Ocean Towers

July 25, 2023

To: Shareholders, Escrows, Agents & Lenders

From: Ocean Towers Housing Corporation Board of Directors

Re: Important Information for Transfers

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This Memorandum will provide information that may be helpful to assist in potential sales or transfers within Ocean Towers Housing Corporation ("OTHC").

## I. RENTAL CAP

In connection with Civil Code Section 4525(a)(9), this shall provide notice of provisions in OTHC's governing documents that prohibit the rental or leasing of any of the units in the common interest development to a renter or sub-tenant. As of December 30, 2020, OTHC's Board of Directors adopted rental restrictions in accordance with Civil Code Sections 4741 and 4340 et seq., and to conform to ordinances of the City of Santa Monica, to accomplish the following:

1) Require leases to comply with local law concerning term – currently a minimum lease term of one (1) year; and
2) Limit the maximum number of rentals in the community at any one time to twenty-five percent (25%).

The rental cap has been reached. Notwithstanding, Shareholders who acquired title prior to the effective date of the December 30, 2020 rule change are eligible to rent in conjunction with OTHC's governing documents, despite the total rentals exceeding 25%. (Civ. Code § 4740(a).)

For units eligible to rent/sub-lease, nothing herein shall modify OTHC's requirement for pre-approval of any proposed renters/sub-tenants pursuant to the corporation's application process. Prospective buyers are strongly encouraged to review OTHC's governing documents in detail, including without limitation, the corporation's Bylaws, Proprietary Lease and Rules.

Shareholders who sub-lease their units in violation of OTHC's governing documents, including without limitation the above-described rule change, are subject to potential fines, discipline and legal action pursuant to the governing documents and applicable law. Shareholders, agents/brokers and escrows should provide this information to potential buyers.

## II. TRANSFERS

Any transfer of title to a Shareholder's stock certificate requires the approval of OTHC's Board of Directors or Approval Committee. (Bylaws §§ 11.01, 11.02.) This includes sales and non-sale transfers (e.g., trust transfer, intra-family). Any addition to or proposed change in the identity of the Shareholder of record for a unit requires the Shareholder or potential shareholder to complete an application, submit it to the management office with all supporting documents and complete the approval process. In particular, Shareholders and potential transferees should review Section 2.02 of the Bylaws concerning qualifications for Shareholders of record, including who is eligible to take title.

Once an approval is issued by the Board or Approval Committee, the buyer/transferee or their escrow officer shall contact the law firm Beaumont Tashjian to initiate the shareholder transfer procedure. A transfer fee is required to be paid in order to prepare and process the transfer documents. (Bylaws, §11.02(d).) Currently, the transfer fee is $2,100 per unit for sales and $2,325 per unit for non-sale transfers, but subject to change. The transfer process requires the creation of approximately 10-13 transfer documents per unit, in addition to issuance of a new stock certificate. Please contact the management office for further information.

For transactions involving financing, the lender should contact OTHC's management office in advance to discuss any requirements and/or to propose a draft recognition agreement, which must be approved by the Board of Directors.

## III. LOAN

OTHC has a mortgage loan in the amount of $120,000,000. The loan is evidenced by a Multifamily Note, Multifamily Loan and Security Agreement and Multifamily Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Security Instrument"), among other loan documents. The Security Instrument has been recorded with the Los Angeles County Recorder's Office and is available through the public records.

Currently, interest-only payments are being made on the mortgage loan. To fund the monthly mortgage payment, each unit is assessed a monthly mortgage assessment. The monthly mortgage assessment is in addition to the regular monthly assessment commonly referred to as "HOA dues." Shareholders are billed by OTHC's management company for payment of these assessments; inquiries can be made with management for the exact amount of a unit's mortgage assessment.

Upon sale or transfer of a stock certificate, the buyer/transferee assumes the Shareholder's pro rata share of the mortgage. The pro rata shares of the mortgage range from approximately $145,200-$787,200 depending on the unit. The exact calculation of a buyer/transferee's pro rata share of the mortgage loan will be set forth in the transfer documents, in addition to the regular monthly and mortgage assessment amounts for the unit.

## IV. LITIGATION

OTHC is currently involved in the following litigation, each of which is pending in the Los Angeles County Superior Court ("LASC):

| Funded by OTHC | Defense Funded by Insurance |
|---|---|
| LASC Case No. SC124263 | LASC Case No. 19STCV07203 |
| LASC Case No. 21STCV08114 | LASC Case No. 22SMCV02821 |
| LASC Case No. 22SMCV00222 | |
| LASC Case No. 22SMCV01511 | |

Documents filed in these lawsuits are available through public records and potential buyers/transferees may research the cases on their own. OTHC makes no guarantee or warranty of the outcome of any case.

## V. <u>REPAIRS</u>

OTHC is currently in the early phases of a spalling repair/reconstruction project for the exterior of both towers. OTHC has engaged an experienced structural engineering firm to perform an engineering assessment and formulate a comprehensive scope of work to be presented to contractors for the bidding process. Work is projected to commence in or about Fall 2023 and anticipated to be completed in or about Summer 2024. The dates are subject to change. OTHC will provide notice to all Shareholders after the project details have been confirmed, including to inform of any anticipated impact to Shareholders and residents.

In addition, a full replacement is underway for a) the cast iron drain, waste and vent stacks; b) the hot and cold domestic (copper) water system in each unit; and c) the condensing water supply and return of each unit's water source heat pump. Repiping in the "B" tower commenced in May 2023 and is continuing. Repiping in the "P" tower is scheduled to commence in or about October 2023, subject to any unforeseen conditions. The re-piping project will require the removal of drywall in bathrooms and kitchens to access the pipes. The re-piping contractor will replace drywall but Shareholders are responsible for restoring any cosmetic work and non-original finishes, e.g., paint, tile, wallpaper. Shareholders will receive advance written notice from the construction team once their units are scheduled for repiping. Residents are expected to be out of their respective units for approximately one (1) business day (e.g., 8:00 a.m. to 5:00 p.m.) while construction is on-going. Currently, the project is on track to be completed in or about Summer 2024, until further notice.