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Executive Director's

Report to the

Board of Harbor Commissioners

**DATE: NOVEMBER 19, 2024**

**FROM: WATERFRONT & COMMERCIAL REAL ESTATE**

**SUBJECT: RESOLUTION NO. - APPROVE THE SEVENTH AMENDMENT AND CONSENT TO AN ASSIGNMENT FOR SECURITY PURPOSES TO OCEANVIEW COMMERCIAL MORTGAGE FINANCE, LLC AS A LEASEHOLD MORTGAGEE FOR LEASE NO. 915 WITH SAN PEDRO PUBLIC MARKET, LLC**

**SUMMARY:**

Staff requests approval of the Seventh Amendment to Lease No. 915 and consent to an assignment for security purposes to a leasehold mortgagee (Consent) for Lease No. 915 between the City of Los Angeles Harbor Department (Harbor Department) and San Pedro Public Market LLC (SPPM). The leasehold mortgage proposed for Consent is between SPPM and Oceanview Commercial Mortgage Finance, LLC (Oceanview). The Lease is a 66-year agreement with SPPM for the West Harbor development sited on approximately 40 acres in the area formerly known as Ports O' Call in San Pedro. SPPM is required to secure financing as part of its obligations under the Lease. SPPM closed financing in November 2022 and project construction commenced in the first quarter of 2023. In November 2022, SPPM secured \$90M in third-party financing for the construction of buildings 1A and 1B, as well as the southern open space from two lenders: Petros PACE Finance (\$55M) and Parkview Financial REIT (Parkview) (\$35M). SPPM now intends to raise a total of \$26.5 million in new debt to finance additional phases of their project. Their proposed capital raise will include refinancing their current senior construction loan with Parkview including increasing the loan amount by up to \$26.5 million and up to \$61.5 million in a new senior construction loan with Oceanview.

The proposed Consent to transfer to Oceanview as a leasehold mortgagee is not anticipated to have a financial impact on the Harbor Department.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the proposed Seventh Amendment to Lease No. 915 with San Pedro Public Market LLC,
3. Direct the Board Secretary to transmit the Seventh Amendment to Lease No. 915 to the City Council pursuant to Charter Section 607;

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4. Authorize the Executive Director to execute and the Board Secretary to attest to the Seventh Amendment to Lease No. 915 upon approval by the Los Angeles City Council;
5. Authorize the Executive Director to execute and the Board Secretary to attest to the Consent to Hypothecation and Agreement with Oceanview Commercial Mortgage Finance, LLC upon approval of the Seventh Amendment by City Council and the loan has been conditionally approved indicated by the opening of escrow; and
6. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:**

Background

From November 2019 to August 2022 the Lease was amended five times for various reasons but primarily to address project schedule and financing milestones and adjustments to each party's construction obligations. SPPM closed financing in November 2022 and project construction commenced in the first quarter of 2023. In November 2022, SPPM secured \$90M in third-party financing for the construction of buildings 1A and 1B, as well as the southern open space from two lenders: Petros PACE Finance (\$55M) and Parkview Financial REIT (Parkview) (\$35M).

On October 3, 2024, the Board approved the sixth amendment to the Lease pertaining to reimbursements for unforeseen conditions, existing contamination and environmentally regulated material, updated costs for completed City improvements and inclusion of various Lease exhibits.

The entire planned project includes both City and tenant improvements. City Improvements which are substantially complete include street projects adjacent to and intersecting the project, a town square, 30-foot-wide promenade spanning one mile delivered in two separate phases, a 1,200 linear feet long dock for recreational and commercial vessels and approximately \$2 million allowance for tenant requested improvements. SPPM's project includes three primary buildings (1A, 1B and 1C), the north park area which includes larger ground lease pads, the southern open space, waterside berthing improvements, hardscape and landscape spanning the entire 40-acre site and the Amphitheatre which is currently under environmental review.

Project Status

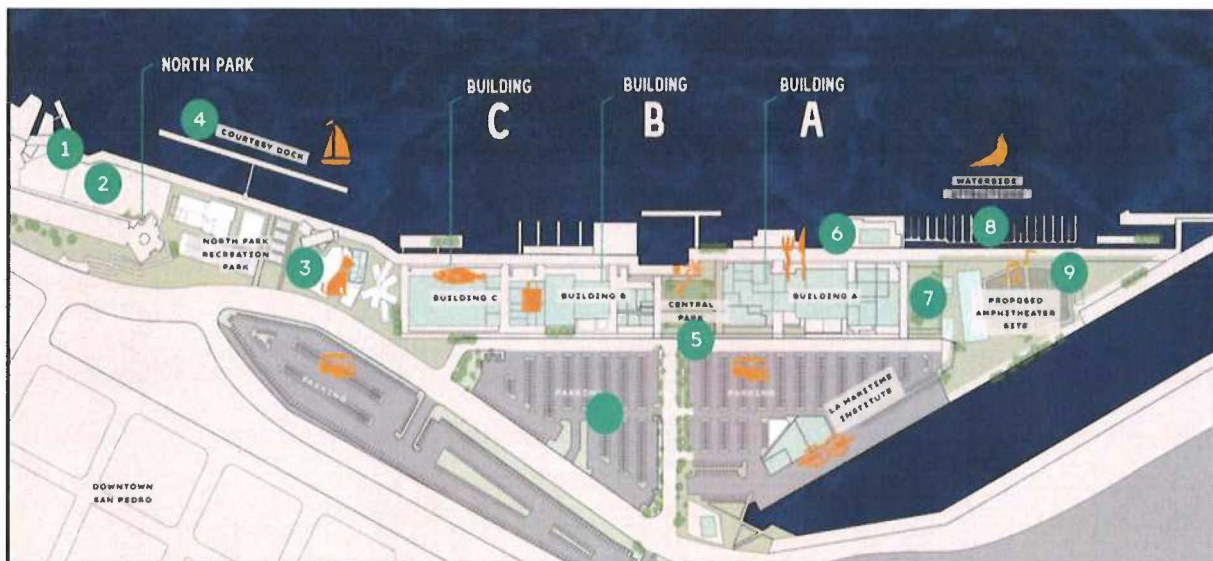
Positive leasing momentum, including various executed leases in the areas comprising North Park and Building 1C (a permanent building that will house San Pedro Fish Market), prompted the project to expand the scope of infrastructure work. SPPM has completed the core and shell of Building 1A and has received a temporary certificate of occupancy for that building. Building 1B is currently under construction and expected to be

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completed in July 2025. The originally financed improvements of building 1A and 1B are 80 percent leased.

As a result of positive project momentum and an improved debt financing market, SPPM is proposing to refinance existing debt from Parkview and adding additional construction debt through a conventional construction loan and additional PACE financing. In total SPPM plans to add \$26.5 million in construction debt to complete all currently planned phases without demobilizing current construction activity.

Phases 1A and 1B financing funded approximately 124,000 square feet of new buildings and the new financing will provide approximately 90,000 square feet of additional leasable space in addition to the Amphitheatre improvements that are under environmental assessment. All planned tenant improvement phases are depicted in the site plan below.



PROJECT OVERVIEW

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These results directly benefit the Harbor Department's investment in the project and our larger LA Waterfront investment.

### Proposed Financing Transaction

This transaction may occur through two separate debt facilities: 1) a conventional construction loan through Oceanview in the amount of up to \$61.5 that will remove the existing \$35 million Parkview loan and add additional construction funding which is the subject of this staff report; and 2) a potential second transaction for a PACE loan through a PACE lender in the amount of \$10 million which may be requested in a separate staff report. Currently SPPM is requesting authorization to enter into a new construction loan with Oceanview to cover a total loan amount of up to \$61.5 million. In either scenario, the final loan amount will be in a fixed amount of loan proceeds at closing of the loan.

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Transaction 1 (Oceanview conventional construction loan \$61.5 to 51.5 million) will require the Board to consent to an assignment for security purposes to a Leasehold Mortgagee through a consent to hypothecation and agreement document referenced as Exhibit N-3 which will incorporate into the Lease with the Seventh Amendment.

This transaction will also require a current estoppel certificate substantially in the form of Exhibit U to be executed by the Executive Director prior to closing financing. The Lease contemplates issuance of an Estoppel Certificate in response to a request by any party in an agreed upon form. An Estoppel Certificate is a document that verifies certain statements of fact which is relied upon by parties as part of completing a financing or other transfer transaction. The Lease includes the form of Estoppel Certificate, and the Executive Director is delegated the authority to approve the final Estoppel Certificate provided there is no material difference from the form approved by the Board.

Further, Lease 915 requires that the Lessee's loan contains the following condition: a) Monies borrowed must be in a fixed amount. New borrowings or refinancings require further Board approval. b) The collateral covered by the security instrument shall cover only Lessee's leasehold interest and interest in the Lessee's Improvements on the Premises, not the interests of City Improvements. c) Nothing in the instrument which creates the security interest in the Leasehold Mortgagee shall amend, modify or otherwise affect the rights of City under this Lease or any guaranty.

The Oceanview construction loan conditions have been confirmed based on the Harbor Department's review of the signed preliminary term sheet and letter of interest and the transfer notice submitted by SPPM on November 21, 2024. The terms provided below represent the preliminary terms reviewed as of November 21, 2024, and these preliminary terms are subject to change pending the close of this loan.

Oceanview's loan is a conventional construction loan securing rights through a deed of trust on the leasehold interest. The Oceanview financing includes funding in the amount of up to \$61,500,000 through a Deed of Trust which will encumber SPPM's entire estate, right, title and interests in the Lease and the premises. This loan is subordinate to the existing Petros PACE financing as that financing is secured through tax assessment.

The proposed transaction with Oceanview will increase debt up to a total of \$116.5 million and maintain SPPM's equity at \$78.25 million. Oceanview's indirect (parent) holding company, Oceanview Holdings, Ltd. is 100% owned by an investment fund, the general partner of which is a subsidiary of Bayview Asset Management LLC that was initially founded in 1993 and is headquartered in Coral Gables, FL, with additional asset management offices in New York, London, Geneva, and Luxembourg, and loan servicing and origination affiliates in seven U.S. states and Milan, Italy. As of September 2024, Bayview's fund managed \$19.7 billion in assets.

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**ENVIRONMENTAL ASSESSMENT:**

The proposed actions are approval of the Seventh Amendment and the Consent to Hypothecation and Agreement with Oceanview Commercial Mortgage Finance, LLC, which are an administrative activities. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

SPPM is aware that the consent provided herein does not obligate City to take any action to adopt or approve any CEQA document or to approve elements thereof, or any lease, permit or entitlement related to any project elements described herein. Project elements shall be subject to the discretionary review and approval of all underlying entitlements and approvals to the extent required by the law and by City's Charter, Administrative Code, policies, rules and regulations.

**FINANCIAL IMPACT:**


The consent to transfer for security purposes to Oceanview as a Leasehold Mortgagee under Lease No. 915 is administrative in nature. The action is not anticipated to have an additional financial impact on the Harbor Department.

**CITY ATTORNEY:**


The proposed Seventh Amendment has been reviewed and approved as to form and legality by the Office of the City Attorney.

**TRANSMITTAL:**

1. Seventh Amendment

  
MICHAEL J. GALVIN  
Director of Waterfront & Commercial Real Estate

FIS Approval:   
CA Approval:   
  
DINA ARYAN-ZAHLAN  
Deputy Executive Director

APPROVED:  
  
EUGENE D. SEROKA  
Executive Director

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