West View and the Urban Redevelopment Triple Crown

Howard Kozloff,[*] Allan Glass,[**] and Christina Calabrese[***]

INTRODUCTION

In the spring of 2014, Agora Partners and ASG Real Estate closed on the sale of a 31,000 square-foot development parcel less than one-quarter mile from a new Los Angeles Expo Line light rail transit station. The site, purchased in 2007 and sold to an affordable housing developer, came to fruition through a creative land assemblage, fractured ownership and tumultuous real estate cycles.

The case study that is set out below shows how an affordable housing transit oriented development combined with creative entrepreneurship led to a development that can truly wear the "triple crown" of values. Read on to get the details on how this project was successfully launched from the Challenge to the Financing details and Lessons Learned, despite the Great Recession intervening.

The Challenge

This project posed a challenge for the development group to identify a value-add land assemblage opportunity and proceed to controlling a 4,000 square-foot parcel that sat as the keystone piece of a larger 31,000 square-foot redevelopment site.

The Solution

The solution to the Challenge was educating adjacent landowners of the increased sales value of their properties through a co-listing arrangement, and then maintaining flexibility with buyers and providing open communication with all stakeholders throughout the six year sales process.

The Result

By considering a larger development opportunity, as opposed to valuing each property as individual income-producing assets, three landowners sold their properties well in excess of market values, and the sponsor, Agora/ASG, returned a 7.2x equity multiple (35.1% IRR) to investors.

[*] Howard Kozloff is Managing Partner of Agora Partners, a Los Angeles-based real estate investment, development and advisory firm specializing in identifying and creating value-add opportunities in urban environments.

[**] Allan Glass is President and CEO of ASG Real Estate, a brokerage and consulting firm focusing on urban redevelopment and investment property in Los Angeles County.

[***] Christina Calabrese, AICP, is an East Coast-based urban planner and architectural designer.

THE PROJECT SUMMARY

Sponsor	ACRA Holdings, LLC, a joint venture between Agora Partners and ASG Real Estate
Site address	3019 West View Avenue, Los Angeles, CA (site assemblage included 3015–3031 1/2 West View Avenue, Los Angeles—four parcels, three owners)
Site area	4,097 sf (ACRA); 31,150 sf (assemblage)
Purchase price	$460,000, plus $15,000 contingency fund (ACRA)
Sales price	$1,072,500 (ACRA)
Buyer	Regional affordable housing developer (paid a total of $3,877,500 for all parcels)

THE SPONSOR

ACRA Holdings, LLC was responsible for identifying and executing the land assemblage. The company is comprised of Agora Partners, a Los Angeles-based real estate investment, development, and advisory firm specializing in identifying and creating value-add opportunities in urban environments, led by Managing Partner Howard Kozloff; ASG Real Estate, a Los Angeles-based investment, consulting, and brokerage practice headed by President and CEO Allan Glass; and individual investors represented individually and jointly by Agora Partners and ASG Real Estate.

The assemblage included two additional property owners that controlled three parcels. ACRA approached adjacent Property Owner #1, who owned 3023–3025 1/2 West View Avenue and 3015–3017 1/2 West View Avenue for approximately 40 years. Owner #1 was a retiree from a local utility company, and these properties were his last holdings, where he acted as owner and manager.

ACRA also approached adjacent Property Owner #2, who owned 3027–3031 1/2 West View Avenue for approximately 35 years. A local business owner, he was a passive real estate owner. Once ACRA presented the co-listing opportunity to these adjacent landowners, the group collectively moved forward to sell the value-add development.

THE SITE

The West View property is a 31,150 square-foot land assemblage comprising part of a city block that is bound by South La Brea Avenue to the west; Roseland Street to the north; West View Street to the east; and West Jefferson Boulevard to the south. South La Brea Avenue and West Jefferson Boulevard are major thoroughfares connecting the property, located in the West Adams neighborhood, to north-south and east-west destinations, respectively.

Of utmost significance is the presence of a new light rail line, dubbed the Expo Line due to its alignment along Exposition Boulevard, with a station less than 1,000 feet away from the site. The Expo Line was approved when the property was purchased by ACRA, and the first phase, connecting Downtown Los Angeles to Culver City, was complete when the West View property was sold to Developer #2.

Subsequent work on the Expo Line, which is currently underway, will extend the line from Culver City to Santa Monica, thereby connecting downtown Los Angeles to the beach. While the Expo Line is a transportation project aimed at relieving traffic congestion and providing transit alternatives for lower income neighborhoods, the City of Los Angeles also viewed station development as impetus for spurring transit oriented development, or TOD.

The West Adams neighborhood is located on the southern side of the Santa Monica Freeway (Interstate 10). The neighborhood is among the highest densities for the city of Los Angeles, as well as Los Angeles County, with a tightknit urban fabric comprised of largely single-family and low to mid-rise multi-family residential units. The commercial corridors consist of mostly small-scale single-level street front retail, with less new development than was experienced by other areas of the city during the real estate upcycle leading up to the 2008 economic downturn.

One of the oldest neighborhoods in Los Angeles, the development of West Adams began at the end of the nineteenth century in line with railroad expansion, with significant development occurring between 1880 and 1925. Several areas of the neighborhood are protected historic districts, with notable examples of Victorian and Craftsman residential architecture. During this period the majority of the neighborhood population was comprised of affluent whites; as development continued, upper-class whites left West Adams for the West Side, Hollywood, and Beverly Hills, and the West Adams neighborhood was subsequently comprised of upper-class African-Americans.

By the mid-twentieth century the neighborhood was almost entirely developed. In 1960, construction of the Santa Monica Freeway divided the neighborhood, prompting a prolonged decline in property values, which began to attract young Latino families to the area. As of 2008, the majority of the neighborhood population is Latino (56.2%); 37.6% of the population is African-American, 2.4% of the population is White; 1.7% Asian; and 2.0% are of other ethnicities. The median household income is $38,209 (in 2008 dollars) compared to $56,241 countywide. Average household size is 3.1 people, which is comparable to citywide data.

PLANNING GUIDANCE

Since the mid-2000s, the City of Los Angeles has worked to shed its image as an environment of relentless sprawl. Through various planning initiatives, development incentives, and community engagement, the tenures of, first, Mayor Antonio Villaraigosa and Planning Director Gail Goldberg, and, now, Mayor Eric Garcetti, have focused on, among other initiatives, densifying portions of the city to encourage mixed-use development. With that, the West View site benefitted from three levels of planning guidance: citywide policy, community policy, and local neighborhood councils. Fortunately, the policy drivers are consistent from the top down.

Of all the policy initiatives stated by the City of Los Angeles Department of City Planning (DCP), transit-oriented development planning tops the list. For a city infamous for vehicular traffic, the priority is very high for transportation alternatives to connect residential neighborhoods, employment centers, entertainment, and recreation.

The proximity of the Expo Line to the West View site represents an emergent synergy in Los Angeles between development and transit, as the city aims to support increased density and pedestrian-oriented streets surrounding transit stations through a series of Transit Neighborhood Plans.

Furthermore, the West View property is contained within the West-Adams-Baldwin Hills-Leimert New Community Plan (NCP) prepared by the DCP, a 20-year vision for the future of the area. Initial outreach for the plan's development began in 2006, and the plan is currently in the adoption phase.

The NCP is contained within the Los Angeles Citywide General Plan, which is required by California state law as a framework for future growth and development. The Guiding Principles for the Citywide General Plan Framework Element include:

- Grow strategically
- Conserve existing residential neighborhoods
- Balance the distribution of land uses
- Enhance neighborhood character through better development standards
- Create more small parks, pedestrian districts, and public plazas
- Improve mobility and access

The West View property is identified within the West Adams NCP as part of a Community Center—a transit-oriented development area/commercial node surrounding the Expo/La Brea station. The property is equally identified within a larger multi-family residential area stretching north from the site toward I-10.

As an integral part of the neighborhood character, two of the NCP goals for multi-family residential are particularly worth noting:

- New housing that is located in a manner which reduces vehicular trips and makes it accessible to services and facilities
- A community of neighborhoods where social capital is promoted by ensuring the provision of adequate housing for all persons regardless of income, age, racial or ethnic background

Overall, the city presents a consistent message advocating for affordable, mixed-income neighborhoods that accommodate additional residents near public transit facilities, bridging transit and land use strategies from citywide policy down to neighborhood and block-level initiatives.

At the neighborhood level, representing the perspective of existing West Adams residents, the West Adams Neighborhood Council empowers residents to participate in the dialogue surrounding the future of their neighborhood. After attending a series of Council Land Use Committee meetings, ASG Real Estate was invited to serve on the committee because of established real estate knowledge and a local ownership presence (ASG is a long-time owner of a parcel a few blocks from the West View site).

The committee hears proposals from developers and architects for new projects in the neighborhood. Although the council provides only recommendations and does not have decision-making power, there was a consistent theme surfacing on behalf of fellow committee members to push for increased affordable housing in reaction to escalating rents.

When ACRA purchased the West View property, their contact with the committee increased. Mindful of committee-wide dialogue regarding affordable housing, ACRA approached an affordable housing developer to discuss the site's prime opportunity. The idea quickly gained traction with committee members, who were supportive of hearing from an affordable housing developer.

As the discussion progressed, however, the Land Use Committee of the neighborhood council elected new members. The new members no longer welcomed the project as an affordable housing opportunity, instead viewing the project sponsor and developer as neighborhood outsiders.

The shift prompted the affordable housing developer to initiate a more formal stakeholder outreach, considering appeals for senior housing. This was potentially beneficial, however, as additional funding sources are available for senior housing, and the project pro forma is equally enhanced because senior housing units are smaller, and therefore more units can be developed.

In the wake of the economic downturn, the affordable housing developer definitively pulled out of the deal due to funding difficulties and ongoing costs of due diligence. Understanding the effort undertaken in garnering stakeholder support, Developer #2, also an affordable housing developer, worked with a former employee from Developer #1 to facilitate the ongoing Neighborhood Council dialogue.

The West View property is zoned C1.5, a Limited Commercial Zone, which allows for commercial and multi-family uses as-of-right. The increased density desired by the City surrounding the Expo/La Brea station, coupled with the residents' desire for affordable senior housing, is equally served by this zoning designation, which permits one unit for every 400 square-feet of lot area with a 75′ height limit.

By contrast, adjacent properties are zoned R-2, which permits one unit for every 2,500 square-feet of lot area with a 33′ height limit. The zoning was such that a project consistent with the City's planning and development goals could be built.

VISION

Successful redevelopment projects aim to produce sites of increased value. Often there is a singular goal to:

(1) Provide a higher-quality built environment and experience,

(2) Serve a social need, or, perhaps,

(3) Act as an economic driver.

In some cases, a project is able to accomplish a sort of redevelopment "triple crown" whereby all of these goals are achieved.

The vision of the Agora/ASG partnership was both business-oriented and community-oriented. In the business sense, the principals of Agora and ASG wanted to execute a successful project that showed identification of an opportunistic investment without requiring large amounts of capital.

Because of the complexities involved in the deal—multiple owners, a vocal yet overlooked community, and a lack of entitlements—and the fact that the potential returns in gross dollars were relatively low (while a 7.2x equity multiple is exceptional, the actual dollars were low), many potential buyers were unaware of or unwilling to accept the potential. However, as a new partnership hoping to execute their first independent deal, the opportunity was compelling.

From a community development perspective, the story was equally compelling. Because the West Adams neighborhood is not typically targeted for new investment by the local real estate community, the Agora/ASG partnership recognized the opportunity to make a positive impact at a neighborhood scale.

For the community, the fact that a sizable new development was contemplated represented new community investment. Granted, such development was not welcomed by everyone (due to typical dynamics of resisting change), but the majority of the community recognized the value of such investment. Further, the project's status as an affordable housing development targeted at seniors represented a positive social impact on current neighborhood residents and allayed fears of gentrification and displacement.

By pursuing a community-identified need (affordable housing) in a location directly identified as part of specific redevelopment areas for transit and multi-family, the attainment of the "triple crown," though not immediately apparent, was in fact viable and realistic.

Although the successful execution of the deal from start to finish took longer than anticipated thanks to a global economic downturn, the vision was ultimately realized, with the added reputation-building benefit of having navigated the vagaries of an extreme real estate cycle.

CAPITAL STRUCTURE

The $475,000 purchase price for 3019 West View Avenue was reduced to $460,000 during due diligence due to issues with the roof structure that ACRA agreed to accept in exchange for a $15,000 price reduction. That credit was immediately placed in to a partnership reserve account (which later became critical to maintaining ownership through the delays).

The acquisition loan from Washington Mutual (now Chase Bank) was for $415,000 in the form of an interest only negative amortizing loan tied to prime. The rate began at 5.75% and adjusted down over time to 2.9%. The equity raise was, therefore, $60,000, an amount that the Agora/ASG partnership deemed feasible.

The $60,000 equity requirement was broken in to three $20,000 groups, with Agora and ASG each responsible for raising $20,000 and a third investor identified prior to the purchase contributing $20,000. The Agora/ASG partnership did not collect any asset management fees or promotes. Rather, every dollar in the deal was treated *pari passu*.

The $20,000 tranches included funds from Agora and ASG personally, as well as small increments from "friends and family" investors. These smaller investment opportunities served as a gateway investment for these investors, who have since invested larger sums with the sponsors.

Loan documentation through Washington Mutual was, of course, formalized. But, partnership documentation between Agora, ASG, and the third investor was done on a simple handshake to avoid what were deemed unnecessary legal and accounting costs of establishing formal partnership documentation.

Further, ACRA Holdings, LLC, the entity that took ownership of the property and signed for the loan, was formed with the principal of ASG Real Estate as the only member. In other words, had the property been foreclosed upon (which was a distinct possibility at the depths of the recession), ACRA and ASG would have taken the credit hit.

Conversely, had profits not been distributed *pari passu*, Agora and the third investor would have had no documentation supporting their claims to the distributions. Agreements were made entirely on trust, certainly an important component of a partnership, but not a prudent way to structure an investment deal, typically. Fortunately, no conflicts arose, but, in hindsight, the potential for such conflicts should have been avoided at the onset through proper documentation.

PROJECT TIMELINE

In February of 2007, ACRA Holdings, LLC, a joint venture between Agora Partners and ASG Real Estate, purchased 3019 West View Avenue, a 4,097 square-foot site occupied by two, 1-story bungalow units located in the West Adams neighborhood of Los Angeles.

Two months later, after ACRA approached the adjacent owners and proposed selling the properties together as a development site, the other owners signed a listing agreement. The opportunity represented 31,150 sf of land and a total of thirteen units: three units at 3015–3017 West View Avenue, four units at 3021–3023 West View Avenue, and six units at 3027–3031 1/2 West View Avenue.

By July, the properties were put under contract by a local affordable housing developer (Developer #1) for $3.525 million, with the intent of closing in January 2008. ACRA's property, 3019 West View Avenue, was to be sold for $975,000. After releasing a $20,000 deposit in October, the Buyer's due diligence period was extended to allow for additional neighborhood meetings to garner stakeholder support.

While the project had been steadily progressing, by December of 2007, Developer #1 pulled out of the deal in the wake of the economic downturn, coupled with a lack of consistent community stakeholder support. The developer attempted to return to the deal a year later, seeking funding through the Community Redevelopment Agency of Los Angeles (CRA/LA), though the boundaries of the CRA/LA Project Areas did not include the West View site. The developer released a $5,000 deposit in January and February of 2009 before pulling out of the deal definitively in March. Therefore, the total released funds to ACRA were $30,000.

From 2009–2011, ACRA applied the deposit money to cover operating costs for the property. They stayed solvent, also using the contingency fund established at the initial purchase. Still, the fate of the project was uncertain and the risk of compromising their investment was great due to continued operating costs and debt obligations, deepening economic woes, and without another buyer in sight.

By December 2011, another affordable housing developer, Developer #2, approached ACRA to purchase the property for the same price as the previous developer ($3.525 million) with a September 2012 closing. As per the terms of the signed agreement, an initial deposit of $30,000 was to be released after ninety days, with stipulations for an additional deposit release of $25,000 following receipt of a funding commitment from the Los Angeles Housing and Community Investment Department (HCIDLA); and a third deposit of $100,000 following confirmation of 9% tax credits from the California Tax Credit Allocation Committee (CTCAC).

After granting an extension option for three months at $10,000, Developer #2 released its initial deposit and signed Amendment #1 to the contract, which changed the closing date from September 2012 to the earlier of thirty days following receipt of the CTCAC tax credit or August 2013.

In July of 2013, within a month of the schedule closing date (as per Amendment #1), Amendment #2 to the contract eliminated the $25,000 second deposit, stipulating that the $100,000 deposit be received upon Los Angeles City Council approval of the HCIDLA funding commitment and not later than October 2013. The buyer paid $5,000 in addition to the purchase price (purchase price would now be $980,000), to be immediately released.

By October 2013, absent Developer #2's commitment to close due to wavering community support and lingering funding uncertainty, an increasingly recovering market combined with the buyer's desire to hold on to the deal prompted Amendment #3 to the contract, whereby the buyer released another $10,000 in addition to the purchase price (purchase price would now be $990,000), plus $40,000 applicable to the purchase price.

The combined $50,000 replaced the $100,000 scheduled release from Amendment #2, and required 10% over and above the sales price at closing following an appraisal of the property (final sale price to be at a 10% premium to the original $975,000 price, or $1,072,500, which revealed additional value above the contract price against which the buyer could borrow).

In February 2014, seven years after Agora Partners and ASG Real Estate purchased 3019 West View Avenue, the Buyer closed on the purchase. Though entitlements are not in place, the project has strong support from the Los Angeles City Council. Approvals are currently being processed for approximately 100,000 gross square feet of residential area (inclusive of common areas and parking) and 64 units of affordable senior housing, including special services for returning veterans.

PROJECT RETURNS

Project returns, especially for ACRA, were excellent and on target based on initial project pro formas. However, the investment duration was considerably longer than anticipated. When ACRA initially purchased the property, project duration was anticipated to last approximately eighteen months.

In the end, the final sale of the project occurred in February 2014, a full seven years after ACRA's initial purchase. Fortunately, due to initial project credit that served as a reserve fund, and released deposits from Developer #1, there were no additional out-of-pocket carrying costs. And, as a result of negotiations with Developer #2, the sales price was increased 10% in exchange for extensions.

ACRA had a total of $475,000 invested in 3019 West View Avenue, with $60,000 in total equity. The final sales price of $1,072,500 represented a gross profit of $597,500, a 125% return on investment. After accounting for sales costs and, more significantly, satisfying the terms of the initial loan, the value of which had increased due to negative amortization over an extended period of time, remaining funds were just under $500,000.

After return of equity, the profit was approximately $435,000, a multiple of 7.2 times initial equity. Although the project took much longer than anticipated, the internal rate of return was a still-healthy 35.1%. Such project returns are excellent in any environment, and even more so in the current economy.

OBSERVATIONS AND LESSONS LEARNED

The Agora/ASG partnership had a vision for both the business and community development approaches to the West View investment opportunity. As such, there were numerous observations and lessons learned from both perspectives during and subsequent to the acquisition, assemblage, and disposition processes.

First. From the standpoint of entrepreneurial developers, the decision to forego formal partnership documentation is definitely not recommended. Fortunately, this mistake did not create any issues or result in diminished profits or soured relationships. However, despite all parties entering with the best intentions, formal partnership documentation is important as there are invariably, as here, numerous unforeseen events that can unfold in the personal and business lives of involved parties.

Secondly, the West View investment is not a large dollar volume opportunity in the larger context of real estate. But, it did entail multiple levels of complexities, time delays, and community controversy that belied its relatively small capital commitment. These twists and turns are not altogether uncommon, and, in fact, are not necessarily relative to project size. In other words, a project of much larger dollar value would have faced the same issues, but the actual dollars returned would have been greater. From a business perspective, the sponsors' time would have been better spent had there been a bigger dollar payout.

Despite this, however, there was a legitimate desire to pursue an opportunity within the grasp of the sponsors' limited capital resources. The need to balance the desire to build a track record with the reality that a small project yields small dollars, even if percentage returns or multiples are large, was a calculated decision. If the timeline had not been protracted, the small cap opportunity would have made more sense and the profits could have more quickly rolled in to a subsequent opportunity.

And yet, only certain factors are realistically in the control of any investor, regardless of size, scope, or intent. Timing is everything, and the scheduled closing with Developer #1 occurred at a time when the worldwide economy collapsed during the Great Recession. Even strong locations that are aligned with citywide planning and development goals, that have simple and straightforward capital structures, and that do not have large sums of money at risk, are subject to the whims and unpredictability of larger markets. Even small projects can suffer.

From a community development standpoint, the observations and realities are equally stark, and equally important to assess post-disposition. The overarching takeaway, however simply stated, is that community development is challenging, even when the project delivers to the community a collectively expressed need or desire.

Asynchronous opinions expressed in a forum where all voices are heard inevitably yield disgruntled stakeholders. No matter how small of a minority the dissenters may represent, the public process usually accommodates continued discord instead of productively advancing a dialogue, inevitably stalling decision-making and project momentum.

Dissenters may oppose a project based simply on an objection to change, and, as was also the case with West View, due to perceptions of outsiders interfering in the community. Regardless of efforts, these perceptions may be difficult to overcome. In the case of West View, the sponsors and developers believed they had political support, but still found difficulty receiving that support publicly and at the appropriate and necessary times.

Political inconsistencies certainly contribute to the uncertainties of an unpredictable real estate project. The key is to remain patient, yet persistent, and to identify early on key community members that will support the project publicly. In the case of West View, that persistence paid off to deliver a land assemblage for affordable housing development while creating outsized returns to the sponsor and investors.