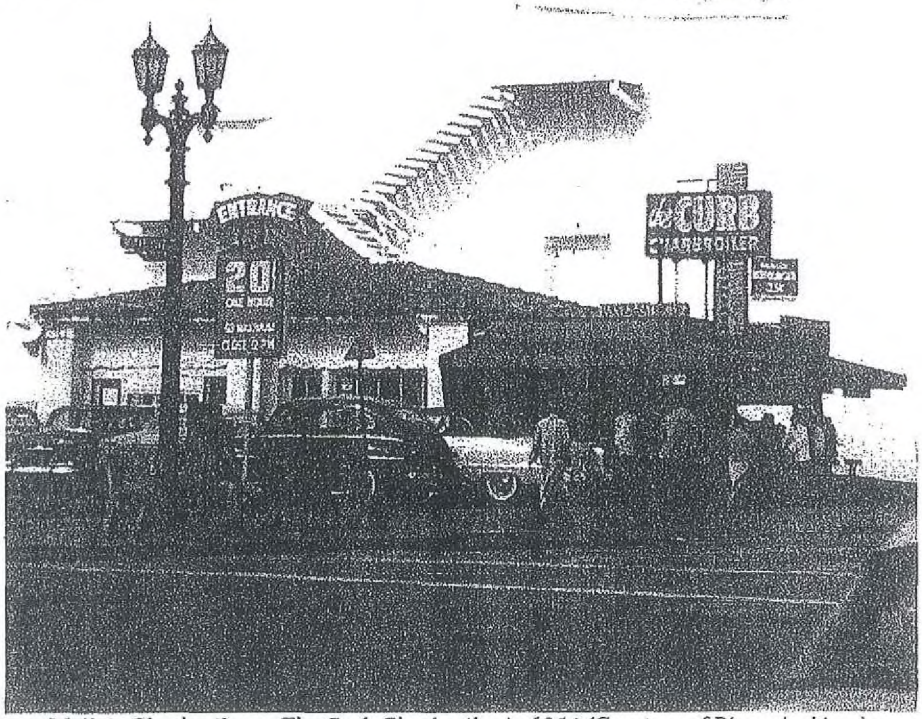
As there is a strong case for local listing of the building at building at 1605-09 N. Vine Street, therefore it should be assigned a California Register Status Code of 5S3, calling that it appears to be individually eligible for local listing through survey evaluation.

As such it meets the requirements as a historical resource in accordance with Section 15064.5 of the California Environmental Quality Act (CEQA) guidelines and must be properly evaluated as such in any environmental document required under CEQA.

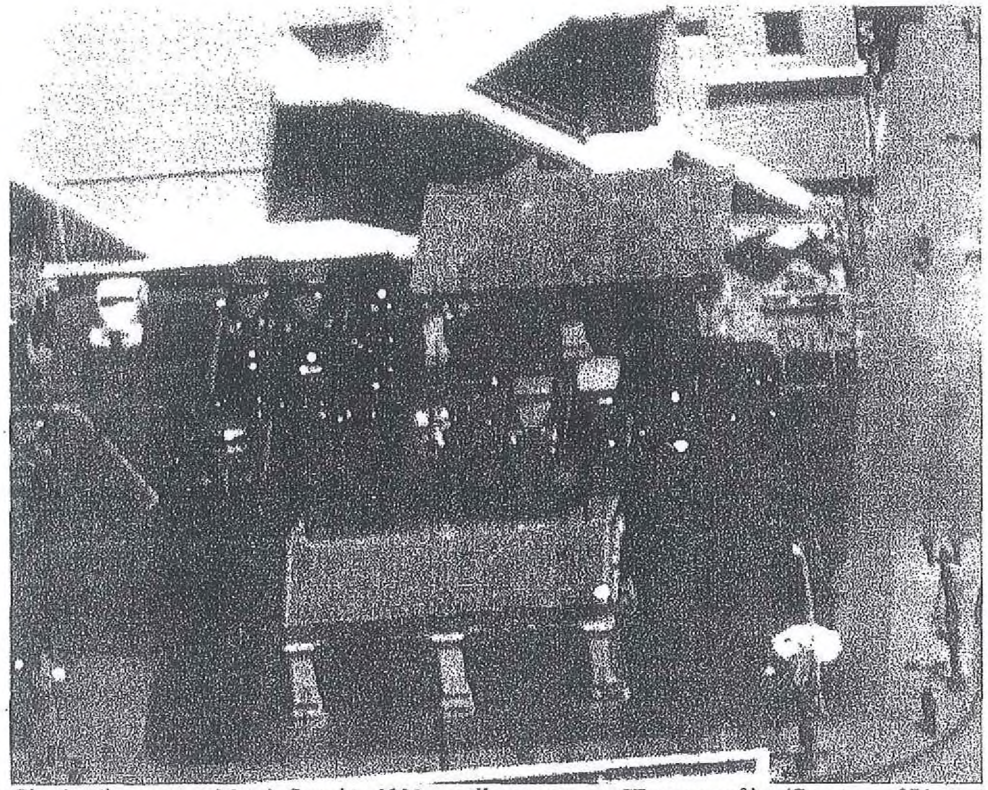
Section X
Photographs



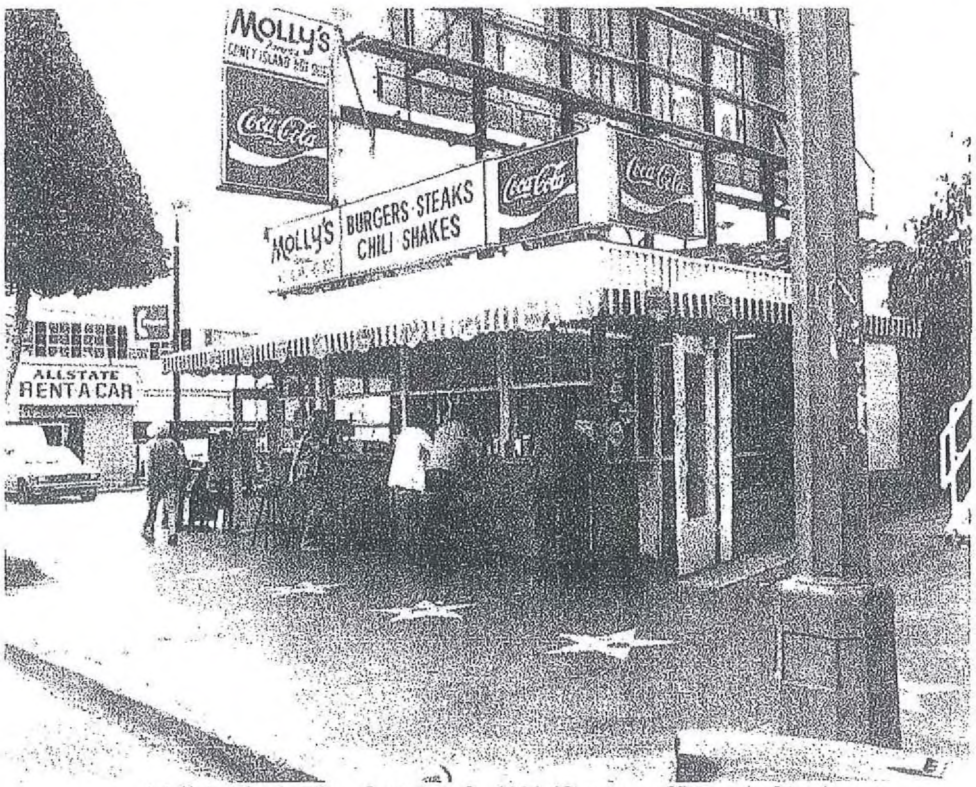
Molly's Charbroiler, front facade, June 1, 2010 (Charles J. Fisher photo)



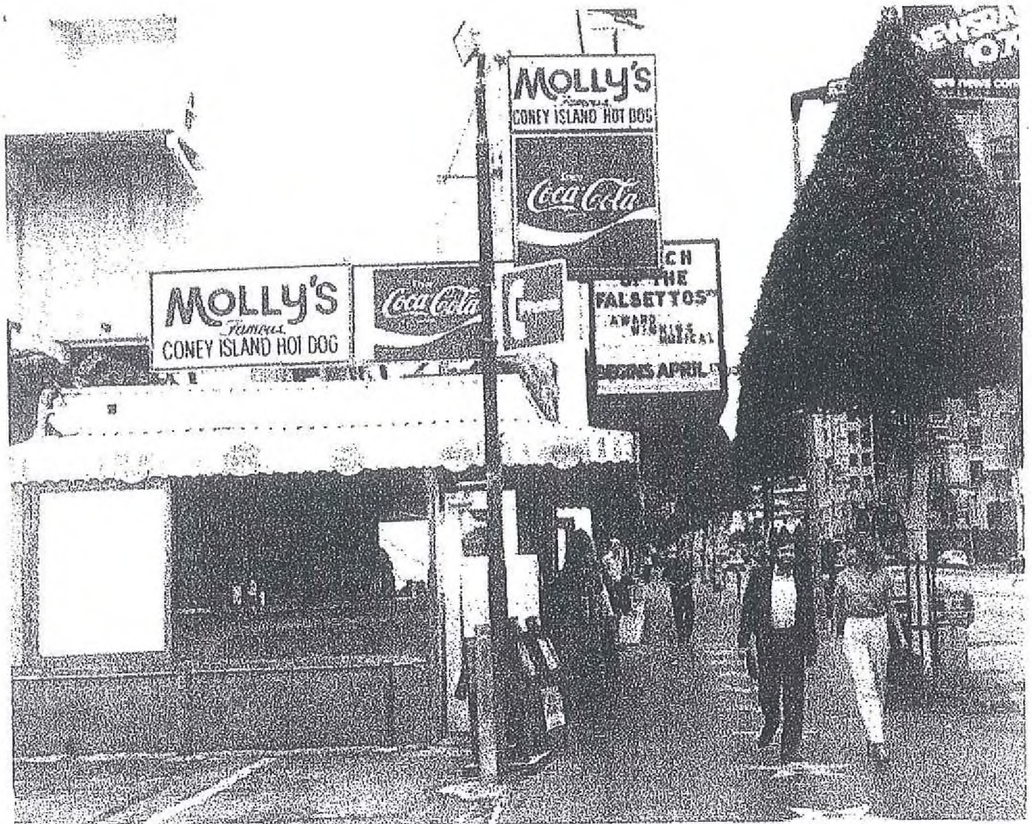
Molly's Charbroiler as The Curb Charbroiler in 1954 (Courtesy of Bison Archives)



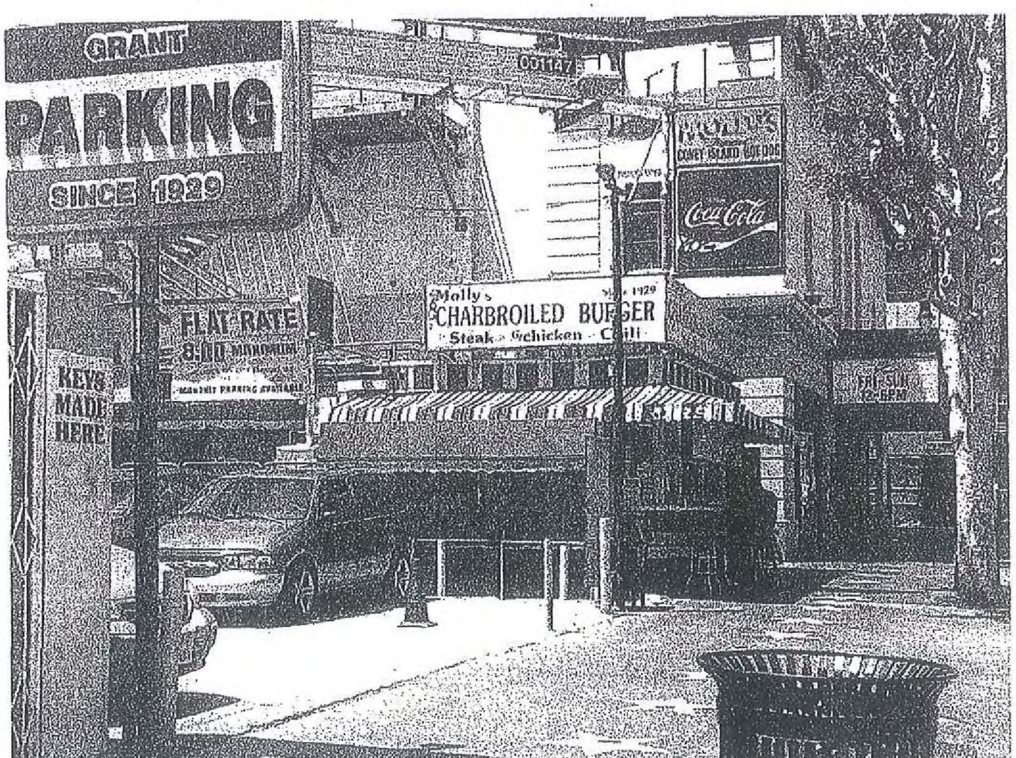
Molly's Charbroiler seen as Mom's Stand in 1938, small structure on SE corner of lot (Courtesy of Bison Archives)



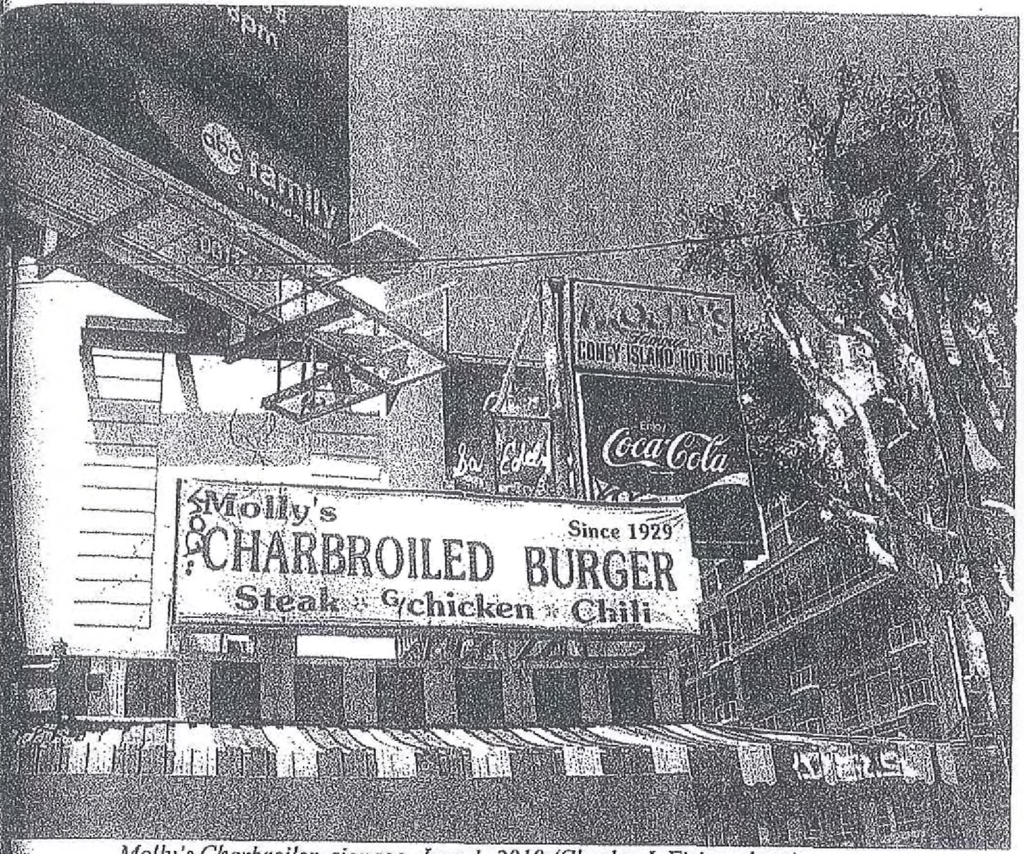
Molly's Charbroiler, ,front facade, 1981 (Courtesy of Bison Archives)



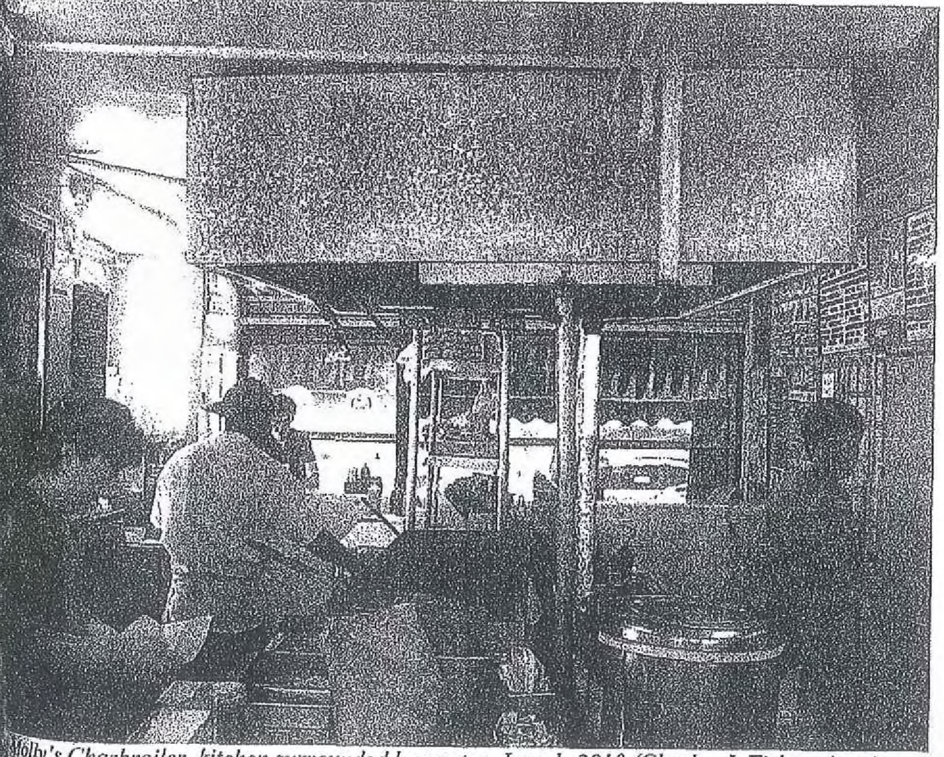
Molly's Charbroiler, South facade, 1981 (Courtesy of Bison Archives)



Molly's Charbroiler, ,South facade, June 1, 2010 (Charles J. Fisher photo)



Molly's Charbroiler, signage, June 1, 2010 (Charles J. Fisher photo)



Molly's Charbroiler, kitchen surrounded b counter, June 1, 2010 (Charles J. Fisher photo)

Section XI
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