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Court-Appointed Receiver
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By M. Gonzalez, Deputy Clerk

6 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
7 **COUNTY OF LOS ANGELES**

8 CITY OF LOS ANGELES, a municipal
9 corporation,

10 Petitioner,

11 v.

12 CREST APARTMENTS LP; FLOR 401
LOFTS LP; SENATOR 2015 LP; SP7
13 APARTMENTS LP; SKID ROW CENTRAL
1 LP; NEW PERSHING APARTMENTS LP;
14 SIMONE 2015 LP; THE SIX VETERANS
HOUSING LP; STAR APARTMENTS LP;
15 649 LOFTS LP; SKID ROW SOUTHEAST 1
LP; ABBEY APARTMENTS LP; CHARLES
16 COBB APARTMENTS LP; BOYD HOTEL
LIMITED PARTNERSHIP; ST. GEORGE
17 AFFORDABLE HOUSING LIMITED
PARTNERSHIP; DEWEY HOTEL LP;
18 EDWARD HOTEL LIMITED
PARTNERSHIP; HART LIMITED
19 PARTNERSHIP; LINCOLN HOTEL SRO
LIMITED PARTNERSHIP; NEW CARVER
20 APARTMENTS LP; NEW GENESIS
APARTMENTS LP; PRODUCE
21 APARTMENTS LIMITED PARTNERSHIP;
RAINBOW APARTMENTS LP; SANBORN
22 HOTEL LIMITED PARTNERSHIP;
CRESCENT FIFTH STREET PARTNERS;
23 ST. MARK'S FIFTH STREET PARTNERS
LP; DOES 1-100,
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Respondents.
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Case No. 23STCP01011

**THIRD REPORT OF RECEIVER;
DECLARATION OF MARK ADAMS**

Judge: Hon. Mitchell L. Beckloff
Dept.: 86

Hearing:

Date: June 15, 2023
Time: 2:00 p.m.

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1 **I. INTRODUCTION**

2 This is the Third Report of Receiver (“Report”) of California Receivership Group, the
3 Court-appointed Receiver (the “Receiver”) of twenty-nine receivership properties¹ (“the
4 Properties”) through its President Mark Adams, in the above-referenced case. This Report is
5 filed in advance of the Status Conference scheduled for June 15, 2023 at 2:00 p.m.

6 This Report was originally intended as an update to “Phase II” of the Receiver’s
7 rehabilitation plan after the Court approved it and an additional \$3,493,187 in funding at the May
8 25, 2023 hearing. However, events over the last few weeks have made it impossible to obtain
9 that funding— not just at the requisite interest rate, but completely. As a result, this Report
10 addresses the only relevant issue at this point: the receivership is quite literally starving for cash.
11 That notwithstanding, the parties’ request the receivership provide significant reporting, while
12 also demanding monumental amounts of work, but are then unwilling to allow any deviation
13 (however minor) from preset timelines,² which is unrealistic, but most importantly, the
14 receivership is expected to make this happen without obtaining Court-approved financing to
15 cover both the approved Phase II Plan and additional work outside of its scope.

16 A receivership is tasked with rehabilitating health and safety violations by creating a
17 rehabilitation plan, asking the Court for funding and approval of that plan, and executing the plan
18 once approval is received. However, a receivership cannot operate without sufficient funds; nor
19 can it demand vendors to repair and construct without a source for payment, or facilitate safe

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21 ¹ This Court appointed California Receivership Group, acting through me its president Mark Adams (“Receiver”), as
22 Receiver for the following Properties that comprise the Skid Row Housing Trust: Weldon Hotel Apartments
23 (Assessor’s Parcel Number [“APN”] 5148-018-027); The Six (APN 5141-025-027); Star Apartments (APN 5148-
24 023-02); St Mark’s Hotel (APN 5147-009-004); St George Hotel Apartments (APN 5161-026-00); SP7 Apartments
25 (APN 5148-025-024); Simon Hotel Apartments (APN 5148-012-016); Senator Hotel Apartments (APN 5144-015-
26 054); New Pershing Apartments (APN 5148-019-020); Boyd Hotel Apartments (APN 5148-002-007); Flor 401
27 Lofts (APN 5148-024-026); Hart Hotel (APN 5147-009-017); Charles Cobb Apartments (APN 5148-012-021);
28 Sanborn Hotel Apartments (APN 5148-019-007); Lincoln Hotel (APN 5147-016-020 and 5147-016-021); Crescent
Hotel (APN 5147-009-003); Rainbow Apartments (APN 5148-025-008 and 5148-025-013); San Pedro Apartments
(APN 5148-025-009); Produce Hotel Apartments (APN 5147-035-001); Edward Hotel Apartments (APN 5147-010-
002); Dewey Hotel Apartments (APN 5144-015-046); Rossmore Apartments (APN 5147-015-040); Olympia Hotel
Apartments (APN 5147-034-016); Crest Apartments (APN 2328-008-074); Senator Hotel (APN 5144-015-054);
New Carver Apartments (APN 5134-014-019 and 5134-014-12); Abbey Apartments (APN 5148-025-005, 5148-
025-006, 5148-025-007, and 5148-025-017); 649 Lofts (APN 5148-023-031 and 5148-023-032); New Genesis
Apartments (APN 5148-009-015); and Las Americas Hotel Apartments (APN 5164-009-012) (collectively, the
“Properties”).

² The Receiver began receiving notices to repair and abate with deadlines of work completion from items ranging
from insect screens to more serious issues such as electrical and roofing work, which will require Court approval.

1 work conditions for on-site residents without salaried management and on-site staffing positions.
2 This receivership **requires funding** and resources; it does not have the capacity of FEMA or the
3 National Guard, and thus cannot be expected to expedite its response-time as if it is FEMA or the
4 National Guard—at least, it cannot without (at the very least) being able to fund its vendors and
5 obtain manpower to perform comparably to a natural disaster response. Yet, the demands placed
6 on the Receiver, as it relates to the minimal funding available to address 29 Properties, and over
7 2,000 units (some of which have active tenancies with individuals that are entitled to government
8 benefits and other protections), is verging on the inconceivable. That is, to fix violations
9 comprehensively, while simultaneously reporting on the status of every newfound issue
10 informally (outside of Court requirements), but critically, ***without*** the necessary funding, thus
11 without manpower,³ has been challenging—but more so, as the parties demand progress on
12 faster and faster deadlines with fewer and fewer resources available. Consequently, the Receiver
13 will address what he perceives to be the reasons for this state of affairs and will then make
14 recommendations to the Court on a plan of action going forward.

16 **II. RECEIVER’S ACCOMPLISHMENTS SINCE MAY 25, 2023 HEARING**

17 Below is a general overview of the accomplishments of the receivership since the May
18 25, 2023 hearing. The Receiver began providing the parties a weekly report of activities
19 beginning June 4, 2023 at the request of the City of Los Angeles (“City”).⁴ To be both cost-
20 effective and equally thorough, this overview, and the subsequent June Monthly Report to the
21 Court, will include many of those same details.⁵ Should the parties wish to save costs, the

23 ³ The idea of governmental resources to assist the Receiver has been “tossed around” as a cheaper alternative, but
24 the Receiver has not been provided with these options substantively – at one point, a few mental health case workers
25 sent by the City’s Department of Health Services were on-site for one or two hours during an inspection and left
26 without completing inspections. Department of Health Services arranges case workers / providers. These case
workers were scheduled to assist the Receiver’s staff as recently as June 8, 2023 with a full day of inspections of
approximately eighty (80) units, but when the Receiver’s staff arrived, no one was there. The Receiver attempted to
make contact to have them arrive, but again, no one came.

27 ⁴ The Receiver elected to share with all parties for transparency.

28 ⁵ The Court directed its Receiver to file monthly narrative reports by property, which the Receiver is already in the
process of preparing. The Court did not direct its Receiver to supply weekly reports to the City or the remaining
parties. However, in an effort to appease all, and to showcase the abundance of daily activities required to operate,
maintain, and repair 29 properties, the Receiver is accommodating these requests.

1 Receiver is willing to proceed with monthly narrative reports to the Court alone, and focus its
2 receivership resources on the rehabilitation efforts.

3 There have been significant strides with staffing, construction, and fire safety system
4 repairs. As the Court and the parties will recall, the receivership walked into the appointment
5 with an exodus of the former management and on-site staffing system by Skid Row Housing
6 Trust. Thus, the Receiver was tasked with creating and implementing a whole new management
7 and on-site staffing company. In addition to the over fifty (50) hires in May 2023, June 2023 has
8 included ten (10) clerks added by Chrysalis Center for the properties, particularly where property
9 managers are not yet stationed and/or are still pending in the hiring process. New Hope
10 Receivership has nine (10) new hires: four property managers (St. George, New Pershing,
11 Edward, and Olympia), five maintenance technicians (Sanborn, SP7, Weldon, Crescent, and
12 Simon), and one compliance manager. A regional property supervisor will also begin on June 26,
13 2023. There are also a total of seven (7) offers pending background checks and/or drug tests for
14 three property managers (Simone, Sanborn and Charles Cobb, with offers for the two latter out
15 June 9, 2023), two maintenance technicians (Senator and Sanborn), and two evening
16 coordinators are outstanding.

17 The receivership has been actively working on fire safety system repairs with a focus on
18 sites actively on “fire watch.” In June 2023, several buildings have completed preliminary testing
19 and repairs, and several buildings have work scheduled now through June 14, 2023. The Star
20 Hotel Apartments, the SP7 Apartments, the Edward Apartments, the Crescent Apartments, and
21 the George Apartments have all had fire safety system repair inspections and preliminary work
22 completed. Reports from the fire system vendors were received by the receivership, and some
23 buildings are simply awaiting the fire repair vendor to verify with the Brycer system (the ‘gold
24 standard’ system of fire watch) to determine next steps. The Abbey Apartments, the Boyd
25 Apartments, the Hart Hotel Apartments, New Pershing Apartments, Olympia Apartments, and
26 the Simone Apartments have work scheduled for the first few weeks of June 2023. The total
27 funding received for fire safety system repairs work, specifically for the testing phase, was
28 approximately \$130,000. It should be noted that almost all of the buildings have fire safety

1 system repair needs. Unfortunately, to address these issues requires more work than a simpler
2 repair like a fire extinguisher replacement.

3 With the Court’s approval of the Receiver’s Phase II Plan, construction is underway.
4 Since the May 25, 2023 hearing, eight (8) abatement units have been completely repaired and are
5 set for sign-off inspection by the City on June 12, 2023 (which has been communicated to the
6 relevant authorities).⁶ Inspections of all units at the Rainbow Apartments, St. Mark’s Hotel
7 apartments, and the Crescent Hotel apartments were completed in the first week of June 2023,
8 and inspections of the abatement units in the Senator Hotel Apartments and the New Genesis
9 Hotel Apartments were completed the second week of June 2023.

10 The eight abatement units, located in the Rainbow Hotel Apartments, comprise the
11 abatement units that can be addressed by the receivership with the funding the Court approved
12 for Phase II. Major construction repair, such as electrical, roofing, and/or plumbing repairs, have
13 not yet been approved by the Court. To emphasize the issue faced by the Receiver, the
14 receivership is receiving pressure to abate all abatement units (and generally all units) as rapidly
15 as possible. However, doing so is impossible without Court approval and funding.

16 As a very real example, the Rainbow Apartments requires roofing repairs. An estimate of
17 approximately \$165,000 was received, which will allow the Rainbow Apartments’ top floor units
18 to be deemed abated. In addition, three units have been deemed “destroyed units” at the Rainbow
19 Apartments, and require full rehabilitation. A ballpark estimate of \$35,000 a unit is required to
20 abate those units. The roofing estimate of \$165,000, and the \$105,000 for three destroyed units is
21 not yet in the Receiver’s budget. Therefore, the work cannot be done despite the demands for the
22 abatement of all abatement units. Only \$3,000 a unit for 378 units was approved by the Court.

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28 ⁶ These eight abatement units comprise the abatement units that can be addressed by the receivership with the
funding the Court approved and without major construction repairs, for example, electrical, re-roof, plumbing. As an
example, re-roofing will require approximately \$165,000 at the Rainbow Apartments and is required to abate many
of the top floor units.

1 **III. THIS RECEIVERSHIP IS STARVING FOR CASH**

2 The Court will recall at the last hearing the number of parties, including the City, who
3 weighed in with their opinions that the interest rate on the Receiver’s borrowings had to be 10%
4 or less.⁷ No one provided any market basis for those opinions, and by funding that installment at
5 15%, the Receiver was acknowledging current market conditions.⁸ The Receiver, however,
6 respects this Court’s limitation as to the interest rate in concert with the parties’ urgings.

7 In reflecting on that hearing thereafter, the Receiver realized that some of the interested
8 parties in this matter that consist of major banks and financial institutions in the United States
9 had weighed in with their opinions to the Court. Therefore, on Saturday, May 27, 2023, the
10 Receiver emailed all the parties in the case (see **Exhibit 1** to the Declaration of Mark Adams),
11 requesting that any financial institution that had weighed in should consider a participation
12 interest in the total financing of \$5.2 million at 10% or less.

13 Of the sixty-two (62) invitees, only one party responded at all, and this response indicated
14 a possible willingness to fund but only for their property in the Properties portfolio and without
15 any interest rate commitment (see **Exhibit 1**, pg. 3).

16 This singular response (out of a possible 62 responses) essentially ignored the basis of the
17 Court’s constructed receivership case, as well as the funding request approved by the Court in
18 the Additional Supplement to the Second Report of Receiver (at pg. 3). This Court created a
19 receivership of a collective 29 properties, and the Receiver is performing under its duties set
20 forth by the Court accordingly. How, for example, could the budget item for IT Support be so
21 allocated? Or insurance? Or even property management costs? It is submitted at this time, they
22 cannot.⁹

23 ⁷ Parenthetically, it is simply not true that I promised at the beginning of this receivership that all financings would
24 be at or less than 10%. What is true is that after having a serious amount of pressure applied, I did arrange 10%
25 financing on the first \$500,000 by leaning on a lender to the effect that if they wanted any chance at getting later
26 installments of the loan on any basis, the first installment had to be at 10%. The Court will recall that it was several
27 weeks after the Court approved the addition of \$1.3 million to cover the April 7-May 17 expenses, i.e. after that
28 timeframe had elapsed and over \$1.3 million in invoices became due, before I could fund that installment. And as
noted, the Receiver has been unable to arrange funding for the additional \$3,493,187.

⁸ The Court will recall that it directed the Receiver to return to the Court for permission to borrow at a rate higher
than 10% if that is what market conditions dictated.

⁹ It is important to note how urgent the Receiver’s funding request was. In other words, if the Receiver had the
luxury of four to six months to break out all the budgeted costs to each property after the Court un-winded its
collective portfolio directive, then maybe it could be done. But this was, and is, money needed now. Later, of

1 The main point is this: all but one of the parties who so strongly asserted that the
2 borrowing rate had to be 10% or less simply ignored the Receiver’s request that they consider
3 offer financing at or below 10% (or offer financing at all). Again, these are some of the major
4 financial institutions in the United States, as well as the City of Los Angeles, and with all of
5 these resources, there was no movement.¹⁰ The silence/lack of response speaks volumes.

6 Thus, a 10% or less interest rate being unavailable from any of the parties who told the
7 Court that such a limitation was a requirement, or outside of those parties, is one reason the
8 Receiver has been unable to obtain the additional financing to pay the bills.¹¹

9 A second reason that the prospect of obtaining financing has been chilled as the City
10 appears to be negotiating to release at least six (6) of the higher value properties in this portfolio
11 from the receivership (the nominating party, namely the City, has kept the Receiver uninformed
12 and outside of those negotiations). The Receiver received a May 8, 2023 letter on that subject
13 from Kyle Arndt, counsel for National Equity Funding (see **Exhibit 3**). The Receiver was
14 obliged to alert any potential lender with whom he was discussing financing with that it was
15 possible that six of the most properties with the most equity in the portfolio could be removed
16 from the cross-collateralization pool. The uncertainty in and of itself caused a number of lender
17 prospects to withdraw from further consideration, which is a rational response.

18 What is worse, the Receiver received reports (still verifying) that some limited partners’
19 agents were already acting as if their properties have been removed from the receivership: most
20 alarmingly, units are purportedly being rented by their property management companies, and
21 painting bids being sought and obtained for exterior painting by the same. Such conduct, if true,
22 constitutes a very clear and willful violation of this Court’s appointment order (which bars
23 anyone but the Receiver from renting, collecting rents, or doing remediation work at the
24 properties).¹² The Receiver directed his security team to verify the reports received and will then

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26 course, in the monthly accountings, the Receiver could allocate costs in that way. But this is not achievable on such
27 a prospective basis. It is also challenging to borrow funding without a collective portfolio due to varying differences
28 in each of the buildings.

¹⁰ The old colloquial saying about individuals (and institutions) “putting their money where their mouth is” seems very apropos in this situation.

¹¹ The Declaration of Mark Adams will describe all of the efforts made to find a lender to make the \$3,493,187 loan at whatever rate would be available.

¹² In some cases, not applicable here, so-called “rent-skimming” is a criminal violation of California law.

1 make appropriate recommendations to the Court.

2 The bottom line is that all of the funding the Receiver raised to date, namely \$1.8 million,
3 was cross-collateralized by 29 properties, not the remaining 23 after 6 of the better properties are
4 removed. Trying to borrow an additional \$3,493,187 on a degraded collateral pool appears
5 impossible to accomplish on the market. ¹³ The Receiver cannot and will not collect rent until
6 California law allows. ¹⁴ Without rental income, the Properties cannot pay for themselves either.

7 Another important reason that funding the \$3,493,187 has been impossible to obtain is
8 the risk that any lender faces as a result of being involved in this transaction. This receivership
9 has a very high public profile and has consistently received negative coverage from a
10 compromised journalist. The Receiver cannot complain about such coverage. But one must ask
11 oneself: why would any lender want to expose themselves to the possibility of public
12 chastisement, rebuke, derision via the same kind of press coverage? The answer of course is that
13 they do not and, unless something changes, they will not.

14 The final reason the Receiver has been unable to fund the \$3,493,187 is the overall
15 reporting in the media about the Receiver's standing with the Court. Of course, every lender
16 utilized by the Receiver over the last twenty-three (23) years has, at the end of the day, relied on
17 the Receiver's credibility and the endorsement of his appointing judges. However, when there is
18 a whispering campaign going on (or worse, public flogging of a court-appointed receiver), any
19 lender is going to worry about who will actually be in charge of assuring the repayment of their
20 loan. ¹⁵

21 So, now to the future.

22 _____
23 ¹³ The Receiver also highlights for the Court and for the parties that a removal of collateral from the cross-
24 collateralization pool would constitute an Event of Default under my existing loan which would allow my lender to
commence a foreclosure to the severe detriment to the underlying lenders and tax credit investors.

25 ¹⁴ On or about May 31, 2023, Beach Front Property Management delivered 3 Day Notices to Pay Rent or quit to
26 approximately 439 tenants in the various properties. This was done without the knowledge of or authorization from
the Receiver, and was a serious error. On June 5, 2023, the Receiver had a letter distributed to correct the
27 information and confirm to tenants what the Receiver had previously represented to the Court and to the parties,
namely that no tenant will be evicted solely because of failure to pay rent during the term of the receivership
(Exhibit 2).

28 ¹⁵ Certainly, the Receiver acknowledges the right of anyone to comment publicly on any serious errors committed
by anyone on the Receiver's team of agents and vendors. And that has definitely happened in this case as recently as
June 2023. But as the parties all know, the particular error committed without the Receiver's approval was corrected
– it was disavowed immediately by the Receiver and in a letter to each resident distributed the next business day.

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IV. RECEIVER’S RECOMMENDATION

If the Receiver cannot fund \$3,493,187 million immediately, the Receiver will be required to cancel all security, alert the New Hope Receivership Group that the next paycheck will be their last one, and begin to wind down all aspects of this receivership. All of this Court’s efforts to get the Properties into a system towards compliance will be for naught because the cooperation is lacking. Certainly, this cannot be a result that any responsible person would support.

The Court has the widest possible discretion in these health and safety receiverships, see *City of Santa Monica v. Gonzalez* (2008) 43 Cal.4th 905 and therefore, theoretically, the Court could order one or more parties to provide this funding. But that is not the Receiver’s request to its Court. The Receiver has never asked any Court in over three hundred (300) cases over twenty-three (23) years to issue such an order. The reason is that the core value of all that work and time has been that Properties should pay their own cost of repair. That is the case here. The Receiver has generated over \$55,000,000 in mortgage lending over the decades and he has spoken to several hard money lenders who are likely to be persuaded to make the loan. However, those lenders need something from this Court.

The Receiver asks the Court to reassure potential lenders that the Court is standing behind its Receiver, that it is the credibility of the Court that they have lent and will lend against, and that the collateral they lent against will remain available as protection for their multi-million investment which no party to this litigation was willing to make.¹⁶

For the reasons stated above, the Court should provide instruction to the Receiver on either the financing of the current loan with reassurances, or instruct the Receiver to begin winding down security, staffing and vendor work and to set a Status Conference in 30 days.

Respectfully submitted,

Dated: June 8, 2023



Mark Adams
California Receivership Group

¹⁶ Indeed, due to all of the events of the last few weeks it is not completely certain that a loan at 15% can be obtained. Again, a lender would now they could face public tainting by lending to a Skid Row project.