



## REPORT

**DATE ISSUED:** July 5, 2018

**REPORT NO:** HCR18-058

**ATTENTION:** Chair and Members of the San Diego Housing Commission  
For the Agenda of July 13, 2018

**SUBJECT:** Approval of forgivable loan to Island Inn, L.P. to impose affordability restrictions for 201-unit project located at 202 Island Avenue, San Diego, California, through December 31, 2027

**COUNCIL DISTRICT:** Council District 3

**REQUESTED ACTION:**

That the San Diego Housing Commission recommend that the Housing Authority of the City of San Diego approve a forgivable loan in the amount of \$2,750,000 to Island Inn, L.P. to extend the affordability of the 201-unit project located at 202 Island Avenue, San Diego, California.

**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, as described in this report:

- 1) Authorize a forgivable loan in the amount of \$2,750,000 to Island Inn, L.P., to impose affordability restrictions to December 31, 2027, making the project 100 percent affordable at 50 percent of Area Median Income (AMI) and 80 percent of AMI affordability levels, as detailed in this report;
- 2) Authorize the President & Chief Executive Officer of the Housing Commission (President & CEO), or designee, to execute such documents and perform such acts as are necessary to implement these approvals, in a form and format as approved by General Counsel of the Housing Commission;
- 3) Authorize the President & CEO of the Housing Commission, or designee, to change funding sources, when in the best interests of the Housing Commission, provided that such funding sources are available and provided further that the amount of the forgivable loan approved in this action does not increase beyond that approved in these actions.

**SUMMARY**

Island Inn is an existing, 201-unit rental project located at 202 Island Avenue in the Marina District of the City of San Diego. The former Redevelopment Agency (RDA) previously negotiated land use covenants in the early 1990's in exchange for a forgivable grant. The land-use covenants for the development required 40 units to be affordable to residents with income up to 50 percent of San Diego's Area Median Income (AMI); 80 units to be affordable up to 80 percent of AMI; and the remaining units to be affordable up to 120 percent of AMI.

The Island Inn land use covenants expired in 2017; however, the owner is required to provide tenant notices one year in advance of terminating the affordability restrictions. The noticing of termination of the affordability has not yet been given to tenants, pending negotiations between the owner and the Housing Commission. The owner intends to issue one-year notices informing the tenants of the termination of the Redevelopment Agency (RDA) restrictions in late 2018. At the end of the one-year period, the deed of trust securing the RDA note will be fully reconveyed, and the former RDA Regulatory Agreement will be terminated.

At the end of the one-year noticing period, if the staff recommended actions are approved, the affordability at Island Inn will be extended until December 31, 2027, at 50 percent and 80 percent of AMI. All of the units will continue to be affordable.

Before agreeing to extend the affordability, the owner expressed interest in extending the affordability of the project for a limited period while they evaluate a long-term strategy for the project. The owners have indicated that they are evaluating three options: 1) continue to operate as affordable housing; 2) convert to market rate housing, and; 3) convert to a boutique hotel. The owner has agreed to extend the affordability for the project until December 31, 2027, in exchange for a lump sum payment as referenced within this report.

At this time, the owner is willing to enter into an agreement with the Housing Commission for Island Inn. The Housing Commission has tentatively agreed with the owner, subject to Housing Authority approval, to pay the owner the sum of \$2,750,000 in consideration of the extension of the affordability on Island Inn through year 2027, as described above.

In addition, the owner also owns another property, the 221-unit J Street Inn, located at 222 J Street, San Diego. The owner has indicated that they are willing to consider extending the affordability of that project as well, when the RDA restrictions expire in May of 2020.

**Table 1 – Development Summary**

Address	202 Island Avenue
Council District	3
Community Plan Area	Downtown (Marina District Neighborhood)
Owner	Island Inn L.P. and 197 Partners GP, LLC
Development Type	Preservation of existing affordable housing
Construction Type	Four story wood frame with stucco construction
Year Built	Was completed after January 1, 1990
Onsite Parking	80 parking spaces
Housing Type	Multifamily
Lot Size	0.57 gross acres
Units	201 living units
Unit Mix	101 (250 square feet units) 100 (325 square feet units)
Gross Building Area	100,000 square feet
Net Rentable Area	57,750 square feet (residential total)

### Keyser Marston Associates Analysis

The Housing Commission engaged Keyser Marston Associates (KMA) to conduct financial modeling to determine the amount of public subsidy in the form of a forgivable loan to extend the affordability for the project. A copy of that analysis is attached to this report (Attachment 3) and shows that the payment of \$2,750,000 is financially justified, given the present value analysis based upon 13 of the units being restricted at or below 50 percent of AMI and the balance being restricted at or below 80 percent of AMI. The initial study models 100 percent of the units at 80 percent of AMI, and the subsequent study models rents affordable at 50-80 percent of AMI to achieve a \$2,750,000 subsidy.

### Housing Commission Agreements

General Counsel for the Housing Commission will draft a Declaration of Covenants, Conditions and Restrictions, and forgivable loan documents, if and when this matter is approved by the Housing Authority.

### Additional Considerations

As part of the negotiations to reduce the Housing Commission's subsidy, staff recommends waiving annual compliance monitoring fees. If compliance monitoring fees are required, the Housing Commission's subsidy amount will increase. There is no advantage to requiring a compliance monitoring fee.

### **AFFORDABLE HOUSING IMPACT**

The owner has agreed to impose rental and occupancy restrictions on the all of the units in the property, which will terminate on December 31, 2027. Thirteen of the units will be affordable to and occupied by households earning at or below 50 percent of AMI. The balance of 188 units will be occupied by and affordable to households earning at or below 80 percent of AMI.

It should be noted that a number of the prior RDA restricted units were restricted at or below 120 percent of AMI, so the proposed transaction deepens the affordability of those units. Upon expiration of the former RDA land use covenants, the Housing Commission declaration would become effective. For example, the Island Inn has complied with the land use restrictions, which technically expired in December 2017 – the owner is required to notify tenants of their intent to terminate restrictions. The Housing Commission declaration would become effective immediately after the one-year noticing period has elapsed.

As referenced within this report, the approval of this matter will result in the preservation of 201 living units in the City of San Diego through December 31, 2027. These units will be affordable at and below 50-80 percent of AMI, which will lower the existing affordability levels.

### **FISCAL CONSIDERATIONS**

The proposed funding sources and uses approved by this action will increase funding allocation to loans made in the proposed Fiscal Year (FY) 2019 Housing Commission Budget.

This action will be funded by City Inclusionary funds.

Funding sources approved by this action will be as follows:

Inclusionary Affordable Housing Funds - \$2,750,000

Total funding sources - \$2,750,000

Funding uses approved by this action will be as follows:

Loans – up to \$2,750,000  
Total funding uses - \$2,750,000

<b>Investment in Preservation of 201 Units</b>	
Per Unit	\$ 13,681.59
Per Year	\$ 289,473.68
Total Investment	\$ 2,750,000.00

**PREVIOUS COUNCIL and/or COMMITTEE ACTION**

On May 21, 2018, the Smart Growth and Land Use recommended that Inclusionary Funds be allowed to be utilized for preservation projects.

On June 11, 2018, the City Council approved the FY 2019 Affordable Housing Fund Annual Plan that includes funding for rental housing preservation and anti-displacement.

**KEY STAKEHOLDERS and PROJECTED IMPACTS**

The approval of this project will result in the preservation of 201 living units in the City of San Diego, which units are extremely scarce and are needed to continue to address homelessness in the City. If the affordability is lost, the people in residence are in jeopardy of becoming homeless or will be forced to attempt to find more expensive unrestricted units in a very tight rental market.

**ENVIRONMENTAL REVIEW**

The proposed loan is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the State CEQA Guidelines because Island Inn is an existing facility and the proposed actions do not involve expansion of the existing use. Processing under the National Environmental Policy Act (NEPA) is not required since there are no Federal funds involved with this action.

Respectfully submitted,

*Tina Kessler*

Tina Kessler  
Housing Programs Manager  
Real Estate Department

Approved by,

*Deborah N. Ruane*

Deborah N. Ruane  
Executive Vice President & Chief Strategy Officer  
San Diego Housing Commission

Attachments:

- 1) Developer Disclosure Statement – Island Inn, L.P.
- 2) Developer Disclosure Statement – 197 Partners GP, LLC
- 3) Keyser Marston Associates Analysis

Hard copies are available for review during business hours at the security information desk in the main lobby and the fifth floor reception desk 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 in the “Public Meetings” section of the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org).