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De La Hoya TKO'd Over Sears Project

By DANIEL MILLER - 1/7/2008

Los Angeles Business Journal Staff

Boxing star Oscar De La Hoya has thrown in the towel in his attempt to purchase the landmark Sears building site in Boyle Heights, which was to be redeveloped into a mixed-use retail and residential project.

The deal fell apart Dec. 31 when De La Hoya and his joint venture partners did not release their initial deposit of \$2 million to owner MJW Investments Inc. MJW put the 22-acre site back on the market last week.

De La Hoya, who has moved into real estate development as he steps away from boxing, had hoped the project would help revitalize the low-income neighborhood where he grew up.

The deal was hammered out in the summer, and escrow on the property had been extended from October to the end of December to give the buyers more time to attract retail tenants to the project, which is at Olympic Boulevard and Soto Street.

De La Hoya's company, Golden Boy Enterprises LLC, in conjunction with two Southern California developers, Manarino Realty and Highridge Partners Inc., agreed in July to purchase the property for more than \$70 million. The deal was set to close by Feb. 15.

Mark Weinstein, president and founder of MJW Investments, said that De La Hoya and the other buyers hinted in mid-December that they might not release the deposit because they wanted to discuss a reduction in the sale price and needed five more months to work on the deal. The request was turned down.

"They wanted more time to tie up all loose ends," said Weinstein. "In a perfect world I'd like that too."

Richard Moody, the chief operating officer of Santa Monica-based MJW, said his company wanted to move forward with other possible buyers – especially given the declining real estate market.

"We aren't going to take the additional risk of four to five months and find out they need more time when we have other buyers interested in the property," Moody said.

Representatives from Golden Boy, Manarino Realty and Highridge Partners, either could not be reached for comment or declined to speak about the deal.

The setback at least temporarily kills off one of the most important redevelopment projects in the East Los Angeles area – and it couldn't come at a worse time. The credit crunch has already roughed up the local single-family housing market and is now slowing larger multifamily and mixed-use projects.

The Sears site has been the target of several failed redevelopment attempts. MJW purchased the property for \$40 million in 2004 with the intent of pursuing its own redevelopment project, but never broke ground, instead deciding to sell the property. Previously Weinstein said he wanted to devote more time to other interests.

Weinstein said that he does not think the tightening of lending requirements played a role in De La Hoya's cold feet, though commercial real estate brokers across the region said that deals are having a harder time coming together as lenders raise interest rates and demand air-tight repayment plans.

"These guys have great relationships with lenders and the community," Weinstein said. "There is no question that the credit markets make things more expensive in the short run but I don't think they were particularly worried about the housing."

Retail Delays

Maria Cabildo, executive director of the East Los Angeles Community Corp., a nonprofit affordable housing developer, said she had little doubt the collapse of the real estate market had caused a re-evaluation of the project.

"There still is a demand for a quality housing product on the eastside, but it's not what it was three years ago when MJW was first working on this project," said Cabildo. "Probably the market has changed since July when they (the buyers) looked at it."

Still, it appears that the delay was mostly centered on the project's retail component, which would have been extensive. Though the long-closed Sears, Roebuck & Co. distribution center at the 1.8 million-square-foot complex is dilapidated, the Sears retail store there still does good business.

Weinstein's old plans called for a reuse of the complex – with its 1927 warehouse and iconic tower – with the construction of 300 to 800 housing units and almost 1 million square feet of retail. De La Hoya was said to have a similar plan.

"They needed more time to secure retail partners and that wasn't part of our agreement," Moody said.

The new owners also would have worked with Sears Holding Corp. to build a new Sears store at the property.

The buyers' planned retail development, which would have been between 700,000 and 900,000 square feet, also needed city subsidies in order to pencil out economically.

Weinstein said the city was on board with the plan. With a dearth of good retail options in Boyle Heights, it was anticipated the site would do big business.

"In development deals with significant user interest we are not having trouble finding debt," said Richard Rizika of CB Richard Ellis Group Inc., a retail expert who was representing both sides of the deal along with broker Mark Tarczynski. "The retail helps to create additional security for the mixed-use project."

However, the plan had not drawn universal support from the community. Cabildo said her group was concerned with the "big box commercial" nature of the retail plans and had hoped for a project that better catered to the "needs of the eastside of L.A."

Cabildo said she sought discussions with De La Hoya's development group about potential changes in the project but never got a response. Her community corporation is redeveloping East L.A.'s Mariachi Hotel into a 51-unit affordable housing development.

Moving forward

Now that the project is back on the market, Weinstein said that his company has already met with potential buyers and joint venture partners. He said that he'd like to make a decision on what to do with the property in the next 30 days and added that some of the current interested parties are groups that have been "following the property all along."

Weinstein declined to name the interested parties but finalists in the bidding last year were said to have included CIM Group Inc., Fifteen Group and Capri Capital Advisors LLC.

Still, the real estate downturn and a looming recession may make a new deal hard to come by – especially given the development adage that lower-income neighborhoods are the last to benefit from real estate booms and often the first to see projects ditched when market conditions go south.

David Lizarraga, who heads Telacu Development Corp., a large community development organization based in East L.A., said any project at the Sears site could take years to accomplish.

"The successful redevelopment of the Sears building is a highly complex matter. I believe it requires more capital, more imagination, and more patience than most developers realize, or are willing and able to invest," he said in an e-mail interview. "It also requires the careful balancing of the community's needs in order to obtain the necessary community support."

But Weinstein said that he is optimistic and that various community members in Boyle Heights have called him to ask that he stay involved in the project. In August, Weinstein, who built downtown's Santee Village loft project, told the Business Journal that he was selling the property because he had come to a personal crossroads and realized it was time to move on.

But now he's considering taking a "more active role" in the project. "They've gotten me out of retirement in Boyle Heights," Weinstein said.

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