

RESOLUTION NO. 2015-\_\_\_\_\_

**A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO D4 VINELAND, LLC AND/OR REAL ESTATE HOLDING COMPANY TO BE FORMED.**

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated September 23, 2015, for use of Second Generation Enterprise Zone Assistance Funds for the following project: **Economic Development Loan to D4 Vineland, LLC and/or Real Estate Holding Company to be formed;** and

WHEREAS, it is considered to be in the best interest of the City of Vineland and the community in particular that Second Generation Enterprise Zone Assistance Funds be utilized for the above-mentioned project; now, therefore,

BE IT RESOLVED by the City Council of the City of Vineland that said Council does hereby approve the use of Second Generation Enterprise Zone Assistance Funds for the following project, in accordance with the proposal submitted by the City of Vineland Revolving Loan Fund Second Generation Loan Committee:

<b>Economic Development Loan to D4 Vineland, LLC and/or Real Estate Holding Company to be formed</b>	<b>\$1,000,000.00</b>
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BE IT FURTHER RESOLVED that the Mayor is hereby authorized to execute all documents associated with this loan.

Adopted:

\_\_\_\_\_  
President of Council

ATTEST:

\_\_\_\_\_  
City Clerk

MEMORANDUM

TO: City Council President and Members

FROM: City of Vineland Revolving Loan Fund  
Second Generation Loan Committee

SUBJECT: **Applicant:** D4 Vineland, LLC and/or real estate holding  
company to be formed  
**Loan Amount:** \$1,000,000.00.

DATE: September 23, 2015

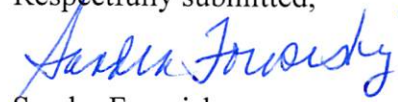
Dear Council President Fanucci, Councilmen Procopio, Spinelli, and Councilwomen Calakos and Gonzales:

On behalf of the City of Vineland Revolving Loan Fund Second Generation Loan Committee, please accept this letter recommending a commitment be given to the above applicant for a second generation loan in the amount as stated herein above.

Please note that the committee finds that the purpose of the loan meets the criteria set forth in the Statute made and provided governing Urban Enterprise Zone Loans. The committee further finds that the loan will promote economic development, creation/retention of jobs, and/or tax ratables that will benefit the City of Vineland.

Further, please note that based on the information provided, the applicant has the present ability to repay said loan and the loan would be properly protected in that the pledged collateral has a net value which equals or exceeds the amount of the requested funding.

Respectfully submitted,



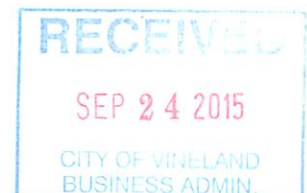
Sandra Forosisky  
Director of Economic Development

SF/fd

cc: Frank DiGiorgio  
file



Special arrangements for persons with disabilities may be made if requested in advance by contacting the Business Administrator's office at 856-794-4144.



**VINELAND UEZ LOAN COMMITTEE  
LOAN PROPOSAL**

**Date:** 09/02/2015

**Borrower Name and Address (s):** D4 Vineland, LLC and/or real estate holding company to be formed.  
c/o Tower Hospitality  
1386 S. Delsea Drive  
Vineland, New Jersey 08360

**Request:** \$1,000,000 commercial term loan – permanent end loan – for acquisition of furniture, fixtures, equipment and renovations to a proposed Denny’s Restaurant to be located in Vineland, New Jersey.

**Interest Rate:** 5.00%.

**Term of Loan:** 25 Year Amortization Schedule (5 year balloon)

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**1. BACKGROUND:** The Roth Family of Vineland has owned and operated successful lodging and operations in Vineland since 1974. In addition to hotels, the Roth Family also operates franchised restaurants under the Denny’s and Bennigan’s names. The entities which have been formed to operate these businesses include two members of the Roth Family, Ed and Henry Roth. Ed and Henry Roth, brothers, are the majority owners, operators, and point people for these operations/entities. No persons outside of the family, however, are officers, members or shareholders of these entities. Currently, the Roth’s et. al., own and operate the following enterprises located in Vineland, New Jersey: the Days Inn, the Denny’s Restaurant (adjacent to the Days Inn), the Bennigan’s Restaurant, the Wingate Inn, the Holiday Inn Express (subject of this request) and the Hampton Inn. The Roth’s also operate the Denny’s Restaurant in Northfield, New Jersey. In addition to the aforementioned, the Roth’s own additional real estate in Vineland and also own several properties under different entities outside of Vineland, New Jersey. For example, their office building/headquarters is located at 1386 S. Delsea Drive, Vineland, NJ and is owned by Vineland Parking, LLC (Vineland Parking, LLC is owned 50% and 50% by Ed and Henry). Attached is Exhibit A which demonstrates the entities, the respective businesses and ownership %’s.

Denny’s of Vineland has been open for twenty-three (23) years (since 9/1992). The Roth Family has renewed the license with corporate or Denny’s Corp. (the “Franchisor”). An overview of the Franchisor is as follows: Denny’s Corporation (“Denny’s”, the “Company”) is a franchised, full-service restaurant chain. The Company, through its wholly owned subsidiary, Denny’s, Inc., owns and operates the Denny’s brand. Its other wholly owned subsidiaries include DFO, LLC and Denny’s Realty, LLC. The Denny’s brand consisted of approximately 1,702 franchised, licensed and Company operated restaurants around the world, including over 1,596 restaurants in the United States and over 106 international locations. Approximately 1,541 of Denny’s restaurants were franchised or licensed, and over 161 were Company operated. Denny’s offers a variety of items for breakfast, lunch, dinner and late night dining. Denny’s Fit Fare menu helps its guests identify items suited to their dietary needs. Denny’s restaurants offer special items for children and seniors at reduced prices. It offers a selection of lunch and dinner items, including burgers, sandwiches, salads and skillet entrees, along with beverages, appetizers and desserts. The Company has been in expansion mode as well as changing the business model to focus more solely on franchised stores which includes converting and/or selling existing company owned stores as well as opening new units. Denny’s, several years ago, piloted a new concept travel center stores (highway restaurants located at highway stops etc.) and university locations.

The Roths propose to purchase a former restaurant facility and re-open it as a new Denny’s Restaurant location in Vineland (2<sup>nd</sup> Denny’s location in Vineland). The restaurant facility was formerly operated and known as the Cosmopolitan Restaurant. They will form new entities to own the real estate and operate the proposed new Denny’s, similar to the existing structure for the current Denny’s operation. D-4 Vineland, LLC has already been formed and will be the restaurant operating company.

## **1. BACKGROUND (Continued):**

As part of the process for licensing of a Denny's franchise, the owner/operator has to complete a Product Improvement Plan ("PIP") – an extensive remodel - as prescribed by the franchisor or Denny's. This new location in Vineland must comply with the PIP requirement to maintain the Denny's flag or brand. The PIP for the Vineland store includes replacing everything in the dining room, some bar improvements, kitchen equipment, bathrooms and some exterior improvements. The dining room and bar will have all new booths, tables, chairs, barstools, carpet, wallpaper, window treatments, light fixtures, artwork, televisions, and computer system. The kitchen and service areas will have some new counters, equipment, and refrigeration. The exterior of the building will have fresh paint with new color scheme, new awnings, roof, parking lot (sealing and new line striping), and rooftop HVACs. We have on file, a summary of improvement/development costs which total over \$1,000,000 for the new location.

Attempts to finance the project through conventional will prove difficult due to the tight credit environment/appetite for lodging and restaurant lending. Many banks and financial institutions have previously placed a moratorium on the financing of hotels and restaurants – hospitality industry loans. Therefore the credit environment is tight for this segment.

**1a. COMPETITION:** Denny's competes with several franchised fast food restaurants as well as the private independently owned restaurants around town (dine in or sit-down restaurants). It competes to a lesser extent with the casual segment of the restaurant group (i.e, specific restaurant segment such as Applebees, etc.), however, competition is coming from this segment in the form of addition of IHOP eventhough it is in different area. The Roth's believe the two locations are mutually exclusive as a market (cater to different customers).

**1b. BUSINESS CYCLE:** Business cycle is defined as the periods in which a business, an industry or the entire economy expands or contracts. Business cycles are anything but regular while varying in intensity and length. Traditionally, in an economic recession, casual dining businesses have suffered as consumers look to cut costs and eat in more often. Conversely, fast food restaurants have often done well during recessions, as they are perceived as cheaper alternatives to sit-down restaurants. Restaurants such as a Applebees or Denny's for example, could be perceived as a hybrid of the two models, and could go either way - consumer perception may be that Applebees is an affordable alternative and boost its numbers while the economy recedes, or like other casual dining restaurants its sales may suffer as consumers cut their food budgets.

**1c. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK:** Fast food restaurants represent one of the largest segments of the food industry with over 200,000 restaurants and \$125 billion in sales in the U.S. alone. Fast food restaurants, also known as quick service restaurants (QSRs), are noted for their short food preparation time. Some of the largest players in this category include international giants like McDonald's and Yum! Brands, national chains such as Wendy's and Burger King and regional players like Jack-In-The Box and Sonic.

Since late 2006 early 2007, the fast food industry's growth has been slowed by soaring food and energy prices. The high prices of commodities, combined with the housing slump and a weakening job market are taking a toll on restaurant spending in the U.S. (the world's largest fast food market, by far). The same food and energy inflation that is corroding consumer spending is also taking a bite out of company margins. After labor, food and beverage inputs are the single largest cost facing fast food restaurant operators, accounting for 33 cents for every dollar of sales.

Fast food restaurants have navigated this difficult landscape with varying levels of success. International players such as McDonald's (MCD) and Yum! Brands (YUM) have had the most success as explosive growth in emerging markets has offset rising costs and a U.S. slowdown. Other companies like Sonic and Domino's have turned to new marketing campaigns and product innovation to boost growth and profitability. Fast food companies with exposure to international markets have most successfully

## **1c. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK:**

overcome the twin hurdles of high prices and an anemic North American market. Yum! Brands and McDonald's, with 50% and 60% of sales overseas respectively, are the best examples of the benefits of an international presence. Both companies have posted consistent same store sales growth driven by double digit gains overseas. Rising overseas sales are underpinned by strong economic growth in emerging markets like China, India, Russia, Latin America and Eastern Europe.

As more people across the globe join the middle class many are enjoying the promise of a better diet. Higher rates of heart disease, increases in the incidence of cancer, record numbers of clinically obese people, and various other health scares have all drawn attention to the need for healthy lifestyle choices. Rising concerns for "health and wellness" are bad news for fast food which is generally perceived as fattening and unhealthy. Many QSRs have responded to this negative press by adding new, healthier offerings to their menus. Since the beginning of the decade many companies have also responded by removing trans-fats and other unhealthy ingredients from their offerings. Despite these efforts, fast food restaurants retain an unhealthy stigma.

Fast casual restaurants are a growing source of competition for the fast food industry. Fast casual restaurants like Chipotle, Cusi and Panera combine the convenience of fast food restaurants with the quality of casual dining. This new alternative to fast food and sit down restaurants threatens to take market share from both. Still the fast food restaurant stands to benefit from a U.S. consumer slowdown as strapped consumers trade down from more costly fast casual restaurants.

### **1d. PROJECT:** Acquisition of real estate, product improvement plan ("PIP" - renovations), and liquor license for new Denny's – Vineland (Cumberland Mall area).

Acquisition of real estate and equipment	\$ 1,650,000	(real estate at \$1,150,000 and FF&E at \$500,000).
Acquisition of liquor license	100,000	(includes assignment of liquor license).
Building renovations and improvements	265,000	
Equipment and machinery replacement	240,000	
POS, Computers, Other Technology	59,000	
Exterior Imp., Signage, Landscape	178,000	
Professional Fees	36,000	
Inventory & Supplies	45,000	
Utilities (during renovation)	25,000	
Employee Training and Opening Exp.	70,000	
Other Exp.	120,000	
	<b>Total</b>	<b>\$ 2,788,000</b>

Owner's Contribution	\$ 338,000	
First mortgage	1,450,000	
UEZ Loan	<u>1,000,000</u>	
	<b>Total</b>	<b>\$ 2,788,000</b>

## **2. COLLATERAL:**

- a.) 2<sup>nd</sup> position mortgage lien on the real estate located at 3513 S. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 7004, Lot 26.
- b.) Assignment of rents and leases.
- c.) UCC-1 filing on equipment, machinery, accounts receivable and all business assets of D-4 Vineland, LLC, restaurant operating co. now owned and hereafter acquired – state level.
- d.) UCC-1 filing on real estate holding company to be formed – county level.
- e.) Subordination of all officer/affiliated loans/debt.
- f.) Cross Collateralization/Cross Default Agreement.
- g.) Assignment of \$1,000,000 life insurance / key man (each) on Henry Roth and Ed Roth.
- h.) Review of primary lender's historical loan documents and any additional documents deemed necessary by legal counsel to close/secure the loan.

**3. GUARANTORS:**

- A.) Guaranty of RoBro Motel Corp., (owns and operates Days Inn – Vineland).
- B.) Guaranty of Lisam Condo Corp., (formerly Edro Motel Corp. owns two condos).
- C.) Guaranty of Roth 47 Realty, LLC (owns Holiday Inn real estate – Vineland).
- D.) Guaranty of Roth Realty LLC (owner of real estate - Denny’s - Vineland).
- E.) Guaranty of Roth Restaurant Corp. (operator of Denny’s Restaurant – Vineland).
- F.) Guaranty of Roth Group Holdings, LLC (holding company – cash).
- G.) Guaranty of Vineland Parking Co., LLC (owns real estate adj. to Wendy’s and headquarters of Tower S. Delsea).
- H.) Guaranty of Tower Hospitality, LLC (a management company).
- I.) Guaranty of Smith Street Hotel, LLC (operator of Holiday Inn Express).
- J.) Guaranty of Roth 55 Realty, LLC (owns real estate of Wingate Inn, Hampton Inn and Bennigans in Vineland).
- K.) Guaranty of Wingate-Vineland, LLC (operator of Wingate Inn – Vineland and Bennigans Rest. Vineland).
- L.) Guaranty of H4 Vineland, LLC (operator of the Hampton Inn - Vineland).
- M.) Guaranty of Roth – Northfield, LLC (owns real estate of Denny’s – Northfield).
- N.) Guaranty of Den-Northfield, LLC (operator of Denny’s – Northfield).
- O.) Guaranty of D4 Vineland, LLC (operator of proposed Denny’s) and/or real estate company to be formed.
- P.) Personal Guaranty of Edward and Judy Roth.
- Q.) Personal Guaranty of Henry and Barbara Roth.

**4. LIEN POSITION:** Second.

**5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS:** LCP Delsea, LLC (Lane Capital Partners) will have a priority lien in the amount of \$ 1,450,000.00.

**6. SIZE OF PARCEL:** +- 2.5 acres.

**7. IMPROVEMENTS THEREON:** A one story, +-7,463 sq. casual restaurant & lounge building (basement area of 4,500 sq. ft.- bakery, ground level restaurant, kitchen, and lounge of +-7,463 sq. ft.) to be known as a Denny’s Restaurant.

**8. LOCATION OF PROPERTY:** 3513 S. Delsea Drive, Vineland, Cumberland County, New Jersey a/k/a Block 7004, Lot 26.

**9. APPRAISAL INFORMATION:** An appraisal will be required demonstrating a minimum value of \$2,725,000.00, translating into a 90% LTV.

Please note the following valuation per City of Vineland tax assessment records:  
The building is assessed for \$2,024,300 (land \$472,200 and building \$1,552,100) for tax purposes. This property will generate +-\$50,222.00 in total real estate tax revenue in 2015.

**Loan-to-Value Calculation:**

1 <sup>st</sup> mortgage loan – proposed	\$ 1,450,000
Proposed UEZ Loan - proposed	<u>1,000,000</u>
Total Loans	\$ 2,450,000

Appraised value “real estate only” \$2,725,000 (as renovated and as a restaurant going concern)

LTV 90%

Eric Viehler of Robert Sappio, Inc. will perform the appraisal. He has performed appraisals on the Wendy’s Restaurants, Popeyes and several full service restaurants outside of Vineland and has background and experience appraising restaurant properties.

**10. FINANCIAL:**

**11. SUBSTANTIATION:** DSCR = 1.04x, LTV = 90%

- Create 75 jobs (50 full time and 25 part time). Owners feel they will initially employ 100 but will reduce down to 75.
- Open a closed restaurant facility.
- Owners are very knowledgeable as it relates to the hospitality industry, in particular, the marketplace due to significant operations in Vineland.

**12. RECOMMENDATION:**