

City's Biggest Residential Developer Faces Multiple Suits

By Oliver Lukacs
Staff Writer

Feb. 5 -- Investors in four new apartment buildings in Downtown Santa Monica are mounting multi-million dollar lawsuits against the City's biggest private housing developer, charging he violated their contracts and misappropriated funds.

The lawsuits allege that Craig Jones -- who is widely credited with revitalizing the Downtown residential housing market by adding hundreds of units in the past five years -- overcharged the investors for construction fees, development fees and City fees.

Filed during the past six months, the suits also charge that Jones gave his construction company, JSM Construction, unauthorized loans from the different investment partnerships he co-created to construct the buildings and used the money to benefit his other business ventures.

The plaintiffs, who are in separate partnerships with Jones on three 48-unit luxury apartment buildings -- the San Remo, Anacapa and Capri -- and the 46-unit Sorrento, are seeking a combined total of at least \$8 million.

Virtually identical, the lawsuits accuse Jones -- who made regional headlines when he broke ground on a \$43 million, 15-story project in North Hollywood last week -- of "engaging in a pattern of misconduct" constituting a breach of contract, breach of fiduciary duty, fraud, negligence and fund conversion.

"In committing the wrongful acts and omissions alleged herein, Jones acted willfully, intentionally, maliciously, and in conscious disregard of the rights of Plaintiff and the Company," said the civil suit filed by William Lippman, an investor in the Sorrento building whose complaint echoed the other suits.

The lawsuits also accuse Jones of charging the partners for City fees paid in lieu of providing affordable housing units in new developments and using that money to build an exclusively low-income apartment building (canceling the fees) to meet his affordable housing quota for other projects.

Jones -- who said he has built some 1,000 units in the city over the last 20 years -- denied any wrong doing and declined to comment on most of the allegations, saying that Lippman, who is seeking more than \$2 million, is behind all of the lawsuits and "has no case."

“This guy Lippman, who is behind all this, is a scum bag,” Jones said. “He turned around and said, ‘You shouldn’t have built these low income apartments,’ and he knew about it all the time. He is a greedy, angry old man.”

Lippman declined to comment for this article.

A licensed broker, Jones initiated a recent Downtown housing boom after the City Council passed an ordinance in 1998 easing restrictions to encourage residential development in the heart of the city. So far, Jones has completed nine buildings, is constructing about half a dozen more and has another half dozen in the pipeline, almost all of them on 6th and 7th streets.

In all of Jones’ projects, investors put up the initial capital and construction costs in exchange for 60 to 65 percent ownership, according to the complaints. For between 35 and 40 percent ownership, Jones agreed to design, construct and navigate the projects through the city’s planning bureaucracy. He was also made manager of the companies that owned the buildings.

The separate lawsuits by the partners in the San Remo, Anacapa, and Sorrento projects all allege verbatim (the lawsuit for the Capri company uses different words) that the in lieu fees “arose from the defendants’ (Jones and any possible accomplices) scheme designed solely to benefit them.

“Defendants constructed low income housing in the City, to relocate tenants being displaced when Defendants demolished buildings for other development projects. The low-income housing also satisfied the Company’s obligation to pay in lieu fees to the City.

“However, Jones charged (each individual) Company the sum of \$625,000 to pay for the Company’s purported loss attributable to the housing,” according to the civil complaints filed in Los Angeles Superior Court.

Jones said the “scheme,” which he did not profit from, was a “critical component” of the business plan for each development, because the City would only approve his projects if he built some affordable housing units to replace those lost in the demolition.

“They (the affordable units) are losers financially,” Jones said. “I have not profited from it. It’s very low income housing. We didn’t pay any money to the city, and when we sold it, it created a loss. We didn’t ask the investors to put up any extra money.

“I had told this to all my partners from the beginning,” Jones said. “I knew the only way to make this successful was to do on-site or off-site affordable housing, but to do it on-site is detrimental, it diminishes millions and millions of the property’s value.

“The only way to do it is off-site, and instead of paying these fees I went out and cleverly figured out a way to do it off-site,” Jones said, adding that the projects would never have

been approved without providing affordable housing. “I believe I have a relationship with the City that will endure for a lifetime because I listen to them.”

According to a document provided by Jones, which he said is part of a standard contract signed by each of the litigants, Jones was authorized to engage in “such activities as are necessary, incidental or appropriate in connection (to the properties).

The activities include “the investment in such other entity which will construct and own low and moderate income housing...fulfilling in whole or in part the low and moderate income housing requirements for the Company,” according to the contract for San Remo, which is signed by Jones and a partner in the company.

But Steven Roseman, the attorney representing the partners in the San Remo, Sorrento, and Anacapa civil suits, said, “There was never an agreement to building an affordable housing project.”

Shown a copy of the contract Jones said he had separately signed with each of the partners in the different buildings empowering him to develop the projects, Roseman said, “The documents we have are inconsistent with what (Jones) says.”

Roseman dismissed the accusation that Lippman was behind the three civil suits he was litigating, but added that “some of the partners have prior relationships” and that Lippman is a minor partner in the Anacapa company.

Lippman also alleges that Jones (who has 35 percent ownership in the Sorrento project) secured a loan exceeding \$9 million as permanent financing for the company but negotiated the terms to “severely restrict Plaintiff’s right to remove Jones as manager” and de facto operator of Sorrento -- a position Jones allegedly holds in all the properties in dispute. Lippman also is suing for his dismissal.

In his suit, Lippman is seeking reimbursement of \$100,000 in unauthorized development fees, \$400,000 for fraudulent City “in-lieu fees,” \$580,000 for construction overruns and an amount no less than \$1 million for financial damages.

Three of the suits, including Lippman’s, allege that Jones violated his contracts by overcharging for construction costs agreed upon in a fixed price contract with his company, JSM, and by prematurely cashing in his development fees. In two instances, Jones is alleged to have funneled more than \$1 million to his construction company in unauthorized loans from the partner companies.

The suit filed by Arizona-based Apache LLC, the partner in the roughly \$9 million San Remo project on 1530 7th Street, alleges that Jones “improperly charged the company for construction cost overruns in an amount not less than \$1 million.”

The Apache suit also claims Jones used \$1.015 million in company funds as a “loan to JSMC,” which “was not made to further a legitimate business purpose for the Company,

but rather was self-serving and made solely to benefit Defendants.”

Richard Maisto, a partner in the roughly \$8 million Anacapa project at 1527 and 1531 6th Street, also accuses Jones of running up the project’s price tag in excess of \$1 million in “alleged construction cost overruns,” which Jones was contractually obligated to pay, but didn’t, according to the complaint.

“Instead of paying the cost overruns from his own sources Jones knowingly and intentionally misappropriated and diverted Company assets to pay his own company (JSMC) for the construction cost overruns,” according to the Anacapa complaint.

The litigants for the Capri project on 1443-1447 Sixth Street, Takashi Kato and Jeffrey A. Cohen, similarly accuse Jones of loaning without authorization \$1 million in company funds to JSM.

“At the time the loan was made JSM was heavily in debt, such that, even were JSM Capri’s charter to permit such an unsecured loan, which it does not, JSM would not have qualified as a reasonable credit risk,” according to the complaint filed in the Beverly Hills branch of Los Angeles Superior Court.

The Capri suit also alleges that Jones funneled from the Capri company more than \$200,000 into his corporate account, without authorization or explanation, and, as in all the other suits, alleges he has failed to give the company’s partners an annual report accounting for all costs and expenses.

Jones has also been the subject of four other lawsuits by investors, all of which were settled out of court.