



SAN DIEGO
HOUSING
COMMISSION

LAND USE & HOUSING COMMITTEE INFORMATIONAL REPORT

DATE ISSUED: October 18, 2011

REPORT NO: LUH11-014

ATTENTION: Chair and Members of the Land Use & Housing Committee
For the Agenda of October 26, 2011

SUBJECT: Refinance of the San Diego Housing Commission "Smart Corner" Office
Building


COUNCIL DISTRICT: Citywide

NO ACTION IS REQUIRED ON THE PART OF THE LAND USE & HOUSING COMMITTEE.

The attached provides information received by the San Diego Housing Authority at the Regular Meeting of August 2, 2011.

This is an informational item only. At this time, no action is required on behalf of the Land Use & Housing Committee.

Respectfully submitted,


Deborah Ruane
Senior Vice President
Real Estate Department

Attachments:

1. HAR11-035 – Refinance of the San Diego Housing Commission "Smart Corner" Office Building



HOUSING AUTHORITY REPORT

DATE ISSUED: July 12, 2011

REPORT NO: HAR 11-035

ATTENTION: Members of the San Diego Housing Authority
For the Agenda of August 2, 2011

SUBJECT: Refinance of the San Diego Housing Commission ("Smart Corner") Office Building

COUNCIL DISTRICT: 2

REQUESTED ACTION:

Recommend to the Housing Authority of the City of San Diego ("Housing Authority") approval of proposed terms and conditions to refinance the loan on the San Diego Housing Commission's office building ("Smart Corner") located at 1122 Broadway, San Diego, California.

STAFF RECOMMENDATION:

1. Approval of new loan from GE Commercial Finance Business Property Corporation ("GE") or any other qualified lender on terms substantially similar to the terms outlined in this report.
2. Approval to fund the difference between the new loan and payoff of existing loan to lender (U.S. Bank) of up to \$5,000,000 with Section 8 Move to Work funds as outlined in the FY2012 Budget.
3. If the new loan closes prior to the maturity date of the currently existing loan (November 1, 2011) loan, approval to pay any prepayment penalty required by the currently existing loan terms as outlined in the Interest Rate and Currency Exchange Agreement of the existing loan.
4. If new loan does not close by the maturity date of the currently existing loan (November 1, 2011), authorization for the San Diego Housing Commission to extend the existing loan and to pay loan fees and points associated with such extension.
5. Authorization for the San Diego Housing Commission ("Housing Commission") to encumber the Maya Apartments located at 10101 Maya Linda Road, San Diego, California as additional collateral for the new loan.
6. Approval to pay loan fees, costs and expenses, including but not limited to the financing fee to NorthMarq Realty Services, Inc., required to effect the closing of the new loan.
7. Authorization for the President and Chief Executive Office of the San Diego Housing Commission, or designee, to execute all documents, in a form as approved by General Counsel, and to perform all acts necessary, convenient and/or appropriate to implement approvals.

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SUMMARY:

In 2003, upon approval by the Housing Authority, the Housing Commission purchased the newly constructed Smart Corner office building located at 1122 Broadway, San Diego California and moved its operations from 1625 Newton Avenue to these new headquarters. The original \$20,550,000 mortgage loan has a five year term and a 25 year amortization. Upon maturity in year five (November 1, 2011), the outstanding loan balance is due and payable, which, as of May 31, 2011, was \$19,505,837.

The office building consists of a five story mixed-use office building situated on lot one of parcel map No. 15217 and contains approximately 110,382 total square feet (approximately 81,095 square feet of Housing Commission office space, 24,535 square feet for the Family Justice Center and Housing Opportunities Collaborative and 4,752 square feet of retail space for 7-Eleven and Cricket Wireless). There is also a subterranean parking structure with 634 spaces (367 spaces are set aside for residential users of the adjacent Smart Corner residential tower and 267 spaces owned by the Housing Commission and used by its customers and tenants).

In September 2010, through a competitive request for proposal (RFP), NorthMarq Realty Services, Inc. ("NorthMarq") received Housing Authority approval as financial advisor to obtain refinancing options of the existing loan at Smart Corner.

The Housing Commission's objective and preference for the refinance is a loan amount that would cover the existing loan balance plus transaction costs. Other important considerations for the Housing Commission include a long-term, fully amortizing, non-recourse loan, a fixed interest rate and the ability to preserve its real property tax exemption. With the intent to minimize the Housing Commission's risk and the desire to take advantage of historical low interest rates through a long term, amortized, non-recourse loan, NorthMarq analyzed different options available to the Housing Commission. The different capital providers' options that were considered included the existing lender (U.S. Bank), municipal bonds, life insurance companies/pension funds, Commercial Mortgage Backed Securities ("CMBS") Conduits, banks and Credit Tenant Lease ("CTL") Financing.

The transaction posed major financing challenges such as depressed office market conditions (rents are down approximately 15 percent from 2008 levels), increased office vacancy in the downtown San Diego submarket and office values down 30 percent or more from 2008. The economy officially entered a recession in December 2007 and the debt markets became constrained, which in turn affected the investment market for commercial real estate. An appraisal of the Smart Corner office building was performed in April 2011 and the current "dark value" of the office building was estimated at \$17,000,000. The "dark value" is the assessed value of the property as if the property was 100 percent vacant. The value of the office building, as if leased at market rents, is currently \$23,500,000. By comparison, the office building was appraised at \$37,700,000 post construction completion in 2007.

In addition, capital markets are exceptionally cautious when lending to public agencies that are reliant on annual appropriations due to concerns regarding national, state and local government budget deficits. Lenders are faced with challenges when dealing with public agencies on long-term, non-recourse loans, particularly with clients such as the Housing Commission which has numerous funding sources that are subject to annual appropriations.

In order to receive a viable financing offer, additional collateral was offered to mitigate some of these challenges. The Maya Apartments located at 10101 Maya Linda Road, San Diego, California, which the

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Housing Commission owns and which will be debt-free on July 1, 2011, will be used to provide additional security on the office building loan.

After analyzing the different options for the refinance of the Housing Commission's office building and after lengthy financial and legal negotiations to solicit the best structure for the Housing Commission, staff recommends that the Housing Commission proceed with the offer from GE Commercial Finance Business Property Corporation ("GE"). The loan terms of the GE offer are as follows:

LOAN TERMS

Secured Party:	GE Commercial Finance Business Property Corporation ("GE")
Borrower:	San Diego Housing Commission
Security:	A first deed of trust or first mortgage on the Borrower's fee simple interest in the office property located at 1122 Broadway, San Diego, California and an apartment property located at 10101 Maya Linda Road, San Diego, CA
Loan Amount:	Up to \$17,500,000, subject to a 1.20 minimum Debt Coverage Ratio ("DCR") and a maximum Loan to Value ("LTV") of 75 percent based on a net operating income ("NOI") and market value of the combined properties.
Term:	15 years
Amortization:	25 years
Payments:	Equal payments of principal and interest
Interest Rate:	Based on current GE cost of funds and subject to change (current indicative rate as of June 17, 2011 is 6.70 percent per annum). Fixed for the first ten (10) years, will reset in the eleventh year at a spread of 3.87 percent over the five year Swap Rate. Rates and spreads to be set at time of rate lock.
Lender Loan Fee:	None to GE. However, there is a financing fee to NorthMarq Realty Services, Inc. in the amount of one percent of the principal amount of the loan as provided for in its contract with the Housing Commission.
Recourse:	Non-recourse to Housing Commission and its principals with the exception of standard loan carve-out provisions.
Prepayment:	Subject to standard yield maintenance. The loan can be paid off in full with no penalty at the reset date (the end of the tenth year). Up to 10 percent of the outstanding principal balance may be paid down annually with no penalty.
Expenses:	Standard third party reports, lender's legal and documentation fees.

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Release Provision:

The additional collateral of Maya Apartments may be released upon office building achieving a 50 percent LTV ratio.

The Housing Commission may elect to pay down the existing loan prior to closing on the new loan with GE. At this time, it is estimated that approximately \$5,000,000 may be used to pay down the loan to approximately \$15,000,000; however, GE has offered a loan amount of up to \$17,500,000. The funds that may be used to pay down the existing loan are included in the Fiscal Year 2012 Budget approved by the Housing Commission on March 18, 2011 and by the Housing Authority on June 28, 2011. Moving to Work ("MTW") funds are set aside to pay down the existing loan.

FISCAL CONSIDERATIONS:

The existing loan provided an interest rate of 2.25 percent over 30 day LIBOR adjusting monthly. Utilizing an Interest Rate and Currency Exchange Agreement ("Swap Agreement"), (a financial instrument that effectively converts the variable rate to a fixed rate), the Housing Commission obtained a fixed interest rate of 7.54 percent. A fixed interest rate is important for the Housing Commission to better estimate and manage operating costs. The average annual debt service on the existing loan is \$1,731,020. The Swap Agreement remains in place until the loan maturity of November 1, 2011. Should the Housing Commission pay off the existing loan prior to the termination of the Swap Agreement, a prepayment penalty must be paid. As of May 31, 2011 the prepayment penalty is \$494,993 which declines monthly to zero at maturity on November 1, 2011. It is estimated that the close of the new loan will occur prior to November 1, 2011 and that there will be a prepayment penalty. If the loan does not close prior to this date, U.S. Bank has offered a short term extension to bridge this timeframe and there will be a cost associated with that extension.

The current loan interest rate on the Housing Commission's office building is of 7.54 percent. Under the GE offer, the Housing Commission would receive approximately a 6.70 percent gross interest rate (as of July 17, 2011) on the total amount of the loan, which will include any refinance and closing costs.

The initial rate for the first ten years of the loan is based on a 3.56 percent spread over ten year Interest Swap Rates. The actual interest rate of the loan will be fixed at an initial rate for ten years from the date of the note and shall adjust for the final five years thereafter based on the Reset Rate. The Reset Rate shall be the rate at which the loan adjusts and will be determined based on the applicable five year Interest Rate Swap plus a reset spread, currently 4.13 percent as of June 17, 2011. Assuming interest rates do not change substantially, the decrease in interest rate and principal balance (with the \$5,000,000 paydown) amounts to approximately \$493,057 in savings each year.

The Housing Commission may make a principal pay down of a maximum of ten percent of the outstanding principal balance annually, without a prepayment penalty. The Housing Commission may prepay the entire indebtedness under the note upon payment to GE the sum of the following: (1) the entire indebtedness due under the note; plus (2) all other sums due under the note or under any of the loan documents in connection with the loan; plus (3) as an additional sum, a prepayment fee equal to the greater of:

1. One percent of the then outstanding principal balance; or

2. The positive difference, if any, between (i) the present value as of the date of prepayment of all scheduled future installments of principal and interest due under the note using the current interest rate on loan, and (ii) the outstanding principal balance of the note on the date of prepayment. All present values shall be calculated based on U.S. Treasury constant maturities having a maturity equal to the remaining average life of the loan plus a spread of 3 percent.

However, no Prepayment Fee shall be due during the last ninety (90) days prior to a scheduled rate change. The loan will be non-recourse against the Housing Commission and any general partner of the Housing Commission.

The Maya Apartments may be released from collateral if and when the then outstanding amount of the new loan is equal to or less than 50 percent of the appraised value of the Smart Corner office building. The Maya Apartments may not be further encumbered until such percentage is reached. No secondary financing or liens will be permitted. Cash generated from the operations of the Maya Apartments will continue to flow to the Housing Commission during the term of the loan.

FEES AND DEPOSITS

There are certain fees and costs associated with the underwriting, processing and closing of the proposed loan. All fees and costs will be added to the total amount financed. Such fees include, but are not limited to the following fees:

Fee Type	Amount	Description
Good Faith Deposit	\$75,000	Paid at Application
Processing Fee	5,000	Paid at Application (non-reimbursable)
NorthMarq Financing Fee	* 175,000	Paid through the disbursements of funds by escrow
Legal Fee Deposit	* 30,000	
Total	\$285,000	Total paid at Application and Closing

*Estimated – based on \$17,500,000 loan.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On July 18, 2003, Housing Commission Board approved the purchase and sale agreement for the Housing Commission’s proposed office development (HCR03-053)

On July 29, 2003, Housing Authority approved the purchase and sale agreement for the Housing Commission's proposed office development (HAR03-004).

On August 6, 2010, Housing Commission Board awarded the contract to NorthMarq Realty Services to refinance the loan on the Housing Commission’s office building (HCR10-107)

On September 7, 2010, Housing Authority awarded the contract to NorthMarq Realty Services to refinance the loan on the Housing Commission’s office building (HAR10-052).

On May 13, 2011, Housing Commission Board approved the mortgage loan payoff on the Maya Apartments (HCR 11-063).

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On June 7, 2011 Housing Authority approved the mortgage loan payoff on the Maya Apartments (HAR11-022).

This item is scheduled to be heard at the July 20, 2011 Special Housing Commission Meeting. Staff will be available to report on the outcomes of that meeting.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Stakeholders include the Housing Commission, U.S. Bank, NorthMarq Realty Services, Inc., GE Commercial Finance Business Property Corporation and the clients of the Housing Commission.

ENVIORNMENTAL REVIEW:

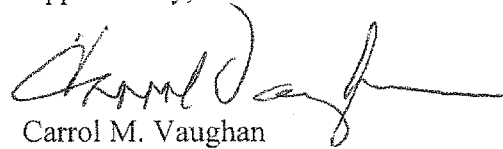
This activity is not subject to the State of California Environmental Quality Act (CEQA) Guidelines pursuant to Section 15061 (b)(3).

Respectfully submitted,



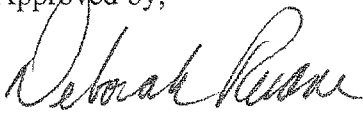
Emmanuel Arellano
Sr. Program Analyst

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

Approved by,



Deborah Ruane
Vice President

Attachments: GE Proposal for Permanent Financing

Hard copies are available for review during business hours in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.



Business Property

Robert McRae
Senior Vice President

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June 14, 2011

Mr. Marty Meagher
NorthMarq Capital
11440 West Bernardo Court, Suite 390
San Diego, CA 92127

Dear Mr. Meagher:

We are pleased to submit the following proposal for permanent financing (the "Loan") of certain real property described below. This proposal is subject to review and approval by LENDER and BORROWER, and is only a preliminary expression of interest. Final terms and conditions will be established by LENDER, if approved, during such review and will be subject to mutually satisfactory documentation. This is not a commitment.

Secured Party: GE Commercial Finance Business Property Corporation (GEBP) or a designated affiliate of GEBP ("LENDER").

Borrower: San Diego Housing Commission

Collateral: A first deed of trust or mortgage on the fee simple real property and improvements located at 1122 Broadway, San Diego, CA 92101 and 10101 Maya Linda, San Diego, CA 92126, ("Property"). Notwithstanding the foregoing, 10101 Maya Linda, San Diego, CA 92126 shall be released from the Collateral, if and when the then outstanding amount of the Loan (principal and accrued interest, if any) is equal to or less than 50% of the appraised value of the 1122 Broadway, San Diego, CA 92101. No secondary financing or liens will be permitted, and the entire balance of the Loan will be due on sale.

Loan Amount: \$17,500,000, or 75% of the appraised value of the fee simple interest of the Collateral, whichever is less. The appraisal shall be ordered by LENDER and is subject to LENDER'S approval.

Interest Rate: For purposes of this proposal, the initial interest rate for the first 10-years of the Loan is currently 6.65% per annum (based on a 356 basis point spread over 10-year Interest Rate Swaps). The initial interest rate (including index and spread) is subject to change daily, prior to rate lock, based on market and rate fluctuations as determined in LENDER's sole discretion. The actual interest rate of the Loan will be fixed at an initial rate for 10-years from the date of the note and, subject to the conditions below, shall adjust for the final 5-years thereafter based on the Reset Rate, as defined below, and will be set during the week of closing, unless previously locked by BORROWER and LENDER as noted below.

In the event that a Material External Event (defined below) occurs prior to the effective date of any Reset Rate (the "Reset Date") then LENDER will be under no obligation to extend the Loan beyond the Reset Date and all unpaid principal and interest shall become due and payable on such date. A Material External Event will exist whenever there will have occurred one or more of these events: (i) the inability of LENDER to secure funding for the Loan at any Reset Date because of specific action by any governmental agency having jurisdiction over LENDER; or (ii) any change in the general financial, bank

or capital market conditions that has a material adverse effect on the ability of Lender to extend credit or fund activities necessary for such extension of credit.

The Reset Rate shall be the rate at which the Loan adjusts and will be determined based on the applicable 5-year Interest Rate Swap, plus a reset spread, which is currently 4.13%. The reset spread is subject to change daily prior to rate lock based on market and rate fluctuations as determined in LENDER's sole discretion. The actual reset spread will be determined during the week of closing, unless previously locked by BORROWER and LENDER as noted below.

In the event a commitment is issued, BORROWER may be given the option to lock the initial interest rate and reset spread of the Loan prior to closing, subject to the terms and conditions of the commitment.

Interest shall be computed on the basis of a 360-day year and the actual number of days elapsed in a 365-day year (365/360 accrual method). All amounts payable, including any late fees, impounds and reimbursable expenses, will be paid through ACH pursuant to the terms of an Authorization for Automated Payment Service to be executed by BORROWER.

Additional Options for Alternative Interest Rate Structures:

5-Year Reset Option

Interest Rate: For purposes of this proposal, the initial interest rate for the first five (5) years of the Loan is currently 5.75% per annum (based on a 3.88 basis point spread over 5-year Interest Rate Swaps). The initial interest rate (including index and spread) is subject to change daily, prior to rate lock, based on market and rate fluctuations as determined in LENDER's sole discretion. The actual interest rate of the Loan will be fixed at an initial rate for five (5) years from the date of the note and, subject to the conditions below, shall adjust every five (5) years thereafter based on the Reset Rate, as defined below, and will be set during the week of closing, unless previously locked by BORROWER and LENDER as noted below.

In the event that a Material External Event (defined below) occurs prior to the effective date of any Reset Rate (the "Reset Date") then LENDER will be under no obligation to extend the Loan beyond the Reset Date and all unpaid principal and interest shall become due and payable on Reset Date. A Material External Event will exist whenever there will have occurred one or more of these events: (i) the inability of LENDER to secure funding for the Loan at any Reset Date because of specific action by any governmental agency having jurisdiction over LENDER; or (ii) any change in the general financial, bank or capital market conditions that has a material adverse effect on the ability of Lender to extend credit or fund activities necessary for such extension of credit.

The Reset Rate shall be the rate at which the Loan adjusts every five (5) years and will be determined based on the applicable 5-year Interest Rate Swap at the time of each reset, plus a reset spread, which is currently 4.13%. The reset spread is subject to change daily prior to rate lock based on market and rate fluctuations as determined in LENDER's sole discretion. The actual reset spread will be determined during the week of closing, unless previously locked by BORROWER and LENDER as noted below.

In the event a commitment is issued, BORROWER may be given the option to lock the initial interest rate and reset spread of the Loan prior to closing, subject to the terms and conditions of the commitment.

Interest shall be computed on the basis of a 360-day year and the actual number of days elapsed in a 365-day year (365/360 accrual method). All amounts payable, including any late fees, impounds and reimbursable expenses, will be paid through ACH pursuant to the terms of an Authorization for Automated Payment Service to be executed by BORROWER.

15-Year Fixed Rate Option

Interest Rate: For the purpose of this proposal, the interest rate is currently 7.03% per annum (based on a 395 basis point spread over 10-year Interest Rate Swaps). The interest rate (including index and spread) is subject to change daily, prior to rate lock, based on market and rate fluctuations as determined in LENDER'S sole discretion. The actual interest rate of the Loan will be fixed for the term of the Loan and will be set during the week of closing.

In the event a commitment is issued, BORROWER may be given the option to lock the interest rate of the Loan prior to closing, subject to the terms and conditions of the commitment.

Interest shall be computed on the basis of a 360-day year and the actual number of days elapsed in a 365-day year (365/360 accrual method). All amounts payable, including any late fees, impounds and reimbursable expenses, will be paid through ACH pursuant to the terms of an Authorization for Automated Payment Service to be executed by BORROWER.

Term: 15 years

Amortization: 25 years

Payments: Principal and Interest, paid in arrears and adjusted at the Rate Reset date.

Prepayment Provisions: Upon not less than thirty (30) days advance written notice to LENDER, the Borrower shall have the right to prepay the entire indebtedness under the note upon payment to LENDER the sum of the following: (1) the entire indebtedness due under the note; plus (2) all other sums due under the note or under any of the other loan documents in connection with the Loan; plus (3) as an additional sum, a prepayment fee ("Prepayment Fee") equal to the greater of:

- (A) One percent (1%) of the then outstanding principal balance; or
- (B) the positive difference, if any, between: (i) the "present value" (as hereinafter defined) as of the date of prepayment of all scheduled future installments of principal and interest due under the note using the current interest rate on Loan, and (ii) the outstanding principal balance of the note on the date of prepayment. All "present values" shall be calculated using the weekly average yield reported by the Federal Reserve Board in the Federal Reserve Statistical Release H.15 (519) as of the Friday immediately preceding the week in which the prepayment quote is prepared for U.S. Treasury Constant Maturities having a maturity equal to the remaining average life (rounded to the nearest published maturity) of the Loan plus a spread of 300 basis points.

Provided, however, no Prepayment Fee shall be due during the last ninety (90) days prior to a scheduled rate change.

Annual Principal Paydown: A maximum of 10% of the outstanding principal balance allowed once every 12 months without fee.

Limited Recourse: Except as provided below, the Loan shall be non-recourse against BORROWER and any general partner of BORROWER.

LENDER shall have full recourse against BORROWER for the full payment of: (i) any prepayment fee owed, (ii) all taxes, insurance premiums and other amounts advanced by LENDER on behalf of BORROWER pursuant to the Loan Documents (as hereinafter defined), (iii) all attorneys' fees and other costs incurred by LENDER in collecting payment and otherwise exercising remedies under the Loan Documents following default, (iv) all rents, profits, insurance proceeds, condemnation awards, security deposits or other sums or payments received by or on behalf of BORROWER and not paid or applied in

accordance with the Loan Documents, and (v) all amounts owed under the environmental indemnity agreement to be included among the Loan Documents.

In addition, LENDER shall have full recourse against BORROWER all of whom shall be liable jointly and severally, for the full payment of all indebtedness evidenced by the Loan Documents in the event of (i) fraud or intentional misrepresentation by BORROWER or any general partner of BORROWER as to any material facts set forth in the Loan Documents or in any materials provided by BORROWER or any general partner of BORROWER, or (ii) in the event of uninsured or underinsured acts of terrorism, or upon a prohibited transfer or a voluntary or collusive involuntary bankruptcy of BORROWER.

Loan Documents: The Loan shall be evidenced and secured by such documentation (including (without limitation) a promissory note, mortgage or deed of trust, assignment of rents, security agreement and environmental indemnity agreement) as LENDER customarily requires and containing the usual terms, conditions, and remedies contained in LENDER's customary loan documents for first lien mortgage loans secured by properties of the nature and in the jurisdiction of the Property, as such documents may be modified or expanded to address any special features or conditions unique to the Loan, the Borrower or the Property (collectively, the "Loan Documents"). This proposal and any commitment for the loan merely summarize some key terms and conditions of the loan. Only the loan documents will contain a complete statement of all terms and conditions of the loan.

IMPORTANT: LENDER'S COUNSEL REPRESENTS ONLY THE LENDER AND DOES NOT REPRESENT THE BORROWER. LENDER'S INTERESTS IN THIS TRANSACTION AND THAT OF THE BORROWER MAY CONFLICT. YOU SHOULD ENGAGE AN ATTORNEY OF YOUR CHOICE LICENSED TO PRACTICE LAW IN CALIFORNIA TO REPRESENT YOUR INTERESTS IN THIS TRANSACTION.

Additional Requirements: LENDER's conditions to closing shall include (without limitation) receipt of each of the following in form and substance satisfactory to LENDER:

- Appraisal, ordered by LENDER and prepared in such scope and form as LENDER shall require
- Environmental site assessment(s), ordered by LENDER and prepared in such scope and form as LENDER shall require
- Property condition assessment, ordered by LENDER and prepared in such scope and form as LENDER shall require
- Seismic screening report and, if necessary, seismic study, ordered by LENDER and prepared in such scope and form as LENDER shall require
- Financial statements and Property information as LENDER shall request
- Subordination of all leases affecting 1122 Broadway, San Diego, CA 92101
- A mortgagee's extended coverage ALTA title policy, (or equivalent if unavailable), from an insurer acceptable to LENDER, and with such endorsements as LENDER may require;
- ALTA as-built survey, certified to LENDER and the title company, in form and content acceptable to LENDER
- Verification that the property and improvements are complete and not damaged by fire or other casualty, nor subject to any condemnation proceedings, pending or threatened
- An opinion of BORROWER's outside legal counsel as to the enforceability of the Loan Documents under the laws of the Property's jurisdiction and such other matters as LENDER shall reasonably require; and

- Proof of the Property's compliance with parking, zoning, licensing and other applicable laws and regulations, including (without limitation) a permanent certificate(s) of occupancy.
- Property, liability, rental loss (or business interruption, as appropriate), and other insurance in such amounts as LENDER may from time to time require. If any portion of the property is located in a special flood hazard area, LENDER shall require flood insurance in accordance with federal regulations; for properties located in earthquake hazard areas LENDER may require earthquake

insurance. All insurance policies must be in accordance with LENDER'S insurance requirements and shall include any endorsements which LENDER may reasonably require.

Costs Payable by Borrower: BORROWER shall pay a loan processing fee of \$1,200.00 per site, plus all out-of-pocket costs associated with the Loan (together, the "Expenses"), including (without limitation) the fees and costs of LENDER's outside legal counsel, the cost of any environmental investigation and reports, the cost of a property condition assessment report, appraisal costs, any loan, escrow, recording and transfer fees and taxes, title charges, survey costs, realty tax service fees, seismic screening report (if in a UBC zone 3 or 4) and seismic study if necessary, and all other out-of-pocket costs incurred by LENDER in its discretion in connection with the Loan (such costs not to include LENDER's costs of internal document preparations, if any), whether the Loan is closed or not.

BORROWER requests that LENDER (i) conduct due diligence (including but not limited to appraisal, environmental and engineering investigations) and (ii) instruct its outside counsel to prepare formal documentation and undertake related legal investigations for the Loan on an expedited basis. BORROWER understands that LENDER has not approved, and may not approve the Loan. If the Loan is approved, it may be conditioned on additional and/or different terms and conditions than those outlined in this letter. Initiation or continuation of the activities above may not be construed as approval of the Loan or as an indication that such approval is forthcoming. By executing this letter, BORROWER agrees to pay, on demand, all Expenses whether or not the Loan is approved by LENDER or closes, and acknowledges that the Deposit may be applied by the LENDER to the payment of such Expenses.

Prior to engaging any third party reports, LENDER will provide BORROWER with a schedule of costs for reasonable approval by BORROWER.

Deposit: Upon acceptance of this proposal, BORROWER shall pay LENDER a non-interest bearing deposit in the amount of \$75,000.00. In the event LENDER does not approve this transaction, the Deposit will be returned to BORROWER, less Expenses incurred by LENDER. If LENDER approves this transaction, the Deposit will be held by LENDER during the closing process and may be used to pay Expenses incurred by LENDER in connection with this transaction. After all Expenses of the transaction have been paid, any remaining amount of the Deposit will be returned to BORROWER upon the occurrence of any of the following events (each a "Deposit Refund Event"): (i) LENDER declines to approve the transaction; (ii) upon Loan closing, and the receipt of all properly executed documentation, which documentation shall include the final Policy of Title Insurance and originals of all Loan Documents; or (iii) upon BORROWER's failure to accept a commitment for the Loan in the event that LENDER issues a commitment that includes a new term or condition that constitutes a material change to the terms and conditions set forth in this proposal; or (iv) upon the breach by LENDER of the commitment, if any, issued as a result of this proposal. If this transaction is not fully closed by the Loan Closing Date for any reason other than a Deposit Refund Event, then LENDER will retain the Deposit as part of its liquidated damages. Notwithstanding anything herein to the contrary, at LENDER's sole discretion, upon Loan closing, Expenses owed at Loan closing may be paid from net Loan proceeds at the time of closing rather than from the Deposit, however, LENDER reserves the right to require additional Deposit funds at any time prior to Loan closing, as needed to cover anticipated Expenses, and to withhold a portion of the deposit to cover further Expenses not yet billed by the Loan Closing Date. In such case the withheld portion of the Deposit will be returned to BORROWER, less final Expenses, upon settlement of all final invoices, but no later than 90 days after closing. Any remaining expenses after that time shall be billed to BORROWER under the same terms and conditions as the loan payments.

Brokerage: LENDER shall not be required to pay any brokerage fee or commission arising from this proposal or any future commitment, if issued, and the BORROWER agrees to defend, indemnify and hold LENDER harmless against any and all expenses, liabilities, and losses arising from such claims in connection therewith, including payment of reasonable attorney's fees.

BORROWER represents and warrants to LENDER, that BORROWER has retained Northmarq Realty Services, Inc., to represent BORROWER with respect to this proposal and the Loan, and that Northmarq Realty Services, Inc. shall be paid by BORROWER pursuant to a separate retainer agreement. LENDER represents and warrants to BORROWER, that LENDER, has not directly engaged any real estate, loan, mortgage or business broker, agent, finder, and no other person is responsible for bringing about or negotiating this proposal or the Loan, and that LENDER has not dealt with any other real estate, loan, mortgage or business broker, agent, finder, or person relative to this proposal or the Loan in any manner at this time.

Loan Closing Date: LENDER's obligation to fund under this proposal will terminate on November 1, 2011.

Legal Compliance: To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each individual or business that opens an account or requests credit. What this means for individuals and businesses: when a business opens an account or requests credit, the lender will ask for the business name, business address, Employer Identification Number, and other information that allows the lender to identify the business and all signatories. The lender may also ask to see other identifying documents showing the existence of the business, and the dates of birth for all principals, guarantors or signatories. When an individual opens an account or requests credit, the lender will ask for the individual's name, date of birth, address and Social Security Number or Tax Identification Number. The lender may also ask to see identifying documents such as a drivers license as verification of the information provided.

The due diligence required for this transaction shall include (without limitation), evidence of BORROWER's organization, authorized signatories and transaction approval; copies of valid driver's licenses or other acceptable photo identification for all individual borrowers or signatories; review of such financial statements as LENDER shall request, including financial or operating statements of the property; W-9 form, tax returns, credit and background checks on BORROWER; and other customary due diligence (including but not limited to review of source of funds, Equifax and other credit reports) acceptable to LENDER to determine credit status and as is needed for compliance with anti-money laundering and anti-terrorism laws, regulations and orders.

Jury Waiver: TO THE MAXIMUM EXTENT PERMITTED BY LAW, LENDER AND BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION ARISING OUT OF THE PROPOSED LOAN, ANY AGREEMENT TO BE EXECUTED IN CONJUNCTION THEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THE PROVISIONS OF THIS SECTION ARE MATERIAL INDUCEMENTS FOR LENDER CONSIDERING THE PROPOSED LOAN.

Proposal Expiration: This proposal, if not accepted, expires on June 28, 2011.

You may indicate your acceptance of this proposal by executing the enclosed copy of this letter and returning it together with the Deposit and the requested financial statements and Property Information. As noted above, this is only a preliminary expression of interest by LENDER and neither this letter, nor your acceptance thereof, constitutes a commitment. The proposed transaction is subject to receipt of all necessary approvals by LENDER; no commitment will exist unless (i) you accept this proposal, (ii) all approvals by LENDER have been obtained, and (iii) LENDER issues a formal, written commitment letter setting forth the approved terms and conditions of the transaction.

By accepting this proposal, BORROWER acknowledges that this letter contains the entire proposal (superseding all previous representations and agreements, either oral or written) and that there are no promises, agreements or understandings outside of this letter.

In the event that LENDER, based upon its review and in its sole discretion, approves this transaction, a commitment letter will be issued setting forth the terms and conditions of the transaction.

We appreciate the opportunity to submit this proposal. If you have any questions or require further information, please feel free to contact us.

Respectfully,

**GE COMMERCIAL FINANCE BUSINESS
PROPERTY CORPORATION**

Robert McRae

Robert McRae
Senior Vice President

LENDER acknowledges that the BORROWER is a public agency and is not authorized to close on the Loan unless and until the Loan is approved by the Board of Commissioners of the BORROWER and its counsel and the Housing Authority of the City of San Diego. The Board of Commissioners of the BORROWER and the Housing Authority of the City of San Diego are independent bodies which may or may not approve the Loan. BORROWER is accepting the proposal set forth in this letter, however, the BORROWER's obligation to close the Loan is contingent upon the approvals of the Board of Commissioners of the BORROWER and its counsel and the Housing Authority of the City of San Diego which may be granted or withheld in their sole discretions. Should approval by the Board of Commissioners not be granted or the BORROWER elect not to proceed with the financing, the loan deposit will be refunded to BORROWER, less all incurred expenses associated with the loan including a \$5,000 processing fee.

The above terms and conditions are hereby
agreed to and accepted this 22nd day of
June 2011.

San Diego Housing Commission

By 

[Name] Richard C. Gentry

Title President and CEO

NOTICE. The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, (provided the applicant has the capacity to enter into a binding contract), because all or part of the applicant's income derives from any public assistance program or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Deposit Insurance Corporation, FDIC Consumer Response Center, 2345 Grand Boulevard, Kansas City, Missouri 64108.