



REPORT

DATE: For the Agenda of December 13, 2002 **Item 103**

REPORT NO.: HCR02-107

SUBJECT: Modification of Lease for 252 16th Street (Council District 8)

SUMMARY

Issue 1: Should the Housing Commission modify the terms and conditions of the Lease Agreement for 252 16th Street, currently used as a 22-space parking lot?

Recommendation 1: That the Housing Commission approve the modifications to the lease terms and conditions as outlined below:

1. The term of the lease will be for five years.
2. The initial year's lease payment would be \$50 per space, per month. Each subsequent year the lease payment would be adjusted to reflect any increase or decrease in the Consumer Price Index of All Urban Consumers (CPIU).

Issue 2: Should the Housing Commission delegate administrative authority to the Chief Executive Officer (CEO) to approve the assignment and assumption of the lease to a subordinate purchaser under terms that are acceptable to the CEO and General Counsel?

Recommendation 2: That the Housing Commission delegate the administrative authority to the CEO.

Fiscal Impact: The modified lease terms and conditions would increase the annual lease payment from \$1 to \$13,200 with yearly adjustments based on the CPIU.

Previous Related Actions: See the Attachment for a chronology of previous related actions.



BACKGROUND

On September 19, 1986, the Housing Commission acquired the 7,500 square foot vacant lot located at 252 16th Street for development of a 75-unit single room occupancy hotel (SRO).

In order to build-out the site, the Housing Commission submitted an application for funding to HUD, and the City of San Diego was awarded a Housing Development Grant (HDG). Before approving this project for funding, an opinion was needed from HUD attorneys stating that the Housing Commission was an independent agency that did not have an "identity of interest" with the City. Prior to the construction of the SRO project, the Housing Commission Board was restructured to include five City Council members, thereby making the Housing Commission ineligible to directly receive the HDG funds. Throughout the years, attempts to develop the 16th Street site have been unsuccessful.

In 1995, the community, through the Centre City East Livable Neighborhoods Team, identified the vacant lot at 252 16th Street as an impediment to neighborhood improvement. The Team approached the Housing Commission requesting the Housing Commission identify a use for the vacant site that would be compatible with efforts to improve the neighborhood. One suggestion was to pave the site to provide off-street parking for adjacent businesses or apartments.

Staff approached neighboring owners to determine their interest in a use for the property. Mr. William Ayyad was the only party to express an interest in the site. Mr. Ayyad is the owner of the 100-unit apartment complex known as the Ballpark Place Apartments (previously know as Pacifica Villas), which is directly across the street from the Housing Commission owned site. On July 8, 1996, the Housing Commission approved a ten-year lease agreement with three negotiable five-year renewal options to lease the vacant lot at 252 16th Street to William G. Ayyad for development of a parking lot for Ballpark Place tenants. The rent amount due the Housing Commission is one dollar (\$1.00) per year. Pursuant to the terms of the lease, the lease cannot be assigned without the prior written consent of the Housing Commission. Also, the Housing Commission may require, as a condition to approval of any assignment, that the proposed assignee pay additional rent to the Housing Commission equal to the fair market rent justifiable at the date of the proposed assignment. Since acquiring the vacant lot, Mr. Ayyad has spent approximately \$75,000 to develop the site as a parking lot including night lighting, fencing and an electronic entry system.

In April 2001, Mr. Ayyad contacted staff to ascertain the Housing Commission's interest in selling the subject property. At the time, Mr. Ayyad was in the process of converting the Ballpark Place Apartments into a condominium project, and believed that the additional parking spaces located on the Housing Commission owned site would make the units more attractive to potential buyers. On October 12, 2001, the Housing Authority approved the sale of 252 16th Street to Mr. Ayyad for \$300,000 contingent upon ten of the units at Ballpark Place being offered for sale to families earning 65 percent or less of median area income (MAI) and an additional ten units at 80 percent of MAI. Due to environmental issues, Mr. Ayyad was unable to obtain approval from the City of San Diego for the condominium conversion.

DISCUSSION

Mr. Ayyad now has Ballpark Place Apartments listed for sale. He continues to believe that the additional parking spaces located on the Housing Commission owned site would make the 100-unit project more attractive to a potential buyer. Mr. Ayyad contacted staff regarding the terms and conditions of the lease agreement and the possible assignment of the lease at a future date.

Mr. Ayyad has requested that the terms and conditions of the lease be negotiated at this time based on an assignment to a prospective purchaser of the Ballpark Place Apartments. Following negotiations between Housing Commission staff and Mr. Ayyad, the following lease provisions were agreed upon, subject to Housing Commission Board approval.

1. The term of the lease will be for five years.
2. The initial year's lease payment would be \$50 per space, per month. Each subsequent year the lease payment would be adjusted to reflect any increase or decrease in the Consumer Price Index of All Urban Consumers (CPIU).

Staff is seeking Housing Commission Board approval to modify the original lease as described above and give administrative authority to the CEO to approve the assignment and assumption of the lease to a subordinate purchaser under terms that are acceptable to the CEO and General Counsel. Approval of staff's recommendation would facilitate modifications to the lease agreement and generate \$13,200 in revenue during the first year of the modified lease term. All other terms and conditions as contained in the original lease agreement would remain in full force and effect.

ALTERNATIVES

1. Recommend modifications of the lease based on other terms and conditions as directed by the Board.
2. Do not change terms and conditions of the lease at this time. Renegotiate the lease with the buyer of the Ballpark Place Apartments.

Respectfully submitted,

Jack D. Farris
Housing Finance and Development Manager

**Signature on File
with Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

Attachment: Previous Related Actions