



EXECUTIVE SUMMARY

MEETING DATE: July 18, 2025

HCR25-001

SUBJECT: Authorization to Enter into the First Amendment to The Second Amended and Restated Lease and Require the Recommencement and Completion of the Minimum Capital Improvements per the Second Amended and Restated Lease and Cease Negotiations Regarding a Non-binding Letter of Intent for the Redevelopment of Mariner's Cove, 4392 West Point Loma Boulevard, San Diego, 92107

COUNCIL DISTRICT: 2

ORIGINATING DEPARTMENT: Real Estate

CONTACT/PHONE NUMBER: Jennifer Kreutter (619) 578-7709

REQUESTED ACTION:

Authorize the San Diego Housing Commission to enter into the First Amendment to The Second Amended and Restated Lease (SARL) and require the recommencement and completion of the Minimum Capital Improvements per the SARL and cease negotiations regarding a non-binding Letter of Intent (LOI) to enter into an Amendment to the SARL with the Lessee for the redevelopment of Mariner's Cove at 4392 West Point Boulevard, San Diego, 92107.

EXECUTIVE SUMMARY OF KEY FACTORS:

- In December 1982, the Housing Authority and the current Lessee's predecessor entered into a 55-year ground lease for approximately 30.21 acres of land in the Midway area of the City of San Diego
- Under the terms of the ground lease, the Lessee was to construct 500 rental units. Of these units, 100 were to be occupied by households earning up to 80 percent of San Diego's Area Median Income (AMI) and receiving rental assistance through a Project-Based Housing Assistance Payment Agreement (HAP Agreement) with the U.S. Department of Housing and Urban Development (HUD).
- Two hundred units were to be restricted to occupancy by moderate-income households, earning up to 120 percent of AMI, and the remaining 200 units were to be market-rate rental housing units.
- In 2015, after substantial negotiations, SDHC and the Lessee executed a Second Amended and Restated Lease (SARL), with the approval of the SDHC Board of Commissioners and the Housing Authority.
- The executed SARL required the Lessee to complete \$25,000,000 in improvements to the property by July 1, 2021. However, in 2019, after the Lessee had invested \$4,100,000 in capital improvements, the Lessee approached SDHC with a concept of adding additional units to the site. Due to ensuing negotiations, the deadline to complete improvements was extended.
- On May 31, 2022, SDHC staff presented the proposed project to the SDHC Board, with a few items that remained outstanding and would be resolved prior to entering into a Letter of Intent (LOI). However, as negotiations continued, certain terms could still not be agreed upon.
- Subsequently, due to the Lessee's expressed commitment to redevelop the property and the potential to increase the number of available housing units at the site, SDHC and Lessee agreed to continue negotiations throughout 2023 and 2024.
- In a letter dated November 5, 2024, SDHC staff informed the Lessee that due to lack of an agreement regarding a proposed letter of intent and the fact that the proposed project continues to not be feasible, staff will be recommending to the SDHC Board that negotiations cease and that deadlines be established for completion of property improvements at Mariner's Cove, as required in the existing SARL.
- If approved, SDHC will require recommencement of the remaining \$20,900,000 in Minimum Capital Improvements pursuant to the SARL within six months of the date the SDHC Board hears the item and completion of the improvements within three years from the date of the recordation of the First Amendment.



REPORT

DATE ISSUED: July 10, 2025

REPORT NO: HCR25-001

ATTENTION: Chair and Members of the San Diego Housing Commission Board of Commissioners
For the Agenda of July 18, 2025

SUBJECT: Authorization to Enter into the First Amendment to The Second Amended and Restated Lease and Require the Recommencement and Completion of the Minimum Capital Improvements per the Second Amended and Restated Lease and Cease Negotiations Regarding a Non-binding Letter of Intent for the Redevelopment of Mariner's Cove, 4392 West Point Loma Boulevard, San Diego, 92107

COUNCIL DISTRICT: 2

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)(A)-(B) for Staff Recommendation No. 1.

REQUESTED ACTION

Authorize the San Diego Housing Commission to enter into the First Amendment to The Second Amended and Restated Lease (SARL) and require the recommencement and completion of the Minimum Capital Improvements per the SARL and cease negotiations regarding a non-binding Letter of Intent (LOI) to enter into an Amendment to the SARL with the Lessee for the redevelopment of Mariner's Cove at 4392 West Point Boulevard, San Diego, 92107.

STAFF RECOMMENDATIONS

That the San Diego Housing Commission (SDHC) Board of Commissioners (Board), take the following actions:

- 1) Authorize SDHC, as administrative agent of the Housing Authority of the City of San Diego (Housing Authority), to enter into the First Amendment to the Second Amended and Restated Lease (SARL) require the recommencement and completion of the Minimum Capital Improvements as described in the Second Amended and Restated Lease (SARL) with Lincoln Mariners Associates Limited (Lessee) for Mariner's Cove at 4392 West Point Loma Boulevard, San Diego, 92107, at the terms and conditions listed within the report.

Authorization to extend the deadline shall not constitute a waiver of the Ground Lease's requirements regarding the sale, transfer or assignment of the leasehold. The terms of the Ground Lease, which shall remain in effect, state that the leasehold may not be sold, transferred or assigned without the express written consent of SDHC on behalf of the Housing Authority and that the required improvements of the property must be completed before any sale, transfer or assignment may be approved.

- 2) Authorize SDHC, as administrative agent of the Housing Authority of the City of San Diego, to cease negotiations regarding a non-binding Letter of Intent (LOI) to enter into an Amendment to the Second Amended and Restated Lease (SARL) with Lincoln Mariners Associates Limited (Lessee) for Mariner's Cove at 4392 West Point Loma Boulevard, San Diego, 92107.

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- 3) Authorize Lisa Jones, SDHC's President and Chief Executive Officer, or designee, to execute all necessary documents and instruments that are necessary and/or appropriate to implement these approvals, in a form and format approved by General Counsel, and to take such actions necessary and/or appropriate to implement these approvals, including an amendment to the Ground Lease, provided that a copy of the documents, signed as to form by General Counsel, is submitted to each SDHC Commissioner.

BACKGROUND

In December 1982, the Housing Authority and the current Lessee's predecessor entered into a 55-year ground lease for approximately 30.21 acres of land in the Midway area of the City of San Diego, located within Council District 2. Under the terms of the ground lease, the Lessee was to construct 500 rental units. Of these units, 100 were to be occupied by households earning up to 80 percent of San Diego's Area Median Income (AMI) and receiving rental assistance through a Project-Based Housing Assistance Payment Agreement (HAP Agreement) with the U.S. Department of Housing and Urban Development (HUD). Two hundred units were to be restricted to occupancy by moderate-income households, earning up to 120 percent of AMI, and the remaining 200 units were to be market-rate rental housing units. The ground rent payable to the SDHC as the administrative agent of the Housing Authority was 6 percent of the gross income of the project and was approximately \$500,000 per year.

In 2010, the Lessee, Lincoln Mariners Associates Limited, approached SDHC about acquiring the land upon which the project is constructed. No agreement was reached on selling the land. In 2014, SDHC and the Lessee entered into negotiations to extend the term of the lease. After substantial negotiations, the parties came to an agreement on deal points for an amended and restated lease. The execution of a Second Amended and Restated Lease was subject to the approval of the SDHC Board and the Housing Authority. Before the approval of the Second Amended and Restated Lease, the City of San Diego's Office of the Independent Budget Analyst (IBA) reviewed and approved the amendment. The approvals for this Second Amended and Restated Lease (Ground Lease) were granted on May 8, 2015 (SDHC Board Report HCR15-044), and June 16, 2015 (Housing Authority Resolution HA-1662; Report HAR15-018), respectively.

The executed Ground Lease (Attachment 2) required the Lessee to complete \$25,000,000 in improvements to the property by July 1, 2021. In 2017, SDHC approved a Capital Improvement Plan submitted by the Lessee and construction commenced on the SARL's required Minimum Capital Improvements. However, in 2019, the Lessee approached SDHC with a concept of adding additional units to the site. By this time, the Lessee had invested approximately \$4,100,000 in capital improvements and, due to the proposed concept, the Lessee halted continued progress. As a result of the proposal to potentially demolish all the units and construct 772 new units on the property, the deadline to complete improvements was extended to July 1, 2022. The extended deadline passed; however, at the time, the parties were negotiating the terms for construction of the 772 new units on the property, and it did not make sense to require the Lessee to continue to invest the remaining \$20,900,000 in improvements that would need to be demolished in the event an agreement was reached with respect to the 772 new units.

After substantial negotiations, the parties established a framework of tentative deal points for an amendment to the Ground Lease.

SDHC engaged Keyser Marston Associates, Inc. (KMA) in May 2020 to assist SDHC in determining the estimated land value and annual ground rent supported by the development of the proposed project. Beginning in 2020, KMA prepared financial models illustrating the financial outcomes of a series of proposals and counterproposals presented by both SDHC and the Lessee. A summary of the

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negotiations is attached hereto as Attachment 3. KMA also tested alternative inputs/assumptions to evaluate the financial impact of selected deal points. A summary of the financial analyses prepared by KMA is presented in Attachment 4.

Similarly, the Lessee engaged London Moeder Advisors (LMA) to provide financial analysis from their perspective. Reports and letters prepared by LMA, the financial advisor for the Lessee, are attached as Attachments 5, 6 and 7. The counteroffer by the Lessee is attached hereto as Attachment 8.

On May 31, 2022, SDHC staff presented the proposed project to the SDHC Board, with a few items that remained outstanding and would be resolved prior to entering into a Letter of Intent (LOI). However, as negotiations continued throughout the remainder of calendar year 2022, certain terms could still not be agreed upon. On December 29, 2022 (Attachment 10), SDHC staff informed the Lessee that SDHC had made all concessions that it reasonably could and that Lessee's agreement on the proposed LOI would be required by January 20, 2023; otherwise, SDHC would move forward with recommending negotiations regarding a proposed LOI cease and proceed with the originally planned \$25,000,000 in improvements.

Subsequently, due to the Lessee's expressed commitment to redevelop the property and the potential to increase the number of available housing units at the site, SDHC and Lessee agreed to continue negotiations throughout 2023 and 2024. In Spring 2024, SDHC reengaged KMA, and further financial modeling concluded that the demolition and reconstruction the Lessee had proposed continues to not be financially feasible (Attachment 11).

In a letter dated November 5, 2024 (Attachment 12), SDHC staff informed the Lessee that due to lack of an agreement regarding a proposed LOI and the fact that the proposed project continues to not be feasible, staff will be recommending to the SDHC Board that negotiations cease and that deadlines be established for completion of property improvements at Mariner's Cove, as required in the existing SARL.

If approved, SDHC will require recommencement of the remaining \$20,900,000 in Minimum Capital Improvements pursuant to the SARL within six months of the date the SDHC Board hears the item and completion of the improvements within three years from date of the recordation of the First Amendment. Any extension of the deadline to complete the improvements shall not constitute a waiver of the Ground Lease's requirements regarding the sale, transfer or assignment of the leasehold. The terms of the Ground Lease, which shall remain in effect, state that the leasehold may not be sold, transferred or assigned without the express written consent of SDHC on behalf of the Housing Authority and that the required improvements of the property must be completed before any sale, transfer or assignment may be approved.

Timing for Commencement and Completion of Capital Improvements Established on July 17, 2025, and July 17, 2026, respectively

In 2024, SDHC, as the administrative agent for the Housing Authority, was presented with a request to provide the Lessee with an Estoppel Certificate concerning the status of the lease. One of the items requested was a statement from SDHC that there were no defaults under the terms of the lease, which SDHC provided. However, in the Certificate, SDHC reminded the Lessee of the required construction of the Minimum Capital Improvements per the SARL and that the timing of the construction had been paused as a result of ongoing negotiations. The Estoppel Certificate provided that either the date of the Housing Authority's determination to extend or eliminate the deadline or one year from the date of the Estoppel Certificate of June 13, 2024, whichever occurred earlier, would constitute the Minimum Capital Improvements commencement date. With full knowledge of the terms of the Estoppel Certificate

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concerning the Capital Improvement requirements, the Lessee to the purchaser, Blackstone Real Estate Partners.

Accordingly, if the SDHC Board approves the staff recommendations at its July 18, 2025, Board meeting after giving seven days' advance notice to the Housing Authority, and the Housing Authority does not request review of the SDHC Board's action, the SDHC Board's action would become final, which, in turn, constitutes the Housing Authority action. The date of finality of the SDHC Board's action constitutes the beginning of the six-month period in which construction of the Minimum Capital Improvements must recommence, time being of the essence. Further, the remaining required Minimum Capital Improvements of \$20,900,000 shall be completed not later than three years from the date of recordation of the First Amendment. Once completed, all Minimum Capital Improvements will total \$25,000,000. The Completion date for all of the capital improvements that must be completed in a good and workmanlike manner, free of mechanics liens, etc., is no later than three years from the date of recordation of the First Amendment.

SURPLUS LAND ACT (SLA)

Analysis of the SLA leads to the conclusion that the proposed transaction is not subject to the provisions of the SLA, which was amended to affect Housing Authorities for the first time in 2019. The instant the SARL, Attachment 2, was executed in 2015, it was not subject to the SLA when it became operative. On July 12, 2022, SDHC's General Counsel obtained confirmation in writing from the California Department of Housing and Community Development (HCD) that this transaction is not subject to the provisions of the SLA.

AFFORDABLE HOUSING IMPACT

Of the current 500 rental units at the property, 300 units will remain as low- and moderate-income units until the end of 2070 and potentially to the end of 2090, if the option to extend the lease is exercised. The proposed action will require the recommencement of \$25,000,000 in improvements at Mariner's Cove, which consists of 100 units occupied by households earning up to 80 percent of San Diego's AMI who receive rental assistance through a Project-Based Housing Assistance Payment Agreement (HAP Agreement) with HUD; 200 units restricted to occupancy by moderate-income households, earning up to 120 percent of AMI; and 200 market-rate rental housing units.

FISCAL CONSIDERATIONS

The staff-recommended actions will not impact SDHC's Fiscal Year (FY) 2025 budget, as the Lessee will finance the construction of the Minimum Capital Improvements.

SDHC STRATEGIC PLAN

This item relates to Strategic Priority Area No. 1 in SDHC's Strategic Plan for Fiscal Year (FY) 2022-2024: Increasing and Preserving Housing Solutions. SDHC is in the process of developing a new Strategic Plan.

NONDISCRIMINATION ASSURANCE

At SDHC, we're about people. We are committed to ensuring a compassionate, person-centered approach to SDHC's programs, policies, projects and activities and to serving our community impartially, fairly and without bias. We are also committed to ensuring compliance with all applicable federal, state and local laws and protections to the extent that they affect this action relative to nondiscrimination.

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The Lessee, Lincoln Mariners Associates Limited is committed to complying with all applicable fair housing and equal employment opportunity regulations. A workforce report is available on their website.

PREVIOUS SDHC BOARD and/or HOUSING AUTHORITY ACTION

On May 31, 2022, the SDHC Board voted 4-1 in favor of a motion to approve the staff recommendations as set forth in the Board report No. HCR22-088 with the following exceptions:

1. Staff is to ensure appropriate relocation provisions are included in the Letter of Intent and the Third Amended and Restated Lease.
2. With respect to revisiting ground lease rent amounts every 10 years, staff shall continue to negotiate with the Lessee to reach a resolution, with the rental amounts to be revisited after 10 or more years.
3. Staff is authorized to forward the matter to Housing Authority while negotiating with the Lessee concerning Item 2 above, and to report back to the SDHC Board the result of the negotiations.

On June 16, 2015, the Housing Authority voted 9-0 to adopt Resolution No. HA-1662 (Report No. HAR15-018), authorizing and approving an amended and restated lease extending the term of the lease to 55 years with one 20-year option to extend the lease concerning Mariner's Cove at 4392 West Point Loma Boulevard, San Diego.

On May 8, 2015, the SDHC Board voted 4-0 to approve the staff-recommended actions in Report No. HCR15-044, recommending that the Housing Authority approve and authorize an amended and restated lease extending the term of the lease to 55 years with one 20-year option to extend the lease concerning Mariner's Cove at 4392 West Point Loma Boulevard, San Diego.

KEY STAKEHOLDERS and PROJECTED IMPACTS

Key stakeholders include the current residents, the Lessee, SDHC and the Housing Authority.

ENVIRONMENTAL REVIEW

Extending the deadline for the completion of improvements is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b) (5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. To the extent that the improvements would be considered a project under CEQA, the improvements are exempt pursuant to Sections 15301 (Existing Facilities) and 15302 (Replacement or Reconstruction). A notice of exemption for the rehabilitation was filed on November 22, 2019.

Processing under the National Environmental Policy Act is not required as no federal funds are involved in the proposed actions. While residents of 100 units at this property receive rental assistance through a Project-Based Housing Assistance Payment Agreement with HUD, there is no impact upon this rental assistance as a result of these actions. For that reason, processing under the National Environmental Policy Act is not required.

Respectfully submitted,

Jennifer Kreutter

Jennifer Kreutter
Vice President of Multifamily Housing Finance
Real Estate Division

Approved by,

Jeff Davis

Jeff Davis
Deputy Chief Executive Officer
San Diego Housing Commission

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Attachments:

- 1) Proposed First Amendment to the Second Amended and Restated Ground Lease
- 2) Second Amended and Restated Ground Lease for Mariner's Cove
- 3) Summary of Developer Negotiations and Financial Analysis
- 4) SDHC Mariners Cove Analysis
- 5) LMA Report 12.09.21
- 6) LMA Report 2.11.22
- 7) LMA Letter 3.31.22
- 8) LMA Model 5.19.22
- 9) Lessee Counteroffer
- 10) SDHC Board Resolution
- 11) Letter to Lessee from SDHC 12.29.22
- 12) KMA Report 2.13.24
- 13) Letter to Lessee from SDHC 11.05.24
- 14) Estoppel Certificate

A printed copy is available for review during business hours at the information desk in the main lobby of SDHC's offices at 1122 Broadway, San Diego, CA 92101. Docket materials are also available in the "Governance & Legislative Affairs" section of SDHC's website at www.sdhc.org.