

Lafayette Hotel: from woe to wonder

By **KATHERINE CONNOR**

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A hotel that boasts Bob Hope as its first guest, with a pool designed by Johnny Weissmuller, who played Tarzan in the 1930s and '40s, and where a scene from "Top Gun" was filmed should have no trouble keeping its doors open, right?

As Jay Wentz, principal of **JCG Development** learned, this was far from the case for the Lafayette Hotel in San Diego's North Park.

"The bottom line is we really shouldn't be here today," Wentz said at a San Diego/Tijuana Urban Land Institute luncheon Sept. 24 at the hotel on El Cajon Boulevard. "We shouldn't be sitting in this room but for the grace of God, a team that wouldn't quit, a redevelopment agency that was helpful, a lender and some investors that stepped in and up for an asset in a failing hospitality market, even though it only had the slightest wisp of recovery, and the fact of New Market Tax Credits and historic property credits, this property would be boarded up or owned by someone else."

The nearly 70-year-old hotel, steeped in Hollywood and San Diego history, was built by Larry Imig in 1946. Dubbed Imig Manor, it served as a getaway for celebrities including Hope and Ava Gardner. It was bought by San Diego Chargers owner Conrad Hilton in the 1950s, when it still had a nightclub, 24 shops, four restaurants and a pool.

The 1960s saw the Lafayette play host to the Chargers' offices, but then the construction of Interstate 8 in Mission Valley led to a sharp decrease in clientele, and several decades of the hotel changing hands.

"In 2004, we bought the hotel from Lennar [Homes]," Wentz said. "They had it in escrow and they were going to scrape it. And Toni Atkins, then-City Councilwoman Toni Atkins, said 'I will chain myself to the columns of the front before they tear this hotel down.'"

While that wasn't necessary, it did take some serious sacrifice and belief on the part of Wentz, his business partner and investors, to get the Lafayette back into the shape it's in today.

"For about 7½ years, from 2004 when we bought it, to 2011, it was a tale of woe," Wentz said. "And we perfected the art of hanging on. For the last couple and a half years, we've gotten to the point where it's beginning to be more a tale of wonder."

Woe is an appropriately dramatic word, as the hotel at one point was accruing \$70,000 of debt a month, and was worth only 50 percent of the loans against it, which Wentz and his partner had personal guarantees on.

To make matters worse, construction of the Three Gorges Dam in China dramatically increased the price of steel and concrete right when construction on one version of the property modernization began, forcing Wentz to switch gears to a renovation of the existing building. Work on this plan had just gotten underway when the Great Recession hit, adding insult to injury.

In one of many efforts to secure funding for the project, in 2009 the Lafayette team tried to get the hotel on the National Register of Historic Places, and after 18 months was successful. This opened the door for a much-needed \$1.35 million in the form of Historic Tax Credit equity.

The Lafayette also snagged nearly \$2.5 million in redevelopment agency funds right as the agency was on its way out. This was less than a third of the funding needed, but Wentz said he'll always have a "debt of gratitude" to



Courtesy photo

The Olympic-sized pool was designed by Johnny Weissmuller.

Janice Weinrick, head of San Diego's redevelopment agency, as well as Todd Gloria and then-Mayor Jerry Sanders, for their belief in the project.

New Market Tax Credits also played a vital role in funding the \$29.6 million undertaking, ultimately kicking in \$6.4 million. The hotel sits in a new market-designated red zone, and was able to use two Community Development Entities on the application for the credits, with a \$10 million allocation from **Chelsea Investment Corp.** and \$15 million from **Clearinghouse CDFI**, combining for enough backing to secure the NMTC funding.

Projects need to demonstrate lack of other funding options to qualify for the New Market Credits, but Wentz said they, and the Historical Tax Credits, were incredibly beneficial.

"It was very easy to show in this hotel that there was nobody but my partner and I that were going to put any money into this in the condition it was in, and we had a list of probably 150 lenders who said 'Thank you, but no thank you,'" he said.

"The beauty of New Market Tax Credits and Historical Tax Credits, as I've come to find out, is that it's structured as debt, but turns into equity at the end of the delivery period. It's a negotiation with each investor, but what we were able to structure here is we have over \$8 million of equity that was capitalized here through these two programs, on a \$29 million transaction, and we have to pay back a very, very small piece of that at the end of seven years once those tax credits are delivered. So in that way, as a developer, they're extremely powerful, the exit strategy."

Additionally, eight refrigerator-sized fuel cell units on the premises convert natural gas into electricity, the thermal byproduct of which heats the Olympic-sized pool, which San Diegan Florence Chadwick practiced in before her English Channel swim in 1950.

Wentz said the renovation team also worked with SDG&E on efficiency upgrades, earning the highest award given by the state on historic property upgrades. This not only saves the hotel 35 percent on the electric bill and another

\$1,000 a month on heating the pool, but contributed to roughly \$1.2 million in federal rebates and tax incentives used in the financing.

The final funding components came in the form of \$1.6 million in deferred development and general contractor fees, and a \$17.4 million loan from **Dunham and Associates**. Closing the deal took 5½ months longer than expected, due to the complicated nature of working with Community Development Entities, which left the renovation crew substantially shorted for work time.

"We were supposed to have a year to do the rehab on the property, it was a substantial rehab," Wentz said. "We ended up having 150 days to do the rehab, including building a full-service restaurant. We ended up literally living here and working here and we got the final fire department and health department sign-off on Dec. 29," two days before the promised completion date of Dec. 31, 2011.

The team included John Grady of **Monfric Inc.** as the contractor, **Arcadia Group** as the architects, and Tara Hammacher of **Historic Consultants** and Wendy Tinsley Becker of **Urbana Preservation & Planning** as historic consultants.

The Lafayette Hotel now has 131 rooms, two bars, a restaurant, underground parking, and 15,000 square feet of meeting space in addition to the pool, which is not only for guests, but local residents and community groups as well.

Wentz said he makes a point of ensuring the local community feels the positive effects of the hotel, opening the pool to local families and donating space to community groups, among other things. He said the Lafayette Hotel is on the upswing now, and it's thanks in large part to New Market Tax Credits.

"The program appears to have bipartisan support in Congress, probably one of the few things that both parties agree on these days, but it creates jobs and it revitalizes neighborhoods," he said. "It's a powerful tool. It's very complicated, but to have it in our development tool bag now is allowing us to look at a number of projects that wouldn't pencil any other way."