SAN DIEGO HOUSING COMMISSION

SDHC

REPORT TO THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

DATE ISSUED: December 3, 2019 **REPORT NO**: HAR20-004

ATTENTION: Chair and Members of the Housing Authority of the City of San Diego
For the Agenda of January 7, 2020

SUBJECT: Approval of a forgivable loan to J Street Inn, L.P. to impose affordability restrictions for a 221-unit project located at 222 J Street, San Diego, California, through December 31, 2027

COUNCIL DISTRICT: 3

REQUESTED ACTION:
Approve a forgivable loan in an amount not to exceed $3,023,631 to J Street Inn, L.P. to extend the affordability of the 221-unit project located at 222 J Street, San Diego, 92101, of which all 221 units will remain affordable until December 31, 2027.

STAFF RECOMMENDATION
That the Housing Authority of the City of San Diego (Housing Authority) take the following actions, as described in this report:

1) Approve a San Diego Housing Commission (Housing Commission) forgivable loan in an amount not to exceed $3,023,631 to J Street Inn, L.P., to impose affordability restrictions through December 31, 2027, on 221 units, making the project 100 percent affordable at 50 percent of San Diego's 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, or designee, to substitute approved funding sources with any other available funds as deemed appropriate, contingent on budget availability, 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, and further authorize the President & CEO, 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; and
4) Authorize an increase in funding allocation to loans made in the Fiscal Year (FY) 2020 Housing Commission Budget by $3,023,631, and allocate the funds as a forgivable loan.

SUMMARY
A Development Summary is included as Attachment 1.

J Street Inn is an existing, 221-unit rental project located at 222 J Street in the Marina District of the City of San Diego (Attachment 2). The former Redevelopment Agency (RDA) previously negotiated land-use covenants in June 1990, recorded as an agency loan in the original amount of $900,000. The land-use covenants for the development required 40 units to be affordable to residents with income up to 50 percent of 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 J Street Inn land-use covenants expire in June 2020; however, the owner is required to provide tenant notices one year in advance of terminating the affordability restrictions. The owner has issued one-year notices informing the tenants of the termination of the RDA restrictions. 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 J Street Inn will be extended until December 31, 2027, with 13 units restricted to 50 percent of AMI and 208 units restricted to 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.

The Housing Commission has tentatively agreed with the owner, subject to Housing Commission Board of Commissioners approval, to pay the owner the sum of $3,023,631 in consideration of the extension of the affordability on J Street Inn through year 2027, as described above.

In addition, the owner also owns another property, the 201-unit Island Inn, located at 202 Island Avenue, San Diego. The owner has previously extended the affordability of that project through a similar forgivable loan approved by the Housing Commission Board of Commissioners on July 13, 2018.

Table 1 – Development Summary

Address	222 J Street
Council District	3
Community Plan Area	Downtown (Marina District Neighborhood)
Owner	J Street Inn L.P., a California limited partnership
Development Type	Preservation of existing affordable housing
Construction Type	Four-story wood frame with stucco construction
Year Built	1990
Onsite Parking	88 parking spaces
Housing Type	Multifamily
Lot Size	0.57 gross acres
Units	221 living units
Unit Mix	125 (250-square-foot units) 96 (325-square-foot units)
Gross Building Area	72,763 square feet
Net Rentable Area	62,450 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 for another seven years, which is the maximum amount of time that the developer would consider.

A copy of that analysis is attached to this report (Attachment 3) and shows that the payment of $3,023,631 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 remaining 208 units being restricted at or below 80 percent of AMI and applying a discount rate of 6 percent for seven years. The study models rents affordable at 50-80 percent of AMI to achieve a $3,023,631 subsidy/$13,700 per unit, which is similar to the per unit amount from the prior transaction, Island Inn.

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 208 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. 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 221 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) 2020 Housing Commission Budget.

This action will be funded by City Inclusionary Affordable Housing funds. Funding sources approved by this action will be as follows:

Inclusionary Affordable Housing Funds - $3,023,631

Total funding sources - $3,023,631

Funding uses approved by this action will be as follows:

Forgivable Loans – $3,023,631

Total funding uses – $3,023,631

PREVIOUS COUNCIL and/or COMMITTEE ACTION

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

On June 10, 2019, the City Council approved the FY2020 City of San Diego Affordable Housing Fund Annual Plan, which includes funding for rental housing preservation and anti-displacement as an eligible model program.

KEY STAKEHOLDERS and PROJECTED IMPACTS

The approval of this project will result in the preservation of 221 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

This activity is exempt from CEQA Guidelines Section 15061(b)(3), under the common sense exemption that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Processing under the National Environmental Policy Act (NEPA) is not required since there are no Federal funds involved with this action.

Respectfully submitted,

Colin Miller

Colin Miller
Vice President
Multifamily Housing Finance
Real Estate Division

Approved by,

Jeff Davis

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

Attachments:
1) Development Summary
2) Site Map
3) Keyser Marston Associates Analysis

Hard copies are available for review during business hours at the security information desk in the main lobby and at 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

Attachment 1

Table 1 – Development Summary

Address	222 J Street
Council District	3
Community Plan Area	Downtown (Marina District Neighborhood)
Owner	J Street Inn L.P., a California limited partnership
Development Type	Preservation of existing affordable housing
Construction Type	Four-story wood frame with stucco construction
Year Built	1990
Onsite Parking	88 parking spaces
Housing Type	Multifamily
Lot Size	0.57 gross acres
Units	221 living units
Unit Mix	125 (250-square-foot units) 96 (325-square-foot units)
Gross Building Area	72,763 square feet
Net Rentable Area	62,450 square feet (residential total)

J Street Inn Cash Flow Projection

San Diego Housing Commission

KMA Estimate of Market Rents

6% @ 50% AMI and
94% @ 80% AMI

Keyser Marston Associates, Inc.

October 29, 2019

TABLE 1

PROJECT DESCRIPTION
J STREET INN
SAN DIEGO HOUSING COMMISSION

I.	**Site Area**	0.57	Acres			
II.	**Gross Building Area**					
	Net Residential Area	62,450	SF	86%		
	Common Area/Circulation (1)	10,313	SF	14%		
	Total Gross Building Area (GBA)	72,763	SF	100%		
III.	**Number of Stories**	4	Stories			
IV.	**Unit Mix**				Average	
		Number of Units			Unit Size	
	Small Studio	125	Units	57%	250	SF
	Large Studio	96	Units	43%	325	SF
	Number of Units	221	Units	100%	283	SF
V.	**Density**	388	Units/Acre			
VI.	**Affordability Mix**					
		Existing Restrictions				
	Units @ 50% of AMI	22	Units	10%		
	Units @ 60% of AMI	22	Units	10%		
	Units @ 80% of AMI	88	Units	40%		
	Units @ 100% of AMI	89	Units	40%		
	Units @ Market-Rate	0	Units	0%		
	Total/Average	221	Units	100%		
	Average Affordability	83%	of AMI			
VII.	**Parking**	88	Spaces	0.4	Spaces/Unit	

(1) Includes reception, lobby, laundry, maintenance, storage, and common areas.

Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_J Street_v11;10/29/2019;ema

TABLE 2

NET OPERATING INCOME (2019$)
J STREET INN
SAN DIEGO HOUSING COMMISSION

Existing Restrictions

		Units	$/Month (1)	Total Annual
I. Gross Scheduled Income				
Studio	@ 50% AMI	22	$755	$199,320
Studio	@ 60% AMI	22	$906	$239,184
Studio	@ 80% AMI	88	$1,208	$1,275,648
Studio	@ 100% AMI	89	$1,510	$1,612,680
Studio (Small)	@ Market-Rate	0	$0	$0
Studio (Large)	@ Market-Rate	0	$0	$0
Total/Average		221	$1,254	$3,326,832
Add: Laundry and Vending		$10	/Unit/Month	$26,520
Total Gross Scheduled Income (GSI)				$3,353,352
II. Effective Gross Income (EGI)				
(Less) Vacancy		5.0%	of GSI	($167,668)
Total Effective Gross Income (EGI)				$3,185,684
III. Operating Expenses				
(Less) Operating Expenses		$5,455	/Unit/Year	($1,205,505) (3)
(Less) Property Taxes		$558	/Unit/Year	($123,260) (4)
(Less) Replacement Reserves		$0	/Unit/Year	$0
(Less) Non-Profit Partner Management		$0	/Unit/Year	$0
(Less) SDHC Monitoring Fee		$0	/Unit/Year	$0
Total Expenses		$6,013	/Unit/Year	($1,328,765) (3)
		42%	of EGI	
IV. Net Operating Income				**$1,856,920**
Or Say (Rounded)				**$1,857,000**
Per Unit				**$8,400**

6% @ 50% AMI / 94% @ 80% AMI

		Units	$/Month (1)	Total Annual
I. Gross Scheduled Income				
Studio	@ 50% AMI	13	$755	$117,780
Studio	@ 60% AMI	0	$0	$0
Studio	@ 80% AMI	208	$1,208	$3,015,168
Studio	@ 100% AMI	0	$0	$0
Studio (Small)	@ Market-Rate	0	$0	$0
Studio (Large)	@ Market-Rate	0	$0	$0
Total/Average		221	$1,181	$3,132,948
Add: Laundry and Vending		$10	/Unit/Month	$26,520
Total Gross Scheduled Income (GSI)				$3,159,468
II. Effective Gross Income (EGI)				
(Less) Vacancy		5.0%	of GSI	($157,973)
Total Effective Gross Income (EGI)				$3,001,495
III. Operating Expenses				
(Less) Operating Expenses		$5,455	/Unit/Year	($1,205,505) (3)
(Less) Property Taxes		$57	/Unit/Year	($12,599) (5)
(Less) Replacement Reserves		$100	/Unit/Year	($22,100) (6)
(Less) Non-Profit Partner Management		$45	/Unit/Year	($10,000)
(Less) SDHC Monitoring Fee		$0	/Unit/Year	$0
Total Expenses		$5,657	/Unit/Year	($1,250,203)
		42%	of EGI	
IV. Net Operating Income				**$1,751,291**
Or Say (Rounded)				**$1,751,000**
Per Unit				**$7,900**

100% Market-Rate

		Units	$/Month	Unit SF	Rent/SF	Total Annual
I. Gross Scheduled Income						
Studio	@ 50% AMI	0	$0	---	---	$0
Studio	@ 60% AMI	0	$0	---	---	$0
Studio	@ 80% AMI	0	$0	---	---	$0
Studio	@ 100% AMI	0	$0	---	---	$0
Studio (Small)	@ Market-Rate	125	$1,350 (2)	250	$5.40	$2,025,000
Studio (Large)	@ Market-Rate	96	$1,480 (2)	325	$4.55	$1,705,000
Total/Average		221	$1,406	283	$4.98	$3,730,000
Add: Laundry and Vending		$15	/Unit/Month			$40,000
Total Gross Scheduled Income (GSI)						$3,770,000
II. Effective Gross Income (EGI)						
(Less) Vacancy		5.0%	of GSI			($189,000)
Total Effective Gross Income (EGI)						$3,581,000
III. Operating Expenses						
(Less) Operating Expenses		$5,455	/Unit/Year			($1,205,505) (3)
(Less) Property Taxes		$558	/Unit/Year			($123,260) (4)
(Less) Replacement Reserves		$100	/Unit/Year			($22,100) (67)
(Less) Non-Profit Partner Management		$0	/Unit/Year			$0
(Less) SDHC Monitoring Fee		$0	/Unit/Year			$0
Total Expenses		$6,113	/Unit/Year			($1,350,865)
		38%	of EGI			
IV. Net Operating Income						**$2,230,135**
Or Say (Rounded)						**$2,230,000**
Per Unit						**$10,100**

(1) Reflects 2018 Maximum Income and Rent Limits for J Street Inn. Source: San Diego Housing Commission.
(2) KMA estimate of market rent.
(3) Source: J Street Inn, LP cash flow statement from January 2018 to December 2018.
(4) Reflects the 1st (April 2018) and 2nd (December 2018) property tax installments. Source: San Diego County Treasurer-Tax Collector.
(5) Reflects fixed charge assessments for Fiscal Year 2018/19. Source: San Diego County Treasurer-Tax Collector.
(6) Source: MDS Realty Advisors, Appraisal Report, dated November 14, 2017.

Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_J Street_v11;10/29/2019;ema

6% @ 50% AMI
94% @ 80% AMI

TABLE 3

CASH FLOW PROJECTION
J STREET INN
SAN DIEGO HOUSING COMMISSION

		-1 2018	0 2019	1 [1] 2020	2 [2] 2021	3 2022	4 2023	5 2024	6 2025	7 2026	8 [3] 2027
I. Gross Scheduled Income (GSI)											
Studio @ 50% AMI		$199,320	$204,303	$209,411	$126,836	$130,007	$133,257	$136,589	$140,003	$143,503	$61,288
Number of Units		22	22	22	13	13	13	13	13	13	13
Monthly Rent	2.5%	$755	$774	$793	$813	$833	$854	$876	$897	$920	$943
Studio @ 60% AMI		$239,184	$245,164	$204,651	-	-	-	-	-	-	-
Number of Units		22	22	15	-	-	-	-	-	-	-
Monthly Rent	2.5%	$906	$929	$952	-	-	-	-	-	-	-
Studio @ 80% AMI		$1,275,648	$1,307,539	$1,606,750	$3,247,006	$3,328,181	$3,411,386	$3,496,670	$3,584,087	$3,673,689	$1,568,972
Number of Units		88	88	118	208	208	208	208	208	208	208
Monthly Rent	2.5%	$1,208	$1,238	$1,269	$1,301	$1,333	$1,367	$1,401	$1,436	$1,472	$1,509
Studio @ 100% AMI		$1,612,680	$1,652,997	$1,438,904	-	-	-	-	-	-	-
Number of Units		89	89	66	-	-	-	-	-	-	-
Monthly Rent	2.5%	$1,510	$1,548	$1,586	-	-	-	-	-	-	-
Studio (Small) @ Market-Rate		-	-	-	-	-	-	-	-	-	-
Number of Units		-	-	-	-	-	-	-	-	-	-
Monthly Rent	0.0%	-	-	-	-	-	-	-	-	-	-
Studio (Large) @ Market-Rate		-	-	-	-	-	-	-	-	-	-
Number of Units		-	-	-	-	-	-	-	-	-	-
Monthly Rent	0.0%	-	-	-	-	-	-	-	-	-	-
Total Residential Income		$3,326,832	$3,410,003	$3,459,717	$3,373,842	$3,458,188	$3,544,643	$3,633,259	$3,724,091	$3,817,193	$1,630,259
Other Income	2.5%	$26,520	$27,183	$27,863	$28,559	$29,273	$30,005	$30,755	$31,524	$32,312	$13,800
Total Gross Scheduled Income		$3,353,352	$3,437,186	$3,487,579	$3,402,401	$3,487,462	$3,574,648	$3,664,014	$3,755,615	$3,849,505	$1,644,059
(Less) Vacancy [4]	5.0%	($167,668)	($171,859)	($223,070)	($204,144)	($174,373)	($178,732)	($183,201)	($187,781)	($192,475)	($82,203)
II. Effective Gross Income (EGI)		**$3,185,684**	**$3,265,327**	**$3,264,509**	**$3,198,257**	**$3,313,088**	**$3,395,916**	**$3,480,814**	**$3,567,834**	**$3,657,030**	**$1,561,856**
(Less) Operating Expenses	3.5%	($1,205,505)	($1,247,697)	($1,291,367)	($1,336,565)	($1,383,344)	($1,431,762)	($1,481,873)	($1,533,739)	($1,587,420)	($684,575)
(Less) Property Taxes [5]	2.0%	($123,260)	($112,874)	($47,491)	($13,370)	($13,637)	($13,910)	($14,188)	($14,472)	($14,761)	($6,274)
(Less) Replacement Reserves	0.0%	$0	$0	($22,100)	($22,100)	($22,100)	($22,100)	($22,100)	($22,100)	($22,100)	($9,208)
(Less) Non-Profit Partner Management Fee	2.5%	$0	$0	($10,000)	($10,250)	($10,506)	($10,769)	($11,038)	($11,314)	($11,597)	($4,953)
(Less) Monitoring Servicing Fee	0.0%	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Operating Expenses		($1,328,765)	($1,360,572)	($1,370,958)	($1,382,284)	($1,429,588)	($1,478,540)	($1,529,199)	($1,581,625)	($1,635,878)	($705,009)
III. Net Operating Income		**$1,856,920**	**$1,904,755**	**$1,893,552**	**$1,815,973**	**$1,883,501**	**$1,917,375**	**$1,951,614**	**$1,986,209**	**$2,021,152**	**$856,847**
IV. (Less) Remodel Costs for Unit Turn-Over		-	-	-	-	-	-	-	-	-	-
Number of Units		-	-	-	-	-	-	-	-	-	-
Capital Cost Per Unit	3.0%	-	-	-	-	-	-	-	-	-	-
V. Adjusted Net Operating Income		$1,856,920	$1,904,755	$1,893,552	$1,815,973	$1,883,501	$1,917,375	$1,951,614	$1,986,209	$2,021,152	$856,847

(1) Affordability covenants expire May 2020; units remain at existing affordability restrictions for 5 months (Jan-May). See Worksheet A for schedule of projected absorption. Units by income level do not total due to mid-year transition.
(2) Stabilized year.
(3) Reflects partial year as affordability covenants expire May 2027; units remain at existing affordability restrictions for 5 months (Jan-May).
(4) Assumes that 7.5% vacancy rate during June-December of Year 1; 6.0% vacancy rate in Year 2; and stabilized 5.0% vacancy rate in Year 3.
(5) Assumes Developer applies and receives property tax exemption for units at 80% AMI or lower in Year 3.

Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_J Street_v11;10/29/2019;ema

TABLE 4

CASH FLOW PROJECTION
J STREET INN
SAN DIEGO HOUSING COMMISSION

		-1 2018	0 2019	1 (1) 2020	2 2021	3 (2) 2022	4 2023	5 2024	6 2025	7 2026	8 (3) 2027
I. Gross Scheduled Income (GSI)											
Studio @ 50% AMI		$199,320	$204,303	$87,254	-	-	-	-	-	-	-
Number of Units		22	22	22	-	-	-	-	-	-	-
Monthly Rent	2.5%	$755	$774	$793	-	-	-	-	-	-	-
Studio @ 60% AMI		$239,184	$245,164	$104,705	-	-	-	-	-	-	-
Number of Units		22	22	22	-	-	-	-	-	-	-
Monthly Rent	2.5%	$906	$929	$952	-	-	-	-	-	-	-
Studio @ 80% AMI		$1,275,648	$1,307,539	$949,328	$343,433	-	-	-	-	-	-
Number of Units		88	88	88	22	-	-	-	-	-	-
Monthly Rent	2.5%	$1,208	$1,238	$1,269	$1,301	-	-	-	-	-	-
Studio @ 100% AMI		$1,612,680	$1,652,997	$1,683,217	$858,583	-	-	-	-	-	-
Number of Units		89	89	89	44	-	-	-	-	-	-
Monthly Rent	2.5%	$1,510	$1,548	$1,586	$1,626	-	-	-	-	-	-
Studio (Small) @ Market-Rate		-	-	$511,301	$1,557,792	$2,279,155	$2,347,530	$2,417,956	$2,490,495	$2,565,209	$1,100,902
Number of Units		-	-	51	88	125	125	125	125	125	125
Monthly Rent	3.0%	$1,350	$1,391	$1,432	$1,475	$1,519	$1,565	$1,612	$1,660	$1,710	$1,761
Studio (Large) @ Market-Rate		-	-	$417,655	$1,300,258	$1,918,948	$1,976,516	$2,035,811	$2,096,886	$2,159,792	$926,911
Number of Units		-	-	38	67	96	96	96	96	96	96
Monthly Rent	3.0%	$1,480	$1,524	$1,570	$1,617	$1,666	$1,716	$1,767	$1,820	$1,875	$1,931
Total Residential Income		$3,326,832	$3,410,003	$3,753,460	$4,060,066	$4,198,103	$4,324,046	$4,453,767	$4,587,380	$4,725,002	$2,027,813
Other Income	2.5%	$40,000	$41,000	$42,025	$43,076	$44,153	$45,256	$46,388	$47,547	$48,736	$20,814
Total Gross Scheduled Income		$3,366,832	$3,451,003	$3,795,485	$4,103,142	$4,242,255	$4,369,302	$4,500,155	$4,634,928	$4,773,738	$2,048,628
(Less) Vacancy (4)	5.0%	($168,342)	($172,550)	($209,633)	($307,736)	($212,113)	($218,465)	($225,008)	($231,746)	($238,687)	($102,431)
II. Effective Gross Income (EGI)		**$3,198,490**	**$3,278,453**	**$3,585,853**	**$3,795,406**	**$4,030,143**	**$4,150,837**	**$4,275,147**	**$4,403,181**	**$4,535,051**	**$1,946,196**
(Less) Operating Expenses	3.5%	($1,205,505)	($1,247,697)	($1,291,367)	($1,336,565)	($1,383,344)	($1,431,762)	($1,481,873)	($1,533,739)	($1,587,420)	($684,575)
(Less) Property Taxes	2.0%	($123,260)	($125,725)	($128,239)	($130,804)	($133,420)	($136,089)	($138,810)	($141,587)	($144,418)	($61,378)
(Less) Replacement Reserves	0.0%	$0	$0	($22,100)	($22,100)	($22,100)	($22,100)	($22,100)	($22,100)	($22,100)	($9,208)
(Less) Non-Profit Partner Management Fee	0.0%	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Less) Monitoring Servicing Fee	0.0%	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Operating Expenses		($1,328,765)	($1,373,422)	($1,441,706)	($1,489,469)	($1,538,865)	($1,589,950)	($1,642,784)	($1,697,425)	($1,753,938)	($755,161)
III. Net Operating Income		**$1,869,726**	**$1,905,030**	**$2,144,146**	**$2,305,937**	**$2,491,278**	**$2,560,887**	**$2,632,364**	**$2,705,756**	**$2,781,113**	**$1,191,035**
IV. (Less) Remodel Costs for Unit Turn-Over (5)		-	-	($172,396)	($133,859)	($133,936)	-	-	-	-	-
Number of Units		-	-	35	35	34	-	-	-	-	-
Capital Cost Per Unit	3.0%	$3,500	$3,605	$3,713	$3,825	$3,939	-	-	-	-	-
V. Adjusted Net Operating Income		$1,869,726	$1,905,030	$1,971,750	$2,172,078	$2,357,342	$2,560,887	$2,632,364	$2,705,756	$2,781,113	$1,191,035

(1) Affordability covenants expire May 2020; units to remain at existing affordability restrictions for 5 months (Jan-May). See Worksheet A for schedule of projected absorption. Units by income level do not total due to
(2) Stabilized year.
(3) Reflects partial year through May 2027.
(4) Assumes that 10.0% vacancy rate during June-December of Year 1; 7.5% vacancy rate in Year 2; and stabilized 5.0% vacancy rate in Year 3.
(5) Includes kitchen remodel ($42,436) in 2020.

Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_J Street_v11;10/29/2019;ema

TABLE 5

NET PRESENT VALUE OF DIFFERENCE BETWEEN AFFORDABLE AND MARKET-RATE
J STREET INN
SAN DIEGO HOUSING COMMISSION

	1 2020	2 2021	3 2022	4 2023	5 2024	6 2025	7 2026	8 (1) 2027
I. Difference in NOI - Affordable vs. Market-Rate								
A. Net Operating Income - 100% @ Market-Rate	$1,972,000	$2,172,000	$2,357,000	$2,561,000	$2,632,000	$2,706,000	$2,781,000	$1,191,000
B. Net Operating Income - 6% @ 50% AMI / 94% @ 80% AMI	$1,894,000	$1,816,000	$1,884,000	$1,917,000	$1,952,000	$1,986,000	$2,021,000	$857,000
C. Difference (B minus A)	($78,000)	($356,000)	($473,000)	($644,000)	($680,000)	($720,000)	($760,000)	($334,000)

II. 7-Year Net Present Value

Year 1 - Discount Rate @	6.0%	($3,028,000)
Per Unit		($13,700)

REVISED

(1) Reflects partial year as affordability covenants expire in May of the respective year.

Prepared by: Keyser Marston Associates, Inc.
Filename: SDHC_J Street_v11\10/29/2019; ema

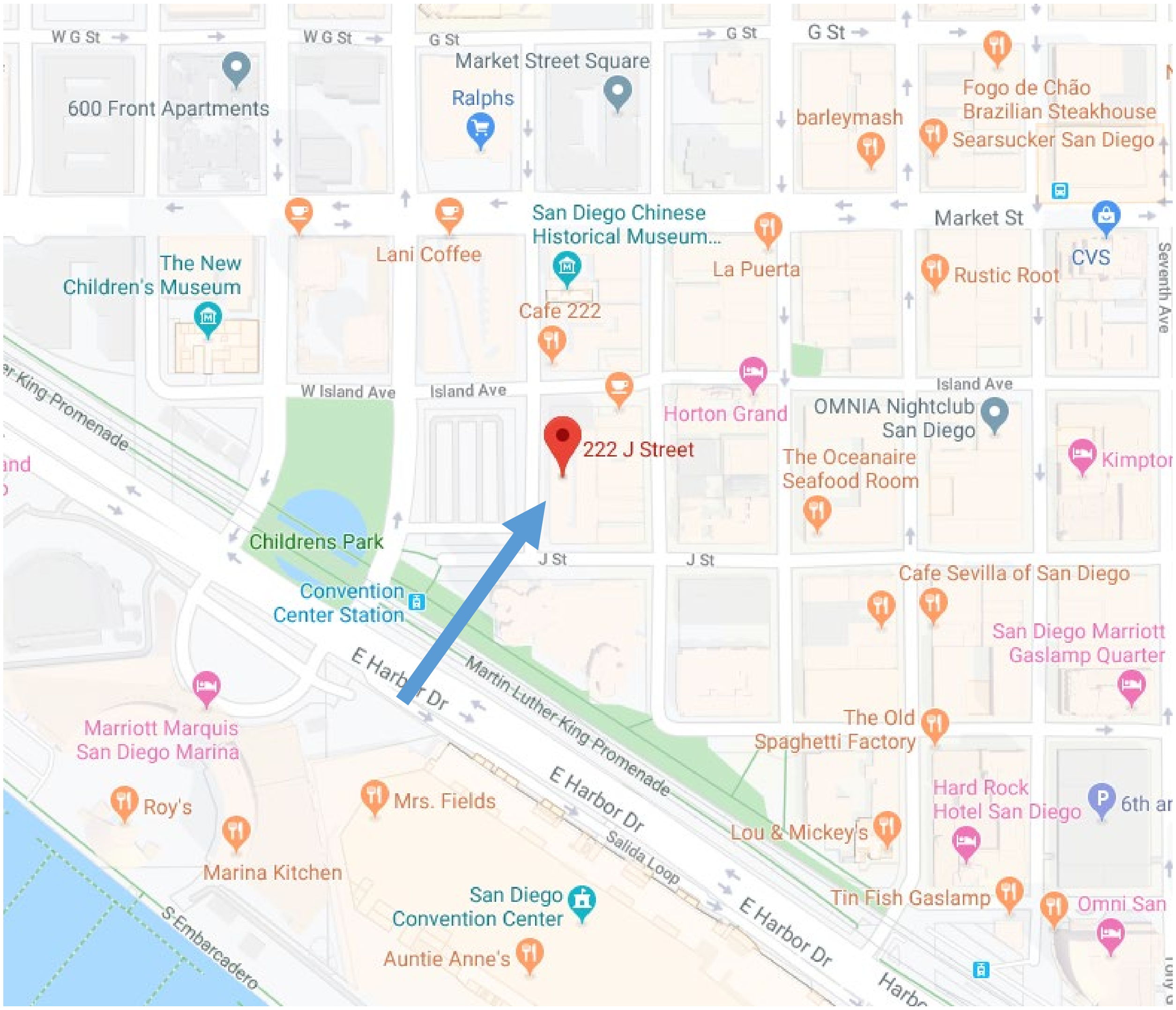
WORKSHEET A

RESIDENTIAL UNIT ABSORPTION
J STREET INN
SAN DIEGO HOUSING COMMISSION

	KMA					
Year:	2018	2019	2020 (1)		2021	2022
			Jan - May	June - Dec		
I. Transition to 6% @ 50% AMI / 94% @ 80% AMI						
50% AMI	22	22	22	22	13	13
60% AMI	22	22	22	15	-	-
80% AMI	88	88	88	118	208	208
100% AMI	89	89	89	66	-	-
Market-Rate - Small Unit	-	-	-	-	-	-
Market-Rate - Large Unit	-	-	-	-	-	-
Total	221	221	221	221	221	221
II. Transition to Market-Rate						
50% AMI	22	22	22	-	-	-
60% AMI	22	22	22	-	-	-
80% AMI	88	88	88	44	22	-
100% AMI	89	89	89	88	44	-
Market-Rate - Small Unit	-	-	-	51	88	125
Market-Rate - Large Unit	-	-	-	38	67	96
Total	221	221	221	221	221	221
III. Remodel of Market-Rate Units						
Recently Remodeled Units (2)						
Market-Rate - Small Unit	27	32	-	-	-	-
Market-Rate - Large Unit	27	31	-	-	-	-
Total Remodeled Units	54	63	-	-	-	-
Remaining Units to be Remodeled						
Market-Rate - Small Unit	-	-	11	11	22	22
Market-Rate - Large Unit	-	-	6	7	13	12
Market-Rate Units to be Remodeled	-	-	17	18	35	34

(1) Affordability covenants expire May 2020. Units will remain at existing affordability restrictions for 5 months (Jan-May).
(2) Per Trilogy Real Estate Management email dated June 6, 2019, to-date 59 small units and 58 large units have been remodeled.

Attachment 1



HOUSING AUTHORITY OF

THE CITY OF SAN DIEGO

RESOLUTION NUMBER HA-________________

DATE OF FINAL PASSAGE ________________

A RESOLUTION OF THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO APPROVING A FORGIVABLE LOAN TO EXTEND THE AFFORDABILITY RESTRICTIONS FOR A 221-UNIT PROJECT KNOWN AS J STREET INN.

WHEREAS, J Street Inn is an existing 221-unit rental project located at 222 J Street in the Marina District of the City of San Diego; and

WHEREAS, the former Redevelopment Agency (Former RDA) negotiated land-use covenants in June 1990 in exchange for a $900,000 forgivable loan; and

WHEREAS, the Former RDA land use covenants for J Street Inn required 40 units to be affordable to residents with income up to 50 percent of San Diego 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; and

WHEREAS, the Former RDA land use covenants for J Street Inn expire in June 2020 and the owner, J Street Inn, L.P. (Owner), has provided tenants the required one-year notice for terminating the affordability restrictions; and

WHEREAS, at the end of the one-year period, the deed of trust securing the note will be fully reconveyed to the Former RDA and the affordability restrictions will be terminated; and

WHEREAS, the San Diego Housing Commission (Housing Commission) desires, at the end of the one-year period, to pay the Owner an amount of $3,023,631 in consideration for extending the affordability restrictions at J Street Inn through December 31, 2027, requiring 13 units to be affordable to residents with income at or below 50 percent of AMI and the remaining 208 units to be affordable at or below 80 percent of AMI; NOW, THEREFORE,

BE IT RESOLVED, by the Housing Authority of the City of San Diego, as follows:

1. A forgivable loan in the amount of $3,023,631 to J Street Inn, L.P. to extend affordability restrictions on J Street Inn through December 31, 2027 is approved.

2. The President and Chief Executive Officer of the Housing Commission (President & CEO), or designee, is authorized to substitute approved funding sources with any other available funds as deemed appropriate, without further action by the Housing Authority or the Board of Commissioners of the Housing Commission Board (Housing Commission Board), but only if and to the extent funds are determined to be available for such purposes and provided that the amount of the forgivable loan does not increase beyond that approved in these actions.

3. The President & CEO, or designee, is authorized to execute any documents and instruments that are necessary and appropriate to implement this Resolution, in a form approved by Housing Commission General Counsel and to take such actions necessary and appropriate to implement these approvals without further action of the Housing Commission Board or the Housing Authority.

4. The President & CEO, or designee, is authorized to increase the Fiscal Year 2020 Housing Commission Budget to include the loan allocation by an amount not to exceed $3,023,631.

5. The President & CEO, or designee, is authorized to allocate an amount not to exceed $3,023,631 as a forgivable loan.

APPROVED: MARA W. ELLIOTT, General Counsel

By ______________________________
Katherine Anne Malcolm
Deputy City Attorney

KAM:soc:als
12/13/2019
Or.Dept: Housing Authority
Doc. No. 2264910