



HOUSING AUTHORITY REPORT

DATE ISSUED: August 29, 2007 REPORT NO.: HAR07-027
ATTENTION: Members of the Housing Authority
For the Agenda of September 11, 2007
ORIGINATING DEPARTMENT: San Diego Housing Commission
SUBJECT: Sale of a Housing Commission 1st Trust Deed Note with an
option to sell the property located at 434 and 435 13th Street
COUNCIL DISTRICT: District 2

REQUESTED ACTION:

Approve the sale to the Redevelopment Agency of the City of San Diego of a \$344,200 First Trust Deed Note for 434 and 435 13th Street and enter into an option agreement whereby the Redevelopment Agency may purchase the property from the Housing Commission; reduce the annual ground lease payment due to the Housing Commission; and amend the Fiscal Year 2008 Housing Commission budget adding \$344,200 to Special Purpose Housing.

STAFF RECOMMENDATIONS:

Authorize the following:

- 1) Sale to the Redevelopment Agency of the principal of the \$344,200 Housing Commission First Trust Deed Note received from San Diego SRO Limited Partnership (Partnership) for the Hotel Metro with the Housing Commission retaining the right to receive interest on the note accrued to the date of the sale and the Redevelopment Agency acquiring the right to receive interest that accrues after the date of the sale;
- 2) Negotiation of an option agreement by the President and Chief Executive Officer and the Chair of the Housing Commission, with advice from General Counsel, whereby the Housing Commission's remaining loans and the land may be sold to the Redevelopment Agency within a period of not more than two years for an amount equal to not less than \$627,032;
- 3) Negotiation of the Housing Commission's right to receive a percentage of the proceeds from any sale of the land by the Redevelopment Agency, within the option, by the President and Chief Executive Officer and Chair of the Housing Commission with advice from General Counsel;
- 4) Temporarily reduce annual Partnership lease payments on the land to \$100 per year until sale of the Housing Commission's interest in the property is effectuated, but not longer than two (2) years after consummation of the assignment of the note;
- 5) An amendment to the FY2008 Housing Commission budget reflecting the addition of \$344,200 for loans and grants for Special Purpose Housing and the use of those funds for the City's Homeless Emergency Shelter Program; and,
- 6) Execution of any and all documents required to effectuate the foregoing by the Housing Commission's President and Chief Executive Officer.

DISCUSSION:

The Hotel Metro is a two-building, 195-unit single-room-occupancy (SRO) residential hotel constructed in 1990 to house extremely low-income residents of Downtown San Diego. The two parcels, located in East Village between Island Avenue and "J" Street, are owned by the Housing Commission and leased to the Partnership under a Housing Commission Ground Lease And Development Agreement (Ground Lease) dated November 1, 1989. A local nonprofit organization, Alpha Project, formed the Partnership with Metro Hotel Community Association as the owner and nonprofit general partner and Metro Housing of San Diego as the limited partner. Tarantino Property Management is the property manager. The Partnership acquired its interest in the buildings and Ground Lease from the original developer, Housing Opportunities Incorporated, in 1995.

The operator is currently in compliance with health and safety codes; however, the buildings are in a distressed condition with significant deferred maintenance and use-related damage and deterioration. The buildings are due for renovation including roof replacement, repair of water damage, electrical upgrades, fire sprinkler repairs, and restoration of common area amenities.

Construction of Hotel Metro was financed in 1989 with a combination of institutional debt, tax credits, and a \$344,200 loan of Housing Commission local funds. In the proposed transaction, the Redevelopment Agency would purchase an interest in the first position Housing Commission residual receipts loan with payment of the \$344,200 principal. Financing with Redevelopment Agency funds would be a first step in placing the development under the control of CCDC for the purposes of renovating the existing improvements or redeveloping this property, which is in the Centre City Redevelopment Project Area.

The Housing Commission and CCDC opened a dialogue for determining how the Housing Commission loans and the land would be sold to the Redevelopment Agency with the intent of entering into an option agreement. CCDC ordered a consultant's report, due in October 2007, to assist in determining the type of programs best suited to the property. Future Redevelopment Agency use of the site for affordable housing was endorsed by the Board of Directors of CCDC and is listed in CCDC's Housing Plan. The option agreement would be subject to negotiation and would be approved by the Housing Commission's President and CEO, Board Chair and General Counsel. It is intended that the sale would produce unrestricted revenue at least equal to the principle and accrued interest attributed to the first and second loans, and that the primary use of these funds would be future funding of the winter shelters and other programs for the homeless.

Because of the deep affordability of the rents, project income proved insufficient to support amortized debt and operations. The original institutional lender, the tax credit investor, and the Housing Commission participated in a restructuring of the financing. The Housing Commission provided take-out financing of amortized debt and funded operating reserves with loans of \$98,700 in 1994 and \$457,137 in 1995. The terms of these second and third position loans would not be affected by this proposed transaction. The loans would remain subordinate to the \$344,200 loan assigned to the Redevelopment Agency and repayment would remain the

responsibility of the Partnership, with 100 percent of residual receipts due to the Housing Commission, until those loans and the land are sold to the Redevelopment Agency.

Due to poor cash flow from operation of the project, the Partnership is unable to make residual receipts payments on the loans and the annual payment on the Ground Lease of six percent of gross project revenue. As part of this proposal, the lease payment would be temporarily reduced to \$100 per year until the earlier of purchase of the property by the Redevelopment Agency or expiration of the two-year option agreement.

Housing Commission funds in the amount of \$344,200 would be recovered through the proposed sale of interest in the First Trust Deed Note to the Redevelopment Agency. The unrestricted funds returned to the Housing Commission would be available to fund the City's Homeless Emergency Shelter Program in the winter of 2007.

AFFORDABLE HOUSING IMPACT:

Of the 195 single-room-occupancy units in the complex, 193 are rent restricted. In November 1989, the Housing Commission recorded 55-year rent restrictions against the property making 97 units affordable to individuals earning 90 percent of California Minimum Wage (currently \$14,040 per year) and 96 units affordable to tenants with incomes at or below 40 percent of Area Median Income, which is currently \$19,650 for a one-person household. The current rent range is \$351 to \$491 per month. In consideration of the findings of CCDC's consultant report, the Redevelopment Agency may seek adjustments to these rents.

FISCAL CONSIDERATIONS:

The Redevelopment Agency would purchase the Housing Commission's First Trust Deed Note. Accrued interest to date, estimated at \$493,000, would remain due and payable to the Housing Commission; however, interest accrued following the sale would be assigned to the Redevelopment Agency. Interest due to the Housing Commission would be deferred until the Housing Commission sells its interests in the property to the Redevelopment Agency or the option agreement expires.

The following table outlines outstanding loans on the property as of June 20, 2007:

Lien Position	Source	Principal	Accrued Interest	Total
1st	Housing Commission	\$344,200	\$492,130	\$ 836,330
2nd	Housing Commission	\$ 98,700	\$ 36,472	\$ 135,172
3 rd	Housing Commission	\$457,137	\$160,445	\$ 617,582
	Total	\$900,037	\$689,047	\$1,589,083

The Redevelopment Agency could exercise its option to acquire the property at any time during the 24-month term. The initial purchase price would be based on the appraised value with consideration given to affordability restrictions and discounted by the financial encumbrances and any discovered seismic and/or site contamination issues, but would not be less than

\$627,032, which is equal to the interest due to the Housing Commission on the First Trust Deed Note and principal and interest on the Second Trust Deed Note. The Third Trust Deed Note would be conveyed to the Redevelopment Agency because the source of funds was redevelopment tax increment deposited into the Housing Trust Fund.

If the site is redeveloped and affordability restrictions are lifted, provisions would be made for an increased purchase price to be paid to the Housing Commission in the form of a contingent interest payment. The increased price would be discounted by the cost of replacement housing or any required in-lieu fee and would be net of the initial purchase price. The provision for an increased purchase price (contingent interest) would apply for a period of ten years from the date the option to purchase is exercised.

An amendment to the Housing Commission's Fiscal Year 2008 budget would add \$344,200 to the line item for loans and grants in Special Purpose Housing to help fund the City's Homeless Emergency Shelter Program.

PREVIOUS ACTIONS:

On July 13, 2007, the Housing Commission approved these recommendations with a unanimous vote of 6 to 0 (HCR07-58).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

CCDC has exclusive planning jurisdiction in the project area. No community approvals are required.

ENVIRONMENTAL REVIEW:

This proposed transaction is not a "project" pursuant to the California Environmental Quality Act (CEQA); no CEQA environmental review is required. Because no federal funding would result from this action, processing under the National Environmental Policy Act (NEPA) is not required.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Renovation or redevelopment of the site by CCDC is expected to be of benefit to the East Village community because the property would continue to deteriorate without this proposed intervention. Stakeholders would include the Redevelopment Agency as the proposed first position lender, the Housing Commission as the subordinate lender and lessor of the property, the Partnership as the lessee and borrower, the City of San Diego, and homeless residents because revenue generated by the proposed transaction would be available for the City's Emergency Shelter Program.

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Respectfully submitted,

Approved by,

Cissy Fisher
Director, Housing Finance and Development

Elizabeth C. Morris
President and Chief Executive Officer

Attachments: 1. Location Map
 2. Site Diagram
 3. Special Purpose Housing Summary Of Expenditures

Information: Mr. Dan Cady (619) 578-7594

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ATTACHMENT 2
DEVELOPMENT SUMMARY

ATTACHMENT 3

ATTACHMENT 8

**HOUSING COMMISSION LOAN TERMS
AND
PAYMENT PROCEDURES**