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CITY-OWNED RESIDENTIAL PROPERTIES AND IMPLEMENTATION OF THE DISPOSITION OF THE CITY'S SINGLE-FAMILY RESIDENTIAL PORTFOLIO

The Department of General Services (GSD), Real Estate Services Division, submits this report to recommend and implement a disposition process to sell the City's remaining single-family residential properties located in Playa del Rey in Council District 11 (CD 11). The City currently owns five single-family residences that have been operated as rental properties for nearly three decades following their acquisition in 1996.

GSD proposes a process to allow the existing tenants of the occupied properties the right of first refusal to purchase the property they currently occupy at fair market value. Current market values will be established through independent appraisals obtained by GSD.

Should a tenant decline to purchase the property at current fair market value, GSD will terminate the month-to-month residential lease agreement, have the property vacated by all tenants, and thereafter market the property for sale through a competitive process.

BACKGROUND

In 1996, the Los Angeles City Council approved a series of settlement agreements that resulted in the City's acquisition of six single-family residential properties located in Playa del Rey. The properties sustained structural damage attributed to soil subsidence allegedly caused by construction of the North Outfall Sewer more than 70 years earlier. The acquisitions were funded through the Sewer Construction and Maintenance (SCM) Fund to resolve litigation and claims arising from the damage.

Following acquisition, the City retained ownership of the residences, completed required improvements, and leased them on a month-to-month basis in recognition of the City's intention to sell these properties. Over time, one property was sold, leaving five remaining City-owned residences. Findings were made and approved by the City Council for a direct sale to the existing tenant for the one that was sold.

Nearly 30 years have passed since acquisition. The original purpose for acquiring the residences has been fulfilled, and continued ownership and management of residential rental properties is not consistent with GSD's operational mission or the efficient administration of City real estate assets. GSD's Real Estate Services Division's core mission is in relation to real assets required for municipal use. Moreover, general fund dollars have been expended to do repairs when there are health and safety concerns at the properties.

CURRENT RESIDENTIAL PORTFOLIO

Single Family Homes, Playa Del Rey	
Property	Current Status
8152 Zitola Terrace	Occupied
8156 Zitola Terrace	Vacant
8163 Zitola Terrace	Occupied
8127 Delgany Avenue	Occupied
8217 Rees Street	Occupied

CURRENT CONDITIONS

The residential portfolio has experienced significant deferred maintenance and increasing operational challenges associated with aging residential structures. Existing conditions include deteriorated roofing systems, plumbing failures, outdated electrical systems, water intrusion, mold and moisture damage, pest infestations, structural deterioration, and other deficiencies.

Several of the residences require substantial capital investment. Deferred maintenance liabilities continue to increase annually, resulting in significant financial exposure for the City.

RESIDENTIAL LEASE AGREEMENTS

The existing residential lease agreements were executed many years ago and contain provisions requiring tenants to perform substantially all maintenance and repairs to the leased premises in exchange for below-market rental rates.

Operationally, however, the City historically administered these leases by maintaining a limited residential repair fund to address minor maintenance issues and, when funding was available, undertaking stand-alone larger capital improvement projects or deferred maintenance items on an as-needed basis. This administrative practice was intended to preserve the City's residential assets and habitability and was not intended to modify or waive the maintenance obligations established under the lease agreements.

The leases also contain provisions allowing for the recovery of attorney's fees in the event of litigation. Accordingly, attorney's fee provisions are no longer included in the City's standard lease agreements.

It has since been determined that the maintenance provisions are inconsistent with current California residential landlord-tenant law, which places responsibility upon property owners to maintain habitable residential premises. Continued enforcement of the existing lease agreements without substantial revision of the leases may expose the City to increased liability, including contractually authorized attorney fees and court costs.

To compound matters, rents were set decades ago and were below-market even then in recognition of the tenant's responsibility to maintain. The lease agreements also do not include any annual escalation. Despite such substantially below-market rents, several tenants currently have outstanding rental balances owed to the City.

DISCUSSION

Unlike municipal real estate assets typically administered by GSD, residential property management requires specialized expertise involving California landlord-tenant law, habitability requirements, emergency maintenance, relocation obligations, code enforcement, rent collection, unlawful detainer proceedings, and ongoing litigation management.

GSD is not staffed to administer a long-term residential housing program nor should it expend staff resources on a portfolio of properties that serves no municipal use. Continued ownership of these residences requires increasing expenditures for maintenance, repairs, legal services, code compliance, environmental remediation, and property management that are outside GSD's core mission.

Disposition of the residential portfolio will eliminate the City's long-term maintenance obligations, reduce legal and financial exposure, and return the properties to productive private ownership that provides incremental tax revenue from property taxes and proceeds returning to the SCM Special Fund.

To implement the disposition process, GSD proposes the following actions:

- Obtain current independent fair market appraisals for each residence, if one has not already been completed.
- Provide each current tenant a right of first refusal to purchase the residence they occupy at the independently appraised fair market value.
 - *Note: the fair market value accounts for the current condition of the property.*
- Allow tenants 30 days to exercise their purchase option in writing at fair market value.
- If a tenant elects not to purchase the residence, terminate the existing residential lease agreement and have the properties vacated in accordance with applicable law to permanently remove the properties from the rental market.
- Prepare each property for disposition, including any necessary legal, title, or environmental review.
- Market and sell any property not purchased by the tenant through a competitive process.

RENTAL ARREARAGES

Each occupied residence currently has outstanding rental balances owed to the City. Although collection efforts have been undertaken, the continued accumulation of unpaid rent, coupled with increasing maintenance obligations, has created significant financial and administrative challenges.

PROPERTY STATUSES

The following summarizes the current status of each property and proposed process. Additional financial information, including current rental balances, maintenance costs, and appraisal values may be provided when available.

8152 Zitola Terrace

- Occupied
- Residential lease since July 1, 2014
- Appraisal in process with estimate completion by August 14, 2026
- Offer right of first refusal to purchase upon completion of appraisal
- If declined, proceed with lease termination and public sale

8156 Zitola Terrace

- Vacant
- Obtain appraisal
- Prepare property for immediate public sale

8163 Zitola Terrace

- Occupied
- Residential lease since January 23, 2008
- Appraisal completed June 2, 2026
- Right of first refusal offered on June 18, 2026
- If declined, proceed with lease termination and public sale

8127 Delgany Avenue

- Occupied
- Residential lease since November 15, 2002
- Obtain appraisal
- Offer right of first refusal to purchase upon completion of appraisal
- If declined, proceed with lease termination and public sale

8217 Rees Street

- Occupied
- Residential lease since January 1, 2006
- Obtain appraisal
- Offer right of first refusal to purchase upon completion of appraisal
- If declined, proceed with lease termination and public sale

FISCAL IMPACT

The sale of these properties will have no impact on the General Fund, as all proceeds will be returned to the SCM Fund. Although appraisal, title, marketing, and transaction costs will be incurred during the disposition process, these costs are expected to be offset by proceeds generated from the sale of the properties.

Conversely, retaining the residential portfolio will impose ongoing General Fund obligations for maintenance, repairs, code compliance, legal services, and property management. Increasing deferred maintenance liabilities necessitate substantial capital investment to preserve these assets.

Disposition will eliminate these future obligations and mitigate long-term financial and legal exposure.

RECOMMENDATION

That the Municipal Facilities Committee:

1. Direct the Department of General Services to obtain independent fair market appraisals for each residential property, if a recent appraisal has not yet been completed.
2. Authorize GSD to provide each existing tenant 30 days to respond to the City's written offer to purchase the residence they occupy at the independently appraised fair market value.
3. Authorize GSD to terminate residential lease agreements and vacate the properties in accordance with applicable law, 60 days following a tenant's declination to purchase at fair market value, to permanently remove the assets from the rental market.
4. Authorize GSD to market and sell any property not purchased by the existing tenant through a competitive process.
5. Authorize the General Manager, or designee, to execute all documents and take all actions necessary to implement the approved disposition of the City's residential portfolio.

 for
Tony M. Royster
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