



REPORT

DATE ISSUED: April 16, 2015

REPORT NO: HCR15-044

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of May 8, 2015

SUBJECT: Mariner's Cove Lease Extension-Amended and Restated Lease

COUNCIL DISTRICT: 2

REQUESTED ACTION

Authorize execution of an Amended and Restated Lease for Mariner's Cove on terms and conditions referenced within this report.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) recommend that the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

- 1) Approve and authorize the President & Chief Executive Officer (President & CEO), or designee, to enter into an Amended and Restated Lease extending the term of the lease to 55 years with one 20-year option to extend the lease, in a form drafted and approved by General Counsel;
- 2) Authorize the President & CEO, or designee, to take such actions and to execute such documents as are necessary and/or convenient to implement the approvals by the Housing Authority; and
- 3) Authorize the President & CEO to amend the Fiscal Year (FY) 2015 Budget and the FY 2016 Budgets as necessary to accommodate the changes made in the lease for Mariner's Cove.

SUMMARY

In December 1982, the Housing Authority and the current lessee's predecessor entered into a 55-year ground lease for approximately 30.21 acres of land in the Midway area of the City of San Diego, located within Council District 2. Under the terms of the ground lease, the lessee was to construct 500 rental units. One hundred (100) of the units were the subject of a Project Based Housing Assistance Payment Agreement (HAP Agreement) with the U.S. Department of Housing and Urban Development (HUD) and these units are occupied by households earning not more than 80 percent of the Area Median Income (AMI), as established by HUD from time to time. Two hundred (200) units were restricted to occupancy by moderate income households, earning at or below 120 percent of the AMI as determined by HUD, from time to time. The remaining two hundred (200) units were to be market rate rental units. The ground rent payable to the Housing Commission as the administrative agent of the Housing Authority is 6 percent of the gross income of the project and is currently approximately \$551,000 per year.

In 2010, the lessee, Lincoln Mariners Associates Limited (the Lessee) approached the Housing Commission about acquiring the land upon which the project is constructed. There was no agreement

reached on selling the land. In 2014, the Housing Commission and the Lessee entered into negotiations to extend the term of the lease. After substantial negotiations, the parties came to an agreement on tentative deal points for an amended and restated lease. The execution of an Amended and Restated Lease is subject to the approval of the President & CEO, the Board of Commissioners of the Housing Commission, and the Housing Authority.

Deal Points for Amended and Restated Lease

The Contingent Final Term Sheet for Lease Restructuring for Mariner's Cove is attached to this report as Attachment 1. The following is a summary of those deal points:

1. **Deal Contingent:** Any agreement concerning the potential extension is subject to and contingent upon the approval of the President & CEO of the Housing Commission, the Board of Commissioners of the Housing Commission, and the Housing Authority. In addition, any agreement to extend the lease is subject to the approval of any and all applicable committees of the Lessee that are required. This contingent term sheet is not intended to, and does not, create or constitute a binding agreement between the Housing Commission, the Housing Authority, and the Lessee unless and until all approvals have been obtained.
2. **Term:** The total lease term shall be extended to December 31, 2070. In addition, the Lessee shall be granted one 20-year option to extend the lease (i.e., for the period from January 1, 2071, through December 31, 2090). Rent during the option period shall be based upon a fair market value reappraisal in 2070, but shall be no lower than the annual rent charged during 2070.
3. **Reappraisal and Ground Rent January 1, 2041:**
 - (a) **Year 2041 Reappraisal.** No earlier than January 1, 2040, and no later than March 31, 2040, the Lessor may, at its sole option, elect by written notice to the Lessee to have the ground rent for 2041 be fair market rent determined by a formal appraisal process. In the event of the reappraisal there shall be no floor or ceiling for the ground rent being established. Provided, however, in the event that the Lessor does not elect to have the 2041 rent determined by appraisal, the ground rent for the year commencing January 1, 2041, and ending December 31, 2041, (the 2041 Year) shall be the rent established for the prior year, 2040, subject to a Consumer Price Index (CPI) increase capped at 3 percent. In the latter case of no reappraisal, in no event shall the ground rent for the 2041 Year be less than the ground rent for the immediately previous year, to wit, 2040. In addition to the rent adjustment for year 2041, at year 2042 and each year thereafter, during the remainder of the term of the ground lease, through December 31, 2070, the ground rent shall be subject to an annual CPI increase. Provided, however, in no event shall the ground rent be decreased, from year to year, even if the CPI declines from one year to another. Further, the annual CPI adjustment shall be capped at 3 percent per year.
 - (b) **Reappraisal, if Option Exercised.** If the option to extend the ground lease is exercised, the annual ground rent for the first year of the option period shall be fair market rent for the premises based upon a reappraisal using procedure referenced below in this paragraph (b). In no event shall the ground rent for the first year of the option period be less than the ground rent for the last year of the original term of the Lease. If the Lessee is interested in exercising the option, the Lessee will so notify the Lessor no later than July 31, 2070, and the parties shall meet, confer and negotiate in an effort to reach agreement on the fair market rent for the first year of the option period. If after 30 days the parties are unable to reach agreement, the fair market rent for the first year of the option period shall be determined by an appraisal

process referenced in Attachment 1. After the fair market rent for the first year of the option period is determined, the Lessee will have 30 days within which to exercise the option. Notwithstanding the foregoing sentence, in no event shall the notice to exercise option be delivered later than December 1, 2070. For the second and each succeeding year of the option period, the annual ground rent shall be increased annually by the percentage change in the CPI (not to exceed an annual cap of 3 percent per year). Provided, however, in no event shall the ground rent be decreased, from year to year, even if the CPI declines, from one year to another.

4. **Ground Rent During The Initial 55 Year Term:** During the balance of 2015, the ground rent shall be as set forth in the original lease and is based upon 6 percent of total gross income. During the next six years of the initial 55-year term the annual ground rent shall be increased over a period of six years, with the annual rent being set at \$1,239,426.00 for the lease year 2021.

For 2022 and each following year of the initial 55-year term, ground rent shall be increased annually commencing as of each January 1st (Adjustment Date) based on the CPI. "CPI" means the Consumer Price Index for San Diego – All Urban Consumers – All Items (less food and energy) Base 1982-1984=100 as published by the United States Department of Labor, Bureau of Labor Statistics.

5. **Affordability:** The affordability as referenced within the current lease shall remain unchanged, 20 percent of the units shall be occupied by and affordable to households earning at or below 80 percent of AMI; 40 percent of the units shall be occupied by and shall be affordable to households earning at or below 120 percent of AMI and the balance; (i.e., 40 percent of the units) at market rates. The 80 percent of AMI units shall be the subject of the HAP agreement.

6. **HAP Renewal:** As the HAP agreement for the low income units within the project comes up for periodic renewal during the term of the lease, including the option period if Lessee exercises its option to extend the term, the Lessee shall use commercially reasonable efforts to extend the HAP agreement. Commercially reasonable efforts include applying for renewals and extensions of the HAP agreement, and processing such applications diligently. Provided, however, if the HAP Agreement is not or has not been extended for the term beginning January 1, 2016, regardless of good faith efforts by the Lessee, then the lease shall not be extended. The first extension is a condition precedent to any extension of the lease by the Lessor. In the event that the HAP Agreement is not extended during any year of the lease, including the option period if Lessee exercises its option to extend the term, the low income units must be affordable to and occupied by households earning at or below 80 percent of the AMI for the San Diego Metropolitan Area, as determined by HUD, from time to time.

7. **Property Upgrade:** On or before the sixth anniversary of the execution of the Amended and Restated Lease, the Lessee shall make capital improvements to the leasehold improvements to include roofs, siding, infrastructure, landscaping and/or interiors, as reasonably approved by the Lessor. The cost of the capital improvements shall be not less than \$25,000,000. The scope of the work shall include such exterior and/or interior repairs as designated by the Lessee (which may include a space plan or plans and specifications, as applicable) and subject to the approval of the Lessor, which approval shall not be unreasonably withheld. In addition, the capital improvements shall include the community room. The lease shall include a provision (requiring maintenance in safe, decent and sanitary condition free from defects and code violations over the entire term of the lease, including the option period, if Lessee exercises its option to extend the term.

8. **Refinancing:** The Lessee may refinance its leasehold interest in the property with conventional commercial lenders upon commercially reasonable terms for construction and/or permanent financing, including loan to value ratios, debt coverage ratios, interest rates, etc. Any refinancing shall be subject to the approval of the Lessor, which approval shall not be unreasonably withheld. The proceeds of any financing shall belong to the Lessee, as shall the obligations under the leasehold financing documents. The Lessor's fee interest in the property may not be encumbered by the Lessee in any event. Only the leasehold interest of the Lessee and the interest of the Lessee in the improvements shall be eligible to be encumbered.

9. **Sale, Transfer or Assignment of Leasehold:** The leasehold interest of the Lessee shall not be sold, transferred or assigned without the consent of the Lessor, which consent shall not be unreasonably withheld. The proposed buyer, transferee or assignee must have experience in operating projects of similar size, must have sufficient financial wherewithal to operate, repair, refurbish, maintain and manage the Project for the balance of the lease term and potential option, as the Lessor shall reasonably approve. No sale, transfer or assignment of the leasehold interest shall be effective without the prior written approval of the Lessor. In no event shall the Lessor be required to approve any sale, transfer or assignment of the leasehold interest unless and until all of the property upgrade improvements referenced within Paragraph 7 above have been constructed in a good, workmanlike, mechanic lien free, defect free manner and a Notice of Completion shall have been duly recorded, without the filing of any mechanic's liens.

In the event that a Low Income Housing Tax Credit Developer (LIHTC Developer) is the proposed assignee, buyer or transferee, and in the event that the Lessor approves of such buyer, transferee or assignee, such approval not to be unreasonably withheld, the Lessor (a) agrees to cooperate, with the approved LIHTC Developer in its operation of the property during the term of the lease and any option period; and (b) recognizes that if a sale, transfer or assignment to an LIHTC Developer is proposed before the end of 2020, the LIHTC Developer may propose capital improvements different from those described in Paragraph 7, which may include a proposed different time frame for performing the capital improvements, and in such event, the Lessor shall review the proposed sale, transfer or assignment and the related proposed different scope of work and time frame; provided, however, in no event shall the amount of improvements be less than the \$25,000,000 and in no event shall the improvements be completed later than the sixth anniversary of the signing of the Amended and Restated Lease (unless Lessor approves a different proposed time frame); and, provided further, that in no event shall this offer to cooperate be construed as any obligation of the Lessor to approve financing or any financial assistance to the project and/or the LIHTC Developer.

10. **Amended and Restated Lease:** If the transaction is approved by the requisite entities, including the President & CEO of the Housing Commission, the Board of Commissioners of the Housing Commission, the Housing Authority, and if necessary, the City of San Diego, then a new amended and restated lease, as reasonably approved by the parties shall be drafted by counsel for the Housing Commission, including terms and conditions normally included within such ground leases. The Amended and Restated Lease shall be subject to reasonable approval by both the Lessee and the Lessor.

AFFORDABLE HOUSING IMPACT

Sixty percent of the rental units located on the project will be maintained as low and moderate income units for the next 55 years and potentially for the next 75 years if the option to extend the lease is timely exercised.

FISCAL CONSIDERATIONS

The FY 2016 Budget will be amended to account for an increase of \$180,813 in rental income for the project, as detailed within the report.

KEY STAKEHOLDERS and PROJECTED IMPACTS

The approval of this matter will continue to provide affordable and workforce housing within District 2 for the next 55 to 75 years, with capital improvements of \$25,000,000 being made to the project within six years after the Amended and Restated Lease has been executed.

ENVIRONMENTAL REVIEW

The extension of an existing ground lease is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 because "The Cove" is an existing facility and the proposed actions do not involve expansion of the existing use. The provision of supportive services in the form of Project-Based Vouchers is categorically excluded from the National Environmental Policy Act (NEPA) pursuant to Part 58.35(b)(2) of Title 24 of the Code of Federal Regulations.

Respectfully submitted,

Charles B. Christensen

Charles B. Christensen
Housing Commission General Counsel

Approved by,

Deborah N. Ruane

Deborah N. Ruane
Senior Vice President
Real Estate Division

Attachments: 1) Contingent Final Deal Points

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

Contingent Final Term Sheet for Lease Restructuring for Mariner's Cove

The following is a contingent term sheet concerning an extension of the Mariner's Cove Lease between the Housing Authority of the City of San Diego, a body corporate and politic [Lessor] and Lincoln Mariners Associates Limited, a California Limited Partnership [Lessee]. Any agreement concerning this potential extension is subject to and contingent upon the approval of the CEO of the Commission, the Board of Commissioners of the San Diego Housing Commission, the Housing Authority of the City of San Diego, and, potentially the City of San Diego. In addition, any agreement to extend the lease is subject to the approval of any and all applicable committees of the Lessee that are required. This contingent term sheet is not intended to, and does not, create or constitute a binding agreement between the Lessor, the Housing Authority, and the Lessee Lincoln Mariners Associates Limited:

1. **Term:** The total lease term shall be extended to December 31, 2070. In addition, the Lessee shall be granted one 20-year option to extend the lease (i.e., for the period from January 1, 2071, through December 31, 2090). Rent during the option period is described in Section 2 of this term sheet.

2. **Reappraisal and Ground Rent January 1, 2041 and During the Option Period:**

(a) **Year 2041 Reappraisal.** No earlier than January 1, 2040 and no later than March 31, 2040, the Lessor may, at its sole option, elect by written notice to the Lessee to have the ground rent for 2041 be fair market rent determined by the appraisal process set forth in Section 2(b). In the event of the reappraisal there shall be no floor or ceiling for the ground rent being established. Provided, however, in the event that the Lessor does not elect to have the 2041 rent determined by appraisal, the ground rent for the year commencing January 1, 2041 and ending December 31, 2041 [the 2041 Year] shall be the rent established for the prior year, 2040, subject to a CPI increase capped at 3%. In the latter case of no reappraisal, in no event shall the ground rent for the 2041 Year be less than the ground rent for the immediately previous year, to wit, 2040. The reappraisal shall utilize the procedure referenced within Section 2(b). In addition to the rent adjustment for year 2041, at year 2042 and each year thereafter, during the remainder of the term of the ground lease, through December 31, 2070, the ground rent shall be subject to an annual CPI increase. Provided, however, in no event shall the ground rent be decreased, from year to year, even if the CPI declines from one year to another. Further the annual CPI adjustment shall be capped at 3% per year.

(b) **Reappraisal, if Option Exercised.** If the option to extend the ground lease is exercised, the annual ground rent for the first year of the option period shall be fair market rent for the premises based upon a reappraisal using procedure referenced below in this Section 2(b). In no event shall the ground rent for the first year of the option period be less than the ground rent for the last year of the original term of the Lease. If the Lessee is interested in exercising the option, the Lessee will so notify the Lessor no later than July 31, 2070, and the parties shall meet, confer and negotiate in an effort to reach agreement on the fair market rent for the first year of the option period. If after 30 days the parties are unable to reach agreement, the fair market rent for the first year of the option period shall be determined by appraisal. Each party will retain an appraiser at its own cost for such purpose. The appraisers must be licensed in the State of California, must be a State Certified Appraiser and have at least 10 years' experience appraising similar properties in the San Diego community, including experience in determining fair market rent for ground leases. If the fair market rent stated in each appraisal is the same, the fair market rent stated in the appraisals will be the fair market rent for the first year of the option period. If the fair market rents stated in the appraisals are different, but are within 10% of the amount of higher appraisal, then the average of the two appraisals shall be the fair market rent for the first year of the option period. If the fair market rent stated the appraisals are different, and are not within 10% of the amount of higher appraisal, then the two appraisers previously selected shall select a third appraiser with the same qualifications. Each party will bear one-half of the cost of selecting the third appraiser and of

paying the third appraiser's fee. If the two appraisers previously selected cannot agree on a third appraiser, there will be a process for the San Diego Superior Court to select the third appraiser. The fair market rent for the first year of the option period shall then be the average of the fair market rent stated in the third appraisal and the fair market rent stated in the earlier appraisal (either the Lessor's or the Lessee's) that is closest to the fair market rent stated in the third appraisal, but no lower than the ground rent for the last year of the original term of the lease, ending on December 31, 2070. After the fair market rent for the first year of the option period is determined, the Lessee will have 30 days within which to exercise the option. Notwithstanding the foregoing sentence, in no event shall the notice to exercise option be delivered later than December 1, 2070. For the second and each succeeding year of the option period, the annual ground rent shall be increased annually by the percentage change in the CPI (defined in Section 3 of this term sheet), not to exceed an annual cap of 3% per year. Provided, however, in no event shall the ground rent be decreased, from year to year, even if the CPI declines, from one year to another.

3. **Ground Rent During The Initial 55 Year Term:** During the balance of 2015, the ground rent shall be as set forth in the original lease and is based upon 6% of total gross income. During the next six years of the initial 55-year term the annual ground rent shall be as follows:

<u>Period</u>	<u>Annual Ground Rent Amount</u>
1/1/2016 through 12/31/2016	\$667,640.00
1/1/2017 through 12/31/2017	\$767,640.00
1/1/2018 through 12/31/2018	\$867,640.00
1/1/2019 through 12/31/2019	\$967,640.00
1/1/2020 through 12/31/2020	\$1,203,326.00
1/1/2021 through 12/31/2021	\$1,239,426.00 [Base Rent for CPI Purposes]

For 2022 and each following year of the initial 55-year term, ground rent shall be increased annually commencing as of each January 1st ("**Adjustment Date**") based on the CPI, as follows..

"**CPI**" means the Consumer Price Index for San Diego – All Urban Consumers – All Items (less food and energy) Base 1982-1984=100 as published by the United States Department of Labor, Bureau of Labor Statistics. Currently, the CPI is published semi-annually, once for the first half of a year and once for the second half of a year. If the Index ceases to be published, then the successor or substitute index shall be used. If the base reference period for the Index is changed, such conversion formula or table as may be published by the Bureau of Labor Statistics shall be used.

4. **Comparison CPI and Base CPI.**

(a) The "**Comparison CPI**" is the CPI published for the first half of the year immediately preceding the Adjustment Date, and the "**Base CPI**" is the CPI published for the first half of the year immediately preceding the year of the Comparison CPI. (For example, for the Adjustment Date of January 1, 2022, the Comparison CPI would be the CPI published for the first half of 2021, and the Base CPI would be the CPI published for the first half of 2020.) If the Comparison CPI is higher than the Base CPI, then the ground rent payable commencing as of the Adjustment Date shall be calculated by increasing the previous year's ground rent by the percentage increase of the Comparison CPI over the Base CPI; provided, however, in no event shall ground rent for any year be reduced below the amount of

ground rent payable during the immediately preceding year, nor be more than 3% greater than the amount of ground rent payable during the immediately preceding year.. Also for example and illustration only, assume for the Adjustment Date of January 1, 2022, the Comparison CPI is 132, and the Base CPI is 130. The increase in the CPI is 1.54% (132 divided by 130 equals 1.0154.) The annual ground rent for 2022 would be the ground rent for 2021 (i.e., \$1,239,426.00) multiplied by 1.0154, which equals \$1,258,513.16.

5. **Affordability:** The affordability as referenced within the current lease shall remain unchanged, 20% of the units shall be occupied by and affordable to households earning at or below 80% of AMI; 40% of the units shall be occupied and shall be affordable to households earning at or below 120% of AMI and the balance; (i.e., 40% of the units) at market rates. The 80% of AMI units shall be the subject of the HAP agreement.

6. **HAP Renewal:** As the HAP agreement for the low income units within the project comes up for periodic renewal during the term of the lease, including the option period if Lessee exercises its option to extend the term, the Lessee shall use commercially reasonable efforts to extend the HAP agreement. Commercially reasonable efforts include applying for renewals and extensions of the HAP agreement, and processing such applications diligently. Provided, however, if the HAP Agreement is not or has not been extended for the term beginning January 1, 2016, regardless of good faith efforts by the Lessee, then the lease shall not be extended. The first extension is a condition precedent to any extension of the lease by the Lessor. In the event that the HAP Agreement is not extended during any year of the lease, including the option period if Lessee exercises its option to extend the term, the low income units must be affordable to and occupied by households earning at or below 80% of the Area Median Income for the San Diego Metropolitan Area, as determined by HUD, from time to time.

7. **Property Upgrade:** On or before the sixth anniversary of the execution of the Amended and Restated Lease, the Lessee shall make capital improvements to the leasehold improvements to include roofs, siding, infrastructure, landscaping and/or interiors, as reasonably approved by the Lessor; provided, however, the Lessee's obligation to repair and/or upgrade as described in this Section 7 is subject to the second paragraph of Section 9 of this term sheet (which addresses the possibility of an assignment of the lease to an LIHTC Developer). The cost of the capital improvements shall be not less than \$25,000,000.00. The scope of the work shall include such exterior and/or interior repairs as designated by the Lessee (which may include a space plan or plans and specifications, as applicable) and subject to the approval of the Lessor, which approval shall not be unreasonably withheld. In addition, the capital improvements shall include the community room. The lease shall include a provision (the sample text of which has been provided to the Lessee) requiring maintenance in safe, decent and sanitary condition free from defects and code violations over the entire term of the lease, including the option period, if Lessee exercises its option to extend the term.

8. **Refinancing:** The Lessee may refinance its leasehold interest in the property with conventional commercial lenders upon commercially reasonable terms for construction and/or permanent financing, including loan to value ratios, debt coverage ratios, interest rates, etc. Any refinancing shall be subject to the approval of the Lessor, which approval shall not be unreasonably withheld. The proceeds of any financing shall belong to the Lessee, as shall the obligations under the leasehold financing documents **The Lessor's fee interest in the property may not be encumbered by the Lessee in any event. Only the leasehold interest of the Lessee and the interest of the Lessee in the improvements shall be eligible to be encumbered.**

9. **Sale, Transfer or Assignment of Leasehold:** The leasehold interest of the Lessee shall not be sold, transferred or assigned without the consent of the Lessor, which consent shall not be unreasonably withheld. The proposed buyer, transferee or assignee must have experience in operating

projects of similar size, must have sufficient financial wherewithal to operate, repair, refurbish, maintain and manage the Project for the balance of the lease term and potential option, as the Lessor shall reasonably approve. No sale, transfer or assignment of the leasehold interest shall be effective without the prior written approval of the Lessor. Subject to the second paragraph of this Section 9, in no event shall the Lessor be required to approve any sale, transfer or assignment of the leasehold interest unless and until all of the property upgrade improvements referenced within Section 7 above have been constructed in a good, workmanlike, mechanic lien free, defect free manner and a Notice of Completion shall have been duly recorded, without the filing of any mechanic's liens.

In the event that a Low Income Housing Tax Credit Developer ("LIHTC Developer") is the proposed assignee, buyer or transferee, and in the event that the Lessor approves of such buyer, transferee or assignee, such approval not to be unreasonably withheld, the Lessor (a) agrees to cooperate, with the approved LIHTC Developer in its operation of the property during the term of the lease and any option period; and (b) recognizes that if a sale, transfer or assignment to an LIHTC Developer is proposed before the end of 2020, the LIHTC Developer may propose capital improvements different from those described in Section 7 of this term sheet, which may include a proposed different time frame for performing the capital improvements, and in such event, the Lessor shall review the proposed sale, transfer or assignment and the related proposed different scope of work and time frame; provided, however, in no event shall the amount of improvements be less than the \$25,000,000 referenced within Section 7, hereof and in no event shall the improvements be completed later than the sixth anniversary of the signing of the Amended and Restated Lease (unless Lessor approves a different proposed time frame); and, provided further, that in no event shall this offer to cooperate be construed as any obligation of the Lessor to approve financing or any financial assistance to the project and/or the LIHTC Developer.

10. **Amended and Restated Lease.** If the transaction is approved by the requisite entities, including the President and CEO of the SDHC, the Board of Commissioners of the SDHC, the Housing Authority of the City of San Diego, and if necessary, the City of San Diego, then a new amended and restated lease, as reasonably approved by the parties shall be drafted by counsel for the Housing Commission, including terms and conditions normally included within such ground leases. The Amended and Restated Lease shall be subject to reasonable approval by both the Lessee and the Lessor.

THIS CONTINGENT TERM SHEET DOES NOT CREATE A BINDING CONTRACT BUT IS MERELY A STATEMENT OF ESSENTIAL TERMS TO BE CONTAINED WITHIN AN AMENDED AND RESTATED LEASE, SUBJECT TO THE APPROVAL OF THE CEO OF THE COMMISSION, THE BOARD OF COMMISSIONERS OF THE HOUSING COMMISSION AND THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO. IN ADDITION, IN THE EVENT THAT IT IS DETERMINED THAT THE APPROVAL OF THE CITY OF SAN DIEGO IS REQUIRED TO APPROVED THE AMENDED AND RESTATED LEASE, ANY AMENDED AND RESTATED LEASE SHALL ALSO BE CONTINGENT UPON RECEIVING SUCH CITY APPROVAL. ANY AMENDED AND RESTATED LEASE IS ALSO CONTINGENT UPON THE APPROVAL OF THE AMENDED AND RESTATED LEASE BY THE APPROPRIATE COMMITTEE OR COMMITTEES OF THE LESSEE.

[Signatures appear on next page]

Executed as of April 9, 2015.

LESSEE:

LINCOLN MARINERS ASSOCIATES LIMITED,
a California Limited Partnership

By: LAC PROPERTIES GP II LIMITED PARTNERSHIP,
a Delaware limited partnership, its operating general partner

By: LAC PROPERTIES QRS II INC.,
a Delaware corporation, its general partner

By: Miles Carter

Name: MILES CARTER

Title: Executive Vice President

By: SOCIAL SERVICES & AFFORDABLE HOUSING CORPORATION,
its managing general partner

By: Eric S. Miller

Name: Eric S. Miller

Title: ASSISTANT SECRETARY

LESSOR:

HOUSING AUTHORITY OF THE CITY OF SAN DIEGO,
A BODY CORPORATE AND POLITIC

BY: SAN DIEGO HOUSING COMMISSION,
A PUBLIC AGENCY, ITS ADMINISTRATIVE AGENT

BY: _____
RICHARD C. GENTRY, PRESIDENT & CEO

APPROVED AS TO FORM;
CHRISTENSEN & SPATH, LLP

BY: _____
CHARLES B. CHRISTENSEN, GENERAL COUNSEL FOR SAN DIEGO HOUSING
COMMISSION, ADMINISTRATIVE AGENT FOR LESSOR

APPROVED AS TO FORM:
HECHT SOLBERG ROBINSON GOLDBERG & BAGLEY LLP

BY: Michael J. Maher
MICHAEL J. MAHER, ATTORNEY FOR LESSEE

Executed as of April 9, 2015.

LESSEE:

LINCOLN MARINERS ASSOCIATES LIMITED,
a California Limited Partnership

By: LAC PROPERTIES GP II LIMITED PARTNERSHIP,
a Delaware limited partnership, its operating general partner

By: LAC PROPERTIES QRS II INC.,
a Delaware corporation, its general partner

By: _____

Name: _____

Title: _____

By: SOCIAL SERVICES & AFFORDABLE HOUSING CORPORATION,
its managing general partner

By: _____

Name: _____

Title: _____

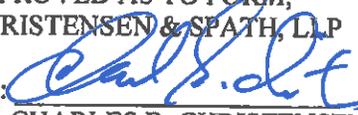
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HOUSING AUTHORITY OF THE CITY OF SAN DIEGO,
A BODY CORPORATE AND POLITIC

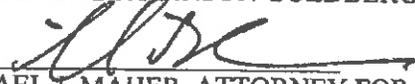
BY: SAN DIEGO HOUSING COMMISSION,
A PUBLIC AGENCY, ITS ADMINISTRATIVE AGENT

BY: 
RICHARD C. GENTRY, PRESIDENT & CEO

APPROVED AS TO FORM;
CHRISTENSEN & SPATH, LLP

BY: 
CHARLES B. CHRISTENSEN, GENERAL COUNSEL FOR SAN DIEGO HOUSING
COMMISSION, ADMINISTRATIVE AGENT FOR LESSOR

APPROVED AS TO FORM:
HECHT SOLBERG ROBINSON GOLDBERG & BAGLEY LLP

BY: 
MICHAEL J. MAHER, ATTORNEY FOR LESSEE