



## EXECUTIVE SUMMARY

### HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: September 8, 2017

HCR17-068

SUBJECT: Quality Inn & West Park Inn – Property Acquisition & Transfer

COUNCIL DISTRICT(S): 3

ORIGINATING DEPARTMENT: Real Estate

CONTACT/PHONE NUMBER: Michael C. Pavco / (619) 578-7488

**REQUESTED ACTION:**

Approve the acquisition and transfer of the Quality Inn and West Park Inn under the terms and conditions described in this report.

**EXECUTIVE SUMMARY OF KEY FACTORS:**

- Approval of this action will authorize the San Diego Housing Commission (Housing Commission) to enter into a long term (65 year) Ground Lease Agreement between to-be-formed entity(ies) of which Housing Development Partners (HDP), the Housing Commission's nonprofit affiliate, is the managing member, or designee(s) (Lessee), and the Housing Commission (Lessor) for the transfer of properties located at 1830 & 1840 Fourth Avenue, San Diego, CA 92101, on terms and conditions described in this report, as approved by General Counsel of the Housing Commission.
- Upon satisfactory completion and evaluation of the property during the due diligence period, the Housing Commission will take such actions and perform such acts as are necessary to acquire the properties with improvements for a negotiated price not to exceed \$15,190,000. The properties are valued at \$15,700,000 per a recent appraisal performed by MDS Realty. The Sellers shall provide free and clear title upon acquisition of the properties.
- Quality Inn is a 92-unit hotel located on a 0.23-acre site at 1840 Fourth Avenue in the Bankers Hill Area. The property is located north/northeast of the s-curve of Interstate 5 adjacent the Little Italy, Bankers Hill, and downtown San Diego neighborhoods;
- West Park Inn is a 47-unit hotel located on a 0.115-acre site at 1830 Fourth Avenue in the Bankers Hill Area. The property is located north/northeast of the s-curve of Interstate 5 adjacent the Little Italy, Bankers Hill, and downtown San Diego neighborhoods.
- Quality Inn will provide 91 units at rents affordable to individuals earning 80 percent or less of AMI (\$50,950 for a household of one) and one manager's unit.
- West Park Inn will provide 46 units at rents affordable to individuals earning 80 percent or less of AMI (\$50,950 for a household of one) and one manager's unit.





## REPORT

**DATE ISSUED:** August 31, 2017

**REPORT NO:** HCR17-068

**ATTENTION:** Chair and Members of the San Diego Housing Commission  
for the Agenda of September 8, 2017

**SUBJECT:** Quality Inn & West Park Inn – Property Acquisition & Transfer

**COUNCIL DISTRICT:** 3

**Seven-Day Advance Notice of San Diego Housing Commission hearing of the following matter is being provided to the Housing Authority Members in accordance with the terms and provisions of San Diego Municipal Code Section 98.0301(e)(4)(A) and San Diego Housing Commission Policy No. PO-RED-300.104, Section 3.3 (a)(1) and Section 3.8.**

### **REQUESTED ACTION**

Approve the acquisition and transfer of the Quality Inn and West Park Inn under the terms and conditions described in this report.

### **STAFF RECOMMENDATION**

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

1. Authorize the Executive Vice President & Chief of Staff, or designee, to execute any and all documents necessary to allow the Housing Commission to acquire the properties located at 1830 & 1840 Fourth Avenue, San Diego, CA 92101, on terms and conditions described in this report, as approved by General Counsel of the Housing Commission.
2. Ratify the execution of a Purchase and Sale Agreement dated March 9, 2017, with the following sellers: (i) WPI LTD, a California limited partnership (WPI); (ii) ABB/WPI, LLC, a California limited liability company; (iii) WPI15 LLC, a California limited liability company; (iv) Flying Buffalo Investments, LLC, a Wyoming limited liability company; (v) Midland Equity, LLC, a California limited liability company; (vi) JSW82, LLC, a California limited liability company; (vii) Howard First Rollover IRA TD Ameritrade Clearing, Custodian; (viii) Igal Kwart, an individual; and (ix) Sanford A. Lakoff, Trustee of the Sanford A. Lakoff Living Trust, dated September 28, 2007, (collectively the “Sellers”).
3. Authorize the Executive Vice President & Chief of Staff, or designee, upon satisfactory completion and evaluation of the property during the due diligence period, to take such actions and perform such acts as are necessary to acquire the respective 0.23-acre Quality Inn and 0.115-acre West Park Inn properties with improvements for a negotiated price not to exceed \$15,190,000. The Sellers shall provide clear fee simple title upon acquisition of the property.

4. Authorize the Executive Vice President & Chief of Staff, or designee, to execute and record an affordability covenant against the property for 65 years, with all of the units remaining affordable at or below 80 percent of the San Diego Area Median Income (AMI).
5. Ratify the funding of the refundable escrow deposit of \$200,000 in accordance with the terms outlined in the Purchase and Sale Agreement, which will be applicable to the purchase price and which deposit will become non-refundable upon the expiration of the due diligence period on October 15, 2017 .
6. Authorize the Housing Commission to provide property management services, or procure a new property management company through a competitive Request for Proposal process.
7. Authorize the purchase of the properties and associated closing costs, utilizing up to \$7,700,000.00 of U.S. Department of Housing and Urban Development (HUD) Moving to Work (MTW) Funds and up to \$8,200,000 in Local Funds.
8. Authorize the Executive Vice President & Chief of Staff, or designee, to substitute approved funding sources for Quality Inn and West Park Inn with locally generated revenue (lease or rental) and/or any other available funds as deemed appropriate, contingent upon budget availability, and further authorize the Executive Vice President & Chief of Staff, or designee, to take such actions as are necessary, convenient and/or appropriate to implement these approvals by the Housing Commission and the Housing Authority of the City of San Diego, if the Housing Authority requests to review these actions, upon the advice of General Counsel.
9. Authorize the Housing Commission to enter into a long term (65 year) Ground Lease Agreement between to-be-formed entity(ies) of which Housing Development Partners (HDP), the Housing Commission's nonprofit affiliate, is the managing member, or designee(s) (Lessee), and the Housing Commission (Lessor) for the transfer of property located at 1830 & 1840 Fourth Avenue, San Diego, CA 92101, on terms and conditions described in this report, as approved by General Counsel of the Housing Commission, provided that the leasehold value to the Housing Commission is fair and reasonable and is a fair market place lease. Approval of this action will permit, but not require, a concurrent closing of acquisition of the fee interest by the Housing Commission and creation of the 65-year ground lease in favor of HDP, or affiliate, at the same time as the Housing Commission acquires the fee interest in the properties from the Sellers.
10. Authorize the Executive Vice President & Chief of Staff, 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.
11. Approve all budgets associated with this potential acquisition. This includes the transfer and/or reallocation of funds between any and all funding use line items within the total approved development/project budget provided the total project/development budget amount after any and all transfers/reallocations does not exceed the previously approved budget total, in any instances when the operational need(s) arise and/or when such actions are to the benefit of the Housing Commission and its mission.

**SUMMARY**

The acquisitions of Quality Inn and West Park Inn support the creation of permanent housing opportunities for homeless San Diegans through HOUSING FIRST – SAN DIEGO, the Housing Commission’s homelessness action plan. The current phase of HOUSING FIRST – SAN DIEGO, which launched on July 1, 2017, will create permanent housing opportunities for at least 3,000 homeless San Diegans over the next three fiscal years (2018-2020). This phase builds upon the accomplishments of the programs in the first three years of HOUSING FIRST – SAN DIEGO (2014-2017), which are on track to impact the lives of close to 3,000 homeless San Diegans.

Quality Inn is a 92-unit market-rate hotel located on a 0.23-acre site at 1840 Fourth Avenue in the Bankers Hill Area (Attachment 1 – Location Maps). These units will include one on-site manager’s unit. The property is located north/northeast of the s-curve of Interstate 5 as it passes adjacent the Little Italy, Bankers Hill, and downtown San Diego neighborhoods.

The property was developed in 1990 and is currently owned by the Sellers. The property consists of a wood frame four-story building, a laundry room, leasing office and community room. All of the units have private baths, with estimated sizes ranging from 165 to 250 square feet. A comprehensive renovation effort is not contemplated for this action, but is anticipated in the near future.

**Table 1: Property Details**

Property Name:	Quality Inn
Street Address:	1840 Fourth Avenue
City, State, Zip Code:	San Diego, CA 92101
Primary Use:	SRO Hotel
Year Built:	1990
Number of Buildings:	One
Number of Stories:	Four
Number of Units:	92 SRO Apartments and one manager’s unit
Number of On-site Parking Spaces:	0

West Park Inn is a 47-unit market-rate hotel located on a 0.115-acre site at 1830 Fourth Avenue in the Bankers Hill Area (Attachment 1 – Location Maps). These units will include one on-site manager’s unit. The property is located north/northeast of the s-curve of Interstate 5 as it passes adjacent the Little Italy, Bankers Hill, and downtown San Diego neighborhoods.

The property was developed in 1989 and is currently owned by the Sellers. The property consists of a wood frame four-story building, a community/laundry room, and a leasing office. All of the units have private baths, with estimated sizes ranging from 165 to 250 square feet. A comprehensive renovation effort is not contemplated for this action, but is anticipated in the near future.

**Table 2: Property Details**

Property Name:	West Park Inn
Street Address:	1830 4 <sup>th</sup> Avenue
City, State, Zip Code:	San Diego, CA 92101
Primary Use:	SRO Hotel
Year Built:	1989
Number of Buildings:	One
Number of Stories:	Four
Number of Units:	47 – SRO Apartments
Number of Onsite Parking Spaces:	0

Quality Inn and West Park Inn provide nightly rentals and will be vacant when the Housing Commission takes possession of the properties. No relocation assistance will be needed.

**Housing Affordability**

Quality Inn will provide up to 91 units at rents affordable to individuals earning 80 percent or less of AMI (currently \$50,950 for a one-person household).

West Park Inn will provide up to 46 units at rents affordable to individuals earning 80 percent or less of AMI (currently \$50,950 for a one-person household).

The Housing Commission will commit federal Project-Based Housing Vouchers for up to 100 percent of the units for both properties to be used to provide permanent housing opportunities for homeless San Diegans through HOUSING FIRST – SAN DIEGO, the Housing Commission’s homelessness action plan.

**Deal Terms**

The Housing Commission executed a Purchase and Sale Agreement (PSA) with the Sellers to allow staff to investigate the property during the due diligence period, which started on March 9, 2017, and is scheduled to expire on October 15, 2017. The purchase of the properties is explicitly contingent upon the approval of the Housing Commission Board, and if required, by the Housing Authority of the City of San Diego. The key PSA deal terms are as follows:

- Purchase Price: The purchase price for both properties is \$15,190,000.
- Due Diligence Period: The due diligence period begins with the effective date of the PSA (March 9, 2017) and ends on October 15, 2017, or with the delivery of the Closing Date Notice, whichever comes first.
- Broker’s Commission: The Housing Commission will pay the Housing Commission’s Broker a commission in the amount of \$310,000 (2 percent)
- Earnest Money Deposit: The Housing Commission has placed a refundable deposit of \$200,000 into escrow with Chicago Title Company. The deposit will become non-refundable upon expiration of the due diligence period, and will be credited against the purchase price.

Close of Escrow: The PSA provides for the Close of Escrow occurring between September 1 - December 15, 2017

**Proposed Schedule of Performance**

The following are key project milestones:

**Table 3: Project Milestones**

Action	Anticipated Completion
Purchase and Sale Agreement Effective Date	March 9, 2017
Housing Commission Board Meeting	September 8, 2017
Housing Authority / City Council Meeting (if required)	October 10, 2017
Due Diligence Period Ends	October 15, 2017
Anticipated Closing Date	December 15, 2017

**Due Diligence**

Housing Commission staff has engaged consultants to prepare the following due diligence reports:

*Appraisal* – MDS Realty (appraiser) has been commissioned to perform an “as proposed” appraisal of value of the property’s fee simple interest. The value of the properties was determined to be \$15,700,000 (\$112,950 per unit). This value is higher than the asking (purchase) price of \$15,190,000 (\$109,280 per unit).

*Building Condition Assessment Report* – A multidisciplinary team from Building Consultants, Inc. (BCI) has conducted an assessment of the current physical condition of the property and improvements. Specifically, the team inspected the site, structural, mechanical, building envelope, electrical, plumbing, interiors, landscaping, roof systems, accessibility and life safety. Areas of inspection included unit interiors, exterior stairways, leasing office, community room, electrical and mechanical rooms, the building exterior and site improvements. Life safety, code violations and accessibility compliance issues were also reviewed. A report has been prepared by BCI that summarizes the existing conditions of the property, determines the remaining useful life of the building’s components, identifies immediate (Priority 1) and future repairs, and provides estimates for the costs of upgrades. Only the Priority 1 repairs are going to be made at this time, and additional financing will be required subsequently for the additional upgrades and repairs.

*Zoning Conformance* – The properties are located in the Mid-City Communities Plan Area. Atlantis Group Land Use Consultants was engaged to confirm that the properties are zoned appropriately for the intended use. Preliminary feedback from the consultants indicate that the properties are zoned correctly.

*Phase I Environmental Site Assessment* – SCS Engineers has been engaged to conduct a Phase I Environmental Site Assessment of the Property to determine if there are any recognized environmental conditions (REC) present as a result of the current or historical land uses. Preliminary findings indicate that a dry cleaners was located at on the site of 1830 Fourth Avenue, and a gas station was located nearby at 1865 Fourth Avenue.

*Phase II Environmental Site Assessment* – SCS Engineers performed a Phase II Environmental Site Assesment and soil tests and determined that there are no identified health risks associated with the previous uses.

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

1. Section 3.3(a)(1). 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(a)(1). 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(a)(2). 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(b)(4). 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 a to-be-formed HDP entity, in the amount 4.5 percent 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 & Chief of Staff 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: A financial advisor has completed an appropriate analysis of the transaction. This transaction does not pose any unnecessary financial burden to the Housing Commission
  - c. Relocation consultant: N/A property will be delivered to the Housing Commission vacant.
  - d. Real Estate Appraiser: The property has been appraised at \$15,700,000, 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.



**FISCAL CONSIDERATIONS**

The proposed funding sources and uses approved by this action were included in the Housing Authority-approved Fiscal Year 2018 Housing Commission budget. Approving this action will result in the acquisition of 139 units (137 affordable rental units and two managers' units) at an average cost of \$113,696 per unit, including soft costs. Funding sources and uses will be as follows:

**Fiscal Year 2018 Funding Sources:**

Moving to Work Funds	\$ 7,607,300
Local Funds	<u>\$ 8,196,500</u>
	<b>\$15,803,800</b>

**Fiscal Year 2018 Funding Uses:**

Acquisition	\$15,190,000
Broker's Fees	\$ 310,000
Closing/Due Diligence	<u>\$ 303,800</u>
	<b>\$15,803,800</b>

**PREVIOUS COUNCIL and/or COMMITTEE ACTION**

On April 7, 2017, the new programs of HOUSING FIRST – SAN DIEGO for the next three fiscal years (2018-2020) were presented to the Housing Commission Board as an informational workshop. The Policy For Sale And-Or Disposition of Real Estate was unanimously approved by the Housing Authority on November 15, 2016, as referenced in 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

In October 2016, the Housing Commission's Real Estate Committee considered information presented by Housing Commission staff regarding the acquisition and rehabilitation of Quality Inn and West Park Inn. At the meeting, the Housing Commission Real Estate Committee recommended approval to the Housing Commission Board to acquire and rehabilitate the property.

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.

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 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. 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 potential acquisition include the Sellers, the Housing Commission, the Bankers Hill 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 Quality Inn and West Park Inn are existing facilities and the proposed actions do not involve expansion of the existing use(s). The activities described herein are Categorical Exclusions subject to Section 58.5 from the National Environmental Policy Act (NEPA) pursuant to Section 58.35(a)(5) 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, Vice Chair Dorothy Surdi, Commissioner Ben Moraga and community members. The current HDP Board consists of five members. Vice Chair Surdi and Commissioner Moraga, 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. Vice Chair Surdi, Commissioner Moraga, 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), Vice Chair Surdi, Commissioner Moraga, 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) nonprofit 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 is planned to have the same makeup as the HDP Board and Vice Chair Surdi, Commissioner Moraga 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,

*Michael C. Pavco*

Michael C. Pavco  
Senior Vice President  
Real Estate Division

Approved by,

*Jeff Davis*

Jeff Davis  
Executive Vice President & Chief of Staff  
San Diego Housing Commission

Attachments: 1) Location Map

Hard copies are available for review during business hours at the security information desk in the main lobby and the fifth floor reception desk 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](http://www.sdhc.org)



SAN DIEGO  
HOUSING  
COMMISSION

# Quality Inn & West Park Inn

1830 & 1840 4<sup>th</sup> Avenue

