



## EXECUTIVE SUMMARY

### HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

DATE: January 12, 2018

HCR18-002

SUBJECT: Authorization to purchase Land of San Diego Square from City of San Diego  
Authorization to lease Land of San Diego Square to Housing Development  
Partners

COUNCIL DISTRICT(S): 3

ORIGINATING DEPARTMENT: Portfolio Management/Real Estate Division

CONTACT/PHONE NUMBER: Emmanuel Arellano/619-578-7586

#### REQUESTED ACTION:

Authorize the San Diego Housing Commission (Housing Commission) to purchase the land from the City of San Diego known as Assessor's Parcel Number (APN) 534-196-05-00, located at 1055 Ninth Avenue, San Diego, CA 92101, commonly known as San Diego Square Senior Apartments, for a purchase price not to exceed \$10,000 and closing costs not to exceed \$50,000, and authorize the Housing Commission, upon the purchase of the land at APN 534-196-05-00, to execute a percentage ground lease of the land to the Housing Commission's nonprofit affiliate, Housing Development Partners, (HDP).

#### EXECUTIVE SUMMARY OF KEY FACTORS:

- San Diego Square Senior Apartments consists of 154 affordable rental apartments for seniors age 62 and older, as well as two managers' units.
- San Diego Square affordable apartments receive a HUD operating subsidy in the form of a project-based Section 8 Housing Assistance Payment (HAP) contract that expires in 2034.
- On May 14, 2013, the City Council authorized a Percentage Ground Lease between the City and HDP, in conjunction with HDP's acquisition of the improvements.
- The City now wishes to sell to the Housing Commission its ownership of the Land currently leased to HDP.
- Subsequent to the Housing Commission's purchase of the land, the Housing Commission will execute a Percentage Ground Lease with HDP, maintaining all affordability restrictions and lien positions as documented in the ground lease between the City and HDP.
- The Housing Commission will lease the Land to HDP under the same terms as the current lease with the City.



## REPORT

**DATE ISSUED:** January 4, 2018

**REPORT NO:** HCR18-002

**ATTENTION:** Chair and Members of the San Diego Housing Commission  
For the Agenda of January 12, 2018

**SUBJECT:** Authorization to purchase Land of San Diego Square from City of San Diego, and  
Authorization to lease Land of San Diego Square to Housing Development Partners

**COUNCIL DISTRICT:** 3

### REQUESTED ACTION

**Seven-Day Advance Notice of San Diego Housing Commission hearing of the following matter has been provided to the Housing Authority Members in accordance with the terms and provisions of San Diego Municipal Code Section 98.0301(e)(4)(b).**

Authorize the San Diego Housing Commission (Housing Commission) to purchase the land from the City of San Diego known as Assessor's Parcel Number (APN) 534-196-05-00, located at 1055 Ninth Avenue, San Diego, CA 92101, commonly known as San Diego Square Senior Apartments, and authorize the Housing Commission, upon the purchase of the land at APN 534-196-05-00, to execute a percentage ground lease of the land to the Housing Commission's nonprofit affiliate, Housing Development Partners.

### STAFF RECOMMENDATION

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

1. Authorize the Housing Commission to purchase land from the City of San Diego (City) known as Assessor's Parcel Number (APN) 534-196-05-00, located at 1055 Ninth Avenue, San Diego, CA 92101 (Land), for a purchase price not to exceed \$10,000 and closing costs not to exceed \$50,000. The property is improved with a 12-story senior apartment building commonly known as San Diego Square Senior Apartments;
2. Authorize the Executive Vice President & Chief of Staff (Executive Vice President & COS), or designee, to implement Fiscal Year (FY) 2018 Housing Commission budget adjustments as the purchase of the Land may require;
3. Authorize the Executive Vice President & COS, or designee, upon completion of the Housing Commission's purchase of the Land from the City, to execute a ground lease of the Land to the Housing Commission's nonprofit affiliate, Housing Development Partners (HDP);
4. Authorize the Executive Vice President & COS, or designee, to request and receive approval from the U.S. Department of Housing and Urban Development (HUD), Boston Capital, Citibank and any and all entities with interest in the real estate to purchase the Land from the City of San Diego and thereafter execute a ground lease of the Land with HDP;

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5. Authorize the Executive Vice President & COS, or designee, to sign any and all subordination agreements in the same lien positions as existing financing of the improvements at 1055 Ninth Avenue; and
6. Authorize the Executive Vice President & COS, or designee to sign any and all documents and to take any such actions and to perform such acts as are necessary to purchase the Land from the City of San Diego and to execute a ground lease of the Land with HDP and to perform such other acts as are necessary to implement these approvals.

### **SUMMARY**

San Diego Square Senior Apartments consists of 154 affordable rental apartments for seniors age 62 and older, as well as two managers' units. The improvements, constructed in 1979 and rehabilitated in 2016, are located at 1055 Ninth Avenue in downtown San Diego. The improvements of this 12-story residential tower include 154 one-bedroom, one-bathroom apartments and 2 two-bedroom managers' apartments. The improvements also include a two-story adjoining commercial building on Broadway with approximately 18,849 square feet. On May 14, 2013, the City Council authorized a Percentage Ground Lease between the City and HDP, in conjunction with HDP's acquisition of the improvements. The 65-year ground lease between the City and HDP continued to restrict occupancy to low-income seniors (age 62 and older). Per the terms of the existing ground lease, ownership of the improvements transfers to the City at the end of the 65-year ground lease term. HDP serves as the managing member of HDP Broadway Management LLC, which is the managing general partner of the Low Income Housing Tax Credit limited partnership that is the legal owner of the improvements. San Diego Square affordable apartments receive a HUD operating subsidy in the form of a project-based Section 8 Housing Assistance Payment (HAP) contract that expires in 2034. The City now wishes to sell to the Housing Commission its ownership of the Land currently leased to HDP. Subsequent to the Housing Commission's purchase of the Land, the Housing Commission will execute a Percentage Ground Lease with HDP, maintaining all affordability restrictions and lien positions as documented in the ground lease between the City and HDP. The Housing Commission will lease the Land to HDP under the same terms as the current lease with the City. The Housing Commission's Percentage Ground Lease with HDP will be for the number of years remaining from the City's 65-year ground lease, which started in 2014.

### **AFFORDABLE HOUSING IMPACT**

The improvements located at 1055 Ninth Avenue (San Diego Square) are owned by a Low Income Housing Tax Credit (LIHTC) partnership, of which HDP Broadway Management LLC is the managing general partner. San Diego Square includes 154 affordable apartments with occupancy and rent restrictions for very low- and low-income seniors (age 62 and older), with incomes of 50-60 percent of San Diego's Area Median Income (AMI). Under the HUD HAP contract, residents will pay rents equal to 30% of their income. With the Housing Commission's tax-exempt bond financing of the improvements, the affordability restrictions will remain in effect for 55 years. When the Housing Commission owns the Land, with a 65-year ground lease to HDP, the long-term affordability of the Land and improvements will be preserved. This long-term affordability of the Land and improvements serves as the rationale for the City's low sale price. It is understood that should the Housing Commission or HDP cease to operate the project per the affordability restrictions of 65 years, the ownership of the property will revert to the City of San Diego.

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### **FISCAL CONSIDERATIONS**

The proposed funding sources and uses approved by this action were not included in the Housing Authority-approved FY2018 Housing Commission budget and will increase the FY2018 Budget by an amount not to exceed \$60,000. Funding sources and uses will be as follows:

#### **Fiscal year 2018 funding sources:**

Property Reserves	\$ 60,000
	<hr/>
	\$ <b>60,000</b>

#### **Fiscal year 2018 funding uses:**

Acquisition	\$ 10,000
Closing Costs	<hr/>
	\$50,000
	<hr/>
	\$ <b>60,000</b>

### **PREVIOUS COUNCIL AND COMMITTEE ACTIONS**

On September 11, 1979, the City Council passed Resolution R-250195, authorizing the ground lease between the City and San Diego Kind Corporation.

On May 14, 2013, the City Council passed Resolution R-308156, amending the ground lease between the City and San Diego Kind Corporation, and Resolution R-308190, authorizing a ground lease between the City and HDP.

On April 22, 2014, the City Council passed Resolution R-308899, authorizing the execution of the First Amendment to the Ground Lease between the City and HDP, which provided a one-year extension of time for HDP to satisfy the commencement conditions of the lease.

On November 18, 2014, the City Council passed Resolution R-309323, authorizing the Second Amendment to the Ground Lease between the City and HDP, which included several lease amendments to allow staff to provide the lender assurances needed for HDP to obtain financing from its prospective lender.

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On September 13, 2013, and September 24, 2013, respectively, the Housing Commission and Housing Authority approved a residual receipts loan of up to \$6,000,000 and approved the initial steps to authorize the issuance of up to \$17,825,000 in tax-exempt Multifamily Housing Revenue Bonds to facilitate the acquisition and rehabilitation of San Diego Square.

On September 24, 2013, the City Council held a Tax Equity and Fiscal Responsibility Act hearing as required by IRS Code.

On October 10, 2014, and October 28, 2014, respectively, the Housing Commission and Housing Authority approved the final authorization to issue up to \$17,825,000 in tax-exempt Multifamily Housing Revenue Bonds to acquire and rehabilitate San Diego Square.

On October 28, 2014, the City Council held a Tax Equity and Fiscal Responsibility Act FRA hearing as required by IRS Code.

On June 6, 2017, the City Council passed Resolution R-311161, authorizing the Lease Rider and Estoppel Agreement between the City, HDP Broadway Management LLC and the California Tax Credit Allocation Committee.

### **COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS**

On June 19, 2013, the Downtown Community Planning Council unanimously approved HDP's proposal to acquire and rehabilitate the improvements at 1055 Ninth Avenue (San Diego Square).

### **KEY STAKEHOLDERS and PROJECTED IMPACTS**

Stakeholders for this project include the residents of San Diego Square, the Housing Commission, the City and HDP as the developer and managing member of HDP Broadway Management LLC, which is the managing general partner of the borrower. The Housing Commission's ownership of the Land at 1055 Ninth Avenue and 910 C Street will preserve existing affordable housing for downtown seniors.

### **ENVIRONMENTAL REVIEW**

The proposed land purchase and subsequent lease of San Diego is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the State CEQA Guidelines because San Diego Square is an existing facility and the proposed actions do not involve expansion of the existing use. Processing under the National Environmental Policy Act (NEPA) is not required since there are no Federal funds involved with this action.

### **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

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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,



Emmanuel Arellano  
Director Portfolio Management  
Real Estate Division

Approved by,



Deborah N. 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 and at the fifth floor reception desk at 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).