

Grand Avenue Developer Buys Affordable Housing Project

DOWNTOWN LOS ANGELES - The Related Companies, the developer behind the \$3 billion Grand Avenue Project, is in the process of purchasing another stake in Downtown Los Angeles. However, the new acquisition is a far cry from the proposed glitzy, Frank Gehry-designed mega-development.

On Friday, Sept. 26, Related is expected to finalize the purchase of a low-income senior housing facility at 740 S. Olive St. Although he would not reveal the exact cost, Related of California President Bill Witte acknowledged that the company is paying more than the \$53 million asking price. He added that Related will put an estimated \$9 million into building renovations. The property is being sold by a partnership led by longtime Downtown developer and landlord Robert F. Maguire (who formerly helmed office giant Maguire Properties). The 12-story structure at the southern edge of the Jewelry District houses 309 units for low-income seniors. Witte said his company plans to preserve the property as affordable senior housing.

"There's no speculative value to these properties. This is purely long-term affordable housing," said Witte.

While Related is known for market-rate developments - in Downtown it built Little Tokyo's Hikari apartments, while in New York it created Manhattan's sleek Time Warner Center - it also does a brisk business in the affordable housing sector.

Related of California, the West Coast arm of the New York-based developer, has acquired and renovated more than 2,500 units of affordable housing, said Witte. Specifically, the company targets properties that, like 740 S. Olive St., have been federally subsidized through programs such as Section 8. Such buildings "can provide decent cash flow if they are reasonably sized and there's no market risk," Witte said.

Section 8, in short, allows low-income tenants to rent privately owned housing by providing federal money to cover the difference between a certain percentage of their household incomes and fair market rent. The program is overseen by the U.S. Department of Housing and Urban Development.

While Related is always on the lookout for affordable housing projects, Witte said, he was surprised when a broker alerted him about two months ago that the Downtown building was on the market.

"Other than Angelus Plaza, I wasn't even aware there was a property like this Downtown," he said. "We are not scouring Downtown; this is just an unusually good location, a good building and a large project."

Hot Property: Another feature that drew Related to the building was its 14,000 square feet of ground-floor retail space.

"While this is still kind of an evolving area for this part of Downtown, we think the retail's been underutilized," said Witte. "There will be at least some new users."

To that end, the operators of two art studios that occupy space on the ground floor of the building at below-market rates, including Los Angeles Downtown News photographer Gary Leonard, were

recently given 30 days to vacate in anticipation of the pending sale. Leonard said he is seeking a lease extension.

The biggest draw for Related, however, is the building's Section 8 status. Through the program, rents at 740 S. Olive St., which contains all one-bedroom units, range from approximately \$1,000-\$1,200 a month (including the subsidy).

"Having a rent-subsidized building is kind of a blessing in a way," said Richard Washington, vice president of business for the nonprofit Retirement Housing Foundation, an affordable senior housing provider. "You are immune to the market concerns of low-income people who may not be able to afford to pay. And you have the revenue to keep the building in relatively good shape."

Washington said that RHF also bid on the building, but lost out to Related.

"The bidding was very spirited," said Witte. "I don't think we were the high bidder, but we were viewed as the most credibly able to close in a short period of time."

Kitty Wallace, the broker at Sperry Van Ness who is handling the sale, said the building garnered 17 written offers since it went on the market barely eight weeks ago.

Javier Bitar, chief operating officer of Maguire Investments (a separate entity from Maguire Properties) said the potential buyers included several well-known, for-profit housing developers, though he would not reveal names. "It got a lot of attention," he said. "The process wasn't long."

A New Leaf: Maguire purchased 740 S. Olive St., a former office building, in 1979, said Bitar. After taking over, he relocated the property's corporate tenants and redeveloped the structure into a Section 8 senior housing facility. "It just seemed like the best use at the time," said Bitar.

In the '70s, when more federal funding was available for affordable projects and the price of real estate in Los Angeles was considerably less than today, Section 8 conversions were popular, said Washington of RHF.

"Much like you see with the new cycle of conversions, that was a cycle where hotels and office buildings were being converted in Downtown areas to new uses," he said, only instead of high-priced lofts, many were turned into affordable projects. He added, "We actually picked up several buildings recently from for-profit developers who did these conversions of older apartment buildings that were rehabbed and made affordable with Section 8."

With the Section 8 contract for 740 S. Olive St. set to expire next May, said Bitar, Maguire decided it was a good time to sell the property. Related is already negotiating with HUD to extend the contract for at least 20 years, said Witte. He expects the process to wrap up in a few months.

After closing escrow, Related plans to refinance the property using tax-exempt bonds and subsidies. The refinancing, Witte said, would carry a 55-year affordability covenant. The developer also intends to spend approximately \$30,000 per unit on building system upgrades, replacing plumbing fixtures and cabinets and other improvements.

As for the 425 residents, nobody is overly concerned about the sale, said building manager Daniel Day. He said he was heartened to hear about the competitive bidding process.

"We're very proud of this building," he said. "It's beautiful and it's perfect for seniors. We have the new Ralphs Fresh Fare, plenty of drug stores, a 7-Eleven, buses on either side of the street. People have taken an interest, and that's a great thing."