



November 5, 2024

Via email only

Lincoln Mariners Associates Limited

**Re: Second Amended and Restated Ground Lease
Mariner's Cove Apartments
4392 W. Point Loma Blvd., San Diego, CA 92107**

After years of extensive negotiations that have not produced an agreement, the San Diego Housing Commission ("Housing Commission"), as the administrative agent for the Housing Authority of the City of San Diego ("Housing Authority"), will be recommending to our Board of Commissioners (Board) that negotiations cease and that deadlines be established for completion of property improvements at Mariner's Cove, as required in the existing Ground Lease.

The Housing Authority and Lincoln Mariners Associates Limited, a California limited liability company ("Lessee"), are all of the parties to that certain Second Amended and Restated Ground Lease recorded in the Office of the County Recorder for the County of San Diego on November 4, 2015, as document number 2015-0576433 ("Ground Lease").

The Ground Lease requires the Lessee to complete \$25,000,000 of "Minimum Capital Improvements" (as defined in the Ground Lease) by July 1, 2021. However, in 2020 the Lessee approached the Housing Commission, as the administrative agent of the Housing Authority, and proposed the concept of demolishing all 500 of the units at Mariner's Cove and constructing a new 772-unit project ("772-Unit Project") in its place. The July 1, 2021, deadline was extended to July 1, 2022, by a letter dated July 6, 2020, from Richard C. Gentry, the Housing Commission's President and CEO at the time, to the Lessee. For more than four years, the Housing Commission, on behalf of the Housing Authority, and the Lessee engaged in negotiations with respect to the scope and timing of the 772-Unit Project. In an Estoppel Certificate and Agreement made by the Housing Authority to Wells Fargo Bank, dated June 13, 2024, the Housing Authority agreed that the Housing Authority shall not enforce Lessee's obligation to satisfy the Minimum Capital Improvements obligation nor declare a default in connection therewith, pending the following, whichever occurred sooner: (i) Housing Authority's determination to extend or eliminate the deadline for completion of the Minimum Capital Improvements, or (ii) one year from the date of the Estoppel Certificate and Agreement.

During the negotiating period with respect to the 772-Unit Project, the Housing Commission, on behalf of the Housing Authority, and the Lessee each engaged third-party financial consultants to analyze the 772-Unit Project and assist in negotiation of the ground rent payable under the Ground

Lease upon construction, if ever, of the 772-Unit Project. The Housing Commission, the Lessee and their respective consultants all determined the 772-Unit Project was infeasible at that time. Given the financial infeasibility, the parties tentatively agreed that if the Ground Lease were amended to allow construction of the 772-Unit Project, ground rent would not initially increase, but would be subject to adjustment at a later date (the details of which were set forth in prior draft letters of intent between the Housing Commission, on behalf of the Housing Authority, and the Lessee).

Notwithstanding the infeasibility of the 772-Unit Project, the Lessee desired to amend the Ground Lease to allow for demolition of the existing structures and construction of the 772-Unit Project, in the event the 772-Unit Project became feasible in the future. The Housing Commission, on behalf of the Housing Authority, and the Lessee tentatively agreed: (i) the Minimum Capital Improvements expenditure amount would be increased from \$25 million to \$30 million (increased by 3% per year until completed); and (ii) the Lessee would be required to satisfy certain milestones. The parties tentatively agreed the Lessee would provide quarterly written updates to the Housing Commission, on behalf of the Housing Authority, with respect to the milestones, and that if a milestone is not reached, the Lessee would commence the Minimum Capital Improvements expenditure within six months and complete the Minimum Capital Improvements within one year.

The Housing Commission on behalf of the Housing Authority and Lessee were unable to come to an agreement with respect to the 772-Unit Project. Therefore, unless the Housing Commission, on behalf of the Housing Authority, takes an action to extend the deadline, the Housing Authority's standstill with respect to the obligation to construct the Minimum Capital Improvements will end on June 13, 2025. On that date, the Housing Commission, as administrative agent for the Housing Authority, may declare a default under the Ground Lease.

The Housing Commission, on behalf of the Housing Authority, and the Lessee were unable to come to an agreement with respect to the 772-Unit Project due in large part to the parties' inability to agree on the payment of relocation benefits to the existing tenants. The most recent draft of the letter of intent provided that if the state and federal relocation laws do not apply to any displaced residents, then such displaced residents will receive the greater of the benefits that would be provided under the state relocation law (using 30 months rather than 42 months) or the city's tenant protection ordinance. Subsequently, the Housing Authority's final written offer with respect to the relocation benefits included the following statement: "[t]he amount of relocation benefits for all displaced residents on an individual basis will be dependent upon income levels and will be approved by the Housing Commission, on behalf of the Housing Authority, in accordance with the Consultant's completed relocation plan." After three months of waiting, we have received no response to the final offer to the Lessee.

Four years have passed since negotiations for the 772-Unit Project began, and more than three years have passed since the original deadline for completion of the \$25 million of Minimum Capital Improvements. Design of the 772-Unit Project has not been completed, and during negotiations, the Lessee advised the Housing Commission, on behalf of the Housing Authority, that the prior designs would need to be substantially revised to make the 772-Unit Project feasible.

As of today, the 772-Unit Project is infeasible; the 772-Unit Project has not been designed; no environmental clearances have been obtained with respect to the 772-Unit Project; the parties did not come to an agreement with respect to relocation of existing tenants; and the parties have not agreed to the terms of a letter of intent with respect to the 772-Unit Project.

For the foregoing reasons, further discussions with respect to the 772-Unit Project do not appear to be productive and are not likely to result in an agreement by the parties or construction of the 772-Unit Project. Therefore, the Housing Commission intends to recommend that the Housing Commission Board of Commissioners (Board), subject to potential review by the Housing Authority, direct the Housing Commission to cease negotiations with respect to the 772-Unit Project and set the following deadline: Construction for the Minimum Capital Improvements must begin within six months of the date the Housing Commission Board hears this matter, and the Minimum Capital Improvements must be completed within 12 months of the date construction started. For example, if the Housing Commission Board hears the matter on November 22, 2024, the deadline to start construction would be May 22, 2025, and the deadline to complete construction would be May 22, 2026. If the Housing Authority requests to review the Housing Commission Board's action on this matter, the deadline to start construction will be six months from the date the Housing Authority hears the matter, and construction must be completed within 12 months of the construction start date.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lisa Jones', with a long horizontal flourish extending to the right.

Lisa Jones
President & CEO
San Diego Housing Commission