



REPORT

DATE ISSUED: June 7, 2018

REPORT NO: HCR18-058

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of June 15, 2018

SUBJECT: Approval of forgivable loan to Island Inn, L.P. to extend affordability for 201-unit project located at 202 Island Avenue, San Diego, California, with Redevelopment Agency restrictions that expired in 2017

COUNCIL DISTRICT: Council District 3

REQUESTED ACTION:

That the San Diego Housing Commission recommend that the Housing Authority of the City of San Diego and the San Diego City Council approve a forgivable loan in the amount of \$2,750,000 to Island Inn, L.P. to extend the affordability of the 201-unit project located at 202 Island Avenue, San Diego, California.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) recommend that the Housing Authority of the City of San Diego (Housing Authority) and San Diego City Council (City Council) take the following actions, as described in this report:

Housing Authority:

- 1) Authorize a forgivable loan in the amount of \$2,750,000 to Island Inn, L.P., to extend the affordability restrictions (that expired in 2017) to December 31, 2027, making the project 100 percent affordable at 50 percent of Area Median Income (AMI) and 80 percent of AMI affordability levels;
- 2) Authorize the President & Chief Executive Officer of the Housing Commission (President & CEO), or designee, to execute such documents and perform such acts as are necessary to implement these approvals, in a form and format as approved by General Counsel of the Housing Commission;
- 3) Authorize the President & CEO of the Housing Commission, or designee, to take such actions as are necessary to accept an assignment of the original, forgivable loan in the amount of \$2,392,000, secured by a Deed of Trust in favor of the City of San Diego, as Successor Agency to the former San Diego Redevelopment Agency (RDA) note, and to extend the forgiveness date of such note and deed of trust to be coincident with the termination date of the Housing Commission forgivable loan, of December 31, 2027; and
- 4) Authorize the President & CEO of the Housing Commission, or designee, to change funding sources, when in the best interests of the Housing Commission, provided that such funding sources are available and provided further that the amount of the forgivable loan approved in this action does not increase beyond that approved in these actions.

City Council:

- 1) If and to the extent necessary, approve the assignment of the RDA note and the extension of the forgiveness date to December 31, 2027; and,
- 2) Authorize the Mayor, or designee, to execute such documents and perform such acts as are necessary to effectuate the assignment and extension of the forgiveness date of the RDA note.

SUMMARY

Island Inn is an existing, 201-unit Single-Room Occupancy rental project located at 202 Island Avenue in the Marina District of the City of San Diego. The former Redevelopment Agency (RDA) previously negotiated land use covenants in the early 1990's in exchange for a forgivable grant. The land-use covenants for the development required 40 units to be affordable to residents with income up to 50 percent of San Diego's Area Median Income (AMI); 80 units to be affordable up to 80 percent of AMI; and the remaining units to be affordable up to 120 percent of AMI.

The Island Inn land use covenants expired in 2017; however, the owner is required to provide tenant notices one year in advance of terminating the affordability restrictions. The noticing of termination of the affordability has not yet been given to tenants, pending negotiations between the owner and the Housing Commission.

If the staff recommended actions are approved, the affordability at Island Inn will be extended until December 31, 2027, at 50 percent and 80 percent of AMI. All of the units will continue to be affordable.

Before agreeing to extend the affordability, the owner expressed interest in extending the affordability of the project for a limited period while they evaluate a long-term strategy for the project. The owners have indicated that they are evaluating three options: 1) continue to operate as affordable housing; 2) convert to market rate housing, and; 3) convert to a boutique hotel. The owner has agreed to extend the affordability for the project until December 31, 2027, in exchange for a lump sum payment as referenced within this report.

At this time, the owner is willing to enter into an agreement with the Housing Commission for Island Inn. The Housing Commission has tentatively agreed with the owner, subject to Housing Authority approval, to pay the owner the sum of \$2,750,000 in consideration of the extension of the affordability on Island Inn through year 2027.

In addition, the owner also owns another property, the 221-unit J Street Inn, located at 222 J Street, San Diego. The owner has indicated that they are willing to consider extending the affordability of that project as well, when the RDA restrictions expire in May of 2020.

Table 1 – Development Summary

Address	202 Island Avenue
Council District	3
Community Plan Area	Downtown (Marina District Neighborhood)
Owner	Island Inn L.P. and 197 Partners GP, LLC
Development Type	Preservation of existing affordable housing
Construction Type	Four story wood frame with stucco construction
Year Built	1990
Onsite Parking	80 parking spaces
Housing Type	Multifamily
Lot Size	0.57 gross acres
Units	201 single room occupancy units
Unit Mix	101 (250 square feet units) 100 (325 square feet units)
Gross Building Area	100,000 square feet
Net Rentable Area	57,750 square feet (residential total)

Keyser Marston Associates Analysis

The Housing Commission engaged Keyser Marston Associates (KMA) to conduct financial modeling to determine the amount of public subsidy in the form of a forgivable loan to extend the affordability for the project. A copy of that analysis is attached to this report (Attachment 3) and shows that the payment of \$2,750,000 is financially justified, given the present value analysis based upon 13 of the units being restricted at or below 50 percent of AMI and the balance being restricted at or below 80 percent of AMI. The initial study models 100 percent of the units at 80 percent of AMI, and the subsequent study models rents affordable at 50-80 percent of AMI to achieve a \$2,750,000 subsidy.

Former RDA Agreements

Housing Commission staff has negotiated with City staff to assign former RDA loan documents to the Housing Commission. The City Attorney has drafted the Assignment & Assumptions Agreement. General Counsel for the Housing Commission will work with the City Attorney to finalize the documents.

Housing Commission Agreements

General Counsel for the Housing Commission will draft a Declaration and forgivable loan documents, if and when this matter is approved by the Housing Authority.

Additional Considerations

The City of San Diego loan agreement for Island Inn will need to be extended. The City’s assignment of the loan documents to the Housing Commission would facilitate this extension. The purpose of extending the City loan is to avoid a capital gains tax payment at this time. Extension through the affordability period (currently contemplated through 2027) is required.

As part of the negotiations to reduce the Housing Commission’s subsidy, staff recommends waiving annual compliance monitoring fees. If compliance monitoring fees are required, the Housing

Commission's subsidy amount will increase. There is no advantage to requiring a compliance monitoring fee.

The owner of the project has committed to converting existing office space into a community room at the project. The Housing Commission engaged the Gordian Group to estimate costs of construction improvements proposed by the owner, and the owner's designer provided an estimate for furniture, fixtures and equipment (FF&E).

AFFORDABLE HOUSING IMPACT

The owner has agreed to impose rental and occupancy restrictions on the all of the units in the property, which will terminate on December 31, 2027. Thirteen of the units will be affordable to and occupied by households earning at or below 50 percent of AMI. The balance of 188 units will be occupied by and affordable to households earning at or below 80 percent of AMI.

It should be noted that a number of the prior RDA restricted units were restricted at or below 120 percent of AMI, so the proposed transaction deepens the affordability of those units. Upon expiration of the former RDA land use covenants, the Housing Commission declaration would become effective. For example, the Island Inn has complied with the land use restrictions, which technically expired in December 2017 – the owner is required to notify tenants of their intent to terminate restrictions. The Housing Commission declaration would become effective immediately after the one-year noticing period.

As referenced within this report, the approval of this matter will result in the preservation of 201 SRO units in the City of San Diego for an additional ten years. These units will be affordable at and below 50-80 percent of AMI, which will lower the existing affordability levels.

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action will increase funding allocation to loans made in the proposed Fiscal Year (FY) 2019 Housing Commission Budget.

This action will be funded by both City Inclusionary funds and former Redevelopment funds as a result of the repayment of the Island Palms Apt., L.P. loan, which has already been distributed to the Housing Commission and is contained within funds held by the Housing Commission.

Funding sources approved by this action will be as follows:

Former RDA Low/Mod Housing Set Aside Funds-held by the Commission - \$1,836,414
Inclusionary Affordable Housing Funds - \$913,586
Total funding sources - \$2,750,000

Funding uses approved by this action will be as follows:

Loans – up to \$2,750,000
Total funding uses - \$2,750,000

PREVIOUS COUNCIL and/or COMMITTEE ACTION

On May 21, 2018, the Smart Growth and Land Use recommended that Inclusionary Funds be allowed to be utilized for preservation projects. This activity is included in the FY 2019 Affordable Housing Fund Annual Plan that will be presented to the City Council on June 11, 2019.

KEY STAKEHOLDERS and PROJECTED IMPACTS

The approval of this project will result in the preservation of 201 SRO units in the City of San Diego, which units are extremely scarce and are needed to continue to address homelessness in the City. If the affordability is lost, the people in residence are in jeopardy of becoming homeless or will be forced to attempt to find more expensive unrestricted units in a very tight rental market.

ENVIRONMENTAL REVIEW

The proposed loan is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the State CEQA Guidelines because Island Inn 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.

Respectfully submitted,

Tina Kessler

Tina Kessler
Housing Programs Manager
Real Estate Department

Approved by,

Deborah N. Ruane

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

Attachments:

- 1) Developer Disclosure Statement – Island Inn, L.P.
- 2) Developer Disclosure Statement – 197 Partners GP, LLC
- 3) Keyser Marston Associates Analysis

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.