



REPORT

DATE ISSUED: November 21, 2018

REPORT NO: HCR18-068

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of November 30, 2018

SUBJECT: Moving To Work (MTW) Grant Recommendation for Quality Inn

COUNCIL DISTRICT: 3

REQUESTED ACTION

The seven day advance notice of San Diego Housing Commission's Hearing of this matter is being provided to the Housing Authority Members pursuant to the provisions of San Diego Municipal Code Section 98.0301(e)(4)(A) and (B).

Approve a grant and an amendment to the ground lease, to facilitate the rehabilitation of Quality Inn, a 92-unit existing development, located at 1840 Fourth Avenue, San Diego 92101, which will include 91 units that will remain affordable for 55 years for transitional aged youth, veterans, seniors and adults with mental disabilities who are experiencing homelessness.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) take the following actions, as described in this report.

Housing Commission:

- 1) Approve a Housing Commission grant of up to \$5,602,926 to HDP Quality Inn LLC, a California limited liability company, of which Housing Development Partners (HDP), the Housing Commission's nonprofit affiliate, is the managing member, to facilitate the proposed rehabilitation of Quality Inn, a 92-unit existing development, located at 1840 Fourth Avenue, San Diego 92101, which will include 91 units that will remain affordable for 55 years for transitional aged youth, veterans, seniors, and adults with mental disabilities who are experiencing homelessness..

The Housing Commission's proposed grant will be part of the developer's third-party funding commitments, including a California Mental Health Services Act (MHSA) loan of \$2,704,500; a Home Depot grant of \$400,000; and a bank loan of \$4,912,920 described in this report. Such third-party funding commitments will be subject to the Housing Commission's General Counsel's approval.

- 2) Adjust the terms of the 65-year ground lease from the Housing Commission to HDP Quality Inn LLC so that the annual ground rent will equal the lesser of: (i) 4.5 percent of HDP Quality Inn, LLC's gross annual income; or (ii) 100 percent of HDP Quality Inn, LLC's cash flow.

- 3) Authorize the Executive Vice President and Chief of Staff (Executive Vice President), or designee:
 - a. To adjust financing terms/conditions as necessary for consistency with requirements of other funding sources or to accommodate market changes that may occur, provided that the proposed \$5,602,926 maximum grant amount may not increase.
 - b. To substitute approved funding sources with any other available funds as deemed appropriate, contingent upon budget availability, and further authorize the Executive Vice President, or designee, to take such actions as are necessary, convenient and/or appropriate to implement this approval and delegation of authority by the Housing Commission upon advice of General Counsel.

SUMMARY

A development summary is at Attachment 1.

Table 1 – Development Details

Address	1840 Fourth Avenue
Council District	3
Community Plan Area	Bankers Hill/Park West neighborhood of Uptown Community Planning Area
Developer	Housing Development Partners (HDP)
Development Type	Acquisition with rehabilitation
Construction Type	Type V, wood frame, stucco construction
Parking Type	No parking on-site
Housing Type	Multifamily (four-story structure)
Lot Size	10,018 square feet (rectangular in shape) (0.230 acres)
Units	92 (91 units affordable)
Density	400 dwelling units per acre (92 units ÷ 0.230 acres)
Unit Mix	42 SRO units, 49 studio units, and a studio manager’s unit
Gross Building Area	23,612 square feet
Net Rentable Area	18,366 square feet (residential total)

The Development

Quality Inn is a 92-unit existing building constructed in 1990. It is located at 1840 Fourth Avenue, (between Elm Street and Fir Street) (Attachment 2 - site maps). Quality Inn is one building with four stories, including elevator service. There is no on-site parking. Site amenities include: a central courtyard, community room, on-site laundry, and secured entry. Bus service is available nearby on Fourth and Fifth Avenues. Adjacent to the property on the north side is multifamily residential and a restaurant. To the south are Elm Street, multifamily residential and office buildings. Located to the east are Fourth Avenue, a newly constructed CVS, a parking lot, and a hotel. To the west are Third Avenue, a parking lot, multifamily residential and religious uses.

Prior Actions

On December 14, 2017, the Housing Commission acquired Quality Inn property for \$10,480,000, partially funded with with Moving to Work (MTW) funds and leased the property to HDP Quality Inn,

LLC to operate as permanent supportive housing. A copy of the lease is included as Attachment 3 to this report.

Quality Inn supports the creation of permanent housing opportunities for homeless San Diegans through HOUSING FIRST – SAN DIEGO, the Housing Commission’s homelessness action plan. The current phase of HOUSING FIRST – SAN DIEGO, which launched on July 1, 2017, will create permanent housing opportunities for at least 3,000 homeless San Diegans over three fiscal years (2018-2020). This phase builds upon the accomplishments of the programs in the first three years of HOUSING FIRST – SAN DIEGO (2014-2017), which created housing opportunities for close to 3,000 San Diegans experiencing homelessness.

Ground Lease

The Housing Commission and HDP Quality Inn, LLC, previously entered into a 65-year ground lease of the property, which required annual ground rent payments equal to 4.5 percent of gross income. To obtain funding for the rehabilitation and permanent financing of the property, the ground lease terms must be adjusted to match the Housing Commission’s standard ground lease rent structure, which requires rents at 4.5 percent of annual gross income, up to 100 percent of the project’s cash flow.

Developer’s Request

HDP Quality Inn, LLC, submitted a request for a Housing Commission grant of \$5,602,926, and an amendment to the ground lease.

Building Conditions/Proposed Rehabilitation Work

HDP Quality Inn, LLC, intends to complete a comprehensive/substantial renovation of Quality Inn. An estimated rehabilitation summary is included as Attachment 4. A Physical Needs Assessment (PNA) was conducted by Building Consultants, Inc., which identified and assisted in development of the scope of work.

The current estimate of rehabilitation hard costs is \$8,648,838 (\$94,009/unit). This amount includes estimated costs to: add kitchenettes to 49 of the units to convert the SROs into studios; upgrade existing building systems to extend useful life; add new bathroom fixtures; update fire/life-safety components; elevator modernization; roof replacement; and painting of the interior and exterior of the building. A General Contractor has not yet been selected.

Prevailing Wages

HDP Quality Inn LLC’s use of Project-Based Section 8 rental housing vouchers and this proposed allocation of U.S. Department of Housing and Urban Development (HUD) Moving to Work Grant funds will require payment of Federal Prevailing wages. The ground lease for the property with the Housing Commission will require the payment of State Prevailing wages. The higher of the two rates will apply.

Relocation

For this acquisition/rehabilitation project, the temporary relocation of up to 92 households will be required. The project is scheduled to begin in the First Quarter of 2019, with an anticipated construction period of approximately 12 months. It is anticipated that all tenants will need to be temporarily housed in hotels for up to 4 weeks. HDP will contract with a professional relocation consultant to manage the relocation process. HDP Quality Inn LLC will ensure that all required notices and associated benefits are provided. The relocation consultant will provide ongoing support.

Development Team

HDP is a California 501(c)(3) nonprofit public benefit corporation that was incorporated in April 1990 and is an affiliate of the Housing Commission. HDP is a separate legal entity established by the Housing Commission to acquire and develop low- and moderate-income housing and to provide services related to housing. HDP is an experienced developer and has successfully participated in affordable housing developments throughout San Diego. HDP has developed 1,253 units of affordable housing with 284 more units in process, including multiple affordable developments utilizing Housing Commission loans. Recent developments include:

- New Palace Hotel, at 1814 Fifth Avenue, an 80-unit rehabilitation development, currently in construction, with a \$3,040,000 Housing Commission loan and a \$10,500,000 tax-exempt bond issuance.
- San Diego Square, at 1055 Ninth Avenue, a 156-unit rehabilitation development, completed in 2016, with a \$17,825,000 tax-exempt bond issuance.
- Hotel Churchill, at 827 C Street, a 73-unit rehabilitation development, completed in 2016, with a \$6,106,609 Housing Commission loan and a \$9,289,800 MTW grant.

HDP is in full compliance with previous Housing Commission loans. Based upon the developer’s past experience and past performance, staff has determined that the developer has the requisite capacity to successfully complete the proposed Quality Inn rehabilitation. HDP Quality Inn, LLC, a California limited liability company, will act as the borrower’s Managing General Partner (Attachment 5 – organization chart).

Property Management and Supportive Services

Quality Inn is managed by SK Management (SK). SK has substantial experience as a manager of affordable housing, including properties for seniors and special needs tenants with Project-Based Section 8 rental housing vouchers.

HDP anticipates that resident supportive services will be provided by the County of San Diego Behavioral Health Services, St. Paul’s Program of All-Inclusive Care for the Elderly (PACE), the U.S. Department of Veterans Affairs (VA) San Diego Healthcare System, Home Start, and San Diego Youth Services. Units will be set aside for transitional aged youth, veterans, seniors, and adults with disabilities who are experiencing homelessness. On-site and off-site supportive services may include: medical support, daily living support, nutrition and transportation support, in addition to other services as needed on a case-by-case basis for tenants.

Table 2 – Quality Inn Population

Population to be Served	Service Providers	Total # of Units
Transitional Age Youth	Pathways	13
Transitional Age Youth & Adults with Mental Illness	Community Research Foundation	12
Seniors (age 55+)	St. Paul’s PACE	31
Veterans	Veterans Administration	20
Non-VA Veterans (other than honorable discharged)	St. Paul’s PACE	3
Transitional Age Youth	San Diego Youth Services/ Home Start	12
Totals		91

Table 3 Development Team Summary

Role	Firm
Owner	San Diego Housing Commission
Leasehold	HDP Quality Inn, LLC
Managing Partner	HDP Quality Inn, LLC
Architect	BASIS Architecture & Consulting
Civil Engineer	Kettler Leweck Engineering
General Contractor	To be selected
Property Manager	SK Management
Relocation Consultant	To be selected
Service Provider	County of San Diego Behavioral Health Services, St. Paul's PACE, VA San Diego Healthcare System, and San Diego Youth Services
Construction & Perm Lender	To be selected

STATEMENT for PUBLIC DISCLOSURE

The developer's Disclosure Statement is at Attachment 6.

FINANCING STRUCTURE

Permanent Sources and Uses of Financing

The estimated total development costs and sources and uses of funds are detailed in the pro forma attached to this report (Attachment 7) and summarized below.

Table 4 – Quality Inn Estimated Permanent Sources and Uses

Financing Sources	Amounts	Financing Uses	Amounts	Per Unit
Permanent loan	\$4,912,920	Hard costs	\$8,648,838	\$94,009
SDHC proposed grant	\$5,602,926	Developer fee	\$2,000,000	\$21,739
		Architect/Engineering - \$310,000		
		Permits & fees - \$120,000		
		Third party reports - \$ 50,401		
		Other soft costs - + \$1,479,478		
		Subtotal - 1,989,879	\$1,989,879	\$21,303
Proposed MHSA loan	\$2,704,500	Financing	\$652,280	\$7,090
Proposed Home Depot grant	\$400,000	Reserves	\$359,348	\$3,906
Total Development Cost	\$13,620,345	Total Development Cost (TDC)	\$13,620,345	\$148,047

The proposed Housing Commission grant will be funded with up to \$5,602,926 with HUD MTW funds. A final determination of Housing Commission funding sources will be made by the Housing Commission's Executive Vice President, or designee, contingent upon budget availability.

Development Cost Key Performance Indicators

Housing Commission staff has identified development cost performance indicators that were used to evaluate the proposed development and make a funding recommendation. The key performance indicators listed in Table 5 are commonly used by real estate industry professionals and affordable housing developers.

Table 5 - Key Performance Indicators

Development Cost Per Unit	\$13,620,345 ÷ 92 units =	\$148,047
Housing Commission Subsidy Per Unit	\$5,602,926 ÷ 92 units =	\$60,901
Gross Building Square Foot Hard Cost	\$8,648,838 ÷ 23,612 sq. ft. =	\$366
Net Rentable Square Foot Hard Cost	\$8,648,838 ÷ 18,366 sq. ft. =	\$471

Developer Fee

HDP is proposing a developer fee of \$2,000,000 (\$21,739/unit). The fee proposed is consistent with the Request for Approval of Updated Developer Fees (HAR17-011) approved by the Housing Authority on April 25, 2017.

AFFORDABLE HOUSING IMPACT

On December 12, 2017, Housing Commission staff approved a commitment for 91 Section 8 Project-Based Housing Vouchers for Quality Inn. Under this program, the tenant’s rent portion is determined by using the applicable minimum rent or a calculated amount based on their income level, whichever is higher, with the remainder federally subsidized up to a gross rent level approved by the Housing Commission. The Housing Assistance Payment provides a rental subsidy for the project’s residents. Under the proposed grant, the development will be subject to a Housing Commission Declaration of Covenants and Restrictions that will restrict the affordability of 91 units for 55 years. The project’s 91 units will be affordable to tenants with income levels up to 60 percent of San Diego’s Area Median Income (AMI), currently \$40,920 per year for a studio one-person household.

Table 6 Quality Inn Affordability and Monthly Estimated Rent Table

Affordability Mix	Studios	SRO Units*	Estimated Rent
60% AMI units	49	--	\$1,085
60% AMI units	--	42	\$815
Manager’s unrestricted unit	1	--	--
Subtotal	50	42	
Combined Total Units	92		

* Based on Section 8 Project-Based Rent.

FISCAL CONSIDERATIONS

The funding sources and uses proposed for approval by this action are included in the Fiscal Year 2019 Budget. Approving this action will result in the rehabilitation of a 92-unit development.

Funding sources approved by this action will be as follows:

- MTW Grant - up to \$5,602,926
- Total Funding Sources - up to \$5,602,926

Funding uses approved by this action will be as follows:

- Grants - up to \$5,602,926
- Total Funding Uses - up to \$5,602,926

Approving these actions will further grant the Executive Vice President, or designee, the authority to substitute the above funding sources with other available funding sources so long as the total Housing

Commission grant amount does not exceed the approved total grant amount, should the operational need arise or should such actions be to the benefit of the Housing Commission.

Development Schedule

The estimated development timeline is as follows:

Milestones	Estimated Dates
<ul style="list-style-type: none">• Rehabilitation Finance Closing	<ul style="list-style-type: none">• Estimated March 2019
<ul style="list-style-type: none">• Start of construction work	<ul style="list-style-type: none">• Estimated March 2019
<ul style="list-style-type: none">• Completion of construction work	<ul style="list-style-type: none">• Estimated March 2020

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS

HDP presented the project as an information item to the Uptown Community Planning Group on June 5, 2018, and to the Bankers Hill Community Group on July 16, 2018.

KEY STAKEHOLDERS and PROJECTED IMPACTS

Stakeholders for this project include the residents of Quality Inn, HDP as developer and managing member of the borrower HDP Quality Inn, LLC, the residents of the Bankers Hill/Park West neighborhood, service providers, and the Housing Commission as the property owner. The property rehabilitation is expected to have a positive impact on the community because it will preserve existing affordable housing for downtown seniors.

ENVIRONMENTAL REVIEW

This project's proposed rehabilitation is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to section 15301 of the State CEQA Guidelines because the project is an existing facility and the proposed actions do not involve expansion of the existing use.

This project may be partially funded with federal Moving to Work (MTW) grant funds. The activities described herein are Categorically Excluded subject to Section 58.5 from the National Environmental Policy Act (NEPA) pursuant to Section 58.35(a)(3) of Title 24 of the Code of Federal Regulations. The City of San Diego and San Diego Housing Commission have conducted a limited Environmental Review of this project as required under Section 58.35(a), and have determined that this project converts to exempt status per Section 58.34(a)(12). A copy of the Environmental Review is on file in the Environmental Review Record.

HOUSING DEVELOPMENT PARTNERS CONFLICT DISCLOSURE STATEMENT:

Housing Development Partners' Board of Directors includes the President and CEO of the Housing Commission, Commissioners Stefanie Benvenuto and Tim Walsh, and community members. The current HDP Board consists of five members. Commissioners Benvenuto and Walsh, and President and CEO of the Housing Commission, Richard Gentry, are each directors and officers of Housing Development Partners, a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c)(3) corporation. Commissioner Benvenuto, Commissioner Walsh, and CEO Gentry receive no compensation for their service on the Housing Development Partners Board of Directors. Pursuant to the provisions of Government Code Sections 1091.5(a)(7) and 1091.5(a)(8), Commissioner Benvenuto, Commissioner Walsh, and CEO Gentry each have a "non-interest" as described in Government Code Section 1091.5. Furthermore, none of Housing Development Partners' board members has a financial interest in this development that would legally preclude their participation under the provisions of Government Code Sections 1090 and/or 87100, et. seq. because a 501(c)(3)

nonprofit corporation is not a business entity for the purposes of state law and because Housing Development Partners has been determined to be a public agency by the Ethics Commission for local conflict law purposes and/or the Housing Commission's Conflict of Interest Code. As members of the Board of Commissioners of the Housing Commission, Ms. Benvenuto and Mr. Walsh are legally entitled to vote and be counted for quorum purposes. This disclosure shall be and is hereby documented in the official records of the Housing Commission. Further, Housing Development Partners may form an affiliated limited partnership or LLC and under such a scenario, Housing Development Partners will be the managing general partner for its affiliated limited partnership or LLC. The grantee HDP Quality Inn LLC's affiliated managing general partner is planned to have the same makeup as the Housing Development Partners' Board, and Commissioner Benvenuto, Commissioner Walsh and CEO Gentry will all have non-interests with any affiliated limited partnership or LLC. This disclosure shall be and is hereby documented in the official records of the Housing Commission.

Respectfully submitted,

Approved by,

Tina Kessler

Jeff Davis

Tina Kessler
Housing Programs Manager
Real Estate Division

Jeff Davis
Executive Vice President & Chief of Staff
San Diego Housing Commission

- Attachments:
1. Development Summary
 2. Site Maps
 3. Ground Lease
 4. Rehabilitation Summary
 5. Organization Chart
 6. Developer Disclosure Statement
 7. Developer's Pro Forma

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 "Governance & Legislative Affairs" section of the San Diego Housing Commission website at www.sdhc.org