

RESOLUTION NO. 2019- 99

A RESOLUTION APPROVING THE USE OF SECOND GENERATION ENTERPRISE ZONE ASSISTANCE FUNDS FOR ECONOMIC DEVELOPMENT LOAN TO VINELAND HOP, LLC (OR ITS ASSIGNS).

WHEREAS, the City of Vineland Revolving Loan Fund Second Generation Loan Committee has submitted a proposal dated February 26, 2019, for use of Second Generation Enterprise Zone Assistance Funds for the following project: Economic Development Loan to Vineland HOP, LLC (or is assigns).; 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:

Economic Development Loan to:

Vineland HOP, LLC (or its assigns) \$500,000.00

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



ECONOMIC DEVELOPMENT
www.vinelandcity.org

640 E. Wood Street
PO Box 1508
Vineland, NJ 08362-1508
Phone: (856) 794-4100
Fax: (856) 405-0467

MEMORANDUM

TO: City Council President and Members

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

SUBJECT: **Applicant:** Vineland HOP, LLC
Loan Amount: \$500,000.00

DATE: February 26, 2019

Dear Council President Spinelli, Councilmen Acosta, Franceschini, Vargas, and Councilwoman Arthur:

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



**VINELAND UEZ LOAN COMMITTEE
LOAN PROPOSAL**

Date: January 16, 2019

Borrower Name and Address (s): Vineland HOP, LLC
2216 W. Landis Avenue
Vineland, NJ 08360

Request: \$500,000 commercial term loan for the acquisition of all assets associated with a restaurant business enterprise known as IHOP located at the Ramada Vineland hotel facility. Acquisition includes all furniture, fixtures, machinery and equipment, business and franchise.

Interest Rate: 5.50%, fixed.

Term of Loan: 10 Years.

1. BACKGROUND: Vineland HOP, LLC (“the restaurant operating company” or “company”) is a limited liability company, formed in the State of New Jersey on April 27, 2018. The company is owned by Rushin S. Gandhi (73%), Alpeshkum A. Pithadia (9%), Manoj T. Gandhi (9%), Pranav M. Gandhi (9%). Rushin and Alpeshkum are brothers-in-law. Rushin, Manoj and Pranav are not related, however, Manoj and Pranav are related. The aforementioned individuals formed the restaurant operating company to purchase and operate the IHOP Restaurant located at the Ramada Inn located adjacent to Route 55 at the Landis Avenue exit/entrance.

The Ramada Inn is a landmark hotel in Vineland, NJ that was built over 35 years ago. It is located at the entrance of Route 55 and is considered by many as the gateway into Vineland from Route 55. The hotel had 102 rooms prior to a fire in 2018, which destroyed 28 rooms. Currently, the hotel operation is comprised of 74 rooms of which 28 are under complete remodel. The hotel has an IHOP restaurant, a lounge, a higher end restaurant (Dakota Prime), a 400 person banquet hall, a swimming pool and 3 meeting rooms. The Ramada Inn is part of the Wyndham brands family of hotels which continues to maintain a good brand name recognition/reputation.

IHOP, formerly, International House of Pancakes is a QSR – Quick Service Restaurant – franchised by Dine Brands formerly DineEquity, the company which owns and sells franchises. Dine Brands is the franchisor of two restaurant concepts: Applebee's Neighborhood Grill & Bar, (Applebee's) in the bar and grill segment, and IHOP, in the family dining/restaurant category. IHOP is a registered trademark of Dine Brands. Applebees and IHOP are leaders their respective categories for system-wide sales. IHOP competes in the family dining segment of the restaurant industry, and 100% of all IHOP restaurants are owned by independent franchise operators. For nearly 60 years, the IHOP family restaurant chain has served its world famous pancakes and a wide variety of breakfast, lunch and dinner items that are loved by people of all ages. IHOP offers its guests an affordable, everyday dining experience with warm and friendly service. At the end of quarter September 2018, IHOP restaurants totaled 1,814 worldwide locations, with 1,579 location in the United States.

Giovanni (“John”) Scipione and his wife Annette (“Annette”) Scipione were the previous owner /operators (through various entities) of the Ramada Inn, Dakota Prime Restaurant, Harry’s Pub and are the current owners/operators of the IHOP restaurant located in Vineland. On September 17, 2018, the Scipiones sold the Ramada Inn real estate to Vineland Property Holdings, LLC, a company formed and owned by Rushin S. Gandhi, Alpeshkum A. Pithadia, Manoj T. Gandhi, Pranav M. Gandhi. These same aforementioned individuals formed one new entity and purchased the entity known as Dakota Prime, LLC (owns the assets of and operates the restaurants inside of the Ramada Inn known as Dakota Prime and Harry’s Pub), and Vineland Hospitality, LLC (hotel operating company of the Ramada Inn). The IHOP was not part of the sales arrangement for the Ramada Inn, Dakota Prime and Harry’s Pub. In addition to owing these local assets, this group also owns a liquor store business and real estate in Bayonne, New Jersey known as Bayonne High Spirits, and previously owned and operated a hotel in New York (this hotel property has been sold).

1a. COMPETITION: Competition between restaurants is intense, since dining options are numerous. Today, people have so many options for quick meals and snacks. With the economy on the mend, new quick serve restaurants (“qsrs” or “QSRs”) are opening at a healthy clip. Between more locations of existing brands and new concepts from veteran quick-serve companies looking to diversify, new competition within the category is on the rise. But, there are drugstores and convenience stores making headlines, too, by adding fresh food offerings and more grab-and-go meal options. They’re being praised for offering affordable healthy alternatives in “food deserts” where fast feeders have historically been the only options. And as grocery stores face increasing pressure from superstores like Walmart and Target, they’re turning to foodservice as traffic and profit generators for their operations as well. Whole Foods for example, has been taking its popular service counters to the next level by opening Osteria fast-casual restaurants inside select retail locations. Mainstream grocers are following suit, expanding their no-cook meal offerings e.g. Shop Rite locally. These represent potential threats to the traditional QSRs. Virtually every restaurant location must compete not only against other private and publicly traded chains, but also a wide array of small, local establishments. Competitors include delis and pizzerias to fine-dining restaurants. Also, it is relatively easy to forgo prepared foods, altogether, in favor of home cooking, which is usually a less expensive option. Thus, restaurant meals are discretionary purchases, and the industry tends to be cyclical and dependent on consumers wallets and good economy.

1b. INDUSTRY AND MARKET ANALYSIS / INDUSTRY OUTLOOK: Many QSRs have weathered the previous economic downturn fairly well. Over time, consumers’ tastes evolve in response to changing fashions and greater awareness of alternative lifestyles. Businesses need to monitor these changes and, whenever possible, anticipate them. In terms of the product life cycle, quick service restaurants have reached maturity in certain areas of the country and world, and the need for an injection of fresh life through innovative ideas to maintain a longer business lifespan. Consumers are seeking more food variety and healthier eating and price is becoming more critical to decision-making even though rising incomes allow more people the opportunity to turn eating out into a more individualized experience – moving away from certain categories and looking at healthier / fresh options such as organic for example.

1c. PROJECT: The scope of the project involves the acquisition of restaurant business enterprise inclusive of all machinery and equipment, furniture and fixtures, leasehold improvements, and franchise business of an existing end-cap restaurant facility located at 2216-2220 W. Landis Avenue, (Landis Ave. & Rt. 55), Vineland, New Jersey, currently known as an IHOP, a franchised quick service restaurant.

<u>Project Cost</u>		<u>Sources</u>	
FF&E, Machinery	\$100,000	Vineland UEZ	\$500,000
Improvements/leaseholds	500,000	Owner’s Contribution	<u>150,000</u>
Franchise Fee	<u>50,000</u>		
	Total \$650,000	Total	\$650,000

2. COLLATERAL:

- a.) UCC-1 filing and Security Agreement on the specific machinery and equipment being purchased for the IHOP Restaurant by Vineland HOP, LLC,
- b.) 3rd position mortgage lien on the real estate located at 2216 W. Landis Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2605, Lot 3 (property owned by Vineland Property Holdings, LLC),
- c.) 3rd position mortgage lien on the real estate located at 2300 W. Landis Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2605, Lot 2 (property owned by Vineland Property Holdings, LLC),
- d.) Assignment of Rents and Leases on b.) and c.) above,
- e.) Assignment of SREC’s (subordinated, possibly to 1st and 2nd position mortgage lender),
- f.) Hypothecation Agreement on the real estate being pledged and owned by Vineland Property Holdings, LLC,
- g.) Evidence of approval of Franchise Agreement transfer to Vineland HOP, LLC,

2. COLLATERAL (CONTINUED):

- h.) Receipt and satisfactory review of purchase agreement,
- i.) Receipt and satisfactory review of transfer / assignment of franchise agreement to Vineland HOP, LLC,
- j.) Assignment of SREC's if applicable,

3. GUARANTORS:

- a.) Rushin S. Gandhi
- b.) Vineland Property Holdings, LLC (real estate owner of Ramada and restaurant properties)
- c.) Dakota Prime, LLC (operator of restaurant businesses – Harry's Pub and Dakota Prime)
- d.) Vineland Hospitality, LLC (management company)

4. LIEN POSITION: First on FF&E, machinery. Third on real estate.

5. DOLLAR AMOUNT AND HOLDER OF PRIOR LIENS: Peapack-Gladstone Bank, first mortgage in the amount of \$2,700,000 and second mortgage in the amount of \$300,000 (for renovations to 28 rooms damaged by fire). Total priority mortgage liens of \$3,000,000.

6. SIZE OF PARCEL: Lot 2 (2300 W. Landis Avenue) is +-3.85 acres (land only with no improvements). Lot 3 (2216 W. Landis Avenue) is +-12.50 acres (hotel and restaurant facility and solar field).

7. IMPROVEMENTS THEREON: Built in 1972 and refurbished in 1988 (further remodeled 8 years ago by the previous owner), a +-70,000 sq. ft. total of building improvements, presently consisting of masonry block building comprised of a 46,000 +- sq. ft. Ramada Inn Hotel (102 rooms – less 28 which were demolished due to fire) with adjoining one-story food service and meeting complex (+-24,000 sq. ft.) broken down as follows: restaurants, Dakota Prime Restaurant, Harry's Pub, +-5,000 sq. ft. IHOP restaurant, and banquet/ballroom/meeting space, central kitchen, and office space. A solar field (dimensions of 373' x 290', +- 2.48 acres) contains 11 rows of solar panels with small building containing transformers at the rear of the site is enclosed by a 6' high chain link fence. An outdoor pool and recreation area is also located at the rear of the property. Please note that 28 hotel rooms of the 102 previously mentioned, were demolished due to a fire a couple years ago. Current owner intends on rebuilding these rooms and is currently remodeling 28 existing rooms.

8. LOCATION OF PROPERTY: The equipment, machinery and all business assets are located at 2216 W. Landis Avenue, Vineland, Cumberland County, New Jersey a/k/a Block 2605, Lot 3.

9. APPRAISAL INFORMATION: An appraisal on the Ramada Inn performed by Horwath HTL (Michael Cummings, appraiser, MAI, ISHC) values the property on May 10, 2018 as follows:

Market Value ("as is")	\$3,200,000 (does not include destroyed rooms).
Market Value ("as complete)	\$3,500,000 (includes renovation to 28 rooms but not the 28 destroyed rooms).
Market Value ("as stabilized)	\$3,700,000 (includes renovation to 28 rooms but not the 28 destroyed rooms).

In addition, and separately, the solar field appraised at \$520,000 under the previous owner. This solar field is approximately 9 years old and has a 20 year warranty. The solar project cost over \$2,500,000 to construct. Further note, that the \$520,000 value included an "as estimated contributory value of selling Solar Renewable Energy Credits (SREC's)". Furthermore, a condition included and stressed that the appraiser is not an expert in solar energy projects. In speaking with previous owner, Mr. Scipione, he revealed that SREC's could generate (and have generated) \$130,000 - \$140,000 in revenue in recent years and is subject to market pricing on SRECs.

9. APPRAISAL INFORMATION (CONTINUED):

The real estate appraisal was performed for a financial institution (Peapak-Gladstone) which financed the first and second mortgage for Vineland Property Holding, LLC, the owner of the real estate, whom purchased the property for \$3,800,000 in 2018.

The City of Vineland has the property assessed as follows:

Block 2605, Lot 2 (3.85 acres of land) at \$27,900,

Block 2605, Lot 3 (12.05 acres and hotel facility) \$920,000 (land \$315,000 and improvements \$605,000).

Total assessed value of both parcels and improvements is \$947,900.

For purposes of valuation of collateral, this writer calculated value and Loan-to-Value utilizing the real estate (not utilizing any ff&e) as follows:

<u>Collateral Value</u>		<u>Loans</u>	
Market Value "as is"	\$3,500,000	First and Second Mortgage Lien	\$3,000,000
Solar Field	<u>520,000</u>	Proposed Vineland UEZ Loan	<u>500,000</u>
Total Value	\$4,020,000	Total Loans	\$3,500,000

LTV 87%

The UEZ will have a primary collateral position via a UCC-1 and Security Agreement on the specific furniture, fixtures and equipment for the IHOP restaurant. This will enhance the collateral position. However, the final documentation will be received prior to funding. Therefore, only real estate value was utilized in the calculation above.

10. FINANCIAL:

11. SUBSTANTIATION: LTV = 87%, DSCR = 3.07x

12. RECOMMENDATION: