



SAN DIEGO
HOUSING
COMMISSION

REPORT TO THE HOUSING AUTHORITY

DATE ISSUED: October 24, 2012

REPORT NO: HAR12-048

ATTENTION: Chair and Members of the Housing Authority of the City of San Diego
For the Agenda of November 27, 2012

SUBJECT: Approval for the Principal Pay Down on the Smart Corner Office Building Mortgage Loan

COUNCIL DISTRICT: 2

REQUESTED ACTION:

San Diego Housing Commission recommends authorization by the Housing Authority of the City of San Diego for the pay down of principal on the Smart Corner office building mortgage loan.

STAFF RECOMMENDATION:

That the President & Chief Executive Officer ("President & CEO") of the San Diego Housing Commission ("Housing Commission"), or designee, be authorized to pay down not to exceed \$1.5 million in principal each year on the Smart Corner office building mortgage loan provided that adequate funds exist in the Housing Authority of the City of San Diego ("Housing Authority") approved budget reserve, and further authorize the President & CEO, or designee, to execute such documents and to take such actions as are necessary, convenient and/or appropriate to implement this approval, upon the advice of General Counsel.

SUMMARY:

In 2003, upon approval by the Housing Authority, the Housing Commission purchased the to-be constructed Smart Corner office building located at 1122 Broadway, San Diego California and moved its operations from 1625 Newton Avenue to these new headquarters in 2008. The original \$20,550,000 mortgage loan had a five-year term and a 25-year amortization.

Upon maturity in year five (November 1, 2011) and approval by the Housing Authority, the Housing Commission refinanced the loan on the Smart Corner office building. Under the approved terms and conditions of the refinanced loan, the Housing Commission may make a principal pay down of a maximum of 10 percent of the outstanding principal balance annually, without a prepayment penalty. As of October 1, 2012, the outstanding balance is approximately \$14,760,350, allowing for a total permitted principal pay down not to exceed \$1,477,000.

Staff recommends making the additional principal pay down due to availability of the Smart Corner Building reserves and that, based on staff analysis, the fifteen-year term mortgage loan could be paid in full in approximately eleven years, should the Housing Commission opt to perform the maximum (10 percent of principal) annual principal pay down allowed every year. This will result in approximately \$3.4 million in interest savings through the end of the first ten years of the loan. The interest rate will reset in the tenth year, per the Housing Authority-approved terms and conditions of the new loan.

October 24, 2012

Approval for the Principal Pay Down on the Smart Corner Office Building Mortgage Loan

Page 2

In addition, should the Housing Commission continue to make the allowed annual principal pay down (without prepayment penalty), at the ten-year interest reset date, the outstanding balance of the loan will be approximately \$700,000. Alternatively, if the Housing Commission opts to not make any annual principal pay downs, the outstanding principal balance at the ten-year interest rate reset date would be approximately \$11.4 million. The Housing Commission will greatly reduce its exposure to interest rate volatility if it elects to make the principal pay down on an annual basis.

Approval of this matter will give the President & CEO, or designee, the authority to make similar pay downs of principal in each year of the loan, in his discretion, provided that the Housing Authority has approved sufficient Housing Commission reserves for such purpose in the year(s) of the pay downs.

FISCAL CONSIDERATIONS:

The proposed funding sources and uses approved by this action were approved as part of the Fiscal Year 2013 reserves in the Fiscal Year 2013 Housing Authority-Approved Budget. Approving this action will not change the Fiscal Year 2013 total Budget and it will allocate approximately \$1,477,000 from reserves to debt loan payment to pay down the Housing Commission's loan for the Smart Corner Building.

Approving this action will result in approximately \$92,000 interest expense savings in the first 12 months of the loan. If the Housing Commission opts to perform the maximum (10 percent of principal) annual principal pay down, it will result in approximately \$3.4 million in interest savings through the end of the first ten years of the loan.

Approving this action will further give the President & CEO, or his designee, the authority to substitute the above funding sources with other funding sources available, should the operational need arise or should such action be to the benefit of the Housing Commission and its mission. The President & CEO will have the authority, in his discretion, to pay down the loan in each year of the loan, provided that there are funds budgeted for this purpose, if this matter is approved by the Housing Authority.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

This item is scheduled for the Housing Commission Board meeting of November 9, 2012.

On August 2, 2011, Housing Authority approved the refinance of the San Diego Housing Commission Smart Corner office building.

On July 20, 2011, Housing Commission Board approved the refinance of the San Diego Housing Commission Smart Corner office building.

KEY STAKEHOLDERS and PROJECTED IMPACTS:

Stakeholders include the Housing Commission, GE Capital Real Estate, and the clients of the Housing Commission.

ENVIRONMENTAL REVIEW:

This activity is not subject to the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15060 (c)(3). Processing under the National Environmental Policy Act is not required as no federal funds are implicated in this action.

October 24, 2012

Approval for the Principal Pay Down on the Smart Corner Office Building Mortgage Loan

Page 3

Respectfully submitted,

Emmanuel Arellano

Emmanuel Arellano
Real Estate Manager
Real Estate Department

Approved by,

Deborah N. Ruane

Deborah N. Ruane
Senior Vice President
Real Estate Department

Attachment: Additional ACH Draft Request Form

Hard copies are available for review during business hours in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.



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Additional ACH Draft Request ONE TIME ONLY

Complete and sign the following and email to CustomerServiceRequests@ge.com or fax to 877-363-6911.

I, _____, request an additional payment amount be drafted from my bank and applied to my GE Commercial Finance account number listed below.

I understand the implementation of the additional draft amount is dependent upon when GE Commercial Finance receives the request.

I also understand this is a one-time additional draft in addition to my regular monthly installment payment, and that the amount will be applied to the fee(s) listed below:

_____	_____	\$ _____
GE Account #	Type of payment / fee	Amount of payment / fee

Authorized Check Signer

Date

Printed Name

Title

Company Name

Contact Phone or Email