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San Diego Housing Commission (SDHC) Extended Stay America Portfolio – Purchase and Sale Agreement Presentation to the SDHC Board of Commissioners April 20, 2023

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Extended Stay America Portfolio Homekey Funding

- SDHC has been exploring opportunities to purchase sites suitable for permanent affordable housing.
 - The potential purchase of these properties is contingent upon receipt of an award of Homekey funds.
- Homekey is a statewide program designed to rapidly produce housing for persons experiencing homelessness or at risk of homelessness.
- Homekey is administered by California Department of Housing and Urban Development (HCD).
- Eligible uses for Homekey funds:
 - Acquisition or rehabilitation of hotels, apartments or homes to be converted into permanent or interim housing
 - Conversion of nonresidential properties into residential units
 - New construction
 - Master leasing of properties for non-congregate housing



Extended Stay America Portfolio

Proposed Property Acquisitions

Extended Stay America Hotel 3860 Murphy Canyon Road Council District 7

- Kearny Mesa
- Constructed circa 2002
- 107 units (hotel rooms)
- 1 building
 - Three stories
 - Elevator-served
- Lot size: approximately 4.8 acres
- Building size: approximately 45,546 square feet



Extended Stay America Portfolio Proposed Property Acquisitions (Continued)



Extended Stay America Portfolio Proposed Property Acquisitions (Continued)



Extended Stay America Portfolio Proposed Property Acquisitions (Continued)

Extended Stay America Hotel 7440-7450 Mission Valley Road Council District 7

- Mission Valley
- Constructed circa 1997
- 140 units (hotel rooms)
- 3 buildings
 - Two-story walk-up
- Lot size: approximately 3.4 acres
- Building size: approximately 52,236 square feet

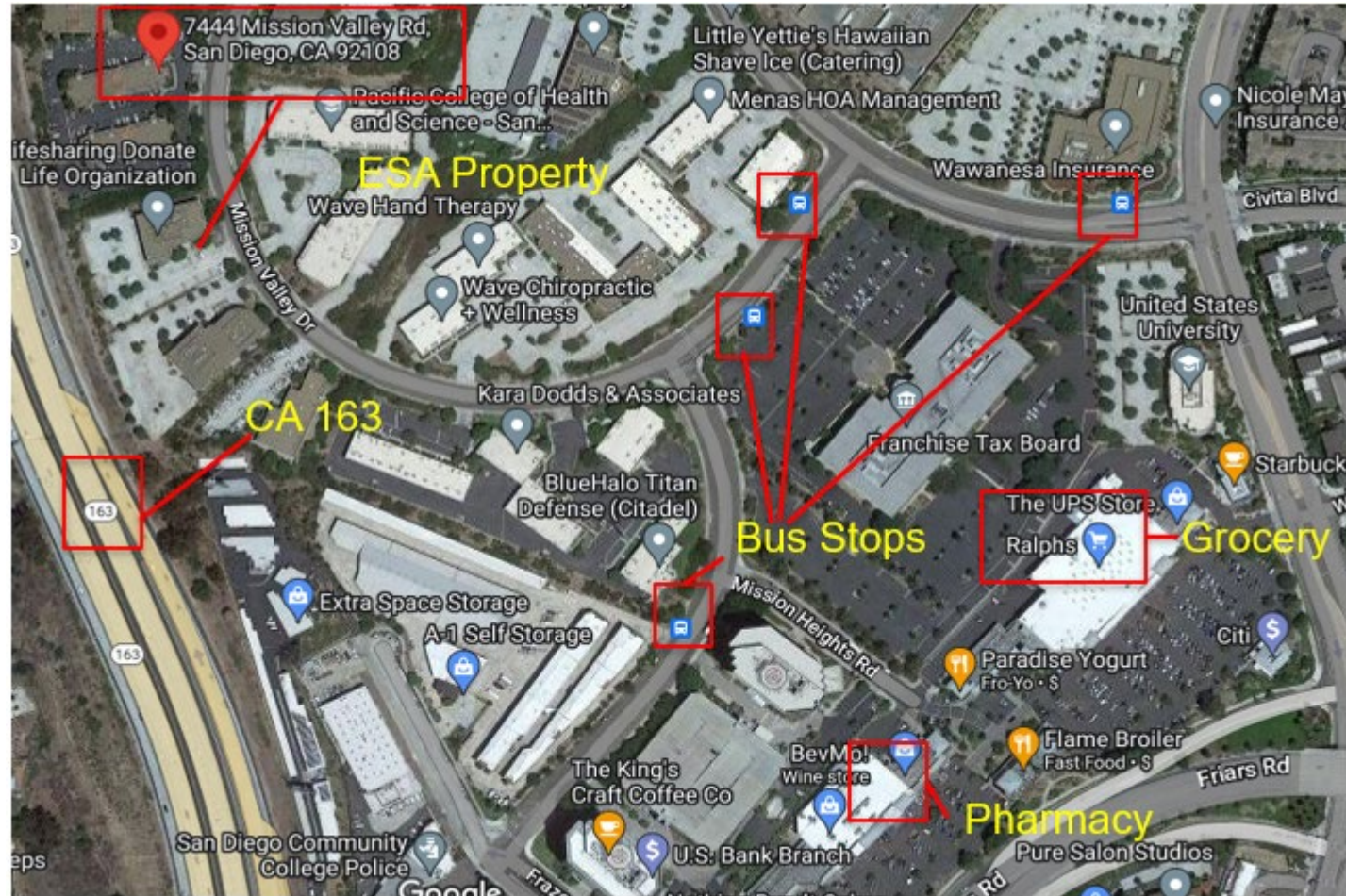


Extended Stay America Portfolio

Proposed Property Acquisitions (Continued)



Extended Stay America Portfolio Proposed Property Acquisitions (Continued)



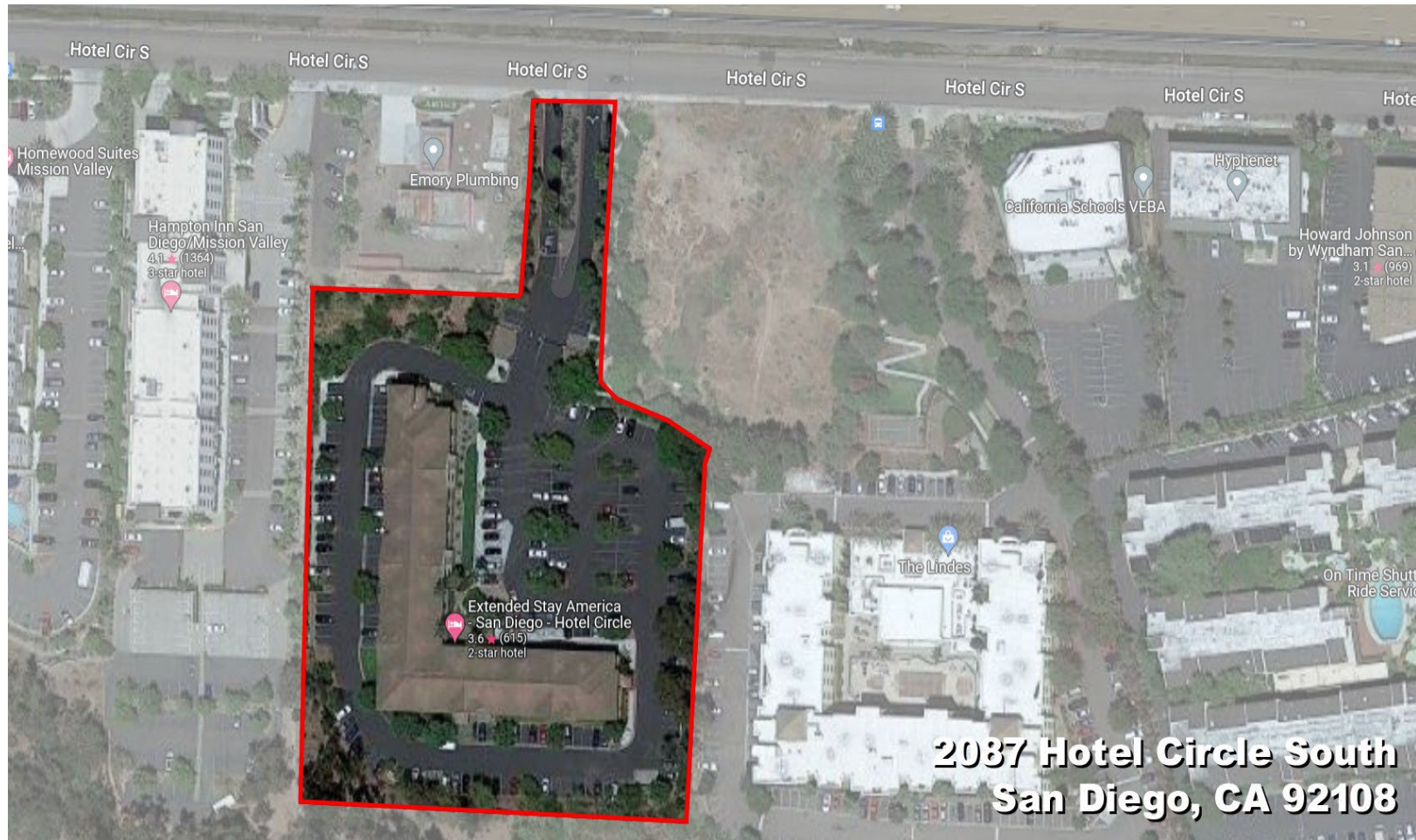
Extended Stay America Portfolio Proposed Property Acquisitions (Continued)

Extended Stay America Hotel 2085-2095 Hotel Circle South Council District 3

- Mission Valley / Hotel Circle
- Constructed circa 1999
- 165 units (hotel rooms)
- 1 building
 - Three stories
 - Elevator-served
- Lot size: approximately 4.58 acres
- Building size: approximately 80,000 square feet



Extended Stay America Portfolio Proposed Property Acquisitions (Continued)



Extended Stay America Portfolio Proposed Property Acquisitions (Continued)



Extended Stay America Portfolio Purchase Price

Property Address	Purchase Price	Price / Door
3860 Murphy Canyon Road	\$40,700,000	\$380,374
7440 – 7450 Mission Valley Road	\$52,000,000	\$371,429
2085 – 2095 Hotel Circle South	\$65,175,000	\$395,000
TOTAL PURCHASE PRICE	\$157,875,000	\$383,192

Note: SDHC may acquire one, two or all of the properties at its sole discretion.



Extended Stay America Portfolio

Purchase and Sale Agreement (PSA) Terms and Key Dates

Purchase price	\$157,875,000
Due Diligence (Start/Effective Date):	Upon mutual execution of PSA. (Estimated to be April 24, 2023)
Due Diligence (End):	Six months following Effective Date. (Estimated to be October 24, 2023)
Initial Deposit (Refundable):	\$150,000
Total Deposit (Non-Refundable after end of Due Diligence):	\$300,000 (Estimated to be October 24, 2023)
Anticipated Homekey Application:	Estimated to be May/June 2023



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Purchase and Sale Agreement (PSA) Terms and Key Dates (Continued)

Anticipated Homekey Award	Estimated to be August/September 2023
Anticipated Closing Date	Estimated to be October 2023
Last day to close escrow	15 months following Effective Date
(Per PSA. Includes optional three-month extension of time at SDHC's sole discretion):	(Estimated to be July 2024)



Extended Stay America Portfolio Due Diligence

- Purchase and Sale Agreement necessary **before** SDHC can obtain site control to perform required due diligence.
- Due diligence:
 - Assess items, such as:
 - Zoning conformance
 - Presence of potential environmental hazards
 - Immediate and long-term capital needs
 - Pest control
 - Unique site conditions and constraints
 - Americans with Disabilities Act and path-of-travel review
 - Any other areas that need additional review
 - Obtain appraisals (including peer review appraisal) and market studies for this site
 - Enable SDHC to identify potential risks, if any, associated with purchasing the property and converting it to permanent affordable rental housing



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Due Diligence Funding Sources and Uses

FY 23 Funding Sources	
Federal/Moving to Work	\$900,000
TOTAL	\$900,000
FY 23 Funding Uses	
Acquisition Cost (Deposit)	\$150,000
Due Diligence	\$750,000
TOTAL	\$900,000



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Changes in HCD Guidance

- Recent change in HCD Guidance for Homekey Applications:

An appraiser's concluded highest and best use of the property may or may not be its existing use. However, the appraiser must, within the body of the appraisal report and in the letter of transmittal, report the fair market value of its existing use as of the date of inspection, without consideration to Project Homekey funding, other related affordable housing funding, the affordable housing regulatory environment, and funding application status.



Extended Stay America Portfolio Brokerage and Representation

- Seller's Exclusive Broker Representative – CBRE
 - How will broker be compensated
 - Seller to pay CBRE
 - Cap on broker compensation
- SDHC's Exclusive Broker Representative – None (a finder's fee will be paid to Marcus and Millichap)
 - How will Finder be compensated
 - SDHC to pay Finder
 - Cap on Finder's fee



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Next Steps

Activity	Estimated Dates
Release of Homekey Notice of Funding Availability	March 29, 2023
Request for SDHC Board of Commissioners' (Board) approval to execute PSA	April 20, 2023
Commence Due Diligence	April 27, 2023
Request for SDHC Board and Housing Authority approval to apply for Homekey funding	May/June 2023
Complete Homekey Application and Submit to HCD	May/June 2023
Anticipated Homekey Funding Award Notice	August/September 2023
Close of Escrow	October 2023



Extended Stay America Portfolio Staff Recommendations

That the SDHC Board of Commissioners (Board) take the following actions:

- 1) Authorize SDHC's President & CEO, or designee, to execute a Purchase and Sale Agreement (PSA) between SDHC and ESA P. Portfolio, LLC (Seller), with an aggregate purchase price not to exceed \$157,875,000 for the properties located at 2085-95 Hotel Circle South, San Diego, California 92108 (\$65,175,000.00); 3860 Murphy Canyon Rd, San Diego, CA 92123 (\$40,700,000.00); and 7440-50 Mission Valley Road, San Diego, CA 92108 (\$52,000,000.00); provided that SDHC may purchase any one or two of the Properties, rather than all of the Properties, for the individual purchases prices set forth herein.
- 2) Authorize an initial refundable Earnest Money Deposit not to exceed \$150,000 as detailed in the staff report, and, if SDHC elects to proceed with the purchase of one or more of the Properties after completion of Due Diligence, authorize an additional, but nonrefundable, Earnest Money Deposit not to exceed \$50,000 per Property, as detailed in the staff report.



Extended Stay America Portfolio Staff Recommendations

- 3) Authorize SDHC's President & CEO, or designee, to execute a Compensation Agreement between SDHC and Marcus & Millichap (M&M), regarding SDHC's payment of a finder's fee to M&M not to exceed \$783,469.00, payable upon escrow closing of the Properties.
- 4) Authorize SDHC's President & CEO, or designee, to substitute approved funding sources with any other available funds as deemed appropriate, contingent upon budget availability.
- 5) Authorize SDHC's President & CEO, or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form approved by General Counsel, and to take such actions as are necessary and/or appropriate to implement these approvals upon the advice of General Counsel, provided that a copy of the documents, signed as to form by General Counsel, is submitted to each Housing Commissioner.



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Questions & Comments

