

EXECUTIVE SUMMARY

DATE ISSUED: December 11, 2009

REPORT NO: HCR 09-113

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of December 18, 2009

SUBJECT: Time Extension Request for Hotel Churchill
(Council District 2)

SUMMARY:

The Hotel Churchill is a seven story 92-unit single room occupancy hotel located at 827 C Street and is approximately 100 years old, is designated as a historic building (Historic Site Number 637). On August 15, 2008, the Housing Commission voted unanimously to approve a ten month time extension request to complete the rehabilitation work by November 30, 2009, due to delays in replacing the elevator equipment. On November 13, 2009, the Housing Commission Board approved a short-term time extension from November 30, 2009 to December 31, 2009 to allow staff to evaluate the Owner's time extension request regarding the rehabilitation work for the Hotel Churchill (Attachment 1).

Since November 13, 2009, Commission staff has received from the Owner copies of the loan documents, subordination agreement, escrow instructions and settlement statements. In addition, Commission staff hired Tatum Construction and Management (TCM) to prepare a construction status report, which required the review of the Owner's construction schedule, scopes of work and budgets. It also included verification that the Owner obtained necessary City permits and approvals and an evaluation of the contractor's team to ensure they have the means and methods to complete the work. The complete report can be found as Attachment 2.

FISCAL CONSIDERATIONS:

If this time extension is not granted by the Housing Commission Board, the Owner will be in default of the Housing Replacement Agreement, In Lieu Note and Deed of Trust. If the rehabilitation is not completed by December 31, 2009, the Housing Commission will be entitled to accelerate the In-Lieu Note in the amount of \$4,250,000, and foreclose on the Deed of Trust, among other rights as set forth in those documents, after giving a 30 day notice to cure. The Superior Court has retained jurisdiction over this case.

Respectfully submitted,



D. Lawrence Clemens
Senior Vice President

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

REPORT

DATE ISSUED: December 11, 2009

REPORT NO: HCR 09-113

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of December 18, 2009

SUBJECT: Time Extension Request for Hotel Churchill
(Council District 2)

REQUESTED ACTION:

The property owner, J&J Properties A, LLC, is requesting a ten month time extension regarding the rehabilitation work for the Hotel Churchill located at 827 C Street pursuant to authority given under the Stipulated Judgment (Case No. GIC858800) between the San Diego Housing Commission and J&J Properties A, LLC ("Owner") and is also requesting that the San Diego Housing Commission subordinate its Deed of Trust, securing a \$4,250,000 In Lieu Fee, to a new deed of trust in the approximate principal amount of \$2,550,000.

STAFF RECOMMENDATION:

Commission staff recommends that the Housing Commission approve the following:

1. That the Housing Commission approve an initial 45-day time extension request from December 31, 2009 to February 15, 2010 for the purposes of closing a loan and subject to the following conditions:
 - a. The Owner's execute the loan documents in the amount of \$2,550,000 from Advanced Business Group.
 - b. Upon closing of the loan, the lender shall deposit the net proceeds of approximately \$1,650,000 into a fund control escrow account that will be used specifically to fund the remaining rehabilitation work. The Housing Commission will be responsible for monitoring the construction process and will authorize the release of any and all payments to the contractor.
 - c. The Replacement Housing Agreement and applicable amendments are senior to any deeds of trust.
 - d. The Housing Commission and Owner's execute a subordination agreement to subordinate the existing \$4,250,000 In Lieu Fee Deed of Trust..
 - e. As a condition to the extension and execution of the subordination agreement, the Owner shall execute and record a Performance Deed of Trust to ensure that Owner's maintain affordability requirements for 57 units after rehabilitation has been completed.
2. That the Housing Commission authorize the Chief Executive Officer to approve the remaining time extension of 8.5 months from February 15, 2010 to October 31, 2010, but only after Conditions 1a through 1e above have been successfully and timely accomplished.

3. That Commission staff is authorized to hire an Owner's Representative in accordance with the Housing Commission's procurement policy to monitor the rehabilitation work and advise the Housing Commission as to appropriate times to release monies from the fund control escrow as payment to the general contractor for work completed.

BACKGROUND:

The Hotel Churchill is a seven story 92-unit single room occupancy hotel located at 827 C Street and is approximately 100 years old, designated as a historic building (Historic Site Number 637). On August 15, 2008, the Housing Commission voted unanimously to approve a ten month time extension request to complete the rehabilitation work by November 30, 2009, due to delays in replacing the elevator equipment. On November 13, 2009, the Housing Commission Board approved a short-term time extension from November 30, 2009 to December 31, 2009 to allow staff to evaluate the Owner's new time extension request regarding the rehabilitation work for the Hotel Churchill (Attachment 1).

Since November 13, 2009, Commission staff has received from the Owner copies of the loan documents, subordination agreement, escrow instructions and settlement statements. In addition, Commission staff hired Tatum Construction and Management (TCM) to prepare a construction status report, which required the review of the Owner's construction schedule, scopes of work and budgets. It also included verification that the Owner obtained necessary City permits and approvals and an evaluation of the contractor's team to ensure they have the means and methods to complete the work. The complete report can be found as Attachment 2.

DISCUSSION:

Loan Document and Terms:

The Owner is ready to execute loan documents in the amount of \$2,550,000 received from Advanced Business Group. A condition of the loan requires the Housing Commission to subordinate the Commission's In Lieu Note and Deed of Trust in the amount of \$4,250,000. Based on General Counsel review of the Housing Replacement Agreement, the Housing Commission is not required to grant this subordination nor agree to pay off the First Trust Deed in the amount of \$750,000 or to pay for an interest impound or to pay off other liens. However, if the Housing Commission decides to grant a subordination agreement, it should only be executed under the following conditions:

1. The Housing Commission's Deed of Trust in the amount of \$4,250,000 can be subordinate to the new Deed of Trust as long as the Replacement Housing Agreement and applicable amendments remain in first position;
2. The new loan in the amount of \$2,550,000 must pay delinquent property taxes, repay an existing \$750,000 note, provide an interest reserve to service the new loan for six months and provide net proceeds which will be used solely for completing the building rehabilitation in an amount of not less than \$1,650,000;
3. A minimum of \$1,650,000 in rehabilitation costs must be deposited into an escrow fund control account, over which the SDHC shall have control, to ensure an adequate amount of rehabilitation funds and the release of those to the contractor at appropriate times; and

4. A Performance Deed of Trust must be fully executed by Owner to secure the performance of the Replacement Housing Agreement, as amended, ensuring that 57 Single Room Occupancy units remain affordable after the rehabilitation work has been completed for a period of 30 years.

As long as the Owner and General Counsel can agree upon documentation to fulfill these conditions, Commission staff recommends approval of the subordination agreement and loan documents and the extension of the time for completion of rehabilitation, in a form as approved by General Counsel.

Construction Rehabilitation Status

On November 16, 2009, Commission staff hired Tatum Consulting and Management (TCM) to interview key stakeholders, inspect the building to determine status of rehabilitation improvements, review existing and proposed budgets and evaluate the general contractor's ability to complete rehabilitation work within the proposed schedule.

On December 9, 2009, TCM submitted a construction status report for Hotel Churchill. The following summarizes the findings and recommendations of the construction status report:

1. Rehabilitation Work Completed – On November 18, 2009, and November 23, 2009, TCM inspected the building to determine the status of the rehabilitation work that has been completed to date. Based on TCM's evaluation, the owner's have completed the most risky (in the way of understanding scope and cost) portion of the rehabilitation effort equating to about 28 percent of the improvements. Some of these improvements include: replacement of water and sewer lines throughout the building, replacement of the elevator and elevator equipment room, replacement of electrical wiring, and installation of some plumbing fixtures.
2. Rehabilitation Work Remaining – According to TCM, approximately 72 percent of the rehabilitation work has yet to be completed. While this seems like a high percentage, most of the remaining work is cosmetic in nature. This work includes installing interior drywall, painting interior corridors and units, carpeting hallways and units, connecting all plumbing fixtures and equipment, installing new exterior windows and providing a new color coat on the exterior of the building.
3. Rehabilitation Budget – Based on documentation provided by the General Contractor, TCM has determined that the General Contractor has adequately identified the scope of work necessary to complete the rehabilitation work. In addition, the General Contractor has also estimated the total rehabilitation budget amount for this scope of work to be approximately \$2,258,000. TCM has evaluated the General Contractor's scope of work and budget and has validated that the budgets provided by the General Contractor are reasonable estimates given the current construction market conditions. In order to complete the remaining rehabilitation work, TCM has determined that approximately \$1,649,000 is needed. TCM has determined that the Owner has spent approximately \$609,000 to date. However, according to the Owner, approximately \$800,000 has been spent to date but this number cannot be verified.
4. Schedule – The General Contractor has estimated completion of the remaining rehabilitation work to take approximately nine months. TCM has determined that the General Contractor's schedule is more a general outline of major task work. As a result, the General Contractor has missed some opportunities to improve on the overall schedule. TCM has prepared a schedule

that illustrates that the remaining work could be completed in approximately seven months by implementing the following measures:

- Framing and Drywall work could be reduced from 21 weeks to 10 weeks. A majority of the work has already been completed on Floors 2, 3 and 4.
- Electrical work could be reduced from 12 weeks to 7 weeks since a majority of the work has been completed.
- Interior painting could be reduced from 19 weeks to 4 weeks by a competent painting subcontractor.
- Furniture, Fixtures and Equipment installation could be reduced from 6 weeks to 2 weeks.
- Final Cleanup could be reduced from 3 weeks to 1 week.

The critical path in the TCM schedule includes electric wiring, framing, drywall, interior finishes and carpeting. This assumes that the General Contractor efficiently contracts and procures the exterior windows in a timely manner once the project has re-started. Any delay to the window procurement and production will shift the critical path from the interior to the exterior of the building, which could impact the schedule and cause delays to the schedule. Although these measures could reduce the schedule by approximately two months, Housing Commission staff is still recommending approval of a ten month time extension but will be recommending to the General Contractor during the construction process implementation of these measures to improve the overall schedule.

5. General Contractor Evaluation – The General Contractor for the project is NeMaco, Inc. They are a small general contractor, specializing in hotel renovation work. TCM has determined that the project work completed to date appears to be done in a neat, orderly and sequential manner revealing NeMaco's experience in this type of construction and engineering. Based on TCM's peer review of the material provided by the General Contractor, it is TCM's opinion that NeMaco, Inc. has experience necessary to manage the rehabilitation work to completion.
6. Rehabilitation Work Recommendations – According to the TCM report, the General Contractor has included a majority of the rehabilitation work in their scopes of work and budgets. However, TCM is recommending that the General Contractor include the following items in the rehabilitation scope of work:
 - a. Since this is an historic building, the San Diego Fire Department has determined that fire sprinkler systems will not be required to be installed within the building. However, at a minimum, the San Diego Fire Department will require that new smoke detectors will be required in each unit and the installation of a common area fire alarm system. TCM is recommending that approximately \$40,000 is included within the rehabilitation budget to cover smoke detectors and fire alarm installation.
 - b. Because the exterior windows have been removed for several months, mold has been detected in some of the units and corridors. TCM recommends that the General Contractor commission a mold report and have the mold remediated on each floor prior

to finalizing framing and drywall work on each floor. Approximately \$10,000 has been included in the TCM budget to cover this remediation work.

- c. The General Contractor is planning to use the existing boiler systems in the basement to heat the building. TCM has received a letter from a licensed mechanical engineer that the existing boilers are in good working condition but the actual working condition was not verified. Therefore, TCM is recommending that approximately \$5,000 be included within the rehabilitation budget to cover possible repair work when the boilers are started for the first time.
- d. To ensure that the General Contractor is working efficiently and effectively to meet the proposed completion date, TCM recommends that a construction manager oversee the construction process, produce monthly reports regarding progress made by the contractor and recommend progress payments for the remaining rehabilitation work.

Based on the recommendations made in the TCM Construction Status Report, Commission staff recommends approval of the time extension request contingent on the owner depositing a total of \$1,650,000 into an escrow fund account, over which the SDHC will have control, that will be used to pay for the rehabilitation improvements.

FISCAL CONSIDERATIONS:

If this time extension is not granted by the Housing Commission Board, the Owner will be in default of the Housing Replacement Agreement, In Lieu Note and Deed of Trust. If the rehabilitation is not completed by December 31, 2009, the Housing Commission will be entitled to accelerate the In-Lieu Note in the amount of \$4,250,000, and foreclose on the Deed of Trust, among other rights as set forth in those documents, after giving a 30 day notice to cure. The Superior Court has retained jurisdiction over this case.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On November 13, 2009, the Housing Commission Board approved a short-term time extension from November 30, 2009 to December 31, 2009 to allow staff to evaluate the Owner's time extension request regarding the rehabilitation work.

On August 15, 2008, the Housing Commission voted unanimously (5-0) to approve a ten month time extension request to complete the rehabilitation work by November 30, 2009, due to delays in replacing the elevator equipment.

On November 20, 2007, the City Council voted unanimously in Closed Session on Item CS-1 to approve a settlement of San Diego Superior Court (Case No. GIC 858800). This action resulted in a Single Room Occupancy Replacement Housing Agreement for this project and the permanent designation of 57 low-income single room occupancy units.

ENVIRONMENTAL REVIEW:

The proposed action is not considered a project pursuant to the California Environmental Quality Act (CEQA); therefore, no CEQA environmental review is required. Also, because there are no funding sources involved in this activity, processing environmental documents under the National Environmental Policy Act is not required.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Stakeholders for this project include the property owner, Cardinal Group (owner's representative), the Housing Commission, the City of San Diego and extremely low-income residents who would benefit from having these single room occupancy units available for rent.

Respectfully submitted,



D. Lawrence Clemens
Senior Vice President

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

Attachments:

1. November 13, 2009, Housing Commission Board Report
2. December 9, 2009, TCM Construction Status Report **

** Exhibits are available for review at the Housing Commission offices

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

Information: Mr. Roger Green (619) 578-7587



EXECUTIVE SUMMARY

DATE ISSUED: November 6, 2009

REPORT NO: HCR 09-111

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of November 13, 2009

SUBJECT: Time Extension Request for Hotel Churchill
(Council District 2)

STAFF RECOMMENDATION:

Approve a short term time extension from November 30, 2009 to December 31, 2009 to allow staff to evaluate the owner's time extension request regarding the rehabilitation work for the Hotel Churchill and to authorize the President and Chief Executive Officer to execute such documents as necessary.

SUMMARY:

On September 29, 2009, J&J Properties A, LLC ("Owner"), submitted a ten-month time extension request to complete the rehabilitation work for the Hotel Churchill located at 827 C Street pursuant to authority given under the Stipulated Judgment (Case No. GIC858800) between the San Diego Housing Commission and J&J Properties A, LLC.

The deadline for completing the rehabilitation work is November 30, 2009. At this time, the Housing Commission staff did not receive all of the information from the Owner in a timely manner. Therefore, Housing Commission staff is requesting that the Housing Commission Board approve a short term time extension to permit Housing Commission staff to adequately evaluate this request. This evaluation may include, but is not limited to, review of loan documents from the lender, review of construction schedule, scopes of work and budgets, verification that City permits have been obtained, evaluate the contractor's team to ensure they have the means and methods to complete the work, compliance with the Housing Replacement Agreement, and further inspection of the building.

FISCAL CONSIDERATIONS:

If this time extension is not granted by the Housing Commission Board, the Owner will be in default of the Housing Replacement Agreement, In Lieu Note and Deed of Trust. If the rehabilitation is not complete on November 30, 2009, the Housing Commission will be entitled to accelerate the In-Lieu Note in the amount of \$4,250,000, and foreclose on the Deed of Trust, among other rights as set forth in those documents, after giving a 30 day notice to cure.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. Lawrence Clemens".

D. Lawrence Clemens
Senior Vice President

Approved by,

A handwritten signature in black ink, appearing to read "Carrol M. Vaughan".

Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer



REPORT

DATE ISSUED: November 6, 2009

REPORT NO: HCR 09-111

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of November 13, 2009

SUBJECT: Time Extension Request for Hotel Churchill
(Council District 2)

REQUESTED ACTION:

The property owner, J&J Properties A, LLC, is requesting a ten month time extension regarding the rehabilitation work for the Hotel Churchill located at 827 C Street pursuant to authority given under the Stipulated Judgment (Case No. GIC858800) between the San Diego Housing Commission and J&J Properties A, LLC ("Owner").

STAFF RECOMMENDATION:

Approve a short-term time extension from November 30, 2009 to December 31, 2009 to allow staff to evaluate the Owner's time extension request regarding the rehabilitation work for the Hotel Churchill and to authorize the President and Chief Executive Officer to execute such documents as necessary.

BACKGROUND:

The Hotel Churchill is a seven story 92-unit single room occupancy hotel located at 827 C Street. The hotel is approximately 100 years old and is designated as a historic building (Historic Site Number 637). Due to the age of the building, some of the rehabilitation work has included the replacement and modernization of the elevator, replacement of the plumbing and sewer lines throughout the building, upgrades to electrical wiring and panels. In addition, the Owner will need to completely replace the exterior hotel room windows throughout the building in accordance with the review and approval of the Historic Resources Board.

On January 11, 2008, the Owner and the San Diego Housing Commission entered into a Single Room Occupancy Replacement Housing Agreement (the "Replacement Housing Agreement") (Attachment 1). According to this Replacement Housing Agreement, the Owner agreed to complete the hotel rehabilitation work by January 31, 2009. If the Owner does not complete the rehabilitation work in a timely manner, and to the reasonable satisfaction of the Housing Commission, the Owner shall owe the Housing Commission an in-lieu fee in the amount of \$4,250,000. As security, the Owner recorded an In-Lieu Note in favor of the San Diego Housing Commission in the amount of \$4,250,000 and has restricted 57-units as affordable units for thirty years in accordance with the Replacement Housing Agreement. The In-Lieu Note shall be completely satisfied upon timely completion of the 57 affordable units.

On June 19, 2008, the Owner requested a six month time extension to extend the rehabilitation completion date from January 31, 2009 to July 31, 2009. The primary reason for this request was due to the modernization and customization of two elevators within the building. After further discussion with

the Owner's representative, the Housing Commission staff concluded that the work involved with replacing the elevator, including the remaining rehabilitation work, would exceed the six month request and that a ten month extension would be more appropriate. On August 15, 2008, the Housing Commission Board approved a ten month extension of time for the owner to complete the rehabilitation work by November 30, 2009.

On September 29, 2009, Housing Commission staff received a second ten-month time extension request from the Owner to complete the rehabilitation work by September 30, 2010. The Owner states that its second time extension request is because the Owner has had difficulty securing construction financing to complete the rehabilitation improvements. According to the Owner, they have spent approximately \$800,000 of their own money to replace the elevator, plumbing and sewer lines, electrical systems and other items over the past year (Attachment 2). Neither the amount nor the use of this sum has been independently verified by the Commission.

DISCUSSION:

On October 1, 2009, Housing Commission staff inspected the condition of the building to determine the status of the improvements. Based on our investigation of the building, there is a significant amount of rehabilitation work that still needs to be completed. As a result, Housing Commission staff requested a copy of the loan commitment letter, rehabilitation schedule; rehabilitation budget and copies of rehabilitation drawings and plans (Attachment 3). These documents have been forwarded to the Housing Commission staff over the past few weeks and additional information was requested from the Owner on October 22, 2009 (Attachment 4). On October 29, 2009, the Owner provided additional information and an updated rehabilitation schedule to Housing Commission staff (Attachments 5 and 6).

Because the Housing Commission staff did not receive all of the information from the Owner in a timely manner, we are requesting that the Housing Commission Board approve a short term time extension to permit Housing Commission staff to adequately evaluate this request. This evaluation may include, but is not limited to, review of loan documents from the lender, review of construction schedule, scopes of work and budgets, verification that City permits have been obtained, evaluate the contractor's team to ensure they have the means and methods to complete the work, compliance with the Housing Replacement Agreement, and further inspection of the building.

FISCAL CONSIDERATIONS:

If this time extension is not granted by the Housing Commission Board, the Owner will be in default of the Housing Replacement Agreement, In Lieu Note and Deed of Trust. If the rehabilitation is not complete on November 30, 2009, the Housing Commission will be entitled to accelerate the In-Lieu Note in the amount of \$4,250,000, and foreclose on the Deed of Trust, among other rights as set forth in those documents, after giving a 30 day notice to cure.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On November 20, 2007, the City Council voted unanimously in Closed Session on Item CS-1 to approve a settlement of San Diego Superior Court (Case No. GIC 858800). This action resulted in a Single Room Occupancy Replacement Housing Agreement for this project and the permanent designation of 57 low-income single room occupancy units.

On August 15, 2008, the Housing Commission voted unanimously (5-0) to approve a ten month time extension request to complete the rehabilitation work by November 30, 2009, due to delays in replacing the elevator equipment.

ENVIRONMENTAL REVIEW:

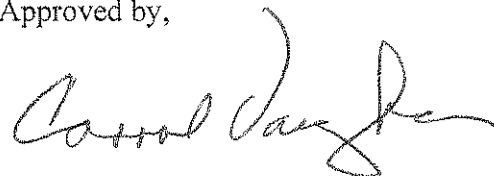
The proposed action is not considered a project pursuant to the California Environmental Quality Act (CEQA); therefore, no CEQA environmental review is required. Also, because there are no funding sources involved in this activity, processing environmental documents under the National Environmental Policy Act is not required.


KEY STAKEHOLDERS & PROJECTED IMPACTS:

Stakeholders for this project include the property owner, Cardinal Group (owner's representative), the Housing Commission, the City of San Diego and extremely low-income residents who would benefit from having these single room occupancy units available for rent.

Respectfully submitted,

Approved by,



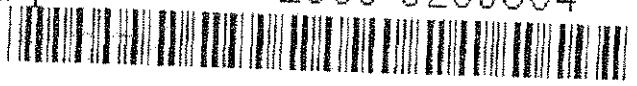
 D. Lawrence Clemens
Senior Vice President

Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

- Attachments:
1. SRO Housing Replacement Agreement
 2. September 29, 2009, Time Extension Request from Cardinal Group
 3. October 16, 2009, Loan Commitment Letter from Advanced Business Group
 4. October 22, 2009, SDHC Comment Letter to Owner
 5. October 29, 2009, Response Letter from Cardinal Group
 6. Proposed Rehabilitation Schedule from Cardinal Group

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

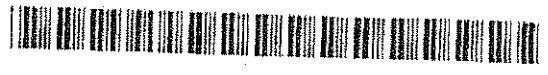
Information: Mr. Roger Green (619) 578-7587



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And When Recorded Mail To:
Christensen Schwerdtfeger & Spath LLP
550 West C Street, Suite 1660
San Diego, CA 92101

FIRST AMENDMENT TO SINGLE ROOM OCCUPANCY REPLACEMENT HOUSING
AGREEMENT AND AGREEMENT IMPOSING COVENANTS, CONDITIONS AND
RESTRICTIONS ON REAL PROPERTY

THIS FIRST AMENDMENT TO SINGLE ROOM OCCUPANCY
REPLACEMENT HOUSING AGREEMENT AND AGREEMENT IMPOSING
COVENANTS, CONDITIONS AND RESTRICTIONS ON REAL PROPERTY
("Amendment") is made as of this 23 day of April, 2008, by San Diego Housing Commission, a
public agency ("Commission"), whose address is 1122 Broadway, Suite 300, San Diego,
California, 92101, and J & J Properties A, LLC, a California limited liability company ("J&J"),
whose address is 8110 Aero Drive, San Diego, California 92123;

RECITALS

The Commission and J&J are parties to that certain Single Room Occupancy
Replacement Housing Agreement and Agreement Imposing Covenants Conditions and
Restrictions on Real Property, dated January 11, 2008, and recorded in the Office of the
Recorder of the County of San Diego on February 25, 2008, as Document No. 2008-0095277
(the "Agreement"). The Commission and J&J desire to amend the Agreement as provided
hereto.

NOW, THEREFORE, in furtherance of the recitals stated above, the Commission and
J&J hereby amend the Agreement, and agree, promise and declare as follows:

1. Subsection (A) of the Agreement is amended and restated in its entirety to provide as
follows: "J&J owns and operates the real property located within the City of San Diego, more
particularly described on Exhibit "A" attached hereto (the "Property"). J&J and the Commission
are parties to that certain lawsuit concerning, *inter alia*, application of Chapter 14, Article 3,
Division 5 of the San Diego Municipal Code (the "SRO Ordinance") to the Property, entitled *J &
J Properties A, LLC v. San Diego Housing Commission, et al.*, San Diego County Superior Court
case number GiC 858800 (the "Lawsuit"). The lawsuit was settled and pursuant to such
settlement, a judgment was entered on January 16, 2008, a true and correct copy of which is
attached hereto as Exhibit "B", and by this reference incorporated.

2. Except to the extent modified by this Amendment, the Commission and J&J hereby confirm each of the covenants, agreements and obligations as set forth in the Agreement.

3. This Amendment may be executed in counterparts. When the Amendment is fully executed, the counterparts shall constitute one and the same agreement.

4. All individuals signing this Amendment for a party which is a corporation, limited liability company, partnership or other legal entity, or signing under a power of attorney, or as a trustee, guardian, conservator, or in any other legal capacity, covenant to that they have the necessary capacity and authority to act for, sign and bind the respective entity or principal on whose behalf they are signing.

5. In the event of any conflict between the Agreement and this Amendment, this Amendment shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above.

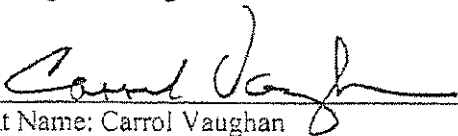
J&J:

J & J Properties A, LLC, a California limited liability company

By: _____
Print Name: _____
Its: _____

COMMISSION:

San Diego Housing Commission

By: 
Print Name: Carrol Vaughan
Its: Interim President and Chief Executive Officer

APPROVED AS TO FORM AND LEGALITY:

Christensen Schwedtfeger & Spath LLP
Assignor General Counsel

By: 
Charles B. Christensen, Esq.

ACKNOWLEDGMENT

State of California)
County of San Diego)

On May 9, 2008, before me, Patricia E. Garibay, notary public, personally appeared, Carol Vaughn who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity on behalf of which the person(s) acted, executed the instrument.

I certify under penalty of perjury under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Patricia E. Garibay



2. Except to the extent modified by this Amendment, the Commission and J&J hereby confirm each of the covenants, agreements and obligations as set forth in the Agreement.

3. This Amendment may be executed in counterparts. When the Amendment is fully executed, the counterparts shall constitute one and the same agreement.

4. All individuals signing this Amendment for a party which is a corporation, limited liability company, partnership or other legal entity, or signing under a power of attorney, or as a trustee, guardian, conservator, or in any other legal capacity, covenant to that they have the necessary capacity and authority to act for, sign and bind the respective entity or principal on whose behalf they are signing.

5. In the event of any conflict between the Agreement and this Amendment, this Amendment shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above.

J&J:

J & J Properties A, LLC, a California limited liability company

By: [Signature]
Print Name: Luz Barni
Its: Member

COMMISSION:

San Diego Housing Commission

By: _____
Print Name: Carrol Vaughan
Its: Interim President and Chief Executive Officer

APPROVED AS TO FORM AND LEGALITY:

Christensen Schwerdtfeger & Spath LLP
Assignor General Counsel

By: _____
Charles B. Christensen, Esq.

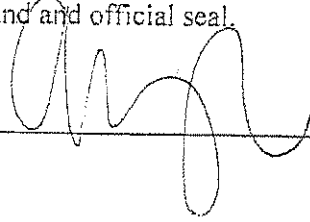
ACKNOWLEDGMENT

State of California)
)
County of San Diego)

On April 23rd, 2008, before me, Arceia C. Zambrano, notary public, personally appeared, Luz Burni who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) (is/are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity on behalf of which the person(s) acted, executed the instrument.

I certify under penalty of perjury under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature 

(Seal)

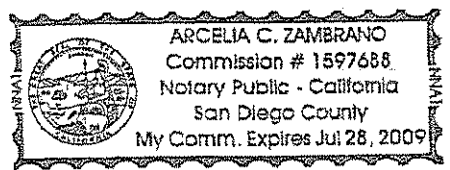


EXHIBIT "A"

Legal Description of the Property

LOTS L AND K IN BLOCK 32 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA. ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING, JUNE 21, 1871 IN BOOK 13, PAGE 522 OF DEEDS, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY OF SAN DIEGO.

9102

EXHIBIT B

FILED
Clerk of the Superior Court

JAN 16 2008

By: K. S. ...

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SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF SAN DIEGO

J & J PROPERTIES A, LLC,

Plaintiff,

vs.

SAN DIEGO HOUSING COMMISSION, a
state agency authorized by the City of San
Diego; SAN DIEGO HOUSING
AUTHORITY, an agency of the City of San
Diego; CITY OF SAN DIEGO, a chartered
municipal corporation,

Defendants.

) Case No.: GIC858800
) [Consolidated with Case No. GIC858807]

) JUDGMENT

) Judge: Ronald S. Prager
) Dept.: 71

The above noted civil actions came regularly for trial call on October 19, 2007 at 8:45 a.m. before the Hon. Ronald S. Prager in Department 71 of the San Diego Superior Court, Hall of Justice. Prior to assignment of this civil action for trial, Plaintiff J&J PROPERTIES A, LLC and Defendants SAN DIEGO HOUSING COMMISSION, HOUSING AUTHORITY OF THE CITY OF SAN DIEGO, and CITY OF SAN DIEGO collectively agreed to the essential terms of a resolution; however, all such terms were expressly conditioned upon approval by the governing bodies of Defendants, and each of them. The governing bodies of Defendants, and each of them, now having approved the terms for resolution, and counsel for Plaintiff along with counsel for Defendants, and each of them, having executed a stipulation for the entry of judgment, the above-entitled Court now enters judgment thereon.

IT IS ADJUDGED, ORDERED AND DECREED:

1
2 1. Plaintiff shall pay the aggregate sum of Forty Nine Thousand Eight Hundred
3 Sixty Four & 32/100 Dollars (\$49,864.32) as relocation benefits due those tenants who were
4 displaced for reasons other than cause for eviction from the Hotel Churchill ("Churchill"),
5 located at 827 C Street, San Diego, California 92101, during the time period from September 15,
6 2005 until December 15, 2005. Defendants have identified for Plaintiff those tenants qualified to
7 receive the relocation benefits, and stated the amount due each such tenant under San Diego
8 Municipal Code §§113.0103 and 143.0501 et seq. (collectively "SRO Regulations"). Plaintiff
9 shall use reasonable and good faith efforts to locate each identified tenant and pay the stated
10 amounts prior to January 31, 2008. The cost of all such efforts shall be borne entirely by
11 Plaintiff and must include the use of mass media reasonably calculated to apprise the identified
12 tenants of the availability of the relocation benefits due under this judgment. Plaintiff shall
13 account to Defendants for all monies paid, as well as the methods used to locate the identified
14 tenants. If Plaintiff is unable to locate all such tenants, as determined by the SAN DIEGO
15 HOUSING COMMISSION in its reasonable discretion, then any remaining funds shall be paid
16 to the SAN DIEGO HOUSING COMMISSION, which shall hold the remaining monies for one
17 (1) year after tender by Plaintiff for payment to qualified tenants, after which such monies shall
18 be used by the SAN DIEGO HOUSING COMMISSION for the preservation, rehabilitation,
19 and/or development of SRO hotels in the downtown San Diego area.

20 2. Plaintiff shall promptly undertake and diligently prosecute all actions required by
21 the SRO Regulations and San Diego Municipal Code to process all permits and other official
22 authorizations required for the rehabilitation of the Churchill. A rehabilitation plan for the
23 Churchill shall be tendered to SAN DIEGO HOUSING COMMISSION with a copy to its
24 general counsel and the City Attorney of the CITY OF SAN DIEGO on or before January 31,
25 2008. Upon approval of the rehabilitation plan for the Churchill along with any other official
26 authorizations reasonably required by the CITY OF SAN DIEGO, Plaintiff shall promptly
27 commence and diligently prosecute the rehabilitation of the Churchill in a manner reasonably
28 calculated to complete the rehabilitation of the Churchill on or before January 31, 2009. In the

1 event that Plaintiff is unable for good cause to complete the rehabilitation prior to January 31,
2 2009, Plaintiff and Defendants shall negotiate in good faith to decide upon an extension of time
3 for the completion of the rehabilitation, which extension shall be the shortest practicable
4 extension reasonably calculated to complete the rehabilitation of the Churchill. If Plaintiffs and
5 Defendants cannot agree on the extension, Plaintiffs and/or Defendants may apply to this Court
6 for a judicial determination of the shortest practicable extension reasonably calculated to
7 complete the rehabilitation of the Churchill.

8 3. Concurrently with the entry of this judgment, Plaintiff shall execute a Housing
9 Replacement Agreement ("HRA") with the SAN DIEGO HOUSING COMMISSION, which
10 shall, *inter alia*, require Plaintiff to pay the SAN DIEGO HOUSING COMMISSION the sum of
11 Four Million Two Hundred Fifty Thousand Dollars (\$4,250,000.00) as an "in lieu" replacement
12 housing fee in the event that Plaintiff fails to timely complete the rehabilitation of the Churchill.
13 This "in lieu" replacement housing fee shall be secured by a promissory note and deed of trust,
14 as set out below.

15 4. Plaintiff shall reserve fifty seven (57) of the rehabilitated rooms in the Churchill
16 for exclusive use as SRO hotel rooms, as defined by the SRO Regulations, and shall also ensure
17 that each of these rooms is rented to income qualified individuals, as defined by the SRO
18 Regulations and memorialized in the HRA. This reservation of the SRO hotel rooms in the
19 Churchill and renting of such rooms to income qualified persons shall persist for at least the
20 minimum time periods dictated by the SRO Regulations and the HRA.

21 5. The timely completion of the rehabilitation along with the obligation to make the
22 "in lieu" payment, which will be required if the rehabilitation is not timely completed, shall be
23 secured by a promissory note and deed of trust (collectively "Security Instruments") executed by
24 Plaintiff in favor of the SAN DIEGO HOUSING COMMISSION in the amount of Four Million
25 Two Hundred Fifty Thousand Dollars (\$4,250,000.00). The Security Instruments shall be
26 subordinate only to those recorded deeds of trust existing on the date the SAN DIEGO
27 HOUSING COMMISSION recorded a lis pendens in these consolidated civil actions, and those
28 encumbrances securing obligations incurred by Plaintiff exclusively for the rehabilitation of the

1 Churchill. Plaintiff shall seek the consent of the SAN DIEGO HOUSING COMMISSION in
2 advance of incurring any indebtedness for which it will request the SAN DIEGO HOUSING
3 COMMISSION to subordinate the Security Instruments. Prior to the SAN DIEGO HOUSING
4 COMMISSION subordinating the Security Instruments to any encumbrances incurred by
5 Plaintiff for the rehabilitation of the Churchill, Plaintiff shall account to the SAN DIEGO
6 HOUSING COMMISSION for both purpose and monetary amount of the proposed
7 encumbrance. The SAN DIEGO HOUSING COMMISSION shall not unreasonably withhold its
8 consent to subordinating the Security Instruments for those encumbrances necessary to
9 rehabilitate the Churchill.

10 6. The Security Instruments shall secure the performance of Plaintiff's rehabilitation
11 of the Churchill. Upon timely rehabilitation of the Churchill, the SAN DIEGO HOUSING
12 COMMISSION shall release the Security Instruments by reconveyance of the deed of trust and
13 cancellation of the promissory note; however, failure of Plaintiff to timely complete the
14 rehabilitation of the Hotel Churchill shall entitle the SAN DIEGO HOUSING COMMISSION to
15 foreclose upon the Security Instruments. Time is of the essence in the completion of the
16 rehabilitation of the Churchill.

17 7. Upon the execution of the HRA and the recording of the Security Instruments the
18 SAN DIEGO HOUSING COMMISSION shall release the existing lis pendens.

19 8. In the event of a dispute over the interpretation of this Judgment, the Security
20 Instruments, and/or HRA, the Hon. Ronald S. Prager or his designee Superior Court judge shall
21 retain jurisdiction to decide such dispute. Prior to making recourse to the above-entitled Court
22 for the resolution of such a dispute, Plaintiff and Defendant[s] shall meet and confer in good
23 faith in an attempt to resolve the dispute[s] without the necessity of judicial intervention.

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1 9. If Plaintiff or its successors-in-interest intend to or actually convert, demolish,
2 and/or again rehabilitate the Churchill, Plaintiff or its successors-in-interest, as the case may be,
3 shall remain subject to the SRO Regulations, as well as all laws, regulations, and contractual
4 commitments pertaining to the conversion, demolition, and/or rehabilitation of the Churchill.

5 Dated: JAN 1 6 2008

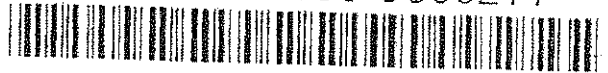
RONALD S. PRAGER

Hon. Ronald S. Prager
JUDGE OF THE SUPERIOR COURT

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Recorded at the request of
Chicago Title

DOC # 2008-0095277



FEB 25, 2008 2:51 PM

OFFICIAL RECORDS
SAN DIEGO COUNTY RECORDER'S OFFICE
GREGORY J. SMITH, COUNTY RECORDER
FEES: 0.00 WAYS: 2

PAGES: 16



Handwritten notes: 7/16/08, MF

**NO CHARGE ON THIS DOCUMENT
FOR THE BENEFIT OF A STATE
AGENCY FORMED BY THE CITY OF
SAN DIEGO**

Recording Requested By **8029**
And When Recorded Mail To:
Christensen Schwerdtfeger & Spath LLP
550 West C Street, Suite 1660
San Diego, CA 92101

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**SINGLE ROOM OCCUPANCY REPLACEMENT HOUSING AGREEMENT
AND AGREEMENT IMPOSING COVENANTS, CONDITIONS AND RESTRICTIONS
ON REAL PROPERTY**

THIS SINGLE ROOM OCCUPANCY REPLACEMENT HOUSING AGREEMENT AND AGREEMENT IMPOSING COVENANTS, CONDITIONS AND RESTRICTIONS ON REAL PROPERTY ("Agreement") is entered into as of this 16th day of January, 2008, by and between J & J Properties A, LLC, a California limited liability company ("J&J"), the San Diego Housing Commission ("Commission").

RECITALS

A. J&J owns and operates the real property located within the City of San Diego, more particularly described on Exhibit "A" attached hereto (the "Property"). J&J and the Commission are parties to that certain lawsuit concerning, *inter alia*, application of Chapter 14, Article 3, Division 5 of the San Diego Municipal Code (the "SRO Ordinance") to the Property, entitled *J & J Properties A, LLC v. San Diego Housing Commission, et al.*, San Diego County Superior Court case number GIC 858800 (the "Lawsuit").

B. As part of settlement of the Lawsuit, J&J agreed to rehabilitate and restrict fifty-seven (57) dwelling units (the "Affordable Units") located at the Property as "SRO Hotel Rooms" as that term is defined in §113.0103 of the San Diego Municipal Code. The Affordable Units shall be rent and occupancy to single-person households earning at or below fifty percent (50%) of Area Median Income for a term of thirty (30) years. Nothing contained herein is a novation, amendment or release of any of the rights or obligations of Commission or J&J under the stipulated judgment or any other document or agreement by and between Commission and J&J.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties hereby agree as follows:

1. Definitions. The following terms shall have the following meanings:

"Affordable Units" means fifty-seven (57) dwelling units, which shall at all times during the term of this Agreement meet the definition of "SRO Hotel Rooms," as that term is defined in §113.0103 of the San Diego Municipal Code, and which are rent and occupancy restricted as provided in this Agreement for a period of thirty (30) years from the date of issuance of certificates of occupancy for all fifty-seven (57) Affordable Units. As used herein the term "Affordable Units" shall refer to those residential dwelling units on the Property which are owned or held available strictly in accordance with the terms and conditions set forth in this Agreement.

"Agreement" means this Single Room Occupancy Replacement Housing Agreement and Agreement Imposing Covenants, Conditions And Restrictions on Real Property by and between the Commission and J&J.

"Area Median Income" means the area median income, as adjusted for family size, for the San Diego Standard Metropolitan Statistical Area as promulgated by the U.S. Department of Housing and Urban Development ("HUD"). In the event HUD ceases to publish an established Area Median Income as aforesaid, the Commission may use any other reasonably comparable method of computing Area Median Income and/or Maximum Gross Rent.

"Commission" means the San Diego Housing Commission, a public agency.

"Deed of Trust" means the deed of trust described in Section 3(b) of this Agreement which secures the In Lieu Note.

"Eligible Tenants" means single person households whose aggregate gross annual income does not exceed 50% of Area Median Income for one person families, that also meet all of the requirements set forth in this Agreement, including without limitation Section 5 of this Agreement.

"In Lieu Note" means that certain "Promissory Note Secured by Deed of Trust" of even date herewith, executed concurrently herewith by J&J in favor of Commission, in the original principal amount of Four Million Two Hundred Fifty Thousand and No/100 Dollars (\$4,250,000.00), in a form reasonably approved by the Commission.

"J&J" means J & J Properties A, LLC, a California limited liability company.

"Lawsuit" means *J & J Properties A, LLC v. San Diego Housing Commission, et al.*, San Diego County Superior Court case number GIC 858800.

"Maximum Gross Rent" means on a monthly basis an amount that is less than or equal to thirty percent (30%) of the monthly income of a single person household earning at or below fifty percent (50%) of Area Median Income. Maximum Gross Rent shall include all rent and tenant paid utilities, fees and charges, including without limitation all payments made by the Eligible Tenants and all subsidies received by J&J, as further defined in Section 4(b), below.

"Property" means that certain real property located within the City of San Diego, more particularly described on Exhibit "A" attached hereto.

"Rehabilitation Plan" means the plan describing all of the work to be performed at the Property and on the Affordable Units in order to rehabilitate the same, submitted by J&J and approved by the Commission and its general counsel.

"SRO Ordinance" means Chapter 14, Article 3, Division 5 of the San Diego Municipal Code.

Other terms referenced in this Agreement in "quotations" have the meanings ascribed to them in this Agreement.

2. Rehabilitation.

(a) Rehabilitation Plan. On or before January 31, 2008 (or such other date as J&J and the Commission agree upon, or the court having jurisdiction over the Lawsuit, upon noticed motion and for good cause shown, may set), J&J shall submit a "Proposed Rehabilitation Plan" for the Property to the Commission and its general counsel for approval, which approval shall not be unreasonably withheld, conditioned or delayed. In the event the Commission rejects the Proposed Rehabilitation Plan for the Property, J&J shall promptly revise the Proposed Rehabilitation Plan so that it is reasonably satisfactory to the Commission and its general counsel. The Proposed Rehabilitation Plan that is approved by the Commission and its general counsel shall be referred to herein as the "Rehabilitation Plan." Time is of the essence regarding the performance of the covenants of both J&J and the Commission; failure to comply with these covenants by either J&J or the Commission shall constitute a material default under this Agreement.

(b) Commencement and Completion of Rehabilitation; Building Permits. Within five (5) business days of the Commission and its general counsel's approval of the Rehabilitation Plan, J&J shall commence rehabilitation of the fifty-seven (57) Affordable Units in accordance with the Rehabilitation Plan. J&J shall at its sole cost and expense obtain all required building permits, land development permits, public and private improvement permits and all other permits for the rehabilitation of the Property and the Affordable Units. J&J shall diligently rehabilitate the Property as provided in the Rehabilitation Plan. J&J shall complete all rehabilitation (as evidenced by certificates of occupancy for all of the Affordable Units) in strict accordance with the provisions of the Rehabilitation Plan on or before January 31, 2009 (or such other date as J&J and the Commission agree upon, or the court having jurisdiction over the Lawsuit, upon noticed motion and for good cause shown, may set). Time is of the essence regarding the performance of the covenants of both J&J and the Commission; failure to comply with these covenants by either J&J or the Commission shall constitute a material default under this Agreement. J&J shall provide the Commission with a copy of the recorded Notice of Completion for all units within the Property within five (5) days of J&J's receipt of the same.

(c) Inspection by Commission. Commission shall be entitled to review, inspect and approve, without liability, all of the rehabilitation of the Property. All rehabilitation shall be

performed to the reasonable satisfaction of Commission, without liability to Commission for review and observation of the rehabilitation. Commission shall provide written notice to J&J of any deficiencies in rehabilitation and the same shall be corrected by the contractor and/or J&J.

(d) Housing Quality Standards. J&J represents and warrants that the Property shall be maintained, at all times during the term of this Agreement, as an SRO Hotel and in a safe, decent and sanitary condition in complete compliance with all code requirements and with the housing quality standards contained within 24 CFR §92.251. J&J hereby consents to reasonable periodic inspections by Commission's designated inspectors and/or other designees during regular business hours, including the Code Enforcement Agents of the City of San Diego, to assure compliance with said zoning, building codes, regulations, and housing quality standards. J&J agrees to comply with the provisions of 24 CFR §92.251, whether or not contained in this Section.

3. Security for Rehabilitation of the Affordable Units.

(a) In Lieu Note.

(1) Principal. Section 143.0550(d)(4) of the SRO Ordinance provides that "[i]n lieu of providing SRO hotel rooms, an applicant may contribute to the Single Room Occupancy Hotel Replacement Fund." As part of the settlement of the Lawsuit, the parties agreed that "if J&J does not timely complete the rehabilitation, to the reasonable satisfaction of the Commission, within the applicable time as allowed by Section 3, above (Section 2(b) of this Agreement), J&J shall owe to the Commission an in lieu fee in the amount of \$4,250,000.00" (the "In Lieu Fee"). As security for J&J's obligation to rehabilitate, restrict and operate the fifty-seven (57) Affordable Units in accordance with this Agreement and as security for payment of the In Lieu Fee, J&J shall concurrently herewith execute the In Lieu Note in favor of Commission, in the principal amount of Four Million Two Hundred Fifty Thousand and No/100 Dollars (\$4,250,000.00), in a form reasonably approved by the Commission (the "In Lieu Note"). The In Lieu Note shall be fully recourse to J&J and is hereby incorporated in this Agreement.

(2) No Interest or Payment Except in Event of Default: Deemed Satisfaction. The In Lieu Note shall not bear interest, except in the event of a default. No payments shall be due under the In Lieu Note, except in the event of a default. In the event of the failure to complete rehabilitation of the fifty-seven (57) Affordable Units in accordance with the provisions of the Rehabilitation Plan on or before January 31, 2009 (or such other date as J&J and the Commission agree upon, or the court having jurisdiction over the Lawsuit, upon noticed motion and for good cause shown, may set), the In Lieu Note shall bear interest at the rate of ten percent (10%) per annum from the date of default and all of the principal and accrued interest on the In Lieu Note shall be immediately due and payable by J&J to the Commission. The In Lieu Note shall be deemed satisfied in its entirety upon timely completion of rehabilitation of the fifty-seven (57) Affordable Units in accordance with the provisions of the Rehabilitation Plan on or before January 31, 2009 (or such other date as J&J and the Commission agree upon, or the court having jurisdiction over the Lawsuit, upon noticed motion and for good cause shown, may set). In such event the Deed of Trust shall be released and fully-reconveyed.

(3) Survival of Restrictions. Notwithstanding Section 3(a)(2), above, Sections 1, 2(d), 4-13, inclusive of this Agreement shall survive the deemed satisfaction of the In Lieu Note and the release and reconveyance of the Deed of Trust, and the same shall not affect J&J's obligation to restrict the fifty-seven (57) Affordable Units for thirty (30) years as set forth in this Agreement.

(b) Deed of Trust.

(1) Execution and Recordation. Upon the execution of this Agreement, J&J shall execute, acknowledge and deliver to the Commission a deed of trust (the "Deed of Trust"), in a form reasonably approved by the Commission, securing the In Lieu Note and all requirements of this Agreement to timely complete rehabilitation of the fifty-seven (57) Affordable Units in accordance with the provisions of the Rehabilitation Plan on or before January 31, 2009 (or such other date as J&J and the Commission agree upon, or the court having jurisdiction over the Lawsuit, upon noticed motion and for good cause shown, may set) and all of requirements and obligation of this Agreement that are to be performed concurrently with or prior such date. Upon any default the beneficiary under the Deed of Trust (i.e., the Commission) may foreclose on the Deed of Trust in accordance with applicable law and without court consent or action. The Deed of Trust shall be recorded in the Office of the County Recorder of the County of San Diego. The Commission will not agree to subordinate the Deed of Trust to any other deed of trust. Notwithstanding the foregoing the Deed of Trust may be subordinated to future encumbrances, only if the same are necessary to finance rehabilitation of the Property and do not exceed the estimated costs of rehabilitation of the Property, as determined by the President and CEO of the Commission and the Commission agrees that this subordination obligation shall be subject to specific enforcement by J&J. Any such subordination shall be pursuant to a written agreement approved by the President and CEO of the Commission and general counsel in their reasonable discretions.

(2) Foreclosure of Prior Lien. If at any time the Deed of Trust no longer exists as an encumbrance on the Property because of the foreclosure of a deed of trust to which the Deed of Trust has been subordinated, then the terms of this Agreement shall remain enforceable covenants running with the land by injunction, specific performance and/or money damages, but not by foreclosure or forfeiture of title. In the event of a foreclosure on the Property which eliminates the security for the performance of the Agreement, the new owner of the Property, upon five (5) days written notice from the Commission, shall: (i) execute, acknowledge and deliver to the Commission an assignment and assumption of this Agreement in a form approved by the Commission, in its reasonable discretion, for recordation; (ii) execute, acknowledge and deliver to the Commission a deed of trust, in a form approved by the Commission, in its reasonable discretion, to be recorded against the Property, in a lien priority immediately junior to the assignment and assumption agreement and securing its performance; and (iii) reimburse the Commission for all of its attorneys' fees and costs in connection with the foregoing, including all costs, attorneys' fees, and expert witnesses fees incurred by the Commission in obtaining compliance by the new owner, including those incurred in litigation, if any.

4. Restriction of the Affordable Units.

(a) 57 Affordable Units. J&J agrees and covenants on behalf of itself and its successors and assigns, and each successor in interest to the Property, that at all times during the term of this Agreement (after timely completion of rehabilitation of the Affordable Units) fifty-seven (57) dwelling units on the Property shall be set aside and reserved as Affordable Units. The Affordable Units shall be comparable in exterior appearance and overall quality of construction to other units on the Property. J&J shall only rent the Affordable Units to Eligible Tenants and shall not rent any Affordable Unit to any person, except for single person households earning at or below fifty percent (50%) of Area Median Income for a term of thirty (30) years. The monthly Maximum Gross Rent shall be less than or equal to thirty percent (30%) of the monthly income of a single person household earning at or below fifty percent (50%) of Area Median Income.

(b) Maximum Gross Rent. Maximum Gross Rent shall include rent and all tenant paid utilities, fees and charges. Maximum Gross Rent includes all payments made by the Eligible Tenants and all subsidies received by J&J. In the case of persons receiving Section 8 benefits, who are Eligible Households, J&J acknowledges that it shall not accept any subsidy or payment that would cause the amounts received for any Affordable Unit to exceed the Maximum Gross Rent.

(c) Maximum Rent To Be Collected by J&J. In no event shall any Eligible Tenant be required to pay, with respect to such Eligible Tenant's occupancy of an Affordable Unit, any amounts that exceed the Maximum Gross Rent. Acceptance by J&J or its successors in interest, of any amounts in excess of the Maximum Gross Rent shall constitute a material breach of this Agreement. Should J&J receive any amounts in excess of the Maximum Gross Rent, J&J agrees to immediately notify Commission and reimburse the tenant for any such overpayment.

5. Additional Restrictions on Eligible Tenants.

(a) No Relationship With J&J. The term "Eligible Tenants" shall not include J&J or any individuals who are members, principals, employees, executives, directors, partners or shareholders of J&J or in any entity having an ownership in J&J or in the Property or are related (by blood or marriage) to any of the foregoing persons.

(b) No Full-Time Students. The term "Eligible Tenants" shall not include any person who is a full-time student. The term "full-time student" shall be defined as any person who will be or has been a full-time student during five calendar months of the calendar year in question at an educational institution (other than a correspondence school) with regular faculty and students.

(c) No Student Dependents. Notwithstanding the provisions of subparagraph 5(b), the term "Eligible Tenants" shall not include any student dependent as defined in the U.S. Internal Revenue Code.

(d) No Owners of Real Property. The term "Eligible Tenants" shall not include any person who owns real property.

(e) Liquid Asset Limitation. The term "Eligible Tenants" shall not include any person or household holding, directly or indirectly, liquid assets whose aggregate value exceeds, at the time of determination of eligibility, the then-current restriction on such person's annual Area Median Income. As used herein, the term "liquid assets" refers to cash and assets which are readily convertible to cash within a reasonable period, including but not limited to savings and checking accounts, certificates of deposit of any term, marketable securities, money market and similar accounts, mutual fund shares, and insurance policy cash values. The term "liquid assets" shall not include retirement funds which are not readily accessible or which cannot be accessed by the buyer without the buyer incurring a penalty.

(f) Eligible Tenants - Increased Income. If any tenant that was previously determined to be an Eligible Tenant is determined to be ineligible as a result of increased income or assets, J&J shall have one hundred eighty (180) days from the date of notification to take all reasonable steps to pursue eviction of the ineligible household. During the time the over-income tenant resides in the Affordable Unit, the tenant shall continue to pay an amount that does not exceed the Maximum Gross Rent. The tenant shall continue to be considered an "Eligible Tenant" until evicted.

6. Determination of Eligibility. Commission and its successors and assigns, shall have the right, but not the obligation, to monitor and enforce the covenants contained in this Agreement. J&J covenants and agrees that it shall comply with any monitoring programs set up by the Commission and generally applied to similarly situated developers and projects to enforce the terms of this Agreement. In complying with any such monitoring program, J&J or its agent shall prepare and submit to the Commission an occupancy report, financial information and income verification documents for each tenant of an Affordable Unit, and all supporting documentation, on forms provided by the Commission, on a quarterly basis, setting forth the required information for the preceding period. On a quarterly basis J&J or its agent shall additionally submit to the Commission evidence of each Eligible Tenant's continuing eligibility for the Affordable Units. Moreover, J&J covenants and agrees that it shall pay all reasonable costs associated with said monitoring and enforcement efforts, which shall include the Commission's standard initial system set-up and implementation and occupancy and rent-up transaction fees not to exceed \$500, as reasonably determined by the Commission, plus an annual monitoring fee as set forth in schedules printed by the Commission from time to time and applicable to similar SRO hotels. Failure to provide any documentation required hereunder or the monitoring fee, if such failure is not cured within thirty (30) days after written notice of such failure to J&J from the Commission, shall constitute a material default hereunder. Further, in addition to any other remedies available to the Commission, J&J shall pay the Commission a fee equal to Ten Dollars (\$10.00) for each day that such documentation and such monitoring fee is not provided after thirty (30) days' written notice to J&J specifying what documentation and/or monitoring fee is being requested, multiplied by the number of Affordable Units for which such documentation or monitoring fee is not being produced. J&J expressly agrees that the aforesaid late fee is a fair and reasonable approximation of the additional costs and administrative expense which the Commission will incur as a result of any failure by J&J to timely furnish the required documentation.

7. Recordation of this Agreement. This Agreement shall be recorded as an encumbrance against the entire Property in the Office of the County Recorder of the County of San Diego senior to all other monetary encumbrances.

8. Indemnity. J&J agrees to indemnify, defend and hold harmless the City of San Diego, the Commission, the Housing Authority of the City of San Diego, and any and all of their respective Commissioners, members, officers, agents, servants, or employees (the "Indemnitees") from and against all claims, liens, claims of lien, losses, damages, costs, and expenses, whether direct or indirect, arising in any way from this Agreement, the Deed of Trust, the In Lieu Note, the rehabilitation, rental or operation of the Property and/or any of the Affordable Units, or from the default by J&J in the performance of its obligations under this Agreement; provided, however, that J&J shall not be required to indemnify, defend or hold harmless any of the Indemnitees from claims, losses, damages, costs and expenses attributable to the sole negligence or willful misconduct of the Indemnitees or the breach of this Agreement by the Commission.

9. Marketing Requirements: No Discrimination. J&J agrees that neither it nor its agents shall discriminate against any tenant or prospective tenant of the Property on the basis of race, color, religion, sex, national origin, age, physical handicap, or the fact that a prospective tenant or tenant has a child or children.

10. Covenants to Run With the Land. J&J agrees that all of its obligations hereunder shall constitute covenants, which shall run with the land and shall be binding upon the Property and upon every person having any interest therein at any time and from time to time during the term of this Agreement. Further, J&J agrees that, if a court of competent jurisdiction determines that the obligations set forth herein do not qualify as covenants running with the land, they shall be enforced as equitable servitudes. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto, and their respective heirs, successors and assigns. J&J shall not sell, transfer or otherwise dispose of the Property, any portion thereof, or any interest therein unless the proposed transferee shall have executed and delivered to the Commission an express written assumption of all of J&J's obligations under this Agreement, on a form reasonably acceptable to the Commission. Upon assignment and assumption by a successor entity, as approved by the Commission, J&J shall be released from all prospective responsibility under the terms of this Agreement.

11. Title Insurance. On the recordation of the Deed of Trust, J&J shall obtain a California Land Title Association lender's policy with endorsements satisfactory to Commission in the amount of Four Million Two Hundred Fifty Thousand and No/100 Dollars (\$4,250,000.00), insuring that this Agreement and the Deed of Trust are encumbrances against the Property subordinate only to items 1-5, 7 and 8, on Schedule B of that certain Preliminary Report issued by Chicago Title Company, dated as of January 3, 2008, Order No. 830010002-U16. The cost of said California Land Title Association lender's policy and endorsements shall be shared equally by the Commission and J&J.

12. Standing. Equitable Remedies: Cumulative Remedies. J&J expressly agrees and declares that the Commission and/or the City of San Diego and/or their successors shall be the proper parties and shall have standing to initiate and pursue any and all actions or proceedings, at law or in equity, to enforce the provisions hereof and/or to recover damages for any default hereunder, notwithstanding the fact that such damages or the detriment arising from such a default may have actually been suffered by some other person or by the public at large. Further, J&J expressly agrees that receivership, injunctive relief and specific performance are proper pre-trial and/or post-trial remedies hereunder, and that, upon any default, and to assure compliance with this Agreement. Nothing in this subparagraph, and no recovery to the Commission or the City of San Diego, shall restrict or limit the rights or remedies of persons or entities other than the Commission and the City of San Diego, against J&J in connection with the same or related acts by J&J. Neither J&J, nor any tenant or occupant of the Property, shall have any claim or right of action against the Commission or the City based on any alleged failure of the Commission or the City to perform or enforce the terms of this Agreement, except that J&J may reasonably rely upon Commission's tenant eligibility determination

13. General Provisions.

(a) Integration: No Novation. The undersigned, and each of them, acknowledge and represent that no promise or inducement not expressed in this Agreement, the In Lieu Note or Deed of Trust has been made in connection with this Agreement the In Lieu Note and Deed of Trust. This Agreement, along with the In Lieu Note and Deed of Trust, contain the entire agreement and understanding between the parties. Notwithstanding the foregoing, nothing contained in this Agreement and nothing contained in the In Lieu Note or Deed of Trust, shall be a novation or amendment of any other agreements between the Commission and J&J, including without limitation the stipulated judgment.

(b) Waiver and Amendment. No provision of this Agreement, or breach of any provision, can be waived except in writing. Waiver of any provision or breach shall not be deemed to be a waiver of any other provision, or of any subsequent breach of the same or other provision. Except as otherwise provided herein, this Agreement may be amended, modified or rescinded only in writing signed by J&J and the Commission, which amendment shall be duly recorded as an amendment to this Agreement.

(c) Time of Essence. Time is expressly declared to be of the essence in this Agreement, and of every provision in which time is an element, whether such performance is to be by J&J or the Commission.

(d) Captions. Paragraph titles and captions contained in this Agreement are inserted as a matter of convenience and for reference, and are not a substantive part of this Agreement.

(e) Additional Documents. The parties each agree to sign any additional documents, which are reasonably necessary to carry out this Agreement or to accomplish its intent.

(f) Benefit and Burden. This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, representatives, successors and assigns.

(g) Governing Law. This Agreement has been entered into in the State of California, and shall be interpreted and enforced under California law.

(h) Attorneys' Fees. The prevailing party in any action, including, but not limited to, arbitration, a petition for writ of mandate, and/or an action for declaratory relief, brought to enforce, interpret or reform the provisions of this Agreement shall be entitled to reasonable attorneys' fees and costs (including, but not limited to, experts' fees and costs, and including "costs" regardless of whether recoverable as such under statute) incurred in such action.

(i) Counterparts. This Agreement (and any amendment hereto) may be signed in duplicate counterparts.

(j) Recitals Incorporated. The Recitals to this Agreement are hereby incorporated in this Agreement by this reference.

(k) Notices. All notices given pursuant to this Agreement or law shall be written. Notices shall be delivered with all delivery or postal charges prepaid. Notices may be given personally; by United States first-class mail; by United States certified or registered mail; or by other recognized overnight service. Notices shall be deemed received on the date of personal delivery; on the date shown on a signed return receipt or acknowledgment of delivery; or, if delivery is refused or notice is sent by regular mail, seventy-two (72) hours after deposit. Until a party gives notice of a change, notices shall be sent to:

If to the Commission: San Diego Housing Commission
Attn: President and CEO
1122 Broadway, Suite 300
San Diego, CA 92101

If to J&J: J & J Properties A, LLC
Attn: Ralph Burni
8110 Aero Drive
San Diego, CA 92123

(l) Mortgagees Protection. No violation or breach of the covenants, conditions, restrictions, provisions or limitations contained in this Agreement shall defeat or render invalid or in any way impair the lien or charge of any permitted deed of trust recorded on the Property provided, however, that any subsequent owner of the Property shall be bound by the covenants, conditions, restrictions, limitations and provisions of this Agreement, whether such owner's title was acquired by foreclosure, deed in lieu of foreclosure, trustee's sale or otherwise.

(m) Signature Authority. All individuals signing this Agreement for a party which is a corporation, limited liability company, partnership or other legal entity, or signing under a power of attorney, or as a trustee, guardian, conservator, or in any other legal capacity, covenant that they have the necessary capacity and authority to act for, sign and bind the respective entity or principal on whose behalf they are signing.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above.

J&J:

J & J Properties A, LLC, a California limited liability company

By: [Signature]
Print Name: Ute Burni
Its: Managing Member

COMMISSION:

San Diego Housing Commission

By: [Signature]
Print Name: CARRAL VAUGHAN
Its: CEO (Interim)

APPROVED AS TO FORM AND LEGALITY:

Christensen Schwerdtfeger & Spath LLP
Assignor General Counsel

By: [Signature]
Charles B. Christensen, Esq.

(m) Signature Authority. All individuals signing this Agreement for a party which is a corporation, limited liability company, partnership or other legal entity, or signing under a power of attorney, or as a trustee, guardian, conservator, or in any other legal capacity, covenant that they have the necessary capacity and authority to act for, sign and bind the respective entity or principal on whose behalf they are signing.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above.

J&J:

J & J Properties A, LLC, a California limited liability company

By: [Signature]
Print Name: Lise Burni
Its: Managing Member

COMMISSION:

San Diego Housing Commission

By: _____
Print Name: _____
Its: _____

APPROVED AS TO FORM AND LEGALITY:

Christensen Schwerdtfeger & Spath LLP
Assignor General Counsel

By: [Signature]
Charles B. Christensen, Esq.

ACKNOWLEDGMENT

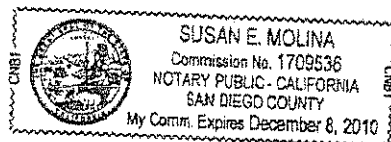
State of California)
County of San Diego)

On Jan. 11, 2008, before me, Susan E. Molina, notary public, personally appeared, Luz Burni who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity on behalf of which the person(s) acted, executed the instrument.

I certify under penalty of perjury under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Susan E. Molina



(Seal)

ACKNOWLEDGMENT

State of California)
)
County of San Diego)

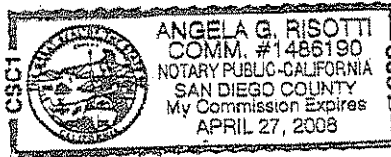
On January 14, 2008, before me, Angela G. Risotti, notary public, personally appeared, Carrol Vaughan who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/~~are~~ subscribed to the within instrument and acknowledged to me that ~~he~~/she/they executed the same in ~~his~~/her/~~their~~ authorized capacity(ies), and that by ~~his~~/her/~~their~~ signature(s) on the instrument the person(s), or the entity on behalf of which the person(s) acted, executed the instrument.

I certify under penalty of perjury under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Angela G. Risotti

(Seal)



ACKNOWLEDGMENT

State of California)
County of San Diego)

On _____, 2008, before me, _____, notary public, personally appeared, _____ who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity on behalf of which the person(s) acted, executed the instrument.

I certify under penalty of perjury under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

EXHIBIT "A"

Legal Description of the Property

LOTS L AND K IN BLOCK 32 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA. ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING, JUNE 21, 1871 IN BOOK 13, PAGE 522 OF DEEDS, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY OF SAN DIEGO.

Cardinal Group

MANAGEMENT & ADVISORY, LLC

September 29, 2009

Ms. Wendy Dewitt &
Mr. Roger Green
San Diego Housing Commission
1122 Broadway # 300
San Diego, CA 92101

Ms. Dewitt & Mr. Green,

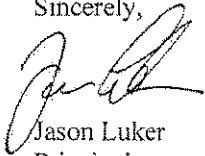
I'm writing on behalf of J&J Properties, LLC, owners of the Hotel Churchill, to request a second time extension to complete the rehabilitation and renovation plan per the SRO Replacement Housing Agreement ("Agreement") with the San Diego Housing Commission. We are requesting an additional ten months be added to the previously amended deadline of November 30, 2009. This time extension will be more than sufficient to complete the extensive renovations to the property.

The owners have completed a significant amount of work to date, all of which was internally financed. We have provided summary descriptions and cost information in an attachment to this letter. The scope of the rehabilitation is above and beyond the requirements of the Agreement, and represent the owners desire to correct all deferred maintenance, stabilize the property and operate it for the long term.

J&J has spent approximately \$800,000 out of a total project budget of \$2M. They have been attempting to secure construction financing for the remainder of the work but the turmoil in the financial markets has made this process more difficult than usual. Despite these challenges, the owners have secured a loan commitment to complete work. The lenders are now requiring confirmation that the SDHC has granted J&J a time extension per a resolution of the Board of Directors.

Please let me know if the attached materials are sufficient for you to evaluate this request. We look forward to hosting the SDHC staff for a tour on October 1 and think you will be pleased with the progress thus far.

Sincerely,



Jason Luker
Principal
Cardinal Group Management & Advisory
858-945-3800
jason@cardinalgroupinvestments.com

CC: Nemat Anjomshoaa

Attachment

HOTEL CHURCHILL RENOVATION
WORK LOG AS OF SEPTEMBER 28, 2009

As of September 28, 2009, J&J Properties, LLC has selected all of the qualified subcontractors for the renovation work at the Hotel Churchill. The following section summarizes the scope of work that has been completed to date, as well as all outstanding tasks.

1. **Structural Engineer:** Field investigations are complete and the final structural drawings were submitted in mid-March 2009.
 - Contract Amount: \$30,000
 - Amount Billed to Date: \$30,000

2. **Interior Demolition:** The demolition work began in January 2009 and is near completion.
 - Budget Amount: \$100,000
 - Amount Spent to Date: \$95,000

3. **Elevator:** Otis Elevator Company was retained to modernize the elevator. This process proved much more complicated than originally anticipated, and included the design and manufacture of a custom elevator to fit the existing shaft. The field investigation/measurements have been completed, the equipment has been delivered to the job site and the work is now in process. The project is anticipated to be completed by the end of October 2009.
 - Contract Amount: \$422,000
 - Amount Billed to Date: \$262,000

4. **Plumbing:** An inspection of the existing water and sewer lines revealed leaks in several locations. While the original plan was to only replace the existing toilets with low flush models, it became apparent that re-piping the water and sewer lines was necessary due to the age of the pipes. A plumbing engineer and contractor were retained to design and re-pipe all water and sewer lines. The drawings were completed and permits obtained in February 2009. The replacement of existing waste and vent pipes to cast iron and copper piping for the water system in the basement is complete. The re-piping of all floors is also complete and has passed city inspection.
 - Contract Amount: \$220,000
 - Amount Billed to Date: \$ 220,000

5. **Electrical:** An inspection of the existing wires and conduit revealed electrical wires and panels in poor condition and not in compliance with current codes. While the original plan was only to replace the existing light fixtures, an electrical contractor was retained to re-wire all of the lighting, provide a dedicated line for each room and install new wire for Telephone and Cable. The work has been completed on all floors except the seventh floor and lobby. This work is anticipated to be completed by November 2009.
 - Contract Amount: \$99,000
 - Amount Billed to Date: \$65,000

6. **Framing & Drywall:** Carpentry, framing and drywall work is complete on the second and third floors, and approximately 50% complete on all other floors. This work is anticipated to be completed by November 2009.
- Budget Amount: \$80,000
 - Amount Spent to Date: \$50,000

The remaining interior work to be completed includes installing new flooring, painting, installing all electrical and plumbing fixtures and new millwork. Exterior renovations are anticipated to begin shortly, including roof repair, stucco repair and painting, and the replacement of all window sashes. The window selection and stucco repair materials were approved by the Historic Resources Board at their September 2nd Design Assistance Subcommittee meeting. The formal permitting process for this work is underway. The window project has been bid (\$250,000 budget) and will be completed approximately three months from the start date.



Real Estate Development

October 22, 2009

Mr. Jason Luker, Principal
Cardinal Group Management
7434 Herschel Avenue, Suite 4
La Jolla, CA 92307

RE: HOTEL CHURCHILL - TIME EXTENSION REQUEST TO COMPLETE REHABILITATION WORK

Dear Mr. Luker:

The San Diego Housing Commission (SDHC) has received your request for an extension of time to complete the rehabilitation improvements for Hotel Churchill located at 827 C Street. Based on your letter dated September 29, 2009, the owners (J&J Properties, LLC) of the building are requesting an additional ten month time extension, from the previously amended deadline of November 30, 2009, to secure construction financing and to complete the remaining renovations to the building by September 30, 2010. SDHC has also received a copy of your unsigned loan commitment letter, rehabilitation plans, construction budget and schedule.

Based on our review of the time extension request and your supporting documentation, we have the following comments and/or concerns with your request:

1. Loan Commitment Letter – The loan commitment letter from Global Lenders is conditional and has yet to be signed by the owners. We need some assurance from J&J Properties that the loan terms are acceptable and that the loan documents have been prepared. We need verification from Global Lenders that the owner is pursuing this loan as a viable funding source and written confirmation that the loan will fund in the next 30 days.
2. Construction Schedule – Based on your schedule dated October 7, 2009, completion of all renovation improvements will be completed by September 30, 2010, which is the last day of the time extension request. We would like to review the construction schedule with you in greater detail to determine if there is an opportunity to reduce the overall schedule. Also, there is no budget or schedule to install Furniture Fixtures and Equipment within the building, this must be addressed. Further, we need to see what your plan is for relocation of residents during the construction.
3. Construction Drawings – According to the notes on the construction drawings, the SD fire department is requesting that fire sprinklers and fire alarm systems be installed throughout the building. However, this was not included within the construction

schedule. We would like verification that these fire sprinkler and fire alarm systems will be installed per SD Fire Department regulations.

4. Construction Budget – Based on the budget estimate, the construction costs to complete the remaining renovation work is approximately \$2.0m. We would like verification from the contractor that this budget amount is adequate to complete the remaining work and that there is adequate contingencies in the budget to account for any unforeseen construction issues during the construction process. We need verification that the budget includes the San Diego Fire Department requirements.

As you know, on August 15, 2008, SDHC granted a ten month extension of time due to delays associated with the replacement of the building elevator equipment and to complete the remaining improvements to the building.

Your second request for a time extension is tentatively scheduled to be heard by the Housing Commission Board on November 13, 2009. As a prerequisite to that meeting, and in an effort to work together cooperatively, we require that a meeting be scheduled with you and the owner to review the budget, schedule and financing plan for the week of November 2, 2009.

Be advised that any decision concerning your request for a second extension of time is within the sole discretion of the Board of Commissioners of the San Diego Housing Commission. No statements of Commission staff can or will be binding upon the Board of Commissioners. Further, should the Housing Authority of the City of San Diego choose to review the determination of the Board of Commissioners, it has that authority under applicable law. This letter is forwarded to you without, in any way, waiving any rights that the Commission has under the terms of the Stipulated Judgment, the Replacement Housing Agreement and/or other agreements between the owners concerning the property. The mere consideration of your second request shall not act as a waiver or relinquishment of any rights of the SDHC and/or the City of San Diego under the terms of the various agreements and/or the Judgment.

Please confirm your availability and the owner's availability as soon as possible. If you have any questions in the meantime, please contact me at 619-578-7587.

Sincerely,



ROGER GREEN
Real Estate Manager

Cc: J and J Properties LLC, 8110 Aero Drive, San Diego, CA 92123
Marco Vakili, SDHC Real Estate Director

Cardinal Group

MANAGEMENT & ADVISORY, LLC

October 29, 2009

Mr. Roger Green
San Diego Housing Commission
1122 Broadway # 300
San Diego, CA 92101

Mr. Green,

Thank you for your response to our second time extension to complete the renovation of the Hotel Churchill. In anticipation of our November 2 meeting with SDHC staff, I've prepared a brief response letter to clarify some of the questions contained in your letter dated October 22.

- 1. Loan Commitment Letter** – On October 28, I emailed to you a PDF copy of the loan commitment, signed by both Advanced Business Group, Inc. (lender) and J&J Properties. Also included in this package were a draft Subordination Agreement and Escrow Instructions. Both parties have agreed on all of the loan terms, and the lender is prepared to fund this loan immediately following the execution of the Subordination Agreement by the SDHC, which will place this new financing in priority to the SDHC's performance lien on the property. Please let me know if I should contact your legal counsel directly regarding the Subordination Agreement.
- 2. Construction Schedule** – Attached please see the revised construction schedule, which now includes the installation of FF&E. I have worked with the general contractor to compress the schedule as much as possible. The critical path project is the window replacement; it is the largest outstanding project and all other exterior work is contingent upon that start date.

I should also point out that the original schedule assumes that construction resumes on January 1. However, construction will begin immediately upon securing the time extension and execution of the Subordination Agreement. It is conceivable that we can restart construction by the end of November, which will move up our anticipated completion date by a month.

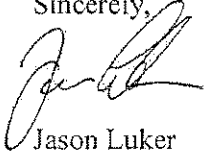
Your letter also mentioned our plans for relocating tenants during construction. There are currently no tenants living at the property.

- 3. Construction Drawings** – The Fire Department notes included in the construction drawings are generic notes that are included in all plan reviews. Our interpretation of the code is that we are not required to add sprinklers to the building, and that our current life safety system of hard-wired alarms, hoses on each floor and an exterior fire escape, are sufficient. The building is subject to quarterly inspections by the fire department and there are no outstanding code violations.

4. **Construction Budget** – I think there was some confusion in our presentation of the construction budget. The total project budget is \$2.0M (see attached), of which the owners have spent approximately \$740,000, leaving \$1.26M in work to be completed. There is no line item for FF&E because the owners have already purchased the furniture and are currently storing it. The committed loan proceeds of \$2.55M are more than sufficient to complete construction (\$1.26M), pay off the existing note (\$750,000), and leave a sizable contingency budget.

We appreciate your willingness to work with us during this challenging process. J&J Properties has made a significant commitment of both time and financial resources to complete this project. We think you will be pleased with the finished product, which we expect will be a model for clean, safe, affordable housing in San Diego.

Sincerely,

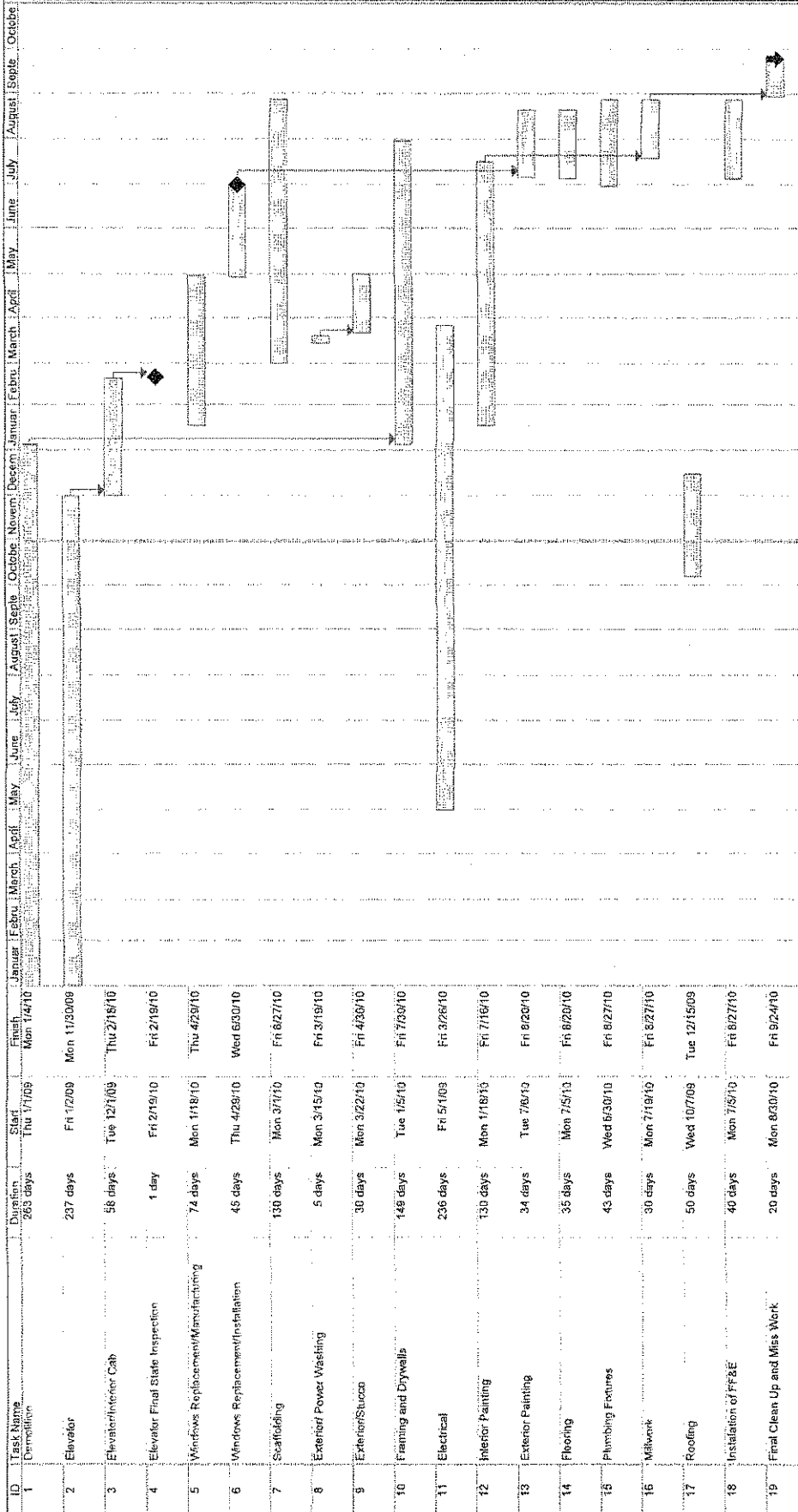


Jason Luker
Principal
Cardinal Group Management & Advisory, LLC
858-945-3800
jason@cardinalgroupinvestments.com

CC: Nemat Anjomshoaa
Lucy Burni

Attachment

HOTEL CHURCHILL RENOVATION



Project: Project3
 Date: Fri 10/30/09

Task Split
 Progress Milestone
 Summary Project Summary
 External Tasks External Milestone
 Deadline