AIR | COMMUNITIES

May 30, 2022

Dear San Diego Housing Commissioners:

On behalf of Lincoln Mariners' Associates Limited we are writing in support of the Commission staff recommendation to authorize the execution of a non-binding letter of intent to enter into a Third Amended and Restated Lease (TARL). We have worked hard with the Commission staff over many months to work through important issues related to this lease. Authorization of this recommendation will hopefully allow us to resolve remaining issues, resulting in significant new housing – and affordable housing—in San Diego.

The staff has fairly represented our negotiations to date. Our goal is to demolish 500 older and outdated units at Mariners' Cove and replace them with a new and sustainable neighborhood. The plan will contribute to San Diego's Regional Housing Needs Assessment (RHNA) by providing 772 new apartments and amenities for all residents, an increase of 272 apartments. More than 40% of the new development will be affordable, including apartments at 60% AMI, which does not now exist on the site.

The project is challenging in that an income producing asset will be demolished, producing no or reduced income until the development is fully occupied. In addition, the current economic climate with high inflation and supply chain issues makes the economic feasibility of the development even more challenging. Because our existing ground lease, approved unanimously by the Housing Authority in 2015 provides long-term certainty, we are willing to assume the risk of investing $350 million in private funds with no government subsidy whatsoever. However, putting further constraints on the project, will only serve to make it more challenging economically.

Therefore, we submit the following suggestions for your consideration:

1. Temporarily suspend the annual 3% CPI increase during demolition and construction of the redevelopment. We would continue to pay the existing ground rent during this time. Taking down income producing units will result in a loss of rental income estimated at $8 million over the 4-5 years of construction. The justification for 3% CPI increase is by definition premised on economic growth when in fact we will be losing significant revenue during that period. We would resume increases according to the lease once our redevelopment is complete and the property is stabilized.

2. The staff report cites CP700-10 as requiring reappraisals of market rent every 10 years. However, subsection K of CP700-10 makes the implementation of the 10-year requirement optional with its "may be" language. The current lease was executed in mid-2015, 2.5 years after the adoption of CP700-10. Therefore, the Housing Authority clearly did not choose to require a reappraisal every 10 years in approving the lease. We propose to continue the requirements of the existing lease which gives the SDHC the option to conduct a market reappraisal in 2040 to adjust ground rent to market beginning January 1, 2041.

This longer reappraisal time provides much more certainty for our significant investment in the property.

We appreciate the ongoing and positive relationship we have had with the SDHC staff over the years and their hard work on this potential redevelopment. We look forward to working with you and the SDHC staff to resolve any remaining issues. And with your support, we look forward to the time when we are able to invest in San Diego with 772 new apartment homes at Mariners' Cove.

Sincerely,

Miles Cortez and Patti Shwayder
On behalf of Lincoln Mariners' Associates Limited

CC: Jeff Davis
Emily S. Jacobs
Charles Christensen Esq.