



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE: For the Agenda of September 21, 2001 **Item 102**

REPORT NO.: HCR01-104

SUBJECT: Sale of 252 16th Street (Council District 8)

SUMMARY

Issue: Should the Housing Commission recommend that the Housing Authority accept the offer to purchase the property located 252 16th Street submitted by the current lessee, William G. Ayyad?

Recommendation: That the Housing Commission recommend Housing Authority authorization to accept the \$250,000 offer submitted by William G. Ayyad and approve all other negotiated terms and conditions as outlined herein, and authorize the Chief Executive Officer, with review of General Counsel, to execute any documents necessary to complete the subject transaction.

Fiscal Impact: Sale of the property for \$250,000 would result in a net gain of approximately \$80,000.

Affordability Impact: Acceptance of the terms and conditions of the counter offer, as outlined in this report, would restrict ten of the units offered for sale at Pacifica Villas to families earning 65 percent or less of median area income and an additional ten units at 80 percent or less of median area income.

Previous Related Action(s): See Attachment 1 for a chronology of previous related actions.

Future Related Action(s): If approved by the Housing Commission, this item will be scheduled for consideration by the Housing Authority at its next available meeting.



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.

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). Prior to approving this project for funding, however, an opinion was needed from HUD attorneys that the Housing Commission was an independent agency, which 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 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 Commission to 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 use of the property. Mr. William Ayyad was the only party to express an interest in the property. Mr. Ayyad is the owner of the 100-unit apartment complex known as Pacifica Villas, which is directly across the street from the 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 Pacifica Villas tenants. Subsequent to execution of the lease agreement, Mr. Ayyad was appointed to the Commission's Loan Committee.

In April 2001, Mr. Ayyad contacted staff to ascertain the Commission's interest in selling the subject property. At the time, he was in the process of converting the Pacifica Villas into a condominium project, and believed that the additional parking spaces located on the Commission owned site would make the units more attractive to potential buyers. Given Mr. Ayyad's membership on the Loan Committee, there was concern that such discussions could create a conflict of interest, or perception thereof; therefore, staff discussed the situation with General Counsel to determine the best way to proceed. Mr. Christensen advised that the Commission should not entertain a purchase offer from a member of the Loan Committee due to the potential conflict. In addition, it was determined that, since a Loan Committee member was neither a member of the Housing Commission nor an employee, that the restriction regarding having any private interest, direct or indirect, nor profit from any Housing Commission contract for one full year after termination of such tenure, did not apply. On May 17, 2001, Mr. Ayyad formally resigned his position on the Loan Committee.

DISCUSSION

On June 29, 2001, the Housing Commission received, from Mr. Ayyad, an unsolicited offer to purchase (Attachment 2) the site located at 252 16th Street. The proposed purchase price was stated at \$200,000 to be paid in cash. An appraisal of the property was completed in June 2001. The appraiser was instructed to value the property as if it were vacant, without improvements, and as to its highest and best use. The market value of the property was estimated to be \$225,000.

Housing Commission staff considered Mr. Ayyad's offer and on September 4, 2001 issued a counter offer (Attachment 3), which increased the sales price to \$250,000. Although the appraised value of the property was \$225,000, staff believed a premium should be paid for the lot due to its value vis-à-vis the Pacifica Villas property located directly across the street from the subject property and in which Mr. Ayyad also has an ownership interest. In addition, staff's counter offer included a condition that 20 percent of the units offered for sale at 229 16th Street, also known as Pacifica Villas, be sold to families earning 65 percent or less of median area income (MAI). If accepted, the owner of Pacifica Villas would be required to execute an agreement, acceptable to the Housing Commission, stating this requirement and binding the owner to this condition of sale. The counter offer stated that this offer or any decision to sell 252 16th Street was contingent upon receiving Housing Commission Board and Housing Authority approval of the sale and the terms and conditions of the sale.

On September 7, 2001, Mr. Ayyad accepted staff's counter offer (Attachment 4) with the exception that 10 percent of the units offered for sale at Pacifica Villas will be restricted for sale to families earning 65 percent or less of MAI, and an additional 10 percent of the units will be restricted for sale to families earning 80 percent or less of MAI. Staff is in agreement with the counter offer made by Mr. Ayyad, and is recommending acceptance of his offer. Sale of the subject property for \$250,000 would result in a net gain of \$80,000 and would restrict 20 percent of the units at Pacifica Villas for sale to low-income families.

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| Sales Price | \$250,000 |
| 1986 Purchase Price | <u>170,000</u> |
| NET GAIN | \$ 80,000 |

Commission Policy No. PO 202.000 provides, in part, "B. Excess real property shall be sold as soon as practicable at public sale for not less than the fair market value thereof, unless other disposition or method of disposition is approved by the Government when required....". In this instance, however, there is ample justification to consider a "sole source" sale of the subject property. This property was acquired with nonfederal funds; therefore, the approval of HUD, "the Government," is not required. The disposition of this property through direct negotiation with Mr. Ayyad is in the best interests of the Commission and the public because the sales price obtainable through a direct sale of the property to the adjacent property holder allows for an increase in value through an assemblage factor (i.e. Mr. Ayyad owns the adjacent property and it is worth more to him than to others in the market.) The appraised value is \$225,000 while the proposed sale price is \$250,000, \$25,000 more than the appraised value. Further, if the property were sold at public sale, the existing lease provides for the reimbursement of a portion of the

costs expended by Mr. Ayyad in improving the property, which amount decreases with time. In this case, if the lease were terminated by a 180 days notice, as permitted in the lease, the Commission would owe Mr. Ayyad approximately \$37,500 in reimbursement for monies expended at the site. This would mean, that the open market sale of the property would have to generate \$287,500 to equal the price being realized in this negotiated sale. This is unlikely based upon the appraisal. Finally, and importantly, this sale will ensure that some of the proposed condominium units will be sold to low-income households, through the terms of the transaction as currently structured. For the foregoing reasons, among others, the proposed sale to the holder of the lease, through negotiation, is justified and permissible under the applicable laws, rules and regulations.

Approval of the staff recommendation by the Commission and Housing Authority would facilitate sale of a surplus site, provide for additional home ownership opportunities for low income households, and generate \$250,000 in revenue that could be used to support future affordable housing efforts.

ALTERNATIVES

1. Recommend sale of property based on other terms and conditions as directed by the Board.
2. Continue negotiations and bring back another proposal.
3. Decline the offer to purchase and continue to own the site.

Respectfully submitted,

Approved by,

Steven L. Mikelman
Director of Operations

Elizabeth C. Morris
Chief Executive Officer

**Signature on File
With Original Document**

Attachments: 1 – Previous Related Actions
2 – Offer to Purchase dated June 29, 2001
3 – Counter Offer dated September 4, 2001
4 – Counter Offer dated September 7, 2001

ATTACHMENT 1

Previous Related Actions:

April 4, 1986 – Housing Commission authorized the acquisition of 252 16th Street for development of a SRO.

July 15, 1986 – City Council action and July 18, 1986 – Housing Commission action authorized submittal of Housing Development Grant applications to the HUD to provide financing assistance for the construction of SRO hotels on Commission owned sites.

November 25, 1986 – City Council ratified the RFP issued for the development of SRO 75 (252 16th Street) and authorized exclusive negotiations with the selected developer, San Diego Interfaith Housing Foundation.

February 25, 1988 – An Informational Report discussed HUD’s approval to the substitution of ownership of the project, from the Commission to San Diego Interfaith. The substitution was necessitated when the Commission was restructured to include five City Council members, thereby creating an identity of interest between the Commission and the City.

June 5, 1988 – Housing Commission approved San Diego Interfaith Housing’s design modifications for the project, approved a Ground Lease for the site and authorized execution of a Memorandum of Understanding with San Diego Interfaith Housing Foundation.

September 19, 1988 – Housing Commission declined to advance funds to San Diego Interfaith for certain construction start-up expenses, effectively terminating San Diego Interfaith’s involvement with the property.

November 7, 1988 – Housing Commission approved designating 252 16th Street be developed and owned by the Housing Commission and an RFQ be issued for management by a social service provider and targeted for the functionally dependent “at risk” population.

January 12, 1989 – An Informational Report discussed a workshop for social service providers input and RFQ issuance for architectural services.

May 1, 1989 – In response to an unsolicited proposal from Volunteers of America, which had received a Section 202 funding award from HUD for housing for the moderately mentally ill but had no site on which to build it, Commission voted to lease the 16th Street site to the Volunteers of America for a 21-unit housing development, contingent upon receipt of site approval from HUD within four months.

Subsequently, HUD denied site approval for the Volunteers of America project.

October 5, 1992 – Staff requested authorization to use 252 16th Street for storage of possessions of homeless people. Housing Commission referred the issue back to staff until the proposed use could be discussed with the community.

July 8, 1996 – Housing Commission approved the leasing of the site to William G. Ayyad for development of a parking lot for Pacifica Villas tenants.