

REPORT

DATE ISSUED: July 6, 2007 REPORT NO.: HCR07-5833

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of July 13, 2007

SUBJECT: Loan Restructuring for Hotel Metro (Council District 2)

REQUESTED ACTION:

Approve the sale from the Housing Commission to the Redevelopment Agency of the City of San Diego of an interest in a \$344,200 residual receipts loan, an option agreement whereby the Redevelopment Agency would purchase the land and remaining loans from the Housing Commission, reduction of an annual lease payment on the land, and amend the Fiscal Year 2008 Housing Commission budget adding \$344,200 to Special Purpose Housing.

STAFF RECOMMENDATION:

That the Housing Commission recommend Housing Authority approval of:

- 1) sale to the Redevelopment Agency of an interest in a \$344,200 Housing Commission loan made to San Diego SRO Limited Partnership (Partnership) for the Hotel Metro (located downtown at 434 and 435 13th Street), with the Housing Commission retaining the right to collect interest accrued to the date of the sale and the Redevelopment Agency acquiring the right to collect interest that accrues after the date of the sale,
- 2) an option agreement to sell the Housing Commission's remaining loans and the land to the Redevelopment Agency within two years,
- 3) reduction of the annual lease payment due from the Partnership to \$100 per year until sale of the property to the Redevelopment Agency or expiration of the option agreement,
- 4) an amendment to the FY2008 Housing Commission budget reflecting the addition of \$344,200 for loans and grants for Special Purpose Housing and use of funds for the City's Homeless Emergency Shelter Program and,
- 5) execution of documents 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 lots, located at 434 and 435 13th Street in East Village, 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 due to deferred maintenance and use-related damage and deterioration.

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 loan restructuring, the Redevelopment Agency would purchase an interest in the first position Housing Commission residual receipts loan with payment of the \$344,200 principal. Because Downtown is the purview of the Centre City Development Corporation (CCDC) under the auspices of the Redevelopment Agency, 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 the property.

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 will 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 homeless people.

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 the poor cash flow from operation of the project, the Partnership is unable to make residual receipts payments on the loans and the required yearly payment on the Ground Lease of six percent of gross project revenue (required to have begun in year 16). As part of this proposal, the lease payment would be reduced to \$100 per year until purchase of the property by the Redevelopment Agency or expiration of the option agreement.

Housing Commission funds in the amount of \$344,200 would be recovered through the proposed sale of interest in the first position loan 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. As an alternative, the Housing Commission could postpone consideration of the proposed option agreement for purchase of the property by the Redevelopment Agency when more transaction details are known. Without the substitution of restricted Redevelopment Agency funds for the Housing Commission funds, an alternative to the proposed use of \$344,200 from this transaction for a winter homeless shelter would be needed.

AFFORDABLE HOUSING IMPACT:

In 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 (AMI), which is currently \$19,650 for a one-person household. The current rent range is \$351 to \$491 per month. The Redevelopment Agency might seek adjustments to adjust these levels, in consideration of the findings of CCDC's consultant report.

FISCAL CONSIDERATIONS:

The Redevelopment Agency would buy out the Housing Commission's principal of the residual receipts loan made to the Partnership by the Housing Commission in 1989. Accrued interest to date on the loan, 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 the property to the Redevelopment Agency or the option agreement expires. Should the Redevelopment Agency exercise its option to purchase the property, interest due to the Housing Commission would be included in the sale price. It is anticipated that the sales price would also repay the Housing Commission's second loan and accrued interest (currently \$135,300).

An amendment to the Housing Commission's FY2008 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.

The following table outlines the positions of the loans secured by the leasehold upon completion of the proposed restructuring:

| Lien Position | Beneficiary | Amount | Terms |
|--------------------|------------------------------|------------------|---|
| 1st | Redevelopment Agency | \$344,200 | 55 yr. @ 8% simple interest resid. receipts |
| 2nd | San Diego Housing Commission | \$ 98,700 | 55 yr. @ 3% simple interest resid. receipts |
| 3rd | San Diego Housing Commission | \$457,137 | 55 yr. @ 3% simple interest resid. receipts |
| Total Loans | | \$900,037 | |

PREVIOUS ACTIONS:

On August 7, 1989, the Housing Commission approved a loan and lease agreement for the project (HCR89-193). On November 14, 1994, the Housing Commission approved a loan of \$94,200 to retire institutional debt (HCR94-134). On July 10, 1995, the Housing Commission approved a loan of \$457,137 to retire amortized debt, pay for rehabilitation work, and establish reserves (HCR95-125).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

CCDC has exclusive planning jurisdiction in the project area. No community approvals are required for this proposed refinancing.


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.

Respectfully submitted,


 Cissy Fisher
 Director, Housing Finance and Development

Approved by,


 Elizabeth C. Morris
 President and Chief Executive Officer

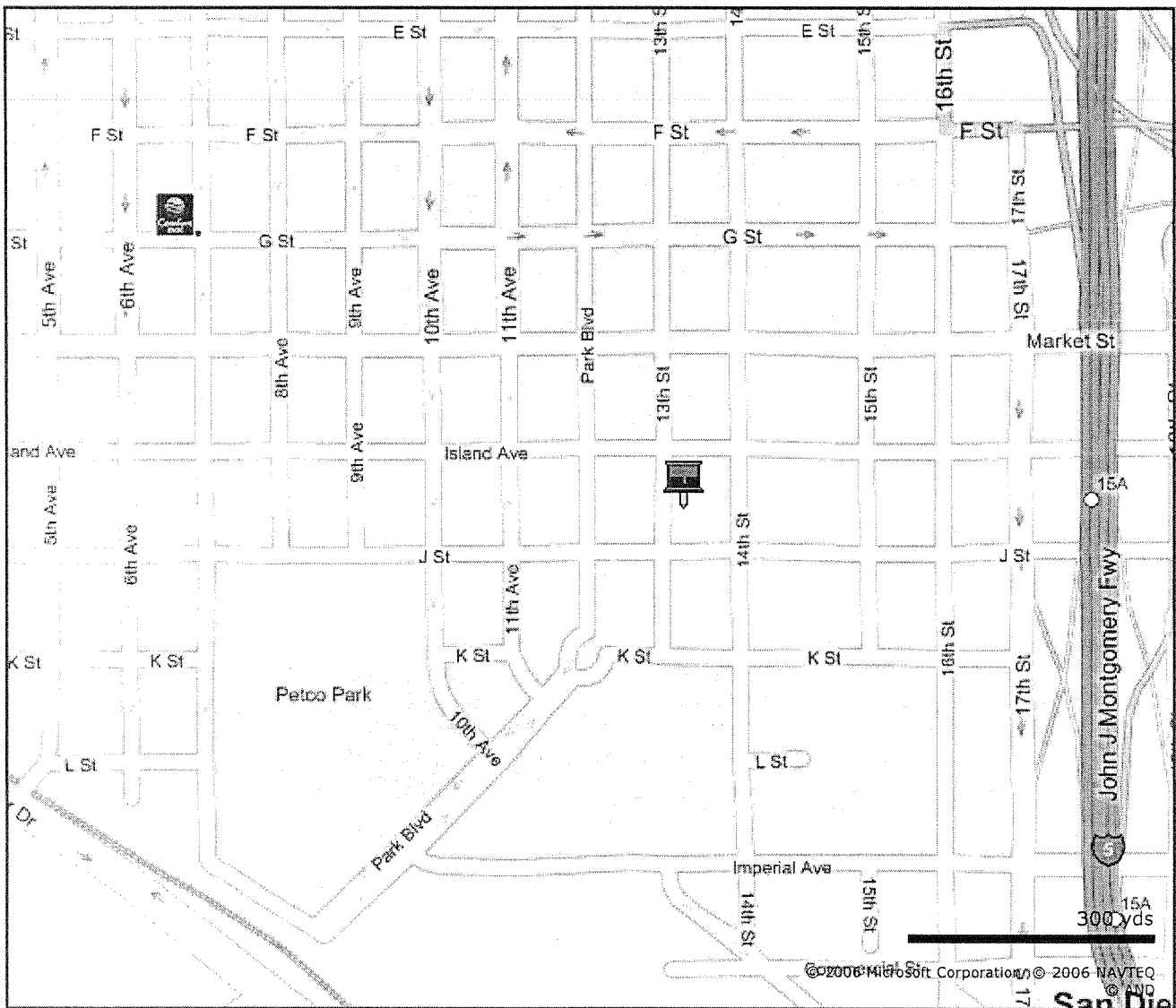
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Attachments: 1. Location Map
 2. Site Diagram
 3. Special Purpose Housing Summary Of Expenditures

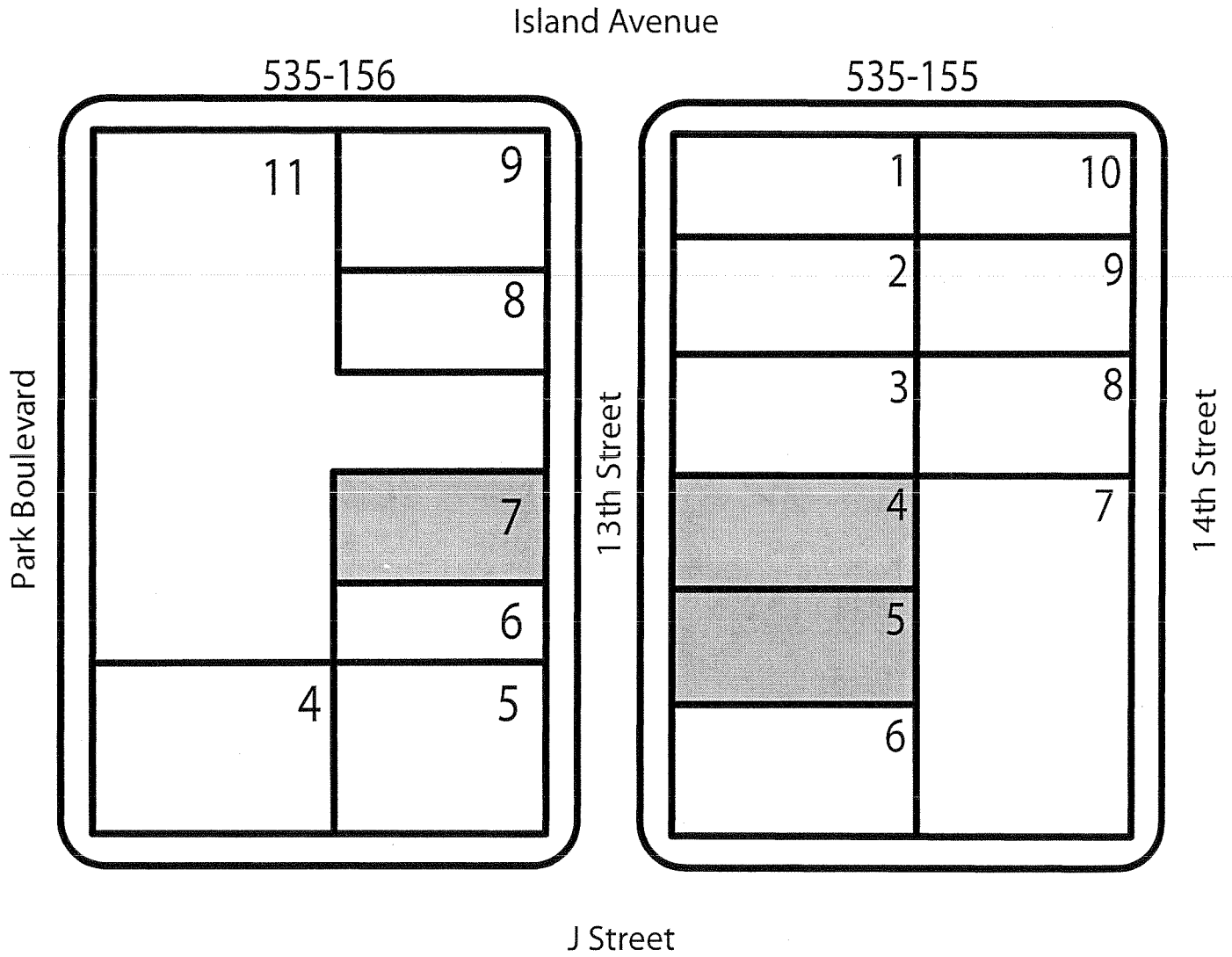
Information: Mr. Dan Cady (619) 578-7594

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ATTACHMENT - 1



Hotel Metro



 Site

ATTACHMENT- 3

Summary of Expenditures
FY 2008 Special Purpose Housing

| | Current Budget | Proposed Revision | Proposed Budget |
|---------------------------|-------------------|----------------------|--------------------|
| Salaries & Benefits | 199,217 | 0 | 199,217 |
| Services & Supplies | | | |
| Legal | 7,800 | | 7,800 |
| Training | 500 | | 500 |
| Travel | 3,760 | | 3,760 |
| Audit | | | 0 |
| Contract/Consultant | 5,000 | | 5,000 |
| Office Rent | 21,094 | | 21,094 |
| Data Processing | | | 0 |
| Sundry | 6,827 | | 6,827 |
| Office Equipment | 300 | | 300 |
| Total Services & Supplies | 45,281 | 0 | 45,281 |
| Housing Programs | | | |
| Rent To Owners | 1,074,656 | | 1,074,656 |
| Loans & Grants | 1,777,691 | 344,200 | 2,121,891 |
| Total Housing Programs | 2,852,347 | 344,200 | 3,196,547 |
| Total Budget | 3,096,845 | 344,200 | 3,441,045 |