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San Diego Housing Commission (SDHC) Mariner's Cove Letter of Intent for Third Amended and Restated Lease

Presentation to SDHC Board of Commissioners
May 31, 2022

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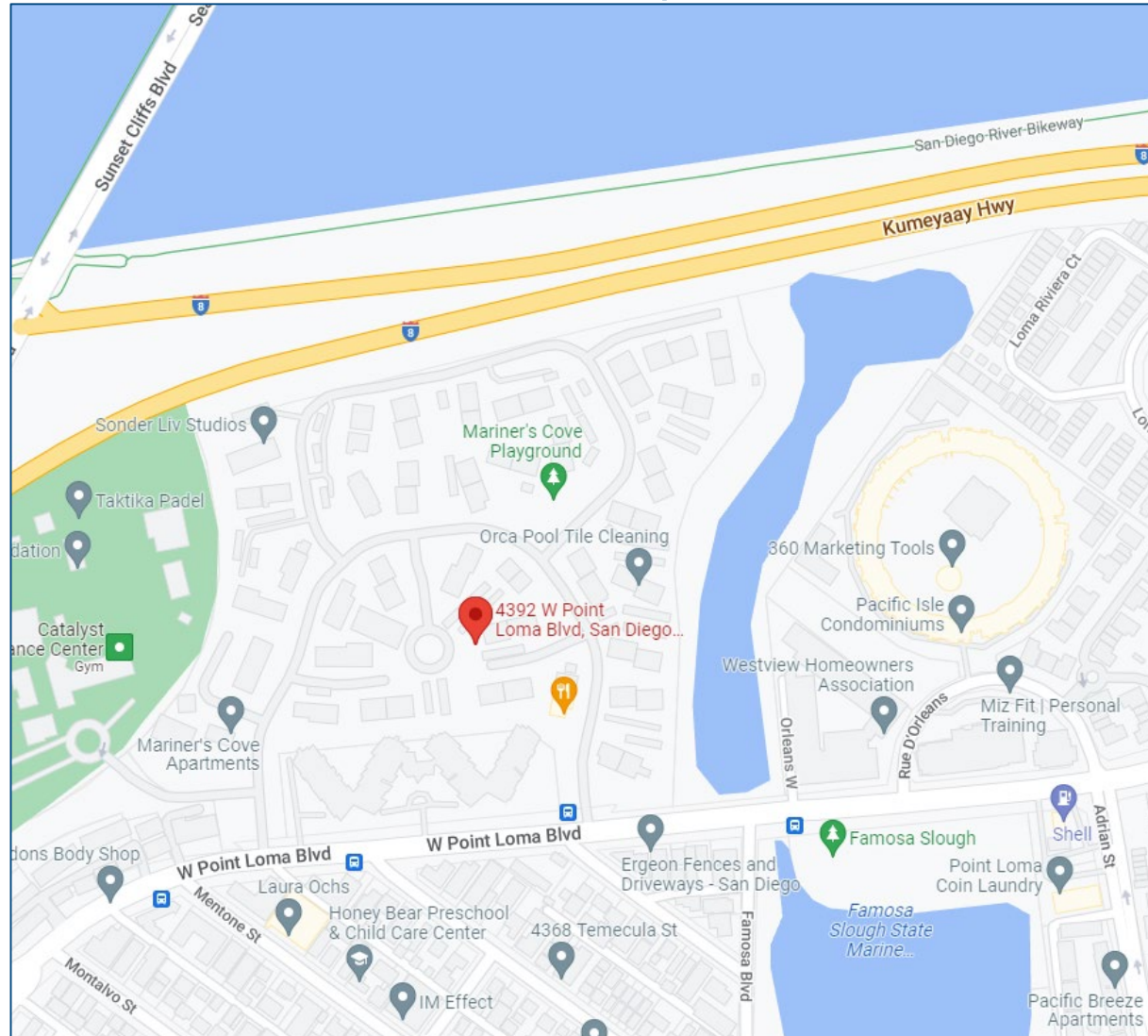
SDHC – Mariner’s Cove

Introduction

- 4392 West Point Loma Blvd.
 - City Council District 2
 - 30.21-acre property
- December 1982: The Housing Authority and the current lessee’s predecessor entered into a 55-year ground lease.
 - Included the construction of 500 units:
 - 100 units affordable to households with income up to 80 percent of San Diego’s Area Median Income (AMI), currently \$104,100/year for a four-person household
 - Units receive Housing Assistance Payments through a contract with the U.S. Department of Housing and Urban Development.
 - 200 units affordable up to 120 percent of AMI, currently \$128,300/year for a four-person household
 - 200 market-rate units
- Lessee: Lincoln Mariners Associates Limited



SDHC – Mariner's Cove Site Map



SDHC – Mariner’s Cove Background

- June 16, 2015: The Housing Authority approved a ground lease extension through 2070, with an additional 20-year renewal option through 2090.
 - Ground lease requires development owner to expend \$25 million by July 1, 2022, to improve the development (extended from July 1, 2021).
 - Ground lease rent increases each of first six years as specified, with subsequent increases effective January 1, 2022, based on the Consumer Price Index.
- 2020: The Lessee approached SDHC with a concept to provide additional units/investment to the property by increasing the number of units to approximately 772 units in a phased “scrape and replace” construction approach.
- SDHC extended the performance terms of the lease by one year, to July 1, 2022.
 - It would not be reasonable to have the property be demolished shortly after the improvements were completed.
- If the proposed project is eventually approved, 500 units will be demolished and reconstructed along with the 272 new units.
 - Housing Commission staff recommends presenting the proposal to the Housing Authority.



SDHC – Mariner’s Cove Lease Negotiations

- SDHC engaged Keyser Marsten Associates (KMA) to analyze the Lessee's proposals. Later in the negotiations, the Lessee engaged financial consultant London Moeder Advisors (LMA).
- KMA and LMA performed several financial analyses to assess financial feasibility and determined that, at present, the project is infeasible.
- The Lessee indicates that it believes the market will rebound prior to commencement of construction and is proceeding with preparing the project for redevelopment.
- In light of the current financial infeasibility, the project should be closely monitored, which includes more routine reviews of the ground rent structure.
- SDHC and the Lessee negotiated deal points for a non-binding Letter of Intent (LOI).



SDHC – Mariner’s Cove Summary

Term/Conditions	Existing	If TARL is approved
Number of Units	500 units	772 units
Unit Mix	100 units @80% AMI 200 units @120% AMI 200 units @ Market	6 units @ 60% AMI 100 units @ 80% AMI 200 units @120% AMI 466 units @ Market
Investment	\$25,000,000 of capital improvements of the 500 units	\$350,000,000, includes demolition of 500 units and reconstruction of 500 units plus 272 additional units
Lease Term	55 years + 20-year option July 1, 2015 – Dec. 31, 2070 (with 20-year option term that expires Dec. 31, 2090)	55 years + 20-year option July 1, 2015 – Dec. 31, 2070 (with 20-year option term that expires Dec. 31, 2090)
Ground Rent	For 2022 and beyond: Ground Rent shall be increased based on CPI	TBD. The lessee has requested that the current CPI increases in the SARL of not to exceed 3% per year be suspended during demolition and construction of the new project. Staff does not recommend any change in the economic structure of the existing lease.
Ground Lease Payment Adjustments/ Reappraisals	Reappraisal at 2041 and 2071	TBD. Provide direction to staff on staff’s recommendation to review the rent structure per Council Policy 700-10 every 10 years to ensure the property is paying fair market rent as determined by a financial analysis.
Compliance with SB330	N/A as units will not be demolished	Will comply with method determined by SDHC
HAP Contract	Remains with the property	Remains with the property
Lease Holdover Disincentive Language	Not mentioned	Will comply



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Direction for Staff

1. Direct SDHC staff to confirm and obtain evidence from the State of California Department of Housing and Community Development (HCD) that the Surplus Land Act does not apply to the proposed contingent amendment of the existing Second Amended and Restated Ground Lease (SARL), where the current affordability of the 500 units does not change in the Third Amended and Restated Lease (TARL).
2. Direct SDHC staff to submit the feasibility analyses prepared by London Moeder Advisors (LMA) and Keyser Marston Associates (KMA) together with the proposed LOI to the City of San Diego’s Office of the Independent Budget Analyst (IBA) for review and recommendations to the Housing Authority before any final action is taken on the LOI and/or the TARL.
3. Direct staff to provide in the LOI and TARL, terms requiring compliance with the provisions of California State Senate Bill (SB) 330.



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Direction for Staff (Continued)

4. Direct SDHC staff to have feasibility analyses prepared to determine if the compliance with SB330 will make the proposed project infeasible, based upon an analysis of the income levels of the inhabitants of the current project, which shall be completed before any TARL becomes effective in a method determined by SDHC.
5. Direct SDHC staff to include an on-site inclusionary requirement that not less than six units are affordable to and be occupied by households earning at or below 60 percent of the applicable AMI, as set forth in the LOI and TARL.
6. Direct SDHC staff to confirm that the Housing Assistance Payment contract with HUD shall remain with the property, as set forth in the LOI and TARL.
7. Direct SDHC staff to require a minimum investment of \$350 million, as set forth in the LOI and TARL.



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Direction for Staff (Continued)

8. Direct SDHC staff to meet and negotiate with Lincoln Mariners Associates Limited to finalize an LOI containing the terms directed in this Attachment 1, within a period of 90 days after the approval of the recommendations of the Housing Authority.
9. Direct SDHC staff to finalize a draft TARL within 180 days after the approval of the non-binding LOI by the Housing Authority. Further direct staff to bring the drafted TARL to a hearing of the Housing Authority, for approval, thereafter, but not until the Environmental Impact Report (EIR) for the proposed project has become final. Any approval of the proposed project is subject to the approval of a Final EIR, and the approval of the plans submitted to DSD and to the City Council of the City of San Diego. Nothing contained in any and all actions concerning the approval of the proposed TARL by the Housing Authority shall in any way adversely impact the right of the City Council to approve or disapprove or take any other actions with respect to the proposed project. Nothing contained in this matter shall abrogate, in any way, the sole legislative discretion of the City Council or the Housing Authority or the SDHC Board of Commissioners, in future actions concerning the proposed project, if any. The TARL shall not become effective unless and until all land use permits have been obtained by the developer.



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Direction for Staff (Continued)

10. Direct that a provision be contained in the LOI and in an amendment to the SARL that provides the obligation to install \$25,000,000 in improvements to the existing project, which is required in the existing SARL, shall be postponed until the Housing Authority acts upon the approval of a proposed TARL, but in no event later than July 1, 2023. If action has not been taken by such date, but the proposed project is still being diligently processed, the SDHC Board or SDHC’s President and CEO, shall take action to extend the deadline further to allow for the action by the Housing Authority on the proposed project. If the Housing Authority does not approve the TARL, the Lessee, by the extended date, shall submit plans for the expenditure of \$25,000,000 for the improvement of the property to SDHC for approval, as required in the Second Amended and Restated Lease, within 90 days after the denial of the proposed project. SDHC shall have 30 days to approve, conditionally approve or deny approval of the plans. Upon approval, the Lessee shall expend all of the \$25,000,000 on improvements to the existing project, funds within one year for the rehabilitation of the property. In the event that through no fault of the lessee, it is unable to complete the rehabilitation within such time from, the Board of Commissioners, or the President and CEO may extend the deadline for good cause shown.



SDHC – Mariner’s Cove Direction for Staff (Continued)

11. Provide direction to staff on staff’s recommendation to review the rent structure per Council Policy 700-10 every 10 years to ensure the property is paying fair market rent as determined by a financial analysis.
12. Direct staff to include a disincentive to holdover clause in the LOI, and the TARL, if approved, in accordance with the recent recommendations of Office of the City Auditor.



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Staff Recommendations

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

Housing Commission Board

- 1) Approve a resolution to forward this matter to the Housing Authority for consideration pursuant to San Diego Municipal Code Section 98.0301(e)(2)(A) for direction on the terms of the non-binding Letter of Intent (LOI) between the Housing Commission, as the administrative agent of the Housing Authority of the City of San Diego, and Lincoln Mariners Associates Limited, as referenced within this report.



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Staff Recommendations (Continued)

Housing Authority

- 1) Authorize SDHC, as administrative agent of the Housing Authority of the City of San Diego, to execute a non-binding Letter of Intent (LOI) to enter into a Third Amended and Restated Lease (TARL) with Lincoln Mariners Associates Limited (Lessee) at a subsequent date based upon the direction given by Housing Authority on the terms for which direction is sought in this report, in Attachment 1, subject to Housing Authority approval, for Mariner’s Cove at 4392 West Point Loma Boulevard, San Diego, 92107.
- 2) Authorize SDHC’s President & CEO, or designee, to execute all necessary documents and instruments that are necessary and/or appropriate to implement these approvals, in a form and format approved by General Counsel, and to take such actions necessary and/or appropriate to implement these approvals. SDHC staff will notify the Housing Authority and the City Attorney’s Office about any subsequent amendments or modifications to the transaction, and other required documents, including amendments to any documents.



Questions & Comments

