



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: July 10, 2020

HCR20-064

SUBJECT: Hillcrest Inn – Property Acquisition

COUNCIL DISTRICT(S): 3

ORIGINATING DEPARTMENT: Real Estate Development

CONTACT/PHONE NUMBER: Pari Zaker/ (619) 578-7547

REQUESTED ACTION:

Approve the San Diego Housing Commission's acquisition of Hillcrest Inn, located at 3754 Fifth Avenue, San Diego, CA 92103, on terms and conditions described in this report.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The property was built in 1988 and is currently used for short-term and long-term rentals. The building is contained within one three-story structure that consists of 47 original units with private baths, ranging from 185 to 240 square feet, and a common laundry room.
- The property will be acquired and undergo upgrades to fire and life safety systems, accessibility and path of travel, and remediated for hazardous materials. No changes are planned to building and unit footprints or property use. There will be no new construction. A comprehensive renovation effort is not contemplated for this action.
- Hillcrest Inn will provide 36 units affordable for low-income households with income at or below 80 percent of the San Diego Area Median Income (AMI); four units affordable for moderate-income households with income at or below 120 percent of AMI; and five units affordable for middle-income households with income at or below 150 percent of AMI.
- AB 1637 allows the Housing Commission to implement a pilot program to develop and finance a middle-income housing project. AB1637 and Health & Safety Code Section 34340(a)(3) and (4) require the Housing Commission Board of Commissioners and the Housing Authority of the City of San Diego to hold public hearings and adopt resolutions making findings, as referenced within the cited code sections, respectively.
- The Housing Commission's acquisition of Hillcrest Inn would preserve the SRO units at Hillcrest Inn. This SRO property is not subject to deed restrictions requiring affordability at any specific income level. The Housing Commission's proposed acquisition would ensure the SRO units remain for at least 65 years, and deed restrictions would require the units to be affordable for individuals with income ranging from 80 percent or less of AMI to 150 percent of AMI.
- The Housing Commission executed a Purchase and Sale Agreement (PSA) with the Seller to allow staff to investigate the property during the due diligence period, which started on February 21, 2020, and is scheduled to expire on August 19, 2020.
- The proposed purchase price is \$8,000,000.



REPORT

DATE ISSUED: July 1, 2020

REPORT NO: HCR20-064

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of July 10, 2020

SUBJECT: Hillcrest Inn – Property Acquisition

COUNCIL DISTRICT: 3

REQUESTED ACTION:

Approve the San Diego Housing Commission’s acquisition of Hillcrest Inn, located at 3754 Fifth Avenue, San Diego, CA 92103, on terms and conditions described in this report.

STAFF RECOMMENDATION

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

Housing Commission

- 1) Hold a hearing as required by the provisions of Assembly Bill (AB) 1637-Health & Safety Code Section 34340(a)(3); and
- 2) Adopt a Resolution making the findings required by AB 1637-Health & Safety Code Section 34340(a)(4) to allow gap funding for middle-income households at rents affordable to such households.

Housing Authority

- 3) Authorize the Housing Commission’s President & CEO, and, if and as necessary, the Executive Director of the Housing Authority, or designee, and/or the Executive Vice President and Chief of Staff, or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form approved by General Counsel, and to take such actions as are necessary and/or appropriate to implement these approvals upon the advice of General Counsel, to allow the Housing Commission to acquire Hillcrest Inn, the property located at 3754 Fifth Avenue, San Diego, CA 92103 (Property), on terms and conditions described in this report, as approved by General Counsel of the Housing Commission;
- 4) Ratify the execution of a Purchase and Sale Agreement (PSA) dated February 21, 2020, with the seller S Wilson Uptown, Inc. a California Seller (“Seller”);
- 5) Authorize the Housing Commission’s President & CEO, or designee, upon satisfactory completion and evaluation of the Property during the due diligence period, to take such actions and perform such acts as are necessary to acquire the 0.16 acre Property with improvements for

the price of \$8,000,000. The Seller shall provide clear fee simple title upon acquisition of the Property;

- 6) Ratify the funding of the refundable escrow deposit of \$100,000 in accordance with the terms outlined in the PSA, which will be applicable to the purchase price and which deposit will become non-refundable upon the expiration of the due diligence period on August 19, 2020;
- 7) Authorize the Housing Commission's President & CEO, or designee, to execute and record an affordability covenant against the Property for 65 years, with 36 of the units remaining affordable at or below 80 percent of the San Diego Area Median Income (AMI), four units affordable at or below 120 percent of AMI, and five units affordable at or below 150 percent of AMI;
- 8) Authorize the Housing Commission to provide property management services and hire additional staff, if needed, or procure a new property management company through a competitive Request for Proposal process;
- 9) Authorize the Housing Commission's purchase of the Property, associated closing costs, and remediation and upgrades to the Property utilizing \$4,800,000.00 of U.S. Department of Housing and Urban Development (HUD) Moving to Work (MTW) Funds; up to \$1,008,460 of local funds from the proceeds of the Housing Commission's sale of the Mariner's Village property to Housing Development Partners (HDP), the Housing Commission's nonprofit affiliate; and up to \$4,100,000 of local redevelopment funds;
- 10) Authorize the Housing Commission's President & CEO, or designee, to substitute approved funding sources for the Property with any other available funds as deemed appropriate, contingent upon budget availability, and further authorize the President & CEO, or designee, to take such actions as are necessary, convenient and/or appropriate to implement these approvals, upon the advice of General Counsel;
- 11) Approve all budgets associated with this potential acquisition. This includes the transfer and/or reallocation of funds between any and all funding use line items within the total approved development/project budget provided the total project/development budget amount after any and all transfers/reallocations does not exceed the previously approved budget total, in any instances when the operational need(s) arise and/or when such actions are to the benefit of the Housing Commission and its mission;
- 12) Hold a hearing as required by the provisions of AB 1637-Health & Safety Code Section 34340(a)(3); and
- 13) Adopt a Resolution making the findings required by AB 1637-Health & Safety Code Section 34340(a)(4) to allow gap funding for middle income households at rents affordable to such households.

SUMMARY

Hillcrest Inn is a 47-unit Single-Room Occupancy (SRO) building located on a 0.16-acre site at 3754 Fifth Avenue in the Hillcrest Neighborhood of Central San Diego (Attachment 1 – Location Maps).

The property was built in 1988 and is currently used for short-term and long-term rentals. The building is contained within one three-story structure that consists of 47 original units with private baths, ranging from 185 to 240 square feet, and a common laundry room. Of the 47 units, one unit is designated as the manager’s unit. In addition, one unit was split to provide space for a leasing office, with a portion of the split unit added to the adjacent manager’s unit.

Rehabilitation Plan

The property will be acquired and undergo upgrades to fire and life safety systems, accessibility and path of travel, and remediated for hazardous materials. No changes are planned to building and unit footprints or property use. There will be no new construction. A comprehensive renovation effort is not contemplated for this action.

Housing Affordability

Hillcrest Inn will provide 36 units affordable for low-income households with income at or below 80 percent of the San Diego Area Median Income (AMI), currently \$64,700 a year for a one-person household; four units affordable for moderate-income households with income at or below 120 percent of AMI, currently \$77,900 for a one-person household; and five units affordable for middle-income households with income at or below 150 percent of AMI, as referenced below.

Middle Income Project

In accordance with AB 1637, which allows the Housing Commission to implement a pilot program to develop and finance a middle-income housing project, the remaining five units will be designated to San Diego residents earning at or below 150 percent of AMI, currently \$97,350 for a one-person household. As required by the provisions of Health & Safety Code Section 34340(a)(3) and (4), the Housing Commission Board of Commissioners and the Housing Authority shall have public hearings and adopt resolutions making findings, as referenced within the cited code sections, respectively.

SRO Long-Term Affordability

The Housing Commission’s acquisition of Hillcrest Inn would preserve the SRO units at Hillcrest Inn. This SRO property is not subject to deed restrictions requiring affordability at any specific income level. The owner has the option to sell or convert the property to a different use, subject to the replacement requirements in the City of San Diego’s SRO Hotel Regulations, which would require replacement units to operate as SRO units for 30 years. The Housing Commission’s proposed acquisition would ensure the SRO units remain for at least 65 years, and deed restrictions would require the units to be affordable for individuals with income ranging from 80 percent or less of AMI to 150 percent of AMI.

Deal Terms

The Housing Commission executed a Purchase and Sale Agreement (PSA) with the Seller to allow staff to investigate the property during the due diligence period, which started on February 21, 2020, and is scheduled to expire on August 19, 2020. The purchase of the property is explicitly contingent upon the approval of the Housing Commission Board of Commissioners and the Housing Authority of the City of San Diego. The key PSA terms are:

- Purchase Price:** The purchase price for Hillcrest Inn is \$8,000,000.
- Due Diligence Period:** The due diligence period begins with the effective date of the PSA (February 21, 2020) and ends on August 19, 2020.
- Broker’s Commission:** The Broker’s commission will be paid by the Seller via a separate agreement in the amount of \$200,000 (2.5 percent).
- Earnest Money Deposit:** The Housing Commission has placed a refundable deposit of \$100,000 into escrow with Chicago Title Company. The deposit will become non-refundable upon expiration of the due diligence period and will be credited against the purchase price.
- Close of Escrow:** The PSA provides for the Close of Escrow occurring on or before October 15, 2020.

Proposed Schedule of Performance

The following are key project milestones:

Action	Anticipated Completion
Purchase and Sale Agreement Effective Date	February 21, 2020
Housing Commission Board Meeting	July 10, 2020
Housing Authority / City Council Meeting	July 28, 2020
Due Diligence Period Ends	August 19, 2020
Anticipated Closing Date	October 15, 2020

Due Diligence

Housing Commission staff has engaged consultants to prepare the following due diligence reports:

Appraisal – CBRE (appraiser) has been commissioned to perform an “as proposed” appraisal of value of the property’s fee simple interest. The value of the property was determined to be \$8,010,000 (\$170,426 per unit). This value is slightly higher than the asking purchase price of \$8,000,000 (\$170,213 per unit). An updated appraisal was requested to determine any changes as a result of the COVID-19 pandemic. After review of updated financials and rental records, CBRE determined no change to the previous valuation.

Capital Needs Assessment Report – CNA Specialists (Paul Youngborg, AIA RAS) has conducted an assessment of the current physical condition of the property and improvements. Specifically, the team inspected the site, structural, mechanical, building envelope, electrical, plumbing, interiors, landscaping, roof systems, accessibility and life safety. Areas of inspection included unit interiors, exterior stairways, management office, electrical and mechanical rooms, the building exterior and site improvements. Life safety, code violations, and accessibility compliance issues were also reviewed. A report has been prepared by CNA Specialists that summarizes the existing conditions of the property, determines the remaining useful life of the building’s components, identifies immediate (Priority 1) and future repairs, and provides estimates for the costs of upgrades.

CEQA & NEPA – Environmental reviews were conducted for this Property, and it was determined that the acquisition would not have the potential for causing a significant effect on the environment pursuant to the applicable State California Environmental Quality Act (CEQA) Guidelines. Furthermore, in compliance with the requirements under the National Environmental Policy Act (NEPA), the City of San Diego made the determination that this action is categorically excluded, and converts to exempt.

Hazardous Materials – VM3 Environmental inspected all units and common areas for microbial growth, and asbestos. Elevated air samples were detected in seven units. The Housing Commission will undertake remediation efforts prior to habitation of the units. A post-remediation clearance inspection will be obtained once remediation is completed.

Asbestos was found in the penetration mastic on the exterior roof at the HVAC vent stacks, which the lab results found to be “good/friable.” The immediate needs and remediation work does not currently anticipate disturbance of these materials; however, should unforeseen circumstances arise, all work will be performed by licensed contractors experienced in working with, and properly disposing of, asbestos-containing materials. Clearance testing will also be performed, as needed.

Hillcrest Inn’s build date is after January 1, 1978, and is, therefore, not considered “Target Housing” by the Environmental Protection Agency. For this reason, a lead-paint inspection was not performed.

Phase I Environmental Site Assessment – SCS Engineers has conducted a Phase I Environmental Site Assessment of the Property to determine if any recognized environmental conditions (REC) are present as a result of the current or historical land uses. Findings indicate no evidence of a recognized environmental condition in connection with the Site.

Termite Inspections – Thrasher Termite and Pest Control completed a drywood termite inspection of every unit and common areas. Some common exterior areas were found to have evidence of drywood termites, as well as the interior of six units. The Housing Commission will use local spot treatment to the areas that had evidence of drywood termites.

Zoning Conformance – The property, a Single-Room Occupancy (SRO) Hotel, is located in the City of San Diego’s CC-3-9 Commercial Community zoning district and is developed with a 47-unit rental complex. It is the opinion of Zoning Research Group that the site is in compliance with the City’s zoning regulations pertaining to allowed uses, while being “legal non-conforming” to development and parking regulations.

COMPLIANCE WITH APPLICABLE PROVISIONS OF HOUSING COMMISSION POLICY NO. RED-374.02.

1. Section 3.3(a)(1). The provisions of Section 4.1.8 of the Acquisition Policy has been complied with by SDHC Board making an advisory recommendation to the Housing Authority of the City of San Diego and by forwarding that recommendation to the full Housing Authority Board for final action. Section 4.1.11 The property shall be utilized by the Housing Commission as rental properties for low- or moderate-income housing or middle income housing
2. Section 4.1.12 A certified appraisal has been obtained and has determined that the acquisition price is at or below the appraised value.

3. All other requirements of the Acquisition Policy have been met, as referenced above in the due diligence portion of this report.
4. The gap funding for at least 10% of the units within the project complies with the provisions of AB 1637, as referenced within the fiscal considerations portion of this report, as set forth below.

AFFORDABLE HOUSING IMPACT

Acquisition of the property will ultimately result in the addition of 36 units of housing affordable to individuals with income at or below 80 percent of AMI, four units affordable to individuals with income at or below 120 percent of AMI; and five units affordable to individuals with income at or below 150 percent of AMI.

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action were included in the Housing Authority-approved Fiscal Year 2021 Housing Commission budget. Approving this action will result in the acquisition of a 47-unit property. Funding sources and uses will be as follows:

Fiscal year 2021 funding sources:

Local Funds	\$	4,908,460
Federal MTW Funds	\$	5,000,000
Total	\$	9,908,460

Fiscal year 2021 funding uses:

Acquisition	\$	8,000,000
Rehabilitation	\$	1,908,460
Total	\$	9,908,460

PREVIOUS COUNCIL and/or COMMITTEE ACTION

The Housing Commission's Policy for Acquisition and/or Purchase of Real Estate was unanimously approved by the Housing Authority on November 15, 2016 (Housing Authority Resolution HA-1705).

KEY STAKEHOLDERS and PROJECTED IMPACTS

Key stakeholders for this potential acquisition include the Seller, the Housing Commission, the Hillcrest Community, the City of San Diego, and residents of Hillcrest Inn.

ENVIRONMENTAL REVIEW

This proposed acquisition and rehabilitation is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 (Existing Facilities), which allows the operation, repair, maintenance permitting, leasing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of existing or former use.

Hillcrest Inn is an existing facility and the proposed actions do not involve expansion of the existing use(s).

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)(5) of Title 24 of the Code of Federal Regulations. The City of San Diego, as responsible entity, has conducted a limited Environmental

Review of this project as required under Section 58.35(a), and has 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.

Respectfully submitted,

Pari Zaker
Pari Zaker
Vice President of Real Estate Development
Real Estate Division

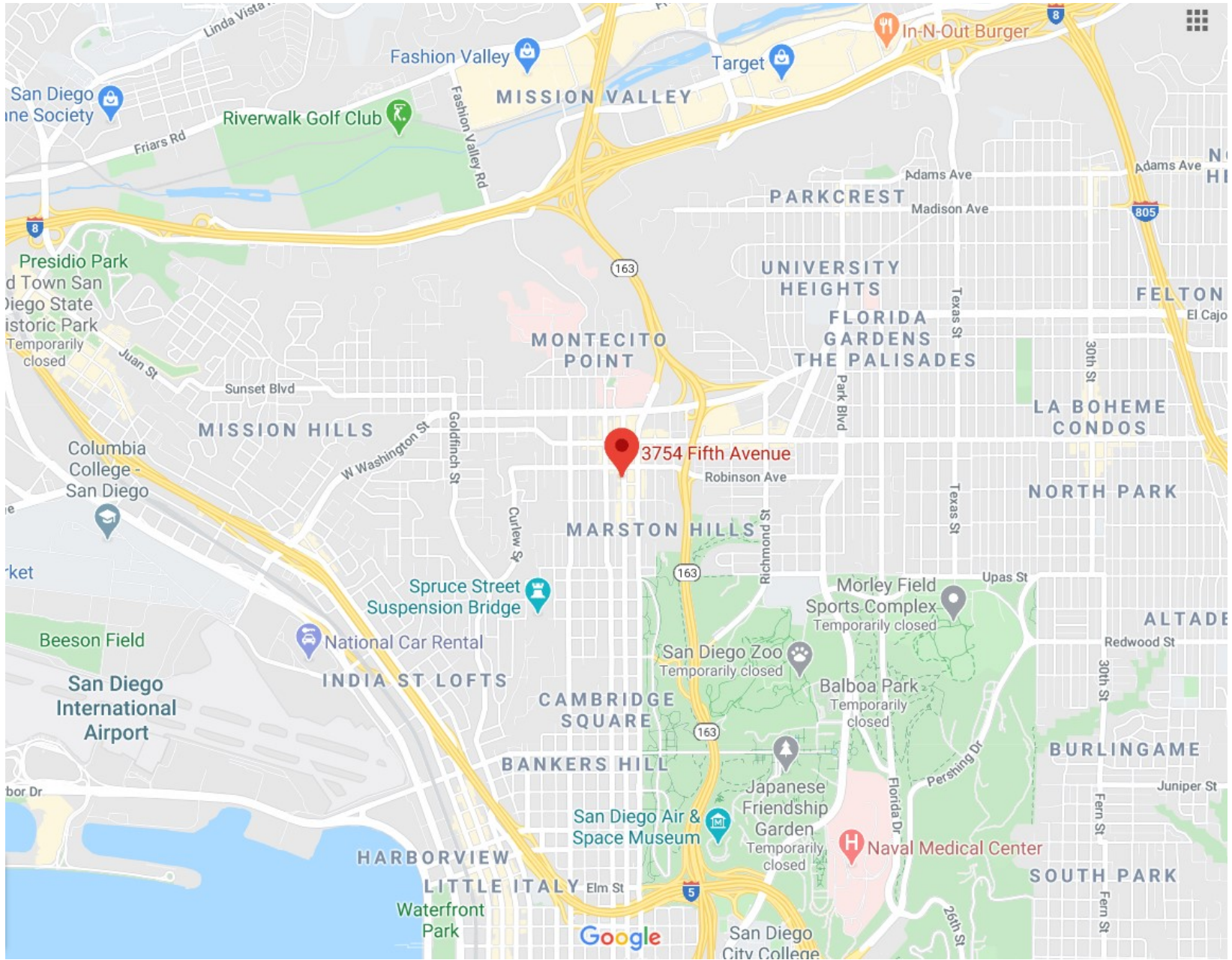
Approved by,

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

Attachments: 1) Location Maps
2) Pro forma

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

Attachment 1



Attachment 2

Hillcrest Inn

PSH, 80% & Middle Income (AB1637)

Draft Date: 06/30/2020 - 1:18 PM

SECTION 1: PROJECT INFORMATION AND ACQUISITION ASSUMPTIONS	
GENERAL PROJECT INFORMATION	
Project Name	Hillcrest Inn
Purchase Price	\$8,000,000
Project Address	3754 Fifth Ave
Year Built	1986
Site Acreage	0.16
Total Units	45 plus 1 Manager's Unit and 1 Leasing Office
MSA	San Diego County
Area Media Income	\$86,300
Project Type	
Prospected Owner Entity	Hillcrest Inn
BUILDING AREA	
Residential Rentable SF	9,300 sf
Common Areas	25% of Res sf 3,148 sf
Subtotal Residential SF	12,448 sf
Commercial / Retail / Office Rentable SF	sf
Common Areas	sf
Subtotal Commercial SF	- sf
Parking Structure	0 Spaces @ 390 sf per space - sf
On Grade Parking	0 Spaces @ 300 sf per space - sf
Subtotal Parking SF	- sf
Approximate Gross Building Area	12,448 sf

SECTION 2: UNIT MIX & PROJECT INCOME											
RESIDENTIAL INCOME											
Bedroom Type	Number of Units	% of Total	Net Area (SF)	Gross Square Feet	Current (Market) Rents	Utility Allowance	Max Rent (Per AMI Restriction)	Achievable Rent	Spread to Market	Monthly Income	Annual Income
PSH	Studio	12	25.5%	202	2,424	\$1,150	\$0	\$1,499	0%	\$3,600	\$43,200
80% AMI	Studio	24	51.1%	202	4,848	\$1,150	\$0	\$1,499	0%	\$27,600	\$331,200
120% AMI	Studio	4	8.5%	202	808	\$1,150	\$0	\$1,813	0%	\$4,600	\$55,200
150% AMI	Studio	5	10.6%	202	1,010	\$1,150	\$0	\$2,265	0%	\$5,750	\$69,000
Studio	Manager	1	2.1%	202	202	\$0	\$0	\$0	0%	\$0	\$0
Unit - Office	Manager	1	2.1%	202	202	\$0	\$0	\$0	0%	\$0	\$0
Total/Average		47	100.0%	202	9,494	\$0	\$0.00	\$884	0%	\$41,550	\$498,600
COMMERCIAL INCOME (NNN)				OTHER INCOME				ESCALATORS & VACANCY			
Unit Type	Net SF	\$/SF/Month	Monthly	Annual	Residential	\$/unit/Month	Monthly	Annual	Item	Rate	
Commercial Suites	0	\$0.00	\$0	\$0	Parking Income	\$0.00	\$0	\$0	Escalator for Income	2.0%	
Vacancy	5%			\$0	Storage Income	\$0.00	\$0	\$0	Escalator for Expenses	3.0%	
Total				\$0	Laundry Income	\$7.50	\$353	\$4,230	Escalator for P'ship Expenses	3.0%	
					Fees and Charges	\$0.00	\$0	\$0	Escalator for Misc Expenses	0.0%	
					Other	\$0.00	\$0	\$0	Residential Vacancy	5.0%	
					Total other income/month	\$7.50	\$353	\$4,230			

Hillcrest Inn

DEVELOPMENT COSTS

	Unit Cost	Total	Per Unit	% of Total
ACQUISITION COSTS				
1010 BUILDINGS	\$7,900,000	\$7,900,000	\$168,085	79.7%
1015 ESCROW DEPOSIT - Refundable	\$100,000	\$100,000	\$2,128	1.0%
TOTAL ACQUISITION & CLOSING COSTS		\$8,000,000	\$170,213	80.7%
HARD COSTS				
2030 REHABILITATION (RESIDENTIAL) Prevail. Wage	\$15,900	\$747,300	\$15,900	7.5%
2045 GENERAL CONDITIONS/REQUIREMENTS	6.00%	\$44,838	\$954	0.5%
2050 GENERAL CONTRACTOR FEE (OHP)	7.00%	\$52,311	\$1,113	0.5%
2055 BONDING (CONTRACTOR)	1.00%	\$7,473	\$159	0.1%
2057 INSURANCE (CONTRACTOR)	1.00%	\$7,473	\$159	0.1%
2060 HARD COST CONTINGENCY (OWNER)	10.00%	\$85,192	\$1,813	0.9%
TOTAL HARD COSTS		\$944,587	\$20,098	9.5%
PERMITS & FEES				
3030 MUNICIPAL	3.00%	\$28,338	\$603	0.3%
TOTAL PERMITS & FEES		\$28,338	\$603	0.3%
ARCHITECTURE & ENGINEERING				
4005 ARCHITECT	8.00%	\$75,567	\$1,608	0.8%
4010 CIVIL ENGINEERING	\$0	\$0	\$0	0.0%
4030 OTHER CONSULTANTS-SPECIAL INSPECTIONS	\$15,000	\$15,000	\$319	0.2%
TOTAL ARCHITECTURE & ENGINEERING		\$90,567	\$1,927	0.9%
THIRD PARTY REPORTS				
5005 APPRAISAL	\$6,200	\$6,200	\$132	0.1%
5010 MARKET STUDY	\$6,500	\$6,500	\$138	0.1%
5020 ENVIRONMENTAL (PH1 & PH2)	\$15,000	\$15,000	\$319	0.2%
5025 PHYSICAL NEEDS ASSESSMENT	\$6,000	\$6,000	\$128	0.1%
5035 ALTA SURVEY	\$12,000	\$12,000	\$255	0.1%
5040 HAZARDOUS MATERIAL TESTING	\$7,123	\$7,123	\$152	0.1%
5040 OTHER TECHNICAL REPORTS	\$11,040	\$11,040	\$235	0.1%
8075 THIRD PARTY REPORT CONTINGENCY	10.00%	\$6,386	\$136	0.1%
TOTAL DILIGENCE COSTS		\$70,249	\$1,495	0.7%
FINANCING COSTS				
6405 SDHC FEES	\$0	\$0	\$0	0.0%
6135 SDHC LEGAL	\$25,000	\$25,000	\$532	0.3%
TOTAL FINANCING COSTS		\$25,000	\$532	0.3%
RESERVES				
7005 REPLACEMENT RESERVE - INITIAL DEPOSIT	\$500	\$23,500	\$500	0.2%
7010 LEASE UP RESERVE		\$0	\$0	0.0%
7010 SECURITY RESERVE		\$0	\$0	0.0%
7010 OPERATING RESERVE	3	\$101,606	\$2,162	1.0%
TOTAL RESERVES		\$125,106	\$2,662	0.2%

Hillcrest Inn

DEVELOPMENT COSTS

	Unit Cost	Total	Per Unit	% of Total
OTHER SOFT COSTS				
8020 LEGAL - DEVELOPER	\$50,000	\$50,000	\$1,064	0.5%
8035 ACCOUNTING/COST CERT	\$0	\$0	\$0	0.0%
8037 BANK FEES	\$0	\$0	\$0	
8045 RELOCATION COSTS	\$25,000	\$235,000	\$5,000	2.4%
8045 RELOCATION STUDY	\$19,930	\$19,930	\$424	0.2%
8055 PREPAID INSURANCE	\$0	\$0	\$0	0.0%
8060 TITLE/ESCROW/RECORDING	\$30,000	\$30,000	\$638	0.3%
8065 REAL ESTATE TAXES	\$0	\$0	\$0	0.0%
4025 CONSTRUCTION MANAGEMENT	\$134,000	\$134,000	\$2,851	1.4%
8087 LABOR COMPLIANCE	\$6,000	\$6,000	\$128	0.1%
8085 BORROWER FINANCIAL ANALYST	\$35,000	\$35,000	\$745	0.4%
8030 FF&E - RESIDENTIAL	\$700	\$32,900	\$700	0.3%
8080 FF&E - COMMON AREA	\$25,000	\$25,000	\$532	0.3%
8075 SOFT COST CONTINGENCY	10.00%	\$56,783	\$1,208	0.6%
TOTAL OTHER SOFT COSTS		\$624,613	\$13,290	6.3%
DEVELOPER FEE				
9005 DEVELOPER FEE	\$0	\$0	\$0	0.0%
9010 DEVELOPER FEE ON REHAB		\$0	\$0	0.0%
TOTAL DEVELOPER FEE		\$0	\$0	0.0%
GRAND TOTAL DEVELOPMENT COSTS		\$9,908,460	\$210,818	99.0%

Hillcrest Inn

Cash Flow Analysis 1.1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
OPERATING BUDGET															
GROSS RENTAL INCOME	498,600	508,572	518,743	529,118	539,701	550,495	561,505	572,735	584,189	595,873	607,791	619,946	632,345	644,992	657,892
Other Income	4,230	4,315	4,401	4,489	4,579	4,670	4,764	4,859	4,956	5,055	5,156	5,259	5,365	5,472	5,581
(Less) Vacancy @ 5%	(25,142)	(25,644)	(26,157)	(26,680)	(27,214)	(27,758)	(28,313)	(28,880)	(29,457)	(30,046)	(30,647)	(31,260)	(31,886)	(32,523)	(33,174)
EFFECTIVE GROSS INCOME	477,689	487,242	496,987	506,927	517,065	527,407	537,955	548,714	559,688	570,882	582,300	593,946	605,825	617,941	630,300
Commercial Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL GROSS INCOME	477,689	487,242	496,987	506,927	517,065	527,407	537,955	548,714	559,688	570,882	582,300	593,946	605,825	617,941	630,300
(Less) Total Operating Expenses	(406,425)	(418,617)	(431,176)	(444,111)	(457,434)	(471,157)	(485,292)	(499,851)	(514,846)	(530,292)	(546,201)	(562,587)	(579,464)	(596,848)	(614,754)
NET OPERATING INCOME	71,264	68,625	65,811	62,816	59,631	56,249	52,663	48,863	44,842	40,590	36,099	31,359	26,360	21,093	15,546
(Less) Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET PROJECT CASH FLOW	71,264	68,625	65,811	62,816	59,631	56,249	52,663	48,863	44,842	40,590	36,099	31,359	26,360	21,093	15,546

SAN DIEGO HOUSING COMMISSION

RESOLUTION NO. _____

ADOPTED ON July 10, 2020

A RESOLUTION AUTHORIZING THE SAN DIEGO HOUSING COMMISSION TO PROVIDE GAP FUNDING FOR MIDDLE-INCOME HOUSING AT RENTS AFFORDABLE TO MIDDLE-INCOME HOUSEHOLDS, PURSUANT TO ASSEMBLY BILL 1637— CALIFORNIA HEALTH & SAFETY CODE SECTION 34340(a)(4), AND RELATED ACTIONS.

WHEREAS, California State Assembly Bill (AB) 1637, which was signed into law on October 14, 2017, amended California Health and Safety Code Section 34340 to allow a housing authority in the City of San Diego, the County of San Bernardino, or the County of Santa Clara to implement a pilot program to develop and finance a middle-income housing project, pursuant to the requirements set forth in Health and Safety Code Section 34340;

WHEREAS, Health and Safety Code Section 34340(a)(3) requires gap financing for a middle-income housing development to be approved by the housing authority's legislative body by a resolution after a public hearing, for which notice of the time and place of the hearing has been published in a newspaper of general circulation in the community at least once per week for at least two successive weeks, prior to the hearing;

WHEREAS, the San Diego Housing Commission (SDHC) caused a public notice to be published in the *San Diego Union-Tribune*, a newspaper of general circulation, on June 25, 2020, and July 2, 2020, for the public hearing to be held by the SDHC Board of Commissioners on July 10, 2020, at 9:01 a.m., regarding SDHC's potential acquisition of Hillcrest Inn, located at 3754 Fifth Avenue, San Diego, CA 92103, at which 36 units would remain affordable for 65 years for households with income at or below 80 percent of the San Diego Area Median Income (AMI), four units would remain affordable for 65 years for households with income at or below 120

percent of AMI, and five units would remain affordable for 65 years for households with income at or below 150 percent of AMI;

WHEREAS, the terms of SDHC's proposed acquisition of Hillcrest Inn and the affordability requirements that would be recorded on the property are more fully described in SDHC staff report HCR20-064, which was presented to the SDHC Board of Commissioners on July 10, 2020;

WHEREAS, the Housing Authority of the City of San Diego has authorized execution of resolutions electronically during the COVID-19 pandemic.

NOW, THEREFORE,

BE IT RESOLVED, by the SDHC Board of Commissioners, as follows:

1. The SDHC Board of Commissioners held a public hearing, pursuant to Health and Safety Code Section 34340(a)(3), on July 10, 2020, at 9:01 a.m., for which public notice was published in a newspaper of general circulation in the community on June 25, 2020, and July 2, 2020.
2. The SDHC Board of Commissioners opened and conducted the public hearing on July 10, 2020, in accordance with the provisions of AB 1637—Health and Safety Code Section 34340(a)(3).
3. After taking testimony, the SDHC Board of Commissioners concluded the hearing.
4. The SDHC Board discussed the matter and by the vote reflected in the attached certification of this resolution, took the following actions:

- a. Found that the gap financing for the proposed acquisition and rehabilitation of Hillcrest Inn, located at 3754 Fifth Avenue, San Diego, CA 92103, will provide housing for low- and middle-income persons and is consistent with AB 1637—Health and Safety Code Section 34340, as required by Health and Safety Code Section 34340(a)(4).
- b. Recommended that the Housing Authority of the City of San Diego hold a noticed public hearing, as required by the provisions of AB 1637—Health & Safety Code Section 34340(a)(3), accept public testimony during the hearing, and conclude the public hearing.
- c. Recommended that the Housing Authority of the City of San Diego adopt a resolution finding that the gap financing for the proposed acquisition and rehabilitation of Hillcrest Inn, located at 3754 Fifth Avenue, San Diego, CA 92103, will provide housing for low- and middle-income persons and is consistent with AB 1637—Health and Safety Code Section 34340, as required by Health and Safety Code Section 34340(a)(4).

Approved as to Form:

Christensen & Spath

By: /s/ Charles B. Christensen

Charles B. Christensen, General Counsel
San Diego Housing Commission