

DATE ISSUED: September 5, 2007

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Docket of September 11, 2007

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Purchase of a Housing Commission 1<sup>st</sup> Trust Deed with Option to Acquire  
Property Located at 434 & 435 13<sup>th</sup> Street, from San Diego Housing  
Commission – East Village District of the Expansion Sub Area of the  
Centre City Redevelopment Project

COUNCIL DISTRICTS: Districts 2 & 8

STAFF CONTACT: Frank Alessi, Vice President and Chief Financial Officer, 619-533-7130  
Jeff Graham, Assistant Vice President of Redevelopment, 619-533-7181  
Andrew Phillips, Finance/Accounting Manager, 619-533-7127

REQUESTED ACTION: That the Redevelopment Agency (“Agency”) authorize the purchase of the 1<sup>st</sup> Trust Deed Note held by the San Diego Housing Commission (“Housing Commission”) and concurrently execute an option to acquire the property from the Housing Commission located at 434 & 435 13<sup>th</sup> Street between Island Avenue and “J” Street (“Hotel Metro Site”) within the Centre City Redevelopment Project Area.

STAFF RECOMMENDATION: That the Agency authorize the purchase of the 1<sup>st</sup> Trust Deed Note held by the Housing Commission and concurrently execute an option to acquire the Hotel Metro Site from the Housing Commission within the Centre City Redevelopment Project Area.

SUMMARY: During the Fiscal Year 2008 (“FY08”) Budget deliberations, it was requested that the Corporation, in conjunction with the Housing Commission, facilitate additional funds to subsidize the City’s FY08 Social Services Program. Several alternatives have been discussed with Housing Commission staff involving their properties and the pursuit of other permanent funding sources by the Housing Commission.

The Hotel Metro Site has been identified as a potential site for acquisition by the Corporation due to its provision of affordable housing, need for rehabilitation, and location. Therefore, it is requested that the Agency authorize the purchase of the Housing Commission’s 1<sup>st</sup> Trust Deed Note with an option to acquire the Hotel Metro Site within two years.

Several challenges exist with respect to the Hotel Metro Site which will require a thorough investigation followed by a determination of the Hotel Metro Site’s ultimate potential use or reuse. Presently, the Hotel Metro Site contains a total of 195 Single Room Occupancy units of which 193 are restricted to provide affordable rents to low and very low income persons. The Hotel Metro Site

is leased to San Diego SRO LP, and several loans encumber the leasehold interest originated from the Housing Commission, as well as a lease for the operation of the housing units with Tarrentino Property Management.

FISCAL CONSIDERATIONS: The FY08 Budget contains sufficient funds for the acquisition from Centre City and Horton Plaza low and moderate income housing funds and/or tax increment. The purchase of the 1<sup>st</sup> Trust Deed Note is in the amount of \$344,200. The option would include, at a minimum, the interest on the 1<sup>st</sup> Trust Deed Note of \$492,130 plus the 2<sup>nd</sup> Trust Deed Note principal and interest in the amount of \$135,172 for a total minimum price of \$627,032. The 3<sup>rd</sup> Trust Deed Note would be conveyed to the Agency.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On July 25, 2007, the Centre City Development Corporation Board voted unanimously to approve the purchase.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: On July 18, 2007, the Centre City Advisory Committee voted unanimously to approve the purchase.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: The San Diego Housing Commission's staff concurs with this recommendation and will schedule the appropriate action to the Housing Authority.

BACKGROUND: The proposed purchase of the 1<sup>st</sup> Trust Deed Note and Hotel Metro Site acquisition advances the visions and goals of the Downtown Community Plan and the objectives of the Centre City Redevelopment Project by:

- Potentially expanding and improving the supply of affordable rental property.
- Supporting the development of projects that serve the homeless and special-needs populations.
- Eliminating certain blighting conditions by improving buildings through rehabilitation and/or the redevelopment of properties in disrepair.

#### THE SITE

The Hotel Metro and Hotel 434, collectively Hotel Metro, were developed on two lots owned by the Housing Commission in East Village in early 1990 prior to the area becoming part of the current downtown redevelopment project area. The Hotel Metro is located at 434 & 435 13<sup>th</sup> Street in the East Village Neighborhood. The Hotel Metro Site is well suited to take advantage of many of the redevelopment efforts taking place in the East Village. The Hotel Metro is located within close proximity to the 14<sup>th</sup> and Island Park (one block), the proposed New Central Library (one block), mass transit (one block), the new Albertsons Grocery Store (two blocks), and a few blocks from the Petco Park ballpark and the Park at the Park. In addition, several new residential buildings have been completed recently, such as Park Boulevard West and Park Boulevard East, Park Terrace, Icon, as well as an office tower (Diamond View Tower), and several other projects are either under construction or planned for the area. (See also attached map.)

The Hotel Metro Site was leased to San Diego SRO, LP (“Partnership”) under a Housing Commission Ground Lease and Development Agreement dated November 1, 1989. The lease term is for 55 years terminating November 1, 2044. Minimum Rent on the lease was \$110 payable upon execution of the lease. An annual Percentage Rent was due beginning in year 16 of the lease term. Percentage Rent is equal to six percent of Gross Revenues for a lease year. The annual Percentage Rent has not been paid as of the date of this report, and the lessee could be found in default of the lease. The property is currently managed by Tarrentino Property Management. Based on the information provided by the Housing Commission, the operator is currently in compliance with health and safety codes; however, the buildings are in a distressed condition due to deferred maintenance and use-related damage and deterioration. Presently, there are a total of 195 units of which 193 are restricted to provide affordable rents to low and very low income persons.

The 17 year old structures are due for major rehabilitation and repairs. Despite the relatively recent construction, low-grade materials and extensive deferred maintenance have resulted in the need for roof replacement, water damage repairs, and upgrades to electrical, fire sprinkler, and common area amenities. The individual residential units are approximately 100 square feet consisting of a sleeping area, kitchenette and small closet. Residents have access to two common area bathrooms on each floor. Additional common area space is minimal and has been diminished over time due to water damage and other problems.

EXISTING DEBT ON THE PROPERTY

The original project, consisting of two four-story buildings, was financed with a combination of conventional debt, nine percent tax-credits, and loans from the Housing Commission. Presently, there are three loans on the property, all secured in favor of the Housing Commission. The 1<sup>st</sup> Trust Deed Note is in the amount of \$344,200 loaned to the Partnership in 1989. The terms of the 1<sup>st</sup> Trust Deed Note are 15 years with three five-year extensions. The note is currently in its first extension period which expires in 2009. The note earns eight percent simple interest, payable through residual receipts, any balance due and payable at maturity. Because the rental income proved insufficient to support amortized debt and operation of the project, the Housing Commission provided take-out financing of amortized debt and funded an operating reserve with a 2<sup>nd</sup> Trust Deed Note of \$98,700 in 1994 and a 3<sup>rd</sup> Trust Deed Note in the amount of \$457,137 in 1995. The terms of the second and third position loans are 55 years at 3 percent simple interest, payable from residual receipts, any balance due and payable at maturity. The following table outlines the present loans outstanding on the property, principal and accrued interest as of June 20, 2007.

Lien Position	Source of Funds	Interest Rate	Principal	Accured Interest	Total Encumbrance
1st	Housing Commission	8.00%	\$ 344,200	\$ 492,130	\$ 836,330
2nd	Housing Commission	3.00%	98,700	36,472	135,172
3rd	Housing Commission	3.00%	457,137	160,445	617,582
			<u>\$ 900,037</u>	<u>\$ 689,046</u>	<u>\$ 1,589,083</u>

For the year ending December 31, 2006, the Hotel Metro Site had a Net Operating Loss of \$(249,751) after accrued interest and depreciation expenses totaling approximately \$193,000. The project has been operating at a loss and, to date, no Residual Receipts have been paid on any outstanding note. Low rents and increasing expenses have perpetuated the poor cash flow from operations.

DISCUSSION: During the FY08 Budget deliberations, it was requested that the Corporation, in conjunction with the Housing Commission, facilitate additional funds to subsidize the City's FY08 Social Services Program. Several alternatives have been discussed with Housing Commission staff involving their properties and the pursuit of other permanent funding sources by the Housing Commission.

The Hotel Metro Site has been discussed previously and staff has undertaken a study to prepare a property management and potential rehabilitation plan that will be completed in October 2007. At this time, it is requested that the Agency authorize the purchase of the Housing Commission's 1<sup>st</sup> Trust Deed Note in the amount of \$344,200 and execute an option to purchase the Hotel Metro Site within two years. This purchase will expedite the redevelopment process and provide, at a minimum, funding for the FY08 Winter Homeless Shelter Program while continuing to pursue a permanent solution for a shelter.

The purchase of the 1<sup>st</sup> Trust Deed Note would provide the immediate funding necessary for the FY08 Winter Homeless Shelter Program. The 1<sup>st</sup> Trust Deed Note would be purchased for the principal amount of the loan (\$344,200) and the Redevelopment Agency would assume first position on the Hotel Metro Site.

Concurrent with the purchase of the 1<sup>st</sup> Trust Deed Note, the Agency will execute an option agreement with the Housing Commission for the purchase of the Hotel Metro Site. The basic terms of the proposed option are as follows:

Term of Option: 24 months from the date the Agency purchases the 1<sup>st</sup> Trust Deed Note in the amount of \$344,200. Agency may exercise its option at any time during the term of the option.

Purchase Price: Agency's total purchase price will be based on the following:

- **Initial Purchase Price:** 2007 appraised value of the property with consideration given to land and to the existing affordable housing covenants, discounted by any seismic and/or contamination issues. The amount will be further offset by any loans outstanding encumbering the property but no less than \$627,032 which would be used to subsidize the Winter Homeless Shelter Program for future years.
- **Additional Purchase Price:** 2007 appraised value of the property without consideration of existing covenants, less the cost of replacement housing or any in-lieu fee required, discounted by any seismic or contamination issues, less any loans outstanding, which are encumbering the property, less the Initial Purchase Price. The Additional Purchase Price would be paid if, and only if,

covenants on the property were released. The provision for the Additional Purchase Price will only apply for a 10-year period from the date the option is exercised.

There are several challenges with respect to the Hotel Metro Site as previously stated, however, those elements will be investigated and a determination made for the ultimate use or reuse of the Hotel Metro Site.

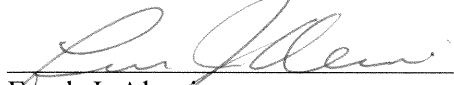
PROJECT ANALYSIS AND IMPACT ASSESSMENT:

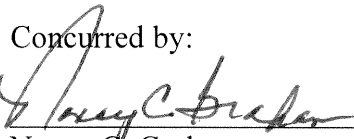
Environmental Impact – This activity is not a project, and therefore not subject to CEQA per CEQA Guidelines Section 15060(c)(2).

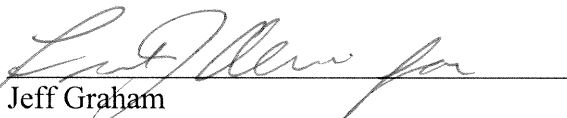
CONCLUSION: During the FY08 Budget deliberations, it was requested that the Corporation, in conjunction with the Housing Commission, facilitate additional funds to fund the FY08 Social Services Program. Several concepts have been discussed with Housing Commission staff regarding certain properties that it owns in addition to the Housing Commission pursuing other alternative funding sources on a permanent basis. At this time, it is requested that the Agency authorize the purchase of the Housing Commission's 1<sup>st</sup> Trust Deed Note in the amount of \$344,200 and execute an option to purchase the Hotel Metro Site. This purchase will expedite the redevelopment process and provide, at a minimum, funding for the FY08 Winter Homeless Shelter Program while continuing to pursue a permanent solution for a shelter.


Respectfully submitted,

Concurred by:

  
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Frank J. Alessi  
Vice President and Chief Financial Officer

  
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Nancy C. Graham  
President

  
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Jeff Graham  
Assistant Vice President of Redevelopment

  
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Andrew Phillips  
Finance/Accounting Manager

Attachment:  
Site Map

# Attachment A - Hotel Metro Site



Parcels of Interest: 535-156-07-00  
535-155-04-00  
535-155-05-00

Attachment A  
Created by CCDC July, 2007

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