

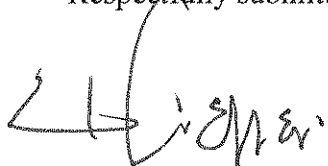
EXECUTIVE SUMMARY**DATE ISSUED:** February 12, 2010**REPORT NO:** HCR 10-004**ATTENTION:** Chair and Members of the Housing Commission
For the Agenda of February 19, 2010**SUBJECT:** Hotel Churchill Time Extension Request and Request for Subordination to
New Debt (Council District 2)**SUMMARY:**

The Hotel Churchill is a seven story 92-unit single room occupancy hotel located at 827 C Street, is approximately 100 years old, and is designated as a historic building (Historic Site Number 637). On August 15, 2008, the Housing Commission approved 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 30-day 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. On December 18, 2009, the Housing Commission approved a 45-day time extension, to February 14, 2010, to allow the Owners to secure funding that would provide enough funds to complete the work.

Since December 18, 2009, Commission staff has requested verification of funds to cover the entire rehabilitation prior to a ten-month time extension being considered. As of the date of the writing of this report, the Owner has not obtained such a funding source. On January 14, 2010, a letter was received from the Owner's Representative indicating that the Owner still did not have sufficient funds and also outlining four options the Owners would consider with the Housing Commission's involvement (Attachment 1). At the time the staff report was prepared, staff was not in a position to support these options but will be prepared to discuss these options at the public hearing.

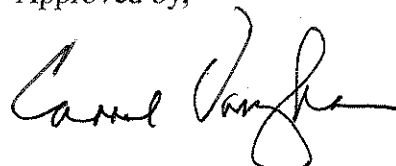
Housing Commission staff is requesting that the Housing Commission Board retroactively approve a five day time extension and either approve a 30-day time extension request to allow the Owners additional time to obtain funding for the rehabilitation work or deny their request.

Respectfully submitted,



D. Lawrence Clemens
Senior Vice President

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

REPORT**DATE ISSUED:** February 12, 2010**REPORT NO:** HCR 10-004**ATTENTION:** Chair and Members of the Housing Commission
For the Agenda of February 19, 2010**SUBJECT:** Hotel Churchill Time Extension Request and Request for Subordination to
New Debt (Council District 2)**REQUESTED ACTION:**

Housing Commission staff is requesting that the Housing Commission Board retroactively approve a five day time extension and either approve a 30-day time extension request to allow the Owner's additional time to obtain funding for the rehabilitation work or deny their request.

STAFF RECOMMENDATION:

That the Housing Commission approves the following:

1. Retroactively, a five day time extension to February 19, 2010, the date of the Commission meeting.
2. A 30-day time extension to allow the Owner additional time to obtain funding for the rehabilitation work or deny the Owners time extension request.

BACKGROUND:

The Hotel Churchill is a seven story 92-unit single room occupancy hotel located at 827 C Street, is approximately 100 years old, and is designated as a historic building (Historic Site Number 637). 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"). According to the Replacement Housing Agreement, the Owner agreed to complete the hotel rehabilitation work by January 31, 2009. In addition the Replacement Housing Agreement further states that 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 pay the Housing Commission an in-lieu fee in the amount of \$4,250,000. The In-Lieu deed of trust was recorded against the property and would be completely satisfied upon timely completion of the rehabilitation of 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's second time

extension request is because the Owner had difficulty securing construction financing to complete the rehabilitation improvements. According to the Owner, approximately \$800,000 of personal funds have been spent to replace the elevator, plumbing and sewer lines, electrical systems and other items over the past year. Neither the amount of nor the use of this sum has been independently verified by the Commission.

On November 13, 2009, the Housing Commission Board approved a 30-day time extension from November 30, 2009 to December 30, 2009 to allow staff to evaluate the Owner's remaining budget, schedule to complete rehab improvements and the financing sources to fund the remaining budget. The Commission completed a review which did not answer all of the Commission's concerns. Importantly, the Owner could not secure a funding source that would provide sufficient funds to complete the rehabilitation. On December 18, 2009, the Housing Commission approved a 45-day time extension, to February 14, 2010, to allow the Owners to secure funding sufficient to complete the work.

Since December 18, 2009, Commission staff has requested from the Owners verification of funds to cover the entire rehabilitation before a ten-month time extension could be considered. As of the date of the writing of this report, the Owner has not obtained such a funding source.

On January 14, 2010, a letter was received from the Owners Representative indicating that the Owner still did not have sufficient funds to complete the work and also outlined various options the Owners would be willing to consider with the Housing Commission's involvement (Attachment 1). These options include:

1. Defer Remaining Funding Amount – Approximately 72 percent of the rehabilitation work has yet to be completed and it has been estimated that approximately \$1,650,000 is needed to complete the work. Based on the most recent loan closing statement, the Owners have approximately \$980,000 in available funds to complete the remaining rehabilitation work. The Owners expect the remaining funding amount of approximately \$450,000 to be available within four months of granting the time extension request. The Owners are requesting the Housing Commission approve a deferral of this amount for approximately four months so they can start the work with partial funding and complete the work when the \$450,000 is available.
2. SDHC to Provide Loan for Remaining Rehabilitation Work - Since the Owners are unable to immediately secure the balance of the rehabilitation costs in the amount of \$450,000, the Owners are requesting that the SDHC provide a loan at the same time they receive the funding for the private loan to ensure there is adequate funds available to complete the work.
3. SDHC to Provide Entire Rehabilitation Amount – The Owners are requesting that the Housing Commission provide a loan to the Owner's for approximately \$2,500,000 to cover the entire rehabilitation amount of \$1,650,000, to pay off the first trust deed in an amount of approximately \$788,000 and to pay for property taxes in an amount of approximately \$27,000. In exchange for this loan, the Owners would be willing to income restrict the remaining 35 units for low-income residents that meet the affordability requirements outline in the Housing Replacement Agreement. Currently, there are 57-units that are income restricted.

4. SDHC to Purchase Property – The Owners would be willing to sell the property to the Housing Commission. At this time, there is no appraisal for the property that can be used to determine the exact value of the property.

At the time the staff report was prepared, staff was not prepared to recommend any of the options included in the Owners January 14, 2010, letter.

DISCUSSION:

Loan Document and Terms:

The Owner was previously ready to execute loan documents in the amount of \$2,550,000 received from Advanced Business Group to pay off the existing first deed of trust in the amount of \$788,000. However, this loan did not provide sufficient funds to pay for all of the rehabilitation. Based on General Counsel review of the Housing Replacement Agreement, the Housing Commission is not required to grant a subordination nor agree to pay off the First Trust Deed in the amount of \$788,000 or to pay for an interest impound or other liens. Importantly, this proposed loan, despite being insufficient, may no longer be available to the Owner. Without a viable loan being available to the Owner, the Commission staff does not recommend extending the time to complete the rehabilitation or to subordinate its deed of trust. The proposal requested by the Owner was not in compliance with the terms of the legal documents. In addition, these options would also require the Commission to add more debt to the property than required under the terms of the documents. Finally, the loan was not of sufficient amount to allow for the rehabilitation of the project based upon an independent analysis of the costs to complete the rehabilitation work.

FISCAL CONSIDERATIONS:

If the 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. Since the rehabilitation has not been completed, 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 an appropriate notice to cure.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On December 18, 2009, the Housing Commission Board approved a 45-day time extension from December 31, 2009 to February 14, 2010, to allow the Owner's to obtain adequate funding to complete the rehabilitation work.

On November 13, 2009, the Housing Commission Board approved a 30-day 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 approved 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.

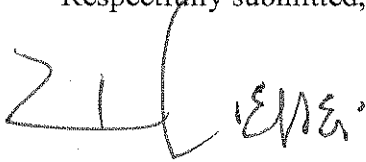
ENVIRONMENTAL REVIEW:

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:

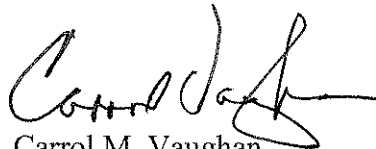
Stakeholders for this project include the property owner, Cardinal Group (owner's representative), the Housing Commission, the City of San Diego and extremely low-income residents who would benefit from having these single room occupancy units available for rent.

Respectfully submitted,



D. Lawrence Clemens
Senior Vice President

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

Attachments:

1. Cardinal Group Letter dated January 14, 2010

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

Cardinal Group

MANAGEMENT & ADVISORY, LLC

January 14, 2010

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

Messers Vakili & Green,

Thank you for taking the time to meet last week to discuss the Burni family's options for rehabilitation of the Hotel Churchill. As we discussed the loan we have secured for the property is insufficient to cover the total remaining renovation costs. In addition, the time delays involved in procuring a subordination agreement for the Housing Commission's performance lien have jeopardized this financing, and we are now searching for alternative financing solutions.

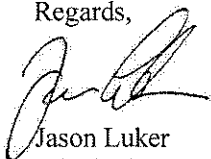
In light of this, we would like to explore options for partnering with the SDHC to complete this project. We would like to consider the following four options:

1. The Burni Family to post the remaining construction shortfall in an escrow account within four months of the SDHC granting an extension.
2. SDHC to provide gap financing in the amount of approximately \$450,000 to complete the project. This funding would be in addition to the private loan, and would require the SDHC to subordinate both the existing performance lien as well as the this new financing.
3. SDHC to provide the entire renovation amount, estimated at \$2.55M. This funding would replace the private loan and would be refinanced with a private permanent loan upon stabilization. In consideration, the owners would be willing to discuss designating the remaining 35 market-rate units as income-restricted.
4. SDHC to purchase the property.

Each of these options entails a variety of considerations that would best be worked out in an in-person meeting. We would appreciate your feedback on which direction the Board would like to pursue so that we can do more detailed underwriting.

We thank you for your consideration and creativity in helping us solve this problem and open this property for business. Please feel free to contact me with any questions or concerns.

Regards,



Jason Luker
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Cardinal Group Management & Advisory
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