

REPORT

DATE ISSUED: May 9, 2008 REPORT NO: HCR 08-28

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of June 6, 2008

SUBJECT: Acquisition of Mountain View Estates (Council District 4)

REQUESTED ACTIONS:

Forward for Housing Authority approval the acceptance of an offer from Housing Our People Economically Community Development Corporation (HOPE CDC) to transfer title of their four-unit property at Mountain View Estates to the Housing Commission and authorize forgiveness of all loans and interest due on the property.

STAFF RECOMMENDATIONS:

Seek Housing Authority approval to:

1. Accept an offer (Attachment 1) from the Board of Directors of HOPE CDC to deed to the Housing Commission their four-unit affordable housing development at 3992 Ocean View Boulevard/422-424 So. 40th Street;
2. Approve the forgiveness of all loans and interest on the property totaling \$300,341;
3. Authorize the Interim President and Chief Executive Officer, or designee, to execute any and all documents necessary to take the above actions.

BACKGROUND:

In April 1991, HOPE CDC was formed to develop high quality housing and improve the neighborhoods which it served, including the Mountain View community located in southeastern San Diego. HOPE CDC's first project was the four-unit Mountain View Estates apartments at 40th Street and Ocean View Boulevard (Attachment 2), a foreclosed property in disrepair, with significant damage from theft and vandalism.

HOPE CDC purchased and rehabilitated the site with assistance from the Housing Trust Fund (HTF) and HOME programs, yielding two 5-bedroom duplex units, a 3-bedroom house, and a 1-bedroom apartment. Rent levels were restricted to households earning between 31 and 37 percent Area Median Income (AMI) (currently between \$24,490 and \$29,230 for a family of four). Under the rent formula, current maximum monthly rents are \$362 for the 1-bedroom unit, \$534 for the 3-bedroom unit, and \$545 for the two 5-bedroom units.

On March 1, 2008, the HTF first trust deed loan became due and payable. The original principal amount (\$80,183) plus accrued interest (\$36,018) on this non-amortizing, 3% residual receipts loan is equal to \$116,606. A second trust deed in the form of a \$127,345 interest-bearing HOME loan becomes due in June 2048. Prompted by the impending maturity date of the HTF loan and by other issues discussed below, HOPE CDC presented its offer to transfer title during a February 25, 2008 meeting with Housing Commission staff.

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Acquisition of Mountain View Estates

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DISCUSSION:

A number of factors over the years led to HOPE CDC's decision to turn over Mountain View Estates to the Housing Commission. HOPE CDC is a very small organization with limited resources, and the very low rent restrictions generated insufficient income to maintain the property effectively. An inspection and needs assessment performed by Housing Commission staff in December 2007 estimated that at least \$150,000 would be required to restore the property to acceptable standards.

Staff has met with HOPE CDC management and board officers many times since June 2007 to discuss the physical and financial condition of Mountain View Estates and to explore strategies to address the needs of the property. A request by HOPE CDC to raise the rent and occupancy restrictions to 50 percent AMI was proposed, along with a plan to obtain private financing to rehabilitate the property and pay off the Housing Commission loans. It became clear that neither of these options was viable because HOPE CDC did not have the resources to rehabilitate the property; a conventional loan could not be secured given the current condition of the property; and even with higher rents, the property would continue to be a challenge to operate.

When Housing Commission loans are in technical default, as is the case with Mountain View Estates, the Interim Chief Executive Officer is authorized to initiate foreclosure proceedings against the property, pursuant to Housing Commission Policy PO600.103, *Loan Defaults, Foreclosures, and Disposition of Property Acquired*. And, under the terms of the Declaration of Covenants, Conditions and Restrictions recorded against the HTF loan, a default entitles the Housing Commission to pursue any and all remedies provided by law. However, it is staff's view that HOPE CDC's offer to transfer title represents a practical and reasonable alternative to more aggressive actions that could be taken (i.e., judicial foreclosure or other steps sanctioned by the recourse loan) as it permits the Housing Commission's immediate interest and control over the property and allows HOPE CDC to utilize its scarce resources on activities which can achieve other community objectives.

Currently, only one of the four units is occupied; the other three units have been vacant for an extended period of time. HOPE CDC agreed they bear responsibility for relocating the remaining family, and that the Housing Commission's acceptance of the offer to transfer title is contingent upon the successful relocation of the household in accordance with state or federal requirements, if applicable. As of this meeting date, HOPE CDC is working with the family to transfer them to a comparable unit at Lincoln Parks Apartments at a rent equal to their current level. Additionally, as written in 1993 the Covenants, Conditions and Restrictions were silent on the period of HOME restrictions placed on the project. If this matter is approved, the CC&Rs will be amended to reflect that the developer has satisfied the 10-year affordability restrictions under the HOME program.

If the recommendations are approved by the Board and the Housing Authority, Housing Commission staff will begin to develop a strategy for the final disposition of the property, including sale to a nonprofit operator, leasing the site to another affordable housing organization, or soliciting proposals through a formal process. The existing buildings will be demolished and the site secured from illegal trespass and unwanted activities. Based upon input from an appraiser, staff has estimated the market value of the property at approximately \$420,000. This value takes into consideration the prevailing rents in the area and the amount of rehabilitation that would be required to achieve those rents.

FISCAL CONSIDERATIONS:

If approved, the following loans will be forgiven and could be offset in part by proceeds from the eventual sale or other disposition of the property:

Funding Source	Principal	Interest & Fees	Total Due
HTF	\$80,183	\$36,423	\$116,606
HOME	\$127,345	\$56,390	\$183,735
			\$300,341

In addition, the Housing Commission will incur approximately \$65,000 in costs to demolish and secure the site, and there is no recapture of the original HOME program investment as the HOME affordability restrictions expired in 2004.

PREVIOUS COUNCIL and/or COMMISSION ACTION:

On January 11, 1993, and February 22, 1993, the Housing Commission approved an \$80,183 Housing Trust Fund loan and a \$127,345 HOME loan, respectively, for acquisition and rehabilitation of the Mountain View Estates property.

ENVIRONMENTAL REVIEW:

This activity is not a project within the meaning of the California Environmental Quality Act (CEQA) pursuant to Section 15060(c)(3) of the State CEQA guidelines. This activity is also exempt from review under the National Environmental Policy Act as no federal funding is involved in this action.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

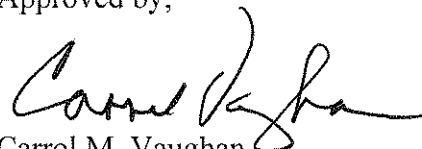
Key stakeholders include the nonprofit operator, HOPE CDC, whose housing portfolio will no longer include the Mountain View project and residents in the surrounding area living near a vacant, unused parcel of land.

Respectfully submitted,



Cissy Fisher
Director of Housing Finance

Approved by,



Carrol M. Vaughan
Interim President & Chief Executive Officer

Attachments: 1. HOPE CDC Offer
2. Location Map



February 25, 2008

Cissy Fisher
San Diego Housing Commission
1122 Broadway
San Diego, CA 92101

RE: Mountain View Estates
3992 Ocean View Blvd., 422-424 S. 40th Street
San Diego, CA 92113
Loan Number: 2-61-0014

Dear Ms. Fisher:

We the Board of Directors and staff extend our appreciation to you and your staff for meeting with us on today with regards to Mountain View Estates. As discussed in our meeting, it is the decision of HOPE CDC to turn over Mountain View Estates to the lender and close out all affiliations with the project. It is our understanding from our meetings with you that we avoid default and further financial obligations to the project including all loans interest and fees and that by accepting this option there is no negative reflection left on the organization.

In doing so however, we agree that it is imperative and fully proper to acknowledge strives made in maintaining and assuring affordable housing at Mountain View Estates by this organization for the past fifteen (15) years. In addition, it is important to acknowledge the work over this last year and a half by all involved in exploring alternative options to this decision.

In regards to exploring alternative options: Since 1993 HOPE CDC has maintained and operated affordable housing at Mountain View Estates serving at least 15 very, very-low income households accomplishing our mission of providing affordable housing at it's location as well as meeting the housing standard implemented by the HOME program, Housing Trust Fund and San Diego Housing Commission.

Given the fact that the property makeup is 2 - five bedroom units, 1 - three bedroom unit, and 1 - one bedroom unit with rent receipts ranging between \$1,624 per month in 1993 and \$1,986 per month in 2007 it is apparent that this project has not generated sufficient funds to service the loans outstanding while meeting all operational expenses.

5106 Federal Blvd.
Suite #101
San Diego, CA 92105

619.262.4542 PH
619.262.1130 Fax

Mountain View Estates
3992 Ocean View Blvd, 422-424 S. 40th Street, San Diego, CA 92113
Loan Number: 2-61-0014



However, in an effort to address the insufficient rents, we began meeting with you seeking an increase in Median Area Income from 31%, 33% and 37% to a Median Area Income percentage of 50 – 60%.

As we continued to meet with you to-date we have looked at options regarding a potential sale, inspections results, rehabilitation, refinancing, subordination, and a community project effort. Regardless to meetings and work to this date, the date of March 1, 2007 has quickly approached us and the payment has been requested via invoice.

Without disregard of all the work and the ultimate conclusion we have to face the following: without an extension, without sufficient cash flow and considering current rehabilitation cost per outlined in the report presented by San Diego Housing Commission Rehabilitation Department of \$150,770, five (5) years cost of \$59,200 and a fifteen (15) year cost of \$54,920.

This rehab report does not include City of San Diego potential mandates and the lack of cash flow to cover the existing loans which bottom line presents HOPE CDC with a project that is not financially feasible and a project that is not in the best interest of this organization to continue to operate.

Given the fact that of the following regarding the structures located at Mountain View Estates when HOPE CDC purchased: they were built around 1962, already thirty one (31) years old, stripped and devastated by vandalism and apparent drug infestation, now in 2008 this project is 46 years old and has served multiple residents, both the San Diego Housing Commission and this organization has accomplished quite a milestone in serving the community with affordable for fifteen (15) years.

Now it is time to move on, therefore we look forward to closing out Mountain View Estates and moving forward. Attached for your records is the Board Resolution reflecting Mountain View Estates.

Sincerely yours,

A handwritten signature in cursive script that reads "Dr. Bonnie Mitchell".

Dr. Bonnie Mitchell, President
Board of Directors

Cc: Board of Directors
Files

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**HOUSING OUR PEOPLE ECONOMICALLY COMMUNITY
DEVELOPMENT CORPORATION (HOPE CDC)**

**BOARD RESOLUTION
February 14, 2008**

Whereas, Housing Our People Economically Community Development Corporation, a California non-profit corporation ("Declarant"), in connection with that certain parcel of real property ("the Property") located at 3992 Ocean View and 422-424 South 40th Street in the City of San Diego, County of San Diego, California, described in Exhibit "A" attached hereto and incorporated herein by reference.

Whereas, Housing Our People Economically Community Development Corporation has met the obligations of Contractor including items (A), (B) and (C), (E), (F) and (G) specifically, operating the Real Property as four (4) affordable housing for the period of 15 years and in the manner described in the Contract, dated March 1, 1993.

Whereas, Housing Our People Economically Community Development Corporation (HOPE CDC) has the options of sale, conveyance, alienation, assignment, further encumbrance or other transfer of the Property or any interest therein with the written consent of the Commission.

We the Board of Directors of Housing Our People Economically Community Development Corporation accept the option to turn over the real property located at 3992, Ocean View & 422 - 424 South 40th Street (Mountain View Estates) in the City of San Diego, County of San Diego, California to the lender and San Diego Housing Commission this Fourteenth Day of February 2008.


Dr. Bonnie Mitchell

President
HOPE CDC Board of Directors

2/14/08
Date

5106 Federal Blvd.
Suite #101
San Diego, CA 92105

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EXHIBIT "A"

THE EAST 3 FEET OF LOT 14 AND ALL OF LOTS 15 AND 16 IN BLOCK 1 OF PANAMA HEIGHTS, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 1251, RECORDED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY ON APRIL 15, 1910.

ALSO KNOWN AS: 3992 OCEAN VIEW BOULEVARD, SAN DIEGO, CA

