



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

DATE: May 5, 2017

COUNCIL DISTRICT(S): 6

ORIGINATING DEPARTMENT: Real Estate Division

CONTACT/PHONE NUMBER: Ted Miyahara (619) 578-7548

REQUESTED ACTION:

That the San Diego Housing Commission (Housing Commission) approve the transfer of Village North Senior Garden Apartments under the terms and conditions described in this report.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The Housing Commission owns Village North Senior Garden Apartments (Village North Senior), which is a 120-unit affordable rental apartment complex for seniors, located at 7720 Belden Street in the Clairemont Mesa area.
- The Housing Commission set aside 44 of Village North Senior's 120 apartments, or 36 percent, for homeless seniors and committed 44 federal Project-Based Housing Vouchers to provide rental assistance for residents of these units through HOUSING FIRST – SAN DIEGO, the Housing Commission's Homelessness Action Plan.
- A 65-year ground lease is proposed between the Housing Commission and HDP Village North L.P., of which Housing Development Partners (HDP), the Housing Commission's nonprofit affiliate, is the sole member.
- HDP Village North, L.P. will be responsible for the refinancing and renovation of Village North Senior, while the Housing Commission will continue to provide property management services.
- All renovations will be performed by HDP Village North, L.P., with no funding from the Housing Commission.
- Village North Senior's projected property reserve balance of \$2,000,000 (based on a September 2017 closing date) would be transferred to HDP Village North, L.P., or designee, to be used for the renovation of the property.
- The ground lease will contain an option to allow the Housing Commission to reacquire the fee interest in the property any time after year 15 of the lease for a nominal price.
- This proposal complies with all applicable provisions of Housing Commission Policy RED-300.104.



REPORT

DATE ISSUED: April 27, 2017

REPORT NO: HCR17-036

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of May 5, 2017

SUBJECT: Village North Senior Garden Apartments – Property Disposition

COUNCIL DISTRICT: 6

REQUESTED ACTION

SEVEN DAY ADVANCE NOTICE OF SAN DIEGO HOUSING COMMISSION HEARING OF THE FOLLOWING MATTER HAS BEEN PROVIDED TO THE HOUSING AUTHORITY MEMBERS PURSUANT TO THE PROVISIONS OF SAN DIEGO MUNICIPAL CODE SECTION 98.0301(e)(4)(B) and San Diego Housing Commission Policy No. PO-RED-300.104, Section 3.3.1(a) and Section 3.8

That the San Diego Housing Commission approve the transfer of Village North Senior Garden Apartments under the terms and conditions described in this report.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) Board approve the following actions:

- 1) Authorize the Housing Commission to enter into a long-term (65-year) Ground Lease Agreement between HDP Village North, LP, or designee (Lessee), and the Housing Commission (Lessor) for the transfer of property located at 7720 Belden Street, San Diego, CA 92111, on terms and conditions described in this report, as approved by General Counsel of the Housing Commission;
- 2) Authorize the Executive Vice President & Chief of Staff (COS), or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form approved by General Counsel, and to take such actions as are necessary and/or appropriate to implement these approvals upon the advice of General Counsel;
- 3) Authorize the Executive Vice President & COS, or designee, of the Housing Commission, to execute any and all documents and to perform any and all acts reasonably necessary to implement the financing plan for the rehabilitation of the project within the parameters set forth within this report; and
- 4) Approve the transfer of the Village North Senior Garden Apartments projected property reserve balance of \$2,000,000 (based on a September 2017 closing date) to HDP Village North, LP or designee to be used for the renovation of the property.

SUMMARY

The Housing Commission owns Village North Senior Garden Apartments (Village North Senior), which is a 120-unit senior apartment complex located on a 1.41-acre site at 7720 Belden Street in the Clairemont Mesa Area (Attachment 1 – Location Map). The property is located northwest of junction of State Route 163 and Interstate 805.

The property was developed in 1986 and is currently owned by the Housing Commission and is not encumbered by any debt. The property consists of seven wood frame two-story buildings with slab on grade concrete foundations, a laundry room, leasing office and community room. All of the units are one-bedroom, one-bathroom units with an average size of 500 square feet.

Table 1: Property Details

Property Name:	Village North Senior Garden Apartments
Street Address:	7720 Belden Street
City, State, Zip Code:	San Diego, CA 92111
Primary Use:	Residential Apartments for Seniors
Year Built:	1986
Number of Buildings:	Seven
Number of Stories:	Two
Number of Units:	120 – 1-Bedroom/1-Bathroom Units
Number of Onsite Parking Spaces:	65

Housing Affordability

Village North Senior provides 120 units occupied by and affordable to individuals and families earning 80 percent or less of San Diego’s Area Median Income currently \$47,600 for a household of one.

The Housing Commission set aside 44 of Village North Senior’s 120 apartments, or 36 percent, for homeless seniors and committed 44 federal Project-Based Housing Vouchers to provide rental assistance for residents of these units. Village North Senior is part of HOUSING FIRST – SAN DIEGO, the Housing Commission’s Homelessness Action Plan.

Disposition Terms

The Housing Commission proposes to enter into a 65-year ground lease with HDP Village North L.P., of which Housing Development Partners (HDP), the Housing Commission’s nonprofit affiliate, is the sole member. HDP Village North, L.P., will be responsible for the refinancing and renovation of Village North Senior, while the Housing Commission will continue to provide property management services for the project, on commercially reasonable terms, as determined by the Executive Vice President and COS of the Housing Commission, upon advice of counsel. In the event that HDP Village North, L.P. defaults on any portion of the Ground Lease Agreement, the Housing Commission shall have the right to terminate the Ground Lease and obtain control of the property. In addition, the Ground Lease shall provide other mechanisms to protect the interests of the Housing Commission. The ground lease will contain an option to allow the Housing Commission to re-acquire the fee interest in the property any time after year 15 of the lease for a nominal price, at the Housing Commission’s sole option, and as agreed to by the parties.

Initial projections suggest that an estimated loan amount of \$9,260,000 could be supported by the project. The final loan amount is to be finalized at closing, subject to final underwriting. All renovations will be performed by HDP Village North L.P., with no funding from the Housing Commission.

Loan Assumptions	
Estimated First Mortgage	\$9,260,000
Loan-to-Value	TBD by lender
Interest Rate	Market
Debt Service Coverage Ratio	TBD by lender
Amortization	TBD
Term	TBD

U.S. Department of Housing and Urban Development (HUD) regulations required that excess cash flow be set aside into a special reserve to be used solely for the purpose of property renovations. Staff estimate that, with current monthly contributions by the property, the balance will total \$2,000,000 by August 2017. These proceeds will be used to pay for hard construction costs.

Projected Sources and Uses	
Estimated First Mortgage	\$9,260,000
Transfer of HUD Required Capital Reserve	\$2,000,000
Total	\$11,260,000
Uses	
Construction Costs	\$7,640,000
Permits, Architecture & Engineering, 3 rd party reports	\$535,000
Developer Fee	\$1,400,000
Financing Costs	\$130,000
Temporary Relocation, Relocation Study	\$530,000
Legal	\$150,000
Accounting, Title, Escrow, Recording, RE Taxes, Insurance	\$92,000
Other Soft Costs	\$400,000
Reserves	\$383,000
Total	\$11,260,000

Proposed Schedule of Performance

The following are key project milestones:

Action	Anticipated Completion
Acquisition by the Housing Commission	May 1, 2015
Housing Commission Board Meeting	May 5, 2017
Transfer of Property to HDP Village North Senior, L.P. *	4 th Quarter 2017

*a single asset entity of Housing Development Partners of San Diego

**COMPLIANCE WITH APPLICABLE PROVISIONS OF HOUSING COMMISSION POLICY
NO. RED-300.104.**

1. Section 3.3.1a). Advance notice of this action has been given to each member of the Housing Authority at least seven days in advance of the Housing Commission Board meeting.
2. Section 3.3.1.a). A public hearing satisfying the provisions of Health and Safety Code Section 34312.3 will be accomplished at the Housing Commission Board meeting.
3. Section 3.3.1 b. The disposition of the property through a ground lease to allow for the refurbishment of the property is in the best interests of the Housing Commission and the residents of the property.
4. Section 3.3.2 d) An appraisal has been acquired that has determined that the ground rent is appropriately set to assure that the Housing Commission is receiving market rate rents for the this affordable housing project, as restricted. The Housing Commission will receive a ground lease payment from HDP Village North L.P., in the amount 4.5% of gross income annually.
5. Section 3.6. This sale complies with all applicable conflict of interest provisions. See Conflict disclosure below. Specifically, the Executive Vice President & COS of the Housing Commission will represent the Housing Commission in this transaction.
6. Section 3.8. The proposed ground lease structure has been reviewed and analyzed by the following professionals and has been determined to have been structured to minimize any adverse financial burden to the extent possible. Housing Commission Staff have reviewed Section 3.8 with each of the professionals listed below to confirm that they are in compliance. Each consultant has stated that in their professional opinion, they have completed an appropriate analysis of the transaction. The transaction has been structured to minimize any financial burden as it relates to the Housing Commission. The following professionals and consultants have assisted in the structuring of the transaction to comply with the provisions of Section 3.8:
 - a. Attorneys: The Ground Lease with options to reacquire the asset after year 15 or upon default by the Ground Lessee, protects the interests of the Housing Commission. In addition the ground rent is commercially reasonable for affordable housing projects.
 - b. Financial Advisor:
 - c. Relocation consultant: HDP Village North L.P. will comply with all applicable relocation laws and a competent relocation specialist will be retained prior to the initiation of any rehabilitation work at the property.
 - d. Real Estate Appraiser: The property has been appraised at \$14,900,000, based upon the NOI as referenced within the appraisal.
7. Section 3.8. The transaction has been structured to allow for appropriate remedies upon default by the ground lessee and, in addition, the reversion of the asset to the Housing Commission upon the termination of the lease. The ground lease also provides for an option for the Housing Commission to re-acquire the asset at any time after the first 15 years of the ground lease, at its sole option.
8. Section 3.8. Appropriate affordability terms are incorporated into the Ground Lease, with all units being occupied by and affordable to households earning 80 percent or less of San Diego's Area Median Income.
9. The Housing Commission will continue to manage the property, providing additional oversight and control of the asset, during the term of the lease.

FISCAL CONSIDERATIONS

The funding sources and uses proposed for approval by this action would increase the proposed Fiscal Year 2018 Budget by \$2,000,000. The ground lease revenue was included in the proposed FY18 budget.

Fiscal year 2018 funding sources:

Property Reserves	\$ 2,000,000
Ground Lease Revenue	41,192
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	2,041,192

Fiscal year 2018 funding uses:

Grant Expense	2,000,000
Reserves	41,192
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	\$ 2,041,192

PREVIOUS COUNCIL and/or COMMITTEE ACTION

The Policy For Sale And-Or Disposition of Real Estate was unanimously approved by the Housing Authority on November 15, 2016, as referenced in HA Resolution HA-1705.

On November 15, 2016, the Housing Authority of the City of San Diego considered information presented by Housing Commission staff regarding the Housing Commission Administrative Policy Revisions (Report No. HAR16-029). At the meeting, the Housing Commission recommended that the Housing Authority approve proposed revisions to the Acquisition and the Disposition policies of the Housing Commission, as summarized in the Policy Matrix Requiring Housing Authority Approval, which included: PO-RED-300.104 Policy for Sale and/or Disposition of Real Estate. Sections 3.3 and 3.8); per HAR16-029, San Diego Municipal Code Chapter 9, Article 8, Division 3, Section 98.0301

On July 29, 2016, the Housing Commission approved proposed policy revisions and deletions included in Attachment 1 of Report No. HCR16-020 and recommended that the San Diego City Council and Housing Authority approve the proposed revisions and deletions to the major policies in Attachment 2 of Report No. HCR16-020, as required by the San Diego Municipal Code Chapter 9, Article 8, Division 3, Section 98.301.

On January 16, 2015, and February 10, 2015, the Housing Commission Board and the Housing Authority, respectively, approved the Housing Commission's acquisition of Village North Senior Garden Apartments. Housing Authority Report HAR15-007 included a list of capital improvements to be performed, including items identified for a future rehabilitation of the property.

On December 16, 2014, the Housing Commission's Real Estate Committee considered information presented by Housing Commission staff regarding the acquisition and rehabilitation of Village North Senior Garden Apartments. At the meeting, the Housing Commission Real Estate Committee recommended approval to the Housing Commission Board to acquire and rehabilitate the property.

On November 21, 2014, HOUSING FIRST – SAN DIEGO, the Housing Commission’s three-year Homelessness Action Plan, was presented as an informational report to the Housing Commission Board.

Real Estate Disposition Policy PO-RED 300.104 was revised since its original approval by the Housing Commission Board on July 29, 2016. These revisions were necessary to be consistent with the revised Housing Commission Ordinance, passed on November 15, 2016, and/or to clarify the regulations.

On March 19, 2010, the Housing Commission Board unanimously approved revisions to the Real Estate Disposition Policy PO-RED 300.104.

KEY STAKEHOLDERS and PROJECTED IMPACTS

Key stakeholders for this disposition include the residents of Village North Senior Garden Apartments, the Housing Commission, HDP Village North, L.P., the Clairemont Mesa community, and the City of San Diego.

ENVIRONMENTAL REVIEW

This proposed acquisition and rehabilitation is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the State CEQA Guidelines because Village North Senior Garden Apartments is an existing facility and the proposed actions do not involve expansion of the existing use. The project meets the criteria set forth in CEQA Section 15301(a), which allows for exterior and interior alterations of existing facilities. The City of San Diego Environmental Division has issued a Notice of Exemption. The activities described herein are Categorically Excluded subject to Section 58.5 from the National Environmental Policy Act (NEPA) pursuant to Section 58.35(a)(3) of Title 24 of the Code of Federal Regulations. The City of San Diego, as responsible entity, has conducted a limited Environmental Review of this project as required under Section 58.35(a), and has determined that this project converts to Exempt status per Section 58.34(a)(12). A copy of the Environmental Review is on file in the Environmental Review Record.

CONFLICT DISCLOSURE STATEMENT

HDP Conflict Disclosure Statement:

HDP’s Board of Directors includes the President and CEO of the Housing Commission, former Chair of the Commission Gary Gramling, former Commissioner Roberta Spoon, and community members. The current HDP Board consists of five members. Former Commissioner Gramling and former Commissioner Spoon, and CEO of the Housing Commission, Richard C. Gentry, are each directors and officers of Housing Development Partners, a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c) (3) corporation. Former Commissioner Gramling, former Commissioner Spoon, and CEO Gentry receive no compensation for their service on the Housing Development Partners Board of Directors. Pursuant to the provisions of Government Code Sections 1091.5(a) (7) and 1091.5(a) (8), former Commissioner Gramling, former Commissioner Spoon, and CEO Gentry each have a “non-interest” as described in Government Code Section 1091.5.

Furthermore, none of HDP’s board members has a financial interest in this development that would legally preclude their participation under the provisions of Government Code Sections 1090 and/or 87100, et. seq. because a 501(c) (3) non-profit corporation is not a business entity for the purposes of state law and because HDP has been determined to be a public agency by the Ethics Commission for local conflict law

purposes and/or the Housing Commission's Conflict of Interest Code. This disclosure shall be and is hereby documented in the official records of the Housing Commission.

Further, HDP may form an affiliated limited partnership or LLC and under such a scenario, HDP will be the managing general partner for its affiliated limited partnership or LLC. The Lessee HDP Village North, L.P.'s affiliated managing general partner is planned to have the same makeup as the HDP Board and former Commissioners Gramling, Spoon and CEO Gentry will all have non-interests with any affiliated limited partnership or LLC. The form of the entity shall be as approved by the General Counsel of the San Diego Housing Commission, however. This disclosure shall be and is hereby documented in the official records of the Housing Commission.

Respectfully submitted,

Ted Miyahara

Ted Miyahara
Vice President of Housing Finance,
Programs & Compliance
Real Estate Division
San Diego Housing Commission

Approved by,

Deborah Ruane

Deborah Ruane
Executive Vice President &
Chief Strategy Officer
San Diego Housing Commission

Hard copies are available for review during business hours at the security information desk in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Public Meetings" section of the San Diego Housing Commission website at www.sdhc.org