



INFORMATIONAL REPORT

DATE ISSUED: June 10, 2020

REPORT NO: HCR20-062

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of June 12, 2020

SUBJECT: Motel/Hotel Acquisition Program

NO ACTION IS REQUIRED ON THE PART OF THE HOUSING COMMISSION

SUMMARY

This report summarizes the scope of the hotel/motel acquisition program to date, with findings concerning parameters for acquisition going forward.

BACKGROUND

In March 2020, San Diego Mayor Kevin L. Faulconer requested that the San Diego Housing Commission (Housing Commission) assist the City of San Diego in acquiring and/or leasing motels and/or hotels that could be used in the short term to provide housing for San Diegans currently residing at the San Diego Convention Center shelter for individuals experiencing homelessness and in the long term as permanent supportive housing for San Diegans experiencing homelessness.

The office of the Mayor impressed upon the Housing Commission the urgency to properly acquire the appropriate hotels and motels, while exercising due diligence.

Under the Housing Commission's acquisition policy, approved by the Housing Authority of the City of San Diego (Housing Authority), the Housing Commission is allowed to retain real estate brokers to seek real estate opportunities when advisable.

In this case, the Housing Commission is working with brokers to obtain referrals for Housing Commission consideration. Initially, approximately 20 separate motels and hotels were referred to the Housing Commission for consideration, out of several hundred motels and hotels the brokers reviewed.

Each of the 20 hotels/ motels was considered separately, and a short list of 10 properties was developed. The Housing Commission Board of Commissioners (Board) met in closed session on April 17, 2020, to confirm staff's recommendation on potential price and terms of payment for the 10 properties, as permitted by the Brown Act. Based upon direction from the Board, the Housing Commission began the due diligence process.

The Housing Commission proceeded to review property-related materials, if and when provided, and inspected the properties, some in more detail than others depending upon findings during the due diligence process.

Thorough due diligence is essential because of the Housing Commission's fiduciary duty to make reasoned decisions and recommendations concerning acquisition of real estate to prevent future property-related challenges for the Housing Commission. To fulfill its fiduciary duty, the Housing Commission retained the following categories of experts, who provided input on the potential acquisition of hotels/motels:

- Architects
- Zoning consultants
- Disability Improvement Analysts
- Appraisers
- Mold testing experts
- Lead-based paint testing experts
- Asbestos testing experts
- Contractors to work with the consultants to estimate the cost of need repairs to the units
- A title company to produce preliminary title reports to allow for analysis of title
- Commercial Real Estate Brokers
- California Environmental Quality Act (CEQA)/National Environmental Policy Act (NEPA) Clearances prepared and processed for all 10 properties
- Pest control experts
- Physical Needs Assistance consultants
- Relocation consultants, including the office of General Counsel
- Fire improvement experts
- Others

The scope of work performed by the experts included, but was not limited to, the following:

- Appraised the Fair Market Value (FMV) rental price and option price on many of the properties that were considered seriously for participation in the program.
- Participated in conference calls with the State of California regarding acquisition of hotels and motels on a full-service basis to determine potential FMV parameters.
- Negotiated Letters of Intent (LOIs) for selected properties.
- Reviewed title reports on 10 properties.
- Analyzed zoning issue with zoning experts.
- Reviewed architectural firm scope of work for repairs to be accomplished on chosen sites to comply with Federal 504 handicap requirements and California Building Code (CBC) requirements, as necessary.
- Reviewed Physical Needs Assessments prepared by architectural firm with input from contractor.
- Reviewed scopes of work to accomplish the 504/CBC improvements.
- Engaged a general contractor to:
 - Walk the site.
 - Prepare cost estimates for the work to be performed.
 - Prepare timeline for the completion of the work.

- Review and update the costs generated by architect.
- Engage hazardous materials experts to photo document conditions within units.
- Perform mold testing, if indicated.
- Perform lead-based paint testing, if indicated.
- Perform asbestos testing, if indicated.
- Arranged for access to the properties, which was restricted because of occupancy and because of the COVID-19 pandemic.
- Prepared a preliminary zoning review request to determine if occupancy of the buildings as permanent supportive housing for San Diegans experiencing homelessness instead of transient occupancy constituted a change in use, and if so, the ramifications of the same.
- Analyzed potential relocation issues for the occupied properties, including costs of the same and determination of which law applies.
 - Determined that the federal relocation act applies because of the use of federal funds, including potentially Moving to Work funds
 - Obtained rent rolls to determine the length of occupancy of the units by tenants, to determine which tenants, if any, would be eligible for up to 42 months of relocations assistance. Hotels that had tenants only on transient basis would serve to mitigate relocation costs.
 - Based upon analysis, eliminated properties from the list.
- Retained Fire Hazard consultants to analyze upgrades needed to systems.
- Obtained proposal for ongoing operation of the sites.
- Drafted and published a Request for Proposals for Property Management and Service Providers.
- Retained pest control consultant to inspect the properties and to provide scope of work to eradicate pests, including bedbugs.
- Drafted LOI forms and Lease forms to be utilized to acquire leases and purchase options
- Analyzed the results of tests and costs.

Based upon the aforementioned analyses, reviews and activities performed by experts, Housing Commission staff:

- Determined that some of the properties had mold, asbestos, path-of-travel, and disability access requirements (to the extent feasible) pursuant to Section 504 of the federal Rehabilitation Act that required remediation, at substantial cost.
- Determined the effect of the age of the buildings and change of use considerations implicated by acquisition of leases and options to purchase and change of use.
- Determined that six of the final 10 properties had some form of C Zone, which potentially creates change-in-use issues and attempted to mitigate them by intervention with the City of San Diego using the Shelter Crisis law. Determined that a form of RM zoning would be preferable.
- Determined that one of candidates for acquisition, a 157-unit property on University Street, without kitchens, would implicate payment of large amounts of relocation costs because a majority of the units were occupied for more than transient use, which triggers the relocation laws. Estimates of the cost of relocations were in the millions.

The Housing Commission Board met in closed session on May 15, 2020, and voted 7-0 to direct the Housing Commission's real estate negotiators to negotiate no further on the 10 properties.

As a result of the aforementioned determinations, the Housing Commission Board decided that none of the original candidates met the requirements that were developed in the process of evaluation. In response to the review of the first 10 properties, a checklist of preferred characteristics for a project was developed:

- Focus on acquisition of the fee title because of substantial costs to repair properties that are only leased.
- Because a large number of permanent supportive housing units are needed, kitchens must be included in any property acquired, or it must have the ability to add the kitchens quickly and economically.
- Age of the properties is important; prefer units that have not been built before 1999.
- RM zoning is preferable.
- Determine the date of last renovation of project, if any, and scope of the same.
- Only consider projects where the number of tenants to be relocated is minimal or non-existent, and preferably, with tenants living in property less than 30 days.
- No reported mold.
- No reported lead-based paint.
- No reported asbestos.
- Extent of any recent remodeling and effect of applicable CBC.
- Determine that the property is compliant with applicable fire codes.
- No reported bedbugs.
- Accessible to individuals with disabilities.
- Parking spaces for individuals with disabilities.
- Transit-oriented.
- Located in the City of San Diego (or with the approval of adjoining jurisdiction, within five miles of the boundary of City of San Diego). Note, in the unincorporated area of the County, the Board of Supervisors can give approval to obtain hotels and motels within unincorporated county areas, within five miles of the City of San Diego's boundaries, but approval is required by the County, and it may require Board of Supervisor approval, which would delay the process.
- Federal 504 accessibility feasible at a reasonable cost.
- Order Preliminary Title report immediately after initial site inspection for promising projects.
- Contact appraiser to obtain appraisal of the property for the purposes of acquisition of the Housing Commission's acquisition policy.

The Housing Commission continues to search for properties that are within the parameters set forth above, except in unusual circumstances, where the issue concerned can be economically mitigated. The Housing Commission welcomes any member of the public that owns motels or hotels that meet all or most of the stated requirements to contact Housing Commission Senior Vice President of Development

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Respectfully submitted,

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Docket materials are available in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org