

Free Recording Requested Pursuant to
Government Code Sections 27383 and 27388.1

When recorded, mail to:
Mayor's Office of Housing and Community Development
City and County of San Francisco
1 South Van Ness Avenue, 5th Floor
San Francisco, California 94103
Attn: Housing Loan Administrator

-----Space Above This Line for Recorder's Use-----

2901 16th Street
San Francisco, CA 94103
Assessor's Lot 001, Block 3570

PURCHASE OPTION AGREEMENT

THIS PURCHASE OPTION AGREEMENT (the "**Agreement**") is made and entered into as of _____, 20__ (the "**Effective Date**"), by and among **MEDA SMALL PROPERTIES, LLC**, a California limited liability corporation ("**Owner**"), Mission Economic Development Agency, a California nonprofit public benefit corporation ("**Manager**") and the City and County of San Francisco, a municipal corporation ("**City**"), represented by the Mayor, acting by and through the Mayor's Office of Housing and Community Development ("**MOHCD**"), with reference to the following recitals of fact:

R E C I T A L S:

A. Owner owns that certain real property located in the City of San Francisco, State of California, and more particularly described on the attached Exhibit A, incorporated herein by this reference, and certain improvements thereon (the "**Property**"), commonly known as 2901 16th Street, a mixed-use development consisting of 63 low to moderate residential income units and eight (8) commercial units (the Property together with the tangible and intangible personal property directly related to the operation, management, and ownership of the Property in the possession or control of Owner, including all cash accounts, deposits, and reserves held by Owner, the "**Project**").

B. MOHCD administers the Small Sites Acquisition and Rehabilitation Program ("**Small Sites Program**,"") for the purpose of preserving and stabilizing San Francisco's existing rental housing stock of buildings that are occupied by low- to moderate-income tenants who are vulnerable to displacement due to market-driven increases in evictions. The Small Sites Program helps San Franciscans avoid displacement eviction by removing small properties from the speculative market, stabilizing housing for current tenants of those properties, and converting the properties to permanently affordable housing. In connection with the Small Sites Program,

Owner has recorded or will record a Declaration of Restrictions in favor of the City (the “**Declaration**”).

C. The City regulates the affordability of the Project through the Declaration, and compliance with and the continued enforceability of the Declaration is of paramount importance for the City as the regulator of the Small Sites Program. This Agreement is entered into between Owner and the City as a means of ensuring the affordability of the Project in the event that the Declaration no longer governs the Property or that Owner is in default of the regulatory obligations specified in the Declaration.

D. The term of the Declaration (the “**Compliance Term**”) is as long as the Project or any modification of the Project remains in existence, but in any event no less than ninety-nine (99) years. Although the City is lending funds to Owner for the Project, the regulatory program under the Declaration is separate from the City’s loan, and survives the expiration or repayment of the loan. The purchase option granted by Owner in this Agreement is granted in recognition of the City’s interest in ensuring that the regulatory program pursuant to the Declaration remains in full force and effect. Owner acknowledges and agrees that (i) the City’s interest in this Agreement is as a regulator, as a means of ensuring the continued enforceability of the Declaration, and not in its proprietary capacity, (ii) exercise of the Option is contingent upon the termination, unenforceability, or failure to comply with the Declaration, (iii) Owner intends to provide permanent affordability to low and moderate income households residing at the Project; (iv) the regulatory obligations under the Declaration are separate from repayment of the City’s loan and survive the City’s loan to Owner, (v) exercise of the Option is not dependent upon a monetary default of the City’s loan, and (vi) the Option is not a security instrument intended to circumvent California foreclosure law.

E. In connection with the Project, and in consideration of the foregoing, Owner desires to grant to the City an option to purchase the Project in certain limited circumstances.

F. Owner and City desire to set forth the terms of the option from Owner to the City.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties to this Agreement agree as follows:

A G R E E M E N T:

1. Recitals. The foregoing recitals are true and correct and are incorporated herein.
2. Grant of Option. Owner grants to the City an option (the “**Option**”) to purchase the Project on the terms and conditions set forth in this Agreement. Owner acknowledges that the grant of the Option is supported by valuable consideration received by Owner, including the Loan.
 - (a) Exercise Period. The period during which the City will have the right to exercise the Option will commence on the Effective Date and expire ninety-nine (99) years after the recording date of the Declaration of Restrictions (the “**Option Term**”). On request by the City,

Owner will provide (and the City and/or its designee may conduct) any physical and documentary due diligence of the Project as the City may determine is necessary (provided, however, any destructive testing of the Project will require the prior consent of Owner in its reasonable discretion). Owner will cooperate with the City in such due diligence. At any time, City may deliver a written notice to Owner requesting Owner to select the appraisers under Section 3 below (the "**Appraisal Notice**"). Upon receipt of the Appraisal Notice, Owner will have thirty (30) days to provide the list of selected appraisers to City.

(b) Exercise Notice. As a condition precedent to City's Option rights, City may only exercise the Option if, during the Option Term, (i) the Declaration is terminated or is unenforceable for any reason, or (ii) in City's reasonable judgment the Declaration will be terminated or be rendered unenforceable, or (iii) Owner fails to comply with the affordability restrictions set forth in the Declaration, or (iv) if, after the City's loan for the Project is repaid, Owner receives any offer to purchase the Project or any interest therein, or intends to transfer the Project or any interest therein, then Owner must provide City an Offer Notice (defined below). In the event Owner fails to comply with the affordability restrictions in the Declaration during the Option Term, City shall provide written notice to Owner and Manager of such failure, and Owner and Manager shall have sixty (60) days to cure the failure, or, if such failure cannot be cured within such sixty (60) day period, such longer period as is reasonably necessary to cure such default, provided that such cure has been commenced within such sixty (60) day period and is being prosecuted diligently to completion. For avoidance of doubt, Manager has the right, but not the obligation, to cure any such default, and if Manager cures such default within the cure period, City will accept such action as curing the respective default. City may exercise the Option by delivering to Owner written notice of the exercise (the "**Exercise Notice**"). The date of delivery of the Exercise Notice will be the first day of the escrow period set forth in Section 4 below. "**Offer Notice**" means a written notice from Owner to the City containing all material terms of the offer to purchase or proposed transfer of the Project. Owner will not accept any offer or transfer the Project or any interest therein for a least one hundred twenty (120) days after delivering the Offer Notice to the City, to allow the City to determine if it will exercise its Option.

(c) Option Purchase Price. If City purchases the Project pursuant to the Option, then the purchase price for the Project will be the fair market value of the Project for purposes of this subsection, determined as follows: The fair market value of the Project will be determined by an appraisal that: (i) takes into account the net balances of all of the applicable Project cash accounts; (ii) disregards the determination of the amount of indebtedness and taxes; (iii) values the Project as restricted to low and moderate income housing development as provided in the Declaration; (iv) takes into account any loan agreements or regulatory agreements pertaining to the Project; and (v) takes into account the terms of any assumable financing. Any appraiser performing an appraisal under this Agreement must be a member of the Appraisal Institute with not less than five (5) years' experience valuing projects like the Project in the geographic area where the Project is located. Within thirty (30) days after Owner receives an Appraisal Notice or Exercise Notice, Owner will notify City of Owner's determination of the fair market value for the Project in consideration of all of the assumptions and other criteria set forth in this subsection above. If City disputes Owner's determination of the fair market value, City will notify Owner within fourteen (14) days after Owner's notice to City of the fair market value and the dispute will be resolved as follows:

(i) Within thirty (30) days after Owner's notice to City of the fair market value, Owner and City will attempt in good faith to meet no less than two (2) times, at a mutually agreeable time and place, to attempt to resolve the disagreement.

(ii) If within that thirty (30)-day period Owner and City cannot agree on the fair market value, then each will select one appraiser to determine the fair market value. Within thirty (30) days after the expiration of the thirty (30) day consultation period, each party will cause its appraiser to prepare and complete an appraisal report determining the fair market value and submit the report to Owner and City.

(iii) If only one appraisal report is submitted within that 30-day period, then the fair market value determined in that appraisal report will be used to establish the Purchase Price for the Project. If both appraisal reports are submitted within the 30-day period, and if the fair market values determined in the two appraisal reports differ by less than ten percent (10%) of the higher of the two, then the average of the two will be the fair market value. If the fair market value in the two appraisal reports differ by more than ten percent (10%) of the higher of the two, then the two appraisers will immediately select a third appraiser. Within thirty (30) days after the third appraiser is selected, the third appraiser will prepare an appraisal report determining the fair market value and submit the report to Owner and City. The fair market value determined in the third appraisal report will then be averaged with the closer of the fair market values from the two previous appraisals and the result will be the fair market value.

(iv) If City's Director of Property does not approve the fair market value as determined by the appraisal procedure specified above, the Director of Property may revoke City's exercise of the Extension Option. Owner and City will pay the cost of the appraiser it selects and one-half of the cost of the third appraiser.

3. Completion of Sale.

(a) Permitted Encumbrances. Within ten (10) business days after Owner receives an Exercise Notice, Owner will deliver to the City a current preliminary title report issued by a title company reasonably acceptable to the City showing such encumbrances and exceptions to title insurance coverage. Owner will convey fee simple title to the real property in the Project by grant deed subject only to all encumbrances, easements, covenants, conditions, restrictions, and other matters of record as of the Effective Date (excluding however, and free and clear of, the lien of any contractor, supplier materials provider, or the lien of any deeds of trust or other encumbrances securing any indebtedness of Owner), and any Permitted Future Encumbrances (as defined below), any off record matters ascertainable by an inspection or survey of the Project, interests of parties in possession, zoning and other laws applicable to the Project, and the lien not yet delinquent for taxes for real property, and any non-delinquent general or special assessments against the real property (collectively, "**Approved Title Exceptions**"). Owner will cause a title company to issue, upon close of escrow, an ALTA or CLTA (as the City elects) owner's policy of title insurance dated as of the close of escrow, in an amount equal to the purchase price, showing title to the real property in the Project vested in the City and subject only to Approved Title Exceptions. "**Permitted Future Encumbrances**" means, to the extent reasonably necessary for the operations of the Project as conducted or contemplated to be conducted as of the Effective Date, any third-party easement for utility, data, telecommunications, or ingress and egress; and

any reciprocal easement agreement or covenants, conditions, and restrictions, granted and/or entered into by Owner. Owner will convey unencumbered title to the other property in the Project (including personal property, intangible property, accounts, plans, warranties, records, etc.) by bill of sale, assignment, or other document of conveyance acceptable to the City.

(b) Closing Requirements. The closing of the sale of the Project will be through an escrow opened with a title company reasonably acceptable to the City. Escrow for the sale of the Project will close no later than three hundred sixty-five (365) days after Owner's receipt of the Exercise Notice, unless otherwise agreed upon by Owner and the City. The costs of the sale will be apportioned between Owner and the City according to the custom then in effect in San Francisco County, California. The following will apply to the sale of the Project: (i) the sale of the Project will be on an as-is, where-is basis, with customary representations and warranties, including those implied in a California grant deed; and (ii) rents, insurance, taxes, operating expenses, and debt service then due and payable will be apportioned as of the day the grant deed is actually recorded in the official records of San Francisco County, California. Notwithstanding anything to the contrary contained in this Agreement, if City fails to purchase the Project for any reason after delivery of an Exercise Notice, then the City's liability under this Agreement will be limited solely to the termination of the Option and any other of the City's rights under this Agreement, and Owner will have no right or cause to seek any damages against the City for failure to purchase the Project.

4. No Subordination. The City's Option may not be subordinated to any first tier lien of any deeds of trust or other encumbrances against the Project securing any indebtedness of Owner after the Effective Date without the City's prior written consent, which may be given or withheld in the City's sole discretion.

5. Quitclaim Deed and Termination of Option. Upon termination of the Option, the City agrees, upon Owner's request, to (i) execute and deliver to Owner a quitclaim deed, releasing all of the City's rights, title, and interest in and to the Project, and (ii) execute, acknowledge, and deliver such other documents as may be reasonably required by Owner's title company to remove the cloud of the Option from title to the Project.

6. Notices. Notices, demands, and communications between the parties must be in writing and will be served personally or by United States mail, sent certified, return receipt requested, post prepaid, and,

if intended for Owner, or Manager, addressed to:

MEDA SMALL PROPERTIES, LLC
c/o Mission Economic Development Agency
2301 Mission Street
Suite 301
San Francisco, CA 94110
Attn: Chief Executive Officer

With a Copy to:

Goldfarb & Lipman LLP
1300 Clay Street
Eleventh Floor
Oakland, CA 94612
Attn: Lynn Hutchins

if intended for the City, addressed to:

Mayor's Office of Housing and Community Development
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103
Re: 2901 16th Street Option to Purchase
Attn: Director

with copies of all notices to be sent to:

City and County of San Francisco
Real Estate Division
25 Van Ness Avenue, Suite 400
San Francisco, CA 94102
Attn: Director of Property

or to such address as a party may have furnished to the other in writing as a place for the service or notice. Any notice delivered personally or so mailed will be deemed to have been received on the delivery date, or the date that delivery is refused by the addressee, as shown in the records of the deliverer or on the return receipt, as applicable.

7. Attorney's Fees. In the event of any action or proceeding at law or in equity between any of the parties to this Agreement to enforce any provision of this Agreement or to protect or establish any right or remedy of a party, the unsuccessful party to the litigation will pay to the prevailing party all costs and expenses, including, without limitation, reasonable attorneys' fees incurred by the prevailing party, and if the prevailing party recovers judgment in any action or proceeding, the costs, expenses, and attorney's fees will be included in and as part of the judgment. For purposes of this Agreement, reasonable fees of in-house attorneys for the any of the parties to this Agreement will be based on the fees regularly charged by private attorneys (a) in San Francisco law firms of similar size as the in-house legal department; and (b) with an equivalent number of years of professional experience in the subject matter area of the law for which such attorney's services were rendered.

8. Miscellaneous.

(a) Each party to this Agreement represents and warrants that it has not had or will have any dealings with any person, firm, broker, or finder in connection with the negotiation of this Agreement and/or the consummation of the transaction contemplated under this Agreement.

Each party to this Agreement will indemnify and hold harmless the other parties from and against costs, expenses, and liabilities for compensation, commissions, or charges that may be claimed by any broker, finder, or similar party because of any actions of the indemnifying party.

(b) The rights and obligations of the parties under this Agreement will inure to the benefit of, and will bind their respective successors and assigns, including any successor to the interest of Owner in and to the Project. Upon any transfer or conveyance of the Project or any interest therein or in Manager where the prior consent of the City is required by the terms of any agreement to which Owner and/or the Manager is a party, in addition to such conditions as the City may be entitled to impose under the other agreements, the Manager and/or the transferee will execute any documentation reasonably required by the City to acknowledge and affirm the City's option under this Agreement. The Option is assignable by City on prior written notice to, but otherwise without the consent of, the Owner. Notwithstanding anything to the contrary contained in this Agreement, the City's obligation to purchase the Project after exercise of the Option will be conditioned on the approval and authorization of such transaction by the City's Board of Supervisors and Mayor, each in their sole and absolute discretion. This condition will not be required if the City assigns its rights under this Agreement to a third party.

(c) The captions used in this Agreement are for convenience of reference only and are not part of this Agreement and do not in any way limit or amplify the terms and provisions hereof.

(d) Time is of the essence of each and every agreement, covenant, and condition of this Agreement.

(e) This Agreement will be interpreted in accordance with, and governed by, the laws of the State of California.

(f) This Agreement constitutes the entire agreement by and among the parties with respect to the grant of the City of an option to purchase the Project unrelated to the right of City as a lender under any loan made by the City to Owner, and supersedes all prior offers and negotiations, oral and written. This Agreement may not be amended or modified in any respect whatsoever except by an instrument in writing signed by the parties; provided, however, no amendment or modification will be effective unless consented to in writing by the parties.

(g) The parties will record a Memorandum of Purchase Option Agreement in the Official Records of the City and County of San Francisco, California evidencing the rights of the City under this Agreement, in form and substance reasonably acceptable to the City.

9. Assignment of Option. In the event that City exercises its rights to the Option pursuant to this Agreement, City may assign this Agreement and all of City's rights hereunder to a corporation that is tax-exempt under Section 501(c)(3) of the U.S. Internal Revenue Code and that is qualified to own and operate housing developments for low income persons; provided, however, that any such assignment shall be subject to all of the terms of this Agreement. City's right to assign pursuant to the preceding sentence shall only be permitted after City elects to exercise its rights to the Option, pursuant to this Agreement. City shall give prior written notice of any permitted assignment to the parties hereto and any such assignee shall enter into a written

agreement accepting the assignment and assuming all of City's obligations under this Agreement. Except as specifically permitted herein, City's rights hereunder shall not be assignable.

IN WITNESS WHEREOF, Owner, City, and Manager have executed this Agreement as of the date first above written.

OWNER:

MEDA SMALL PROPERTIES, LLC,
a California limited liability company

By: Mission Economic Development Agency,
a California nonprofit public benefit corporation
Its: Sole Member and Manager

By: _____
Name: Luis Granados
Its: Chief Executive Officer

[Signatures Continue on Following Page]

MANAGER

Mission Economic Development Agency,
a California nonprofit public benefit
corporation

By: _____
Name: Luis Granados
Title: Chief Executive Officer

[Signatures Continue on Following Page]

CITY:

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation

By: _____
Daniel Adams
Director, Mayor's Office of Housing
and Community Development

APPROVED AS TO FORM:

DAVID CHIU
City Attorney

By: _____

Deputy City Attorney

Exhibit A

Legal Description

The land referred to is situated in the County of San Francisco, City of San Francisco, State of California, and is described as follows:

Beginning at the point of intersection of the Westerly line of South Van Ness Avenue and the Southerly line of 16th Street; running thence Westerly along said line of 16th Street 175 feet and 1 inch, more or less, to a point which is distant thereon 106 feet and 3/4 of an inch Easterly from the Easterly line of Capp Street; thence at a right angle Southerly 87 feet and 6 inches; thence at a right angle Easterly 175 feet and 1 inch, more or less, to the Westerly line of South Van Ness Avenue; thence Northerly along said line of South Van Ness Avenue 87 feet and 6 inches to the point of beginning.

Being a portion of Mission Block No. 41.

Assessor's Lot 001; Block 3570

Street Address:
2901 16th Street
San Francisco, CA 94103