

5/7/14

FILE NO. 140448

RESOLUTION NO.

1 [Transfer Agreement, Option to Ground Lease, and Ground Lease in the amount of
2 \$4,558,269, \$0 and \$1, respectively - 1500 Page Street LLC and Mercy Housing
3 California 57 - 1500 Page Street]

4 **Resolution authorizing the execution and performance of a Transfer Agreement**
5 **in the amount of \$4,558,269 which expires on June 30, 2014 between the City and**
6 **County of San Francisco and 1500 Page Street, LLC, a California limited liability**
7 **company, for the transfer of real property and improvements located at 1500**
8 **Page Street, San Francisco, for the development of 16 units of affordable**
9 **housing for persons with developmental disabilities and one manager's unit;**
10 **authorizing the execution and performance of an Option to Ground Lease in the**
11 **amount of \$0 which expires on June 30, 2015 and a Ground Lease in the amount**
12 **of \$1 annual base rent for so long as HUD is senior lender and 10% of fair market**
13 **value at all times thereafter bearing a 75 year term and one 24 year extension**
14 **between the City and County of San Francisco and Mercy Housing California 57,**
15 **a California limited partnership; adopting findings under the California**
16 **Environmental Quality Act; and adopting findings that the conveyance is**
17 **consistent with the General Plan, and the eight priority policies of Planning**
18 **Code, Section 101.1.**

21
22 WHEREAS, In April 2006, the Mayor's Office of Housing and Community
23 Development ("MOHCD") issued a Notice of Funding Availability ("NOFA") to provide
24 acquisition and predevelopment financing for the development of supportive housing
25 for chronically homeless persons; and

1 WHEREAS, Pacific Institute/Age Song submitted an application in response to
2 the NOFA and was selected to be the developer for the development of a 46-bed
3 residential care facility for chronically homeless persons (the "Original Project") to be
4 located at 1500 Page Street (Assessor's Block 1223, Lot 004) (the "Property"); and

5 WHEREAS, Pacific Institute/Age Song established a separate entity named
6 1500 Page Street LLC, a California limited liability company ("Transferor") under which
7 to acquire the Property and develop the Original Project; and

8 WHEREAS, In March 2007, Transferor acquired the Property for \$2,850,000
9 using a \$1,000,000 acquisition loan from East West Investment, Inc., a California
10 corporation (the "Senior Bank Loan"), and a \$2,080,950 acquisition and
11 predevelopment loan from MOHCD (the "MOHCD Acquisition Loan"); and

12 WHEREAS, After acquiring the Property, the Transferor engaged in
13 predevelopment activities for the Original Project, which activities were funded by a
14 \$1,057,400 loan from MOHCD (the "Predevelopment Loan" and together with the
15 MOHCD Acquisition Loan, the "City Debt"); and

16 WHEREAS, Due to economic and real estate market conditions, the Transferor
17 was unable to obtain financing for the Original Project, and as a result the Transferor
18 and MOHCD determined that the Original Project was not feasible; and

19 WHEREAS, Transferor no longer has the funds necessary to maintain the
20 Property or pay the debt service required under the Senior Bank Loan, and is therefore
21 in severe and imminent risk of defaulting under the Senior Bank Loan; and

22 WHEREAS, In order to protect its interest in the Property and further the City's
23 general plan priority of preserving and enhancing the supply of affordable housing,
24 MOHCD and Transferor worked together to determine an alternate plan to develop the
25 Property; and

1 WHEREAS, The Transferor's organizational mission is to operate residential
2 care facilities and not other types of affordable rental housing projects; and

3 WHEREAS, On June 17, 2011, the Citywide Affordable Housing Loan
4 Committee approved MOHCD's selection of Mercy Housing California ("Sponsor") to
5 develop the Property into 16 units of affordable housing for low- and very-low income
6 persons with developmental disabilities and 1 manager's unit (the "Current Project");
7 and

8 WHEREAS, On February 21, 2012, Sponsor obtained an award of \$2,347,800 in
9 HUD 811 financing to develop the Current Project; and

10 WHEREAS, An appraisal dated February 13, 2014 valued the Property now at
11 \$1,500,000; and

12 WHEREAS, According to the appraisal report, the significant decrease in the
13 value of the Property is due to: (1) the cost to renovate the building exceeds the value
14 of the improvements leaving value only in the land, and (2) the 38 units in the existing
15 building are registered as Single Room Occupancy units, and thus under
16 Administrative Code Chapter 41 must be replaced one for one, which significantly
17 diminishes the development potential for the Property; and

18 WHEREAS, Because the Senior Bank Loan is senior to the City Debt, if
19 Transferor defaults under the Senior Bank Loan, East West Investment Inc. would
20 likely foreclose on its Property lien, which would result in the loss of the Property as an
21 affordable housing asset and the loss of the City's investment in the Property; and

22 WHEREAS, MOHCD's mission is to preserve and facilitate development of
23 affordable housing for residents of San Francisco and, therefore, proposes to retain the
24 Property rather than lose it and its secured loans to a foreclosure sale; and
25

1 WHEREAS, MOHCD approached East West Investment, Inc. regarding the
2 Senior Bank Loan in an attempt to negotiate a reduction in the Senior Bank Loan
3 balance in connection with the reduction in the Property's appraised value; and

4 WHEREAS, East West Investment, Inc. is currently considering MOHCD's
5 request but unlikely to negotiate a reduction in the balance of its loan given its senior
6 loan status, and therefore MOHCD must arrange for the repayment of the full amount
7 of the Senior Bank Loan in connection with the proposed Property transfer; and

8 WHEREAS, In the event that East West Investment, Inc. responds affirmatively
9 and is willing to reduce a portion of its loan balance, MOHCD's repayment amount will
10 decrease, accordingly; and

11 WHEREAS, MOHCD and the Sponsor determined that the amount of existing
12 City Debt secured by the Property would not be supportable by the Current Project,
13 and thus transferring that debt over to the Current Project in connection with the
14 proposed Property transfer would make the project financially infeasible; and

15 WHEREAS, MOHCD has negotiated a transfer agreement with Transferor (the
16 "Transfer Agreement") to receive title to the Property in consideration for the
17 outstanding balance as of the closing date under the Senior Bank Loan in an amount
18 not to exceed \$836,706 and the cancellation of the City Debt (the "Transfer Price"),
19 subject to the conditions described in the Transfer Agreement, a copy of which is on file
20 with the Clerk of the Board of Supervisors in File No. 140448 and incorporated herein
21 by reference; and

22 WHEREAS, The Director of Property and the Director of MOHCD have
23 determined that the Transfer Price exceeding the fair market value of the Property is
24 justified in order to both prevent the foreclosure and loss of the Property as an
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1 affordable housing resource and to make the development of new affordable housing
2 on the Property financially feasible; and

3 WHEREAS, MOHCD has negotiated an option to ground lease with Mercy
4 Housing California 57, a limited partnership formed by the Sponsor (the "Option"), a
5 copy of which is on file with the Clerk of the Board of Supervisors in File No. 140448
6 and incorporated herein by reference, pursuant to which Mercy Housing California 57
7 has a right to enter into a ground lease for the Property in order to develop the Current
8 Project (the "Ground Lease"), subject to certain terms and conditions set forth in the
9 Option; and

10 WHEREAS, The Sponsor was awarded the Option without a competitive bidding
11 process based on the determination by the Director of Property and the Director of
12 MOHCD that it would be impractical or impossible to obtain competitive bids because
13 the Sponsor is the selected developer of the Current Project and has already obtained
14 a HUD financing award for the Current Project, and because of the financial and
15 development restrictions related to the Property, as described above; and

16 WHEREAS, The Option expires on June 30, 2015, with an extension option for 1
17 additional 6-month period, and sets forth the material terms of the Ground Lease as
18 follows: (i) a term of 75 years with an extension option for 24 additional years; (ii)
19 tenant shall be responsible for all property taxes and assessments levied against the
20 Property; (iii) the Property shall be used during the term of the ground lease only for
21 affordable housing with maximum rent and income levels set at no greater than 50%
22 area median income; (iv) the annual base rent shall be \$1 for so long as HUD is senior
23 lender and 10% of fair market value at all times thereafter; (v) tenant shall be
24 responsible for construction, operation and maintenance of the Property; (vi) the City
25 will own fee title to the land and the tenant will own fee title to all improvements; (vii) at

1 the end of the term, fee title to all the improvements shall vest in the City; (viii) the
2 ground lease shall include standard mortgagee protection provisions; (ix) the City will
3 provide any notice of and defaults to the tenant and the tenant's limited partners and
4 lenders and allow any such parties the right to cure such default; (x) the tenant can
5 encumber its leasehold interest to secure loans, as approved by MOHCD; and

6 WHEREAS, In order to consummate the transfer and ground lease of the
7 Property, the Board of Supervisors desires to authorize the execution, delivery and
8 performance of the Transfer Agreement, the Option and, if the Sponsor exercises the
9 Option, the Ground Lease (collectively, the "Transaction Documents"); and

10 WHEREAS, By letter dated April 29, 2013, the Department of City Planning
11 adopted and issued a General Plan Consistency Finding, a copy of which is on file with
12 the Clerk of the Board, wherein the Department of City Planning found that the
13 acquisition and ground lease of the Property are consistent with the City's General Plan
14 and with the Eight Priority Policies under Planning Code Section 101.1; and on
15 December 12, 2013, the Department of City Planning also found that acquisition,
16 ground lease and substantial rehabilitation of the Property are categorically exempt
17 from Environmental Review; now, therefore, be it

18 RESOLVED, That the Board of Supervisors hereby adopts the findings
19 contained in the document dated December 12, 2013, from the Department of City
20 Planning regarding the California Environmental Quality Act, and hereby incorporates
21 such findings by reference as though fully set forth in this Resolution; and, be it

22 FURTHER RESOLVED, That the Board of Supervisors hereby finds that the
23 acquisition and ground lease of the Property are consistent with the General Plan, and
24 with the eight Priority Policies of Planning Code Section 101.1 for the same reasons as
25 set forth in the letter of the Department of City Planning, dated April 26, 2013, and

1 hereby incorporates such findings by reference as though fully set forth in this
2 Resolution; and, be it

3 FURTHER RESOLVED, That the Board of Supervisors hereby finds that, in
4 accordance with Administrative Code Section 23.30, the award of the Transaction
5 Documents to Sponsor without a competitive bidding process is authorized because it
6 would have been impractical or impossible to obtain competitive bids, for the reasons
7 set forth by the Director of Property and Director of MOHCD, and because it was done
8 in furtherance of the proper public purpose of preserving the potential development of
9 new affordable housing; and, be it

10 FURTHER RESOLVED, That in accordance with the recommendation of the
11 Director of Property and the Director of MOHCD, the Board of Supervisors approves
12 the Transaction Documents, and authorizes the Director of Property (or his designee)
13 and the Director of MOHCD (or his designee) to execute and deliver the Transaction
14 Documents and any such other documents that are necessary or advisable to complete
15 the transaction contemplated by the Transaction Documents, including the Ground
16 Lease (if the Sponsor exercises the Option); and, be it

17 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director
18 of Property (or his designee) and the Director of MOHCD (or his designee), in
19 consultation with the City Attorney, to enter into any additions, amendments or other
20 modifications to the Transfer Agreement, the Option and, if the Option is exercised, the
21 Ground Lease, and any other documents or instruments necessary in connection
22 therewith, that the Director of Property and the Director of MOHCD determine are in the
23 best interests of the City, do not materially decrease the benefits to the City with
24 respect to the Property, do not materially increase the obligations or liabilities of the
25 City, and are necessary or advisable to complete the transaction contemplated therein

1 and that effectuate the purpose and intent of this Resolution, such determination to be
2 conclusively evidenced by the execution and delivery by the Director of Property (or his
3 designee) and the Director of MOHCD (or his designee) of any such additions,
4 amendments, or other modifications; and, be it

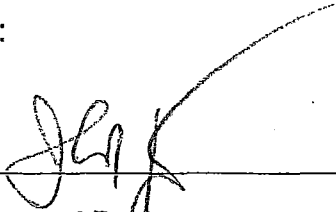
5 FURTHER RESOLVED, That all actions authorized and directed by this
6 Resolution and heretofore taken are hereby ratified, approved and confirmed by this
7 Board of Supervisors; and, be it

8 FURTHER RESOLVED, That within thirty (30) days of the Transfer Agreement being
9 fully executed by all parties the MOHCD shall provide the final Transfer Agreement to the
10 Clerk of the Board for inclusion into the official file; and be it


11 FURTHER RESOLVED, That MOHCD shall report back to the Board of Supervisors
12 during the June 2014 budget review on (a) the reliability of financing sources for the 1500
13 Page Street project; alternative financing that would be available if the project is not awarded
14 low income housing tax credits or other major sources of financing; and the impact of the
15 1500 Page Street and other pipeline projects on the City's access to future low income
16 housing tax credits; and MOHCD's procedures to manage project costs once the project
17 receives financing; and (b) procedures to vet the accuracy of appraisals prior to purchasing
18 property, and further mitigate the risks to MOHCD as the gap lender for affordable housing,
19 such as requiring a feasible back-up financing plan.
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RECOMMENDED:



John Updike, Director of Property



Olson Lee, Director, Mayor's Office of Housing and Community Development

<p>Item 8 File 14-0448</p>	<p>Department: Mayor's Office of Housing and Community Development</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed resolution would (1) authorize the execution of a Transfer Agreement between the City and 1500 Page Street, LLC, the legal entity formed by Pacific Institute/AgeSong (AgeSong), for the transfer to the City from AgeSong of land at 1500 Page Street for the development of 16 studios for developmentally disabled adults and a one-bedroom manager's unit; (2) authorize the execution and performance of an option to ground lease and a ground lease between the City and Mercy Housing California 57 (Mercy Housing), a California limited partnership; (3) adopt findings under the California Environmental Quality Act (CEQA); and (4) adopt findings that the acquisition of the property by the City and the associated ground lease is consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • 1500 Page Street is a 38-bed Single Resident Occupancy (SRO) building. In 2006, the Mayor's Office of Housing and Community Development (MOHCD) awarded a loan to AgeSong to purchase the property and pay predevelopment costs to rehabilitate the building into supportive housing for chronically homeless individuals. Because AgeSong was unable to secure additional financing for the rehabilitation of the building, in 2011, the Citywide Affordable Housing Loan Committee approved use of the site for affordable housing for developmentally disabled adults with Mercy Housing California Special Needs (Mercy Housing), a non-profit public benefit corporation, as the project sponsor. • The City would enter into a Transfer Agreement for transfer of the property at 1500 Page Street from AgeSong to the City. In exchange, the City would forgive outstanding loans to AgeSong and pay the balance of a private loan obtained by AgeSong. • The City would enter into an option to ground lease with Mercy Housing, in which Mercy Housing would be required to rehabilitate the existing building at 1500 Page Street to create 16 housing units for developmentally disabled adults and one manager's unit. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • Under the proposed Transfer Agreement, the City would forgive the outstanding balances of loans previously issued by the City to AgeSong (\$3,721,563) and pay the balance of the private loan obtained by AgeSong (\$836,706), totaling \$4,558,269. In exchange, AgeSong would transfer the property at 1500 Page Street to the City, with a value of \$1,500,000, resulting in a net loss to the City of \$3,058,269. This loss is \$1,594,821 or 34% less than the loss of \$4,653,090 that the City would incur by not entering into the Transfer Agreement for 1500 Page Street, as shown in Table 7 below. Therefore, the Budget and Legislative Analyst recommends approval of the proposed resolution. 	

- Mercy Housing's project costs for rehabilitating the existing facility at 1500 Page Street to create 16 units for developmentally disabled adults and one managers unit (totaling 17 units) are \$10,324,880, or \$607,346 per unit, which is 49% higher than MOHCD's average cost of \$408,984 per unit. According to discussions with MOHCD staff, the costs of \$607,346 per unit are higher than MOHCD's average costs because the project is rehabilitating an existing facility rather than building a new facility, and the design of the housing units must fit within the existing building envelope, resulting in less efficient use of space. Because of the high per unit project costs, the Budget and Legislative Analyst recommends requesting MOHCD to report to the Board of Supervisors on (1) the reliability of financing sources for the project; alternative financing that would be available if the project is not awarded low income housing tax credits or other major sources of financing; and the impact of the 1500 Page Street and other pipeline projects on the City's access to future low income housing tax credits; and (2) MOHCD's procedures to manage project costs once the project receives financing.

Policy Considerations

- The City will incur a net loss of \$3.0 million because the original supportive housing project to be developed by AgeSong was not financially feasible. Because the initial AgeSong project was not considered a typical affordable housing project, it was not eligible to obtain standard MOHCD development financing. Instead, AgeSong had to rely on unreliable, outside private financing which never materialized, leading to the project's dissolution. MOHCD staff has acknowledged that the AgeSong project should have been more thoroughly vetted through a more rigorous loan approval process and that a back-up financing plan should have also been in place due to the project's inability to retain standard MOHCD funding sources.
- Additionally, the original 2006 appraisal overvalued the property at \$2,900,000 because it did not account for the SRO replacement obligation. Based on this appraisal, AgeSong paid \$2,850,000 for the property. A subsequent appraisal in February 2014 valued the property at \$1,500,000, or \$1,350,000 less than the \$2,850,000 purchase price.

Recommendations

- Amend the resolution to request MOHCD to report back to the Board of Supervisors during the June 2014 budget review on (a) the reliability of financing sources for the 1500 Page Street project; alternative financing that would be available if the project is not awarded low income housing tax credits or other major sources of financing; and the impact of the 1500 Page Street and other pipeline projects on the City's access to future low income housing tax credits; and MOHCD's procedures to manage project costs once the project receives financing; and (b) procedures to vet the accuracy of appraisals prior to purchasing property, and further mitigate the risks to MOHCD as the gap lender for affordable housing, such as requiring a feasible back-up financing plan.
- Approve the proposed resolution as amended.

MANDATE STATEMENT/ BACKGROUND

Administrative Code Section 23.1 requires Board of Supervisors' approval of all resolutions and ordinances approving real property transactions. Administrative Code Section 23.4 requires Board of Supervisors' approval of the granting of real property before the Director of Real Estate can accept the deed to the property.

Charter Section 9.118 requires Board of Supervisors' approval for any lease of real property for a period of ten years or more.

BACKGROUND

1500 Page Street is a three-story, residential building with 38 bedrooms that was previously leased by the Department of Public Health (DPH) as a placement site for mental health patients. The building has been vacant since 2007 when DPH relocated its patients in order to rehabilitate the building. In 2006, the Mayor's Office of Housing and Community Development (MOHCD) issued a Notice of Funding Availability (NOFA) to provide acquisition and predevelopment funds to purchase 1500 Page Street and develop supportive housing for chronically homeless individuals. Pacific Institute/AgeSong (AgeSong) was selected and established a separate entity, 1500 Page Street, LLC, under which to acquire the property and develop the project. In 2010, after acquiring 1500 Page Street and preparing for the property's rehabilitation, AgeSong was unable to secure outside, private financing to develop the project rendering the project infeasible.

In 2011, the Citywide Affordable Housing Loan Committee approved reprogramming the site for affordable housing for developmentally disabled adults with Mercy Housing California Special Needs (Mercy Housing), a non-profit public benefit corporation, as the project sponsor and The Arc of San Francisco as the service provider. According to MOHCD staff, MOHCD selected Mercy Housing as the project sponsor without issuing a NOFA because Mercy Housing was in the process of applying to U.S. Housing and Urban Development (HUD) for capital and operating funding to develop housing for developmentally disabled adults, and needed a development site.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) authorize the execution of a Transfer Agreement between the City and 1500 Page Street, LLC (the legal entity formed by AgeSong) for the transfer from AgeSong to the City of land at 1500 Page Street for the development of 16 studios for developmentally disabled adults and a one-bedroom manager's unit; (2) authorize the execution and performance of an option to ground lease and enter into a ground lease between the City and Mercy Housing California 57 (Mercy Housing), a California limited partnership formed by Mercy Housing California Special Needs; (3) adopt findings under the California Environmental Quality Act (CEQA); and (4) adopt findings that the acquisition of the property by the City and the associated ground lease is consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1.

Terms of the Transfer Agreement

According to the February 13, 2014 appraisal by MacLane and Company, Inc., commissioned by Mercy Housing and reviewed by the City's Director of Real Estate, 1500 Page Street has an appraised value of \$1,500,000 which is \$1,350,000 or 47% less than the \$2,850,000 that AgeSong paid to acquire the property in 2007.¹

Under the proposed Transfer Agreement between the City and AgeSong, AgeSong would transfer approximately 5,400 square feet of land at 1500 Page Street to the City and all improvements and fixtures including the 15,782 square foot, three-story building and two-parking spaces located on the land.

AgeSong will transfer the property at 1500 Page Street to the City in exchange for (1) the City paying the outstanding balance of AgeSong's senior acquisition loan from East West Investment Inc., (East West) at \$836,706; and (2) forgiving the principal and interest of an acquisition and predevelopment loan of \$2,080,950, of which \$230,950 was used for predevelopment and \$1,850,000 for acquisition, and a predevelopment loan of \$1,057,400 previously made by the City to AgeSong totaling \$4,558,269 as shown in Table 1 below.

Table 1: Balance of Loans Made by City and East West to AgeSong from 2007 to 2009

Date of Loan	Funding Source		Principal Balance	Interest Accrued as of May 1 st 2014	Total Loan Forgiveness/Senior Loan Repayment in Exchange for Land Transfer
<u>Citywide Affordable Housing Loan Committee:</u>					
March 2007	Federal	HOME Loan	\$2,080,950	\$448,366	\$2,529,316
March 2009	Local	Hotel Tax Set Aside	<u>1,057,400</u>	<u>134,847</u>	<u>1,192,247</u>
		Subtotal	3,138,350	583,213	3,721,563
<u>Private Loan:</u>					
March 2007	Private	East West Loan	836,706	0	836,706
Total			\$3,975,056	\$583,213	\$4,558,269

Under the terms of the Transfer Agreement, the City will pay the cost of the title, escrow and recording fees, and transfer taxes which are estimated to be \$18,091. According to Ms. Ruby Harris, MOHCD Project Manager, an U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships Program (HOME) grant will be used to pay the aforementioned closing costs. AgeSong will be responsible for any other escrow costs and real estate taxes up to the closing date, June 30, 2014.

¹ The September 14, 2006 appraisal report valued the property at \$2,900,000. The subsequent appraisal report in February 2014 notes that the decrease in the value of the property is due to: (1) the cost to renovate the building exceeds the value of the building leaving value only in the land; and (2) the building is registered as 38 Single Room Occupancy Units (SRO) which typically provide affordable rental housing for solo occupancy and is generally rented to lower income individuals. Chapter 41 of the San Francisco Administrative Code requires a one-to-one replacement if any SRO units are lost or converted which reduces the fair market value of the site. The Board of Supervisors approved a Special Use District for the property on February 11, 2014 allowing the 38 SRO units to be replaced by less than the required one-to-one replacement as long as it remains affordable housing.

**Terms of the Option to Ground Lease Agreement and
Ground Lease Agreement**

Mercy Housing California has formed a limited partnership, Mercy Housing California 57, LP (Mercy Housing), which will enter into an option for a ground lease agreement with the City at 1500 Page Street. The initial term of the option to ground lease agreement will commence on the date the agreement is signed and will end on June 30, 2015, with an option to extend for one additional six-month period. During the option to ground lease agreement term, Mercy Housing and City staff agree to negotiate a ground lease agreement for 1500 Page Street. If a ground lease agreement is executed prior to June 30, 2015, the option to ground lease agreement term will be terminated early and replaced with the ground lease.

According to Ms. Harris, Mercy Housing must have entered into a ground lease or execute an option to ground lease for 1500 Page Street in order to apply for a low-income tax credit allocation by the July 1, 2014 application deadline. Because the City and Mercy Housing could not draft and obtain the Board of Supervisor’s approval of a ground lease agreement by the deadline, an option to ground lease agreement that included the forthcoming ground lease agreement terms has been proposed instead. Mercy Housing is proposing to apply for \$6,617,344 in low income housing tax credits which would finance approximately 64% of the total construction costs of 1500 Page Street project.

Approval of the proposed option to ground lease agreement by the Board of Supervisors would also authorize the Director of Real Estate and the Director of MOHCD to execute the subsequent ground lease agreement without returning to the Board of Supervisor’s for approval.² The terms of the proposed ground lease are shown in Table 2 below.

Table 2: Proposed Ground Lease Terms between the City and Mercy Housing

Initial Lease Term	75 years
Option to Extend the Lease	24 years
Total Possible Term	99 years
Annual Rent Payable by Mercy Housing to the City	\$1
Rent Adjustments	Adjusted every 15 years to 10% of appraised land value or consistent with HUD Section 811 program regulations
Construction, Operations, Maintenance, Insurance, Taxes and Licenses, Utilities and Other Operating Costs	Paid by Mercy Housing California 57, LP
Ownership	The City will own the land and Mercy Housing California 57, LP will own all improvements which will be transferred to the City at the end of the term. Mercy Housing is permitted to secure loans against the property pending MOHCD approval.

² The ground lease agreement would return to the Board of Supervisor’s for approval only if there are any material changes to the terms that would negatively impact the City as determined by the Director of the MOHCD.

Base Rent

Under the proposed ground lease terms, Mercy Housing will pay the City annual rent of 10% of the appraised land value consisting of \$1 in base rent; the balance will consist of residual rent derived from the project's residual income at the end of the year after all operating expenses and required reserves have been paid. For as long as the project receives a HUD Section 811 Project Rental Assistant Contract (PRAC) program subsidy, the project will not be required to pay residual rent to be consistent with the program requirements. One requirement of the HUD Section 811 PRAC subsidy is that the subsidy can only be used to pay for the necessary and reasonable operating costs of the units not met from tenant incomes and cannot be used for debt service of any financing or cash flow distributions to owners or other lenders; therefore there would be no residual income to pay any residual rent.

Under MOHCD's Residual Receipts Policy, affordable housing developers and operators are only required to pay residual rent and principal and interest on outstanding loans if the affordable housing development generates sufficient surplus cash to make these payments.³ Because Mercy Housing's project cannot generate a cash flow pursuant to HUD regulations, residual rent will not be required.

The Mercy Housing project will receive approximately \$135,709 a year from the HUD Section 811 PRAC program to subsidize 15 units for a 20-year term with options to extend.⁴ In the event that the HUD Section 811 PRAC program is not extended, Mercy Housing's annual rent will revert back to the original ground lease terms.

Required Property Uses

Pursuant to the proposed ground lease terms, the property can only be used for affordable housing with maximum income levels for tenants set at no greater than 50% of area median income which is approximately \$34,000 in annual income for an individual. Mercy Housing plans to rehabilitate the three-story building at 1500 Page Street into 16 studio units of affordable housing for developmentally disabled adults and one, one-bedroom manager's unit, totaling 17 units. Mercy Housing has partnered with The Arc of San Francisco who will provide on-site services to future 1500 Page Street tenants.

Renovation of the Building

Although the proposed option to ground lease agreement does not include a timeline for the renovation of the affordable housing project, MOHCD and Mercy Housing developed the project schedule shown in Table 3 below for their report to the Citywide Affordable Housing

³ According to the Residual Receipts Policy, MOHCD requires repayment of loans to the extent that such repayment is feasible and does not jeopardize the long-term affordability or maintenance of safe and secure housing for its residents.

⁴ Mercy Housing originally applied for the HUD Section 811 affordable housing subsidy for 15 units; however, the project changed to 16 units after receiving the award. Therefore, 15 units will be subsidized and the 16th unit will be restricted to 50% AMI rent levels, or approximately \$870 per month. The manager's unit will be unrestricted.

Loan Committee dated April 4, 2014. The building at 1500 Page Street is expected to be completed and 95% occupied by February 2016.

Table 3: Timeline for Renovation and Occupancy of 1500 Page Street

Performance Milestone	Estimated or Actual Date
Selection of development team by Mercy Housing	November 2011 through May 2013
CEQA review and General Plan referral	December 2013
Other planning, design, permitting, and preconstruction	October 2013 through August 2014
Site acquisition by the City	June 1, 2014
Construction commencement	December 2014
Substantial completion of construction	December 2015
Certificate of Occupancy	December 2015
95% occupancy of units	February 2016

FISCAL IMPACT

Loans Issued by the City and East West Investment, Inc. to AgeSong

The City and East West Investment, Inc. (East West) previously issued loans to AgeSong for the acquisition and predevelopment of 1500 Page Street to develop supportive housing, with outstanding principal and interest of \$4,558,269 as of May 1, 2014, as shown in Table 1 above.

In the April 4, 2014 meeting of the Citywide Affordable Housing Loan Committee, the Committee approved forgiving \$3,721,563 of principal and interest on loans to AgeSong as payment for the land at 1500 Page Street and approved paying off the remaining \$836,706 balance from East West for a total loan forgiveness and East West repayment of \$4,558,269 for AgeSong and a remaining loan balance of \$0. According to Ms. Harris, funds received by the City from HUD’s HOME Investment Partnerships Program (HOME) will be used to pay off the East West loan.

According to Ms. Harris, the City is paying off the East West loan because if AgeSong defaults on its loan payment, East West will likely foreclose on the property. MOHCD is currently negotiating a reduction of the East West loan balance; however, MOHCD believes that this reduction is unlikely due to East West’s senior loan status and the fact that East West could fully recoup the outstanding loan balance through foreclosure.

Loans to Mercy Housing

The Citywide Affordable Housing Loan Committee has also issued predevelopment loans to Mercy Housing for the development of housing at 1500 Page Street for developmentally disabled adults, as shown in Table 4 below.

Table 4: Predevelopment Loans Issued to Mercy Housing for 1500 Page Street

	Principal Loan Balance	Interest	To be Forgiven by the City	Remaining
Loans issued to Mercy Housing in 2013	\$ 911,867	\$19,660	(\$175,589)	\$755,938
Loans issued to Mercy Housing in 2014	916,375	0	0	916,375
Total	\$1,828,242	\$19,660	(\$175,589)	\$1,672,313

The following are the remaining loan balances owed by Mercy Housing to the City for predevelopment and development activities for 1500 Page Street:

- **\$755,938** HUD HOME program loan issued by the City to Mercy Housing in April 2013 to pay for the project's predevelopment costs, which has a 48-month term and bears 3% interest. The original loan amount was \$911,867, of which \$175,589 was used by Mercy Housing to pay AgeSong's outstanding mortgage, insurance and other property costs, and will be forgiven by the City.

On April 4, 2014, the Citywide Affordable Housing Loan Committee approved up to \$450,000 of Mercy Housing's remaining \$755,938 predevelopment loan be converted to a permanent loan and remain in the project with MOHCD's standard loan terms, a 55-year term bearing 3% interest, in order to finance the project's development.

- **\$916,375** HUD HOME program loan issued by the City consisting of a \$320,000 bridge loan for project development and an additional \$596,375 predevelopment loan. The \$320,000 bridge loan was issued in anticipation of the project being awarded private Affordable Housing Program (AHP)⁵ funds next year, and has a 24-month term and bears 3% interest. The \$596,375 predevelopment loan has a 55-year term and bears 3% interest and will remain in the project as a permanent loan to help finance the development of the project, which was also approved by the Citywide Affordable Housing Loan Committee on April 4, 2014. These loans will not be provided to Mercy Housing until the ground lease is executed, as the loans will be recorded against the property; therefore no interest has accrued.

Sources and Uses of Funds to Rehabilitate 1500 Page Street

Estimated project costs to rehabilitate 1500 Page Street are \$10,324,880. Mercy Housing's available funding sources total \$10,341,519 which is \$16,639 more than the estimated project costs. Table 5 below shows these various funding sources and uses for Mercy Housing's 1500 Page Street project.

⁵ Affordable Housing Program (AHP) funds are private funds administered by the Federal Home Loan Bank.

Table 5: Sources and Uses of Funds

Sources	
<u>City Loans to Mercy Housing</u>	
2013 Predevelopment Loan	\$450,000
2014 Predevelopment Loan	596,375
Subtotal	1,508,242
<u>Non-City Sources to Mercy Housing</u>	
Tax Credit Equity	6,617,344
HUD 811 Capital Award	2,347,800
General Partner Equity	10,000
AHP Loan	320,000
Subtotal	9,295,144
Total Sources	\$10,341,519
Uses	
<u>Initial Costs</u>	
Closing and other costs	\$ 211,620
Subtotal, Initial Costs	673,487
<u>Planning, Permitting, Design, and Related Project Costs</u>	
Architecture and Engineering	662,505
Financing Costs	320,234
Legal Costs	50,000
Other Planning, Permitting, and Related Costs	488,882
Contingency (10.6% of planning, permitting, design and related project costs)	162,254
Subtotal	1,683,875
<u>Construction Costs</u>	
Construction Costs	5,760,820
Contingency (15% of planning, permitting, design and related project costs) ^a	863,948
Subtotal	6,624,768
<u>Reserves and Other Costs</u>	
Reserves	478,065
Developer Costs	1,326,552
Subtotal	1,804,617
Total Uses	\$10,324,880

^a Construction contingency is 15% consistent with MOHCD's loan underwriting guidelines; however, Mercy Housing has requested to reduce its construction contingency to 10% at the start of construction for the purpose of keeping costs low for its other financing requirements. There is no bid contingency as Mercy Housing anticipates a bid price that will not exceed the construction contingency. MOHCD will not approve the reduction of the construction contingency until the project has been bid out and construction commences.

The average cost per unit for constructing the 1500 Page Street affordable housing project for developmentally disabled adults is \$607,346⁶, which is 49% higher than MOHCD's average of \$408,984 per unit. According to discussions with MOHCD staff, the costs of \$607,346 per unit are higher than MOHCD's average costs because the project is rehabilitating an existing facility rather than building a new facility, and the design of the housing units must fit within the

⁶ Total estimated project costs are \$10,324,880 for 17 studio units, or \$607,346 per studio unit.

existing building envelope, resulting in less efficient use of space. According to Ms. Harris, while the cost per unit is high on a per unit basis, on a per square foot basis the project cost is \$739 per square foot, which is reasonable compared to project costs of comparable facilities of \$731 per square foot. Because of the high per unit project costs, the Budget and Legislative Analyst recommends requesting MOHCD to report to the Board of Supervisors on (1) the reliability of financing sources for the project; alternative financing that would be available if the project is not awarded low income housing tax credits or other major sources of financing; and the impact of the 1500 Page Street and other pipeline projects on the City's access to future low income housing tax credits; and (2) MOHCD's procedures to manage project costs once the project receives financing.

Annual Operating Costs

Based on MOHCD's projected annual operating income and expenses for 1500 Page Street, as shown in Table 6 below, there will be a \$0 cash flow at the end of each program year consistent with HUD's Section 811 PRAC program affordable housing subsidy requirements.

Table 6: Projected Annual Operating Income and Expenses

Income	
Tenant Rents	\$57,600
Tenant Assistance Payments	135,709
Laundry and Vending	1,000
5% Vacancy	(2,880)
Total	\$191,429
Operating Expenses	
Management Fee	\$12,480
Staff Salaries and Benefits	16,150
Administration	16,516
Utilities, Taxes, Licenses, Insurance	68,333
Maintenance and Repair	31,300
Supportive Services	13,650
Total	\$158,429
Net Operating Income	\$33,000
Uses of Net Operating Income	
Replacement Reserve ^a	33,000
Total Cash Flow	\$0

^a Pursuant to HUD guidelines, replacement reserve funds are set aside into a separate interest accruing account and will be used for the buildings' periodic and more expensive maintenance needs.

POLICY CONSIDERATIONS

The City will incur a net loss of \$3.0 million because the original supportive housing project to be developed by AgeSong was not financially feasible

According to MOHCD staff, MOHCD is typically able to convert a project that has been determined infeasible into another project and not incur the substantial losses that are projected with AgeSong. MOHCD staff note, however, that the AgeSong project was unique in that: (1) it was a facility with beds as opposed to legal dwelling units making the building ineligible for MOHCD's standard funding resources; and (2) the building has a Single Room Occupancy (SRO) replacement housing obligation. SROs typically provide affordable rental housing for single occupancy and are generally rented to lower income individuals. Chapter 41 of the San Francisco Administrative Code requires a one-to-one replacement if any SRO units are lost or converted which reduces the fair market value of the site.

Because the initial AgeSong project was not considered a typical affordable housing project, it was not eligible to obtain standard MOHCD development financing. Instead, AgeSong had to rely on unreliable, outside private financing which never materialized, leading to the project's dissolution. MOHCD staff has acknowledged that the AgeSong project should have been more thoroughly vetted through a more rigorous loan approval process and that a back-up financing plan should have also been in place due to the project's inability to retain standard MOHCD funding sources.

Additionally, the original 2006 appraisal overvalued the property at \$2,900,000 because it did not account for the SRO replacement obligation. Based on this appraisal, AgeSong paid \$2,850,000 for the property. A subsequent appraisal in February 2014 valued the property at \$1,500,000, or \$1,350,000 less than the \$2,850,000 purchase price.

According to Ms. Harris, MOHCD by design is the gap lender for affordable housing developments and bears the most risk in order to provide affordable housing in the City which otherwise would not be built due to the high cost of real estate. In order to mitigate this risk, MOHCD has recently established a structure where the affordable housing property is purchased by the City and ground leased to a non-profit corporation, similar to the proposed resolution with the City and Mercy Housing. The ground lease structure ensures that the project will stay in the City's control and remain affordable housing despite market fluctuations.

The Budget and Legislative Analyst recommends that the Board of Supervisors request a report from MOHCD on procedures to (1) vet the accuracy of appraisals prior to purchasing property; and (2) further mitigate the risks to MOHCD as the gap lender for affordable housing such as requiring a feasible back-up financing plan.

Transferring 1500 Page Street to the City and forgiving prior loans by MOHCD is the more cost effective option

If the City purchases 1500 Page Street, pays the balance of the private loan by East West Bank to AgeSong, and forgives the City's outstanding loans to AgeSong, the net loss to the City is \$3,058,269. This loss is \$1,594,821 or 34% less than the loss of \$4,653,090 that the City would

incur by not purchasing 1500 Page Street, as shown in Table 7 below. Therefore, the Budget and Legislative Analyst recommends approval of the proposed resolution.

Table 7: Costs to City for Approval or Disapproval of Proposed Resolution

Loans	Cost if Resolution is Approved	Cost if Resolution is Not Approved	Difference
East West Bank	\$836,706	\$0	(\$836,706)
AgeSong Loans	3,721,563	3,721,563	0
Mercy Housing Loan in 2013 ⁷	0	931,527	931,527
1500 Page St. Appraised Value	(1,500,000)	0	1,500,000
Total	\$3,058,269	\$4,653,090	\$1,594,821

RECOMMENDATIONS

1. Amend the resolution to request MOHCD to report back to the Board of Supervisors during the June 2014 budget review on (a) the reliability of financing sources for the 1500 Page Street project; alternative financing that would be available if the project is not awarded low income housing tax credits or other major sources of financing; and the impact of the 1500 Page Street and other pipeline projects on the City's access to future low income housing tax credits; and MOHCD's procedures to manage project costs once the project receives financing; and (b) procedures to vet the accuracy of appraisals prior to purchasing property, and further mitigate the risks to MOHCD as the gap lender for affordable housing, such as requiring a feasible back-up financing plan.
2. Approve the proposed resolution as amended.

⁷ \$911,867 in principal and \$19,660 in interest, as shown in Table 4 above. Because the loan of \$911,867 to Mercy Housing paid for predevelopment costs of the new proposed project, if the project were not to proceed, this amount would be a loss to the City.

TRANSFER AGREEMENT

by and between

1500 Page Street, LLC, a California limited liability company,
as Transferor

and

CITY AND COUNTY OF SAN FRANCISCO,
as Transferee

For the transfer of

1500 Page Street
San Francisco, California

May 1, 2014

TRANSFER AGREEMENT
(1500 Page Street, San Francisco)

THIS TRANSFER AGREEMENT (this "Agreement") dated for reference purposes only as of May 1, 2014 is by and between 1500 Page Street, LLC, a California limited liability company ("Transferor"), and the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("City").

IN CONSIDERATION of the payments and the respective agreements contained herein below, Transferor and City agree as follows:

1. TRANSFER

1.1 Property Included in Transfer

Transferor agrees to convey to City, and City agrees to accept from Transferor, subject to the terms, covenants and conditions hereinafter set forth, the following:

(a) the real property consisting of approximately Five Thousand Four Hundred (5,400) square feet of land, located in the City and County of San Francisco, commonly known as 1500 Page Street and more particularly described in Exhibit A attached hereto (the "Land");

(b) all improvements and fixtures located on the Land, including, without limitation, that certain three-story building containing approximately fifteen thousand seven hundred eighty two (15,782) square feet of net useable area and known as 1500 Page Street, as well as all other buildings and structures located on the Land, all apparatus, equipment and appliances used in connection with the operation or occupancy of the Land and its improvements and together with all on-site parking (currently, two parking spaces) (collectively, the "Improvements"); and,

(c) any and all rights, privileges, and easements incidental or appurtenant to the Land or Improvements, including, without limitation, any and all minerals, oil, gas and other hydrocarbon substances on and under the Land, as well as any and all development rights, air rights, water, water rights, riparian rights and water stock relating to the Land, and any and all easements, rights-of-way or other appurtenances used in connection with the beneficial use and enjoyment of the Land or Improvements, and any and all of Transferor's right, title and interest in and to all roads and alleys adjoining or servicing the Land or Improvements (collectively, the "Appurtenances").

All of the items referred to in Subsections (a), (b) and (c) above are collectively referred to as the "Property."

2. CONSIDERATION

2.1 Consideration for Transfer

The Transferor hereby agrees to transfer the Property to the City in exchange for the following: (i) the City shall pay to Transferor the outstanding balance (principal and accrued interest) as of the Closing Date under the East West Bank loan secured by the Property by the Deed of Trust dated March 9, 2007 and recorded with the San Francisco Assessor-Recorder's Office as document number 2007-I360873-00 (the "East West Bank Loan"), in order for Transferor to pay off in full the East West Bank Loan at the Closing; (ii) the City shall cancel the

outstanding balance (principal and accrued interest) as of the Closing Date due to the City under the City's acquisition HOME loan secured by the Property by the Deed of Trust dated March 8, 2007 and recorded with the San Francisco Assessor-Recorder's Office as document number 2007-I360874-00; and (iii) the City shall cancel the outstanding balance (principal and accrued interest) as of the Closing Date due to the City under the City's Hotel Tax loan secured by the Property by the Deed of Trust dated February 16, 2009 and recorded with the San Francisco Assessor-Recorder's Office as document number 2009-I728089-00 (collectively, the "Existing Debt"). Transferor and City acknowledge and agree that the fair market value of the Property as of the date of this Agreement is \$1,500,000 (the "Fair Market Value"), which is less than the outstanding balance due under the Existing Debt, and that, accordingly, the City's payment and cancellation of the Existing Debt is fair and adequate consideration for the transfer of the Property. Both parties agree and acknowledge that the purpose of the transfer is to serve as a mutually agreed upon cure of Transferor's current defaults under the Existing Debt.

2.2 Extinguishing Existing Debt

On the Closing Date (as defined in Section 6.2 [Closing Date]), City shall (i) wire into the escrow account (described in Section 6.1 below) the funds equal to the East West Bank Loan outstanding balance as of the Closing Date (as reflected on the settlement statement approved by City); and (ii) City shall cancel the promissory notes associated with the City's HOME loan to Transferor and the City's Hotel Tax loan to Transferor.

2.3 Funds

All payments made by any party hereto shall be in legal tender of the United States of America, paid by Controller's warrant or in cash or by wire transfer of immediately available funds to Title Company (as defined below), as escrow agent.

3. TITLE TO THE PROPERTY

3.1 Conveyance of Title to the Property

At the Closing, Transferor shall convey to City, or its nominee, marketable and insurable fee simple title to the Land, the Improvements and the Appurtenances, by duly executed and acknowledged grant deed in the form attached hereto as Exhibit B (the "Deed"), subject to the Accepted Conditions of Title (as defined in Section 3.2 [Title Insurance]).

3.2 Title Insurance

Delivery of title in accordance with the preceding Section shall be evidenced by the commitment of Chicago Title Insurance Company (the "Title Company") to issue to City an ALTA 2006 extended coverage owner's policy of title insurance (the "Title Policy") in the amount of the Fair Market Value, insuring fee simple title to the Land, the Appurtenances and the Improvements in City free of the liens of any and all deeds of trust (including but not limited to the Existing Debt), mortgages, assignments of rents, financing statements, creditors' claims, rights of tenants or other occupants, and all other exceptions, liens and encumbrances except solely for the following (such exceptions approved by City are collectively referred to herein as the "Accepted Conditions of Title"): (i) the lien of real property taxes, not yet due or payable, provided City shall be shown as exempt from such taxes in the Title Policy; and (ii) exception numbers 1,3, 4 and 6 in Schedule B of the preliminary title report attached hereto as Exhibit C (the "Preliminary Report"). The Title Policy shall provide full coverage against mechanics' and materialmen's liens arising out of the construction, repair or alteration of any of the Property, and shall contain an affirmative endorsement that there are no violations of restrictive covenants, if

any, affecting the Property such special endorsements as City may reasonably request. The Title Policy shall also provide for reinsurance with direct access with such companies and in such amounts as City may reasonably request.

4. INTENTIONALLY OMITTED

5. ENTRY

At all times prior to the Closing Date, Transferor shall afford City and its Agents reasonable access to the Property for the purposes of satisfying City with respect to the representations, warranties and covenants of Transferor contained herein and the satisfaction of the Conditions Precedent including, without limitation, the drilling of test wells and the taking of soil borings. City hereby agrees to indemnify and hold Transferor harmless from any damage or injury to persons or property caused by the active negligence or willful misconduct of City or its Agents during any such entries onto the Property prior to the Closing, except to the extent such damage or injury is caused by the acts or omissions of Transferor or any of its Agents. The foregoing Indemnity shall not include any claims resulting from the discovery or disclosure of pre-existing environmental conditions or the non-negligent aggravation of pre-existing environmental conditions on, in, under or about the Property, including the Improvements. In the event this Agreement is terminated for any reason other than Transferor's default hereunder, City shall restore the Property to substantially the condition it was found subject to applicable laws. This indemnity shall survive the termination of this Agreement or the Closing, as applicable, provided that Transferor must give notice of any claim it may have against City under such indemnity (i) within six (6) months of such termination if the claim is brought by a third party against Transferor or (ii) within three (3) months of such termination or the Closing Date, as applicable, if the claim involves damage to Transferor's Property or any other claim not brought by a third party against the Transferor.

5.1 City's Conditions to Closing

The following are conditions precedent to City's obligation to accept conveyance of the Property (collectively, "Conditions Precedent"):

(a) Transferor shall not be in default in the performance of any covenant or agreement to be performed by Transferor under this Agreement, and all of Transferor's representations and warranties contained in or made pursuant to this Agreement shall have been true and correct when made and shall be true and correct as of the Closing Date. At the Closing Transferor shall deliver to City a certificate certifying that each of Transferor's representations and warranties contained in Section 8.1 [Representations and Warranties of Transferor] below are true and correct as of the Closing Date.

(b) The physical condition of the Property shall be substantially the same on the Closing Date as on the date of City's execution of this Agreement, reasonable wear and tear and loss by casualty and activities by Mercy Properties California under a master lease from Transferor (the "Master Lease") excepted (subject to the provisions of Section 9.1 [Risk of Loss]), and, as of the Closing Date, there shall be no litigation or administrative agency or other governmental proceeding, pending or threatened, which after the Closing would materially adversely affect the value of the Property or the ability of City to operate the Property for its intended use, and no proceedings shall be pending or threatened which could or would cause the change, redesignation or other modification of the zoning classification of, or of any building or environmental code requirements applicable to, any of the Property.

(c) Title Company shall be committed at the Closing to issue to City, or its nominee, the Title Policy as provided in Section 3.2 [Title Insurance].

(d) The City's Mayor and the Board of Supervisors, in the respective sole discretion of each, shall have enacted a resolution approving, adopting and authorizing this Agreement and the transactions, on or before the execution date of this Agreement.

(e) Transferor shall have delivered the items described in Section 6.3 below [Transferor's Delivery of Documents] on or before the Closing.

(f) The Master Lease between Transferor and Mercy Properties California shall be terminated.

(g) Transferor shall have delivered to City sufficient evidence that both the Master Lease and the option to purchase the Property in favor of Mercy Housing California have been terminated.

The Conditions Precedent contained in the foregoing Subsections (a) through (g) are solely for the benefit of City. If any Condition Precedent is not satisfied, City shall have the right in its sole discretion either to waive in writing the Condition Precedent in question and proceed with the transfer or, in the alternative, terminate this Agreement, provided that the Conditions Precedent described in items (g) above may not be waived. The waiver of any Condition Precedent shall not relieve Transferor of any liability or obligation with respect to any representation, warranty, covenant or agreement of Transferor. If City shall not have approved or waived in writing all of the Conditions Precedent in items (a) through (g) by the Closing Date, then this Agreement shall automatically terminate. In addition, the Closing Date may be extended, at City's option, for a reasonable period of time specified by City, to allow such Conditions Precedent to be satisfied, subject to City's further right to terminate this Agreement upon the expiration of the period of any such extension if all such Conditions Precedent have not been satisfied.

In the event the transfer of the Property is not consummated because of a default under this Agreement on the part of Transferor or if a Condition Precedent cannot be fulfilled because Transferor frustrated such fulfillment by some affirmative act or negligent omission, City may, at its sole election, either (i) terminate this Agreement by delivery of notice of termination to Transferor, whereupon Transferor shall pay to City any title, escrow, legal and inspection fees incurred by City and any other expenses incurred by City in connection with the performance of its due diligence review of the Property, and neither party shall have any further rights or obligations hereunder, or (ii) continue this Agreement pending City's action for specific performance and/or damages hereunder, including, without limitation, City's costs and expenses incurred hereunder.

5.2 Cooperation with City

Transferor shall cooperate with City and do all acts as may be reasonably requested by City with regard to the fulfillment of any Conditions Precedent including, without limitation, execution of any documents related to extinguishing the East West Bank Loan, and any other documents, applications or permits, but Transferor's representations and warranties to City shall not be affected or released by City's waiver or fulfillment of any Condition Precedent. Transferor hereby irrevocably authorizes City and its Agents to make all inquiries with and applications to any person or entity, including, without limitation, any regulatory authority with jurisdiction as City may reasonably require to complete its due diligence investigations.

6. ESCROW AND CLOSING

6.1 Opening of Escrow

On or before the Effective Date (as defined in Article 11 [General Provisions]), the parties shall open escrow by depositing an executed counterpart of this Agreement with Title Company, and this Agreement shall serve as instructions to Title Company as the escrow holder for consummation of the transfer contemplated hereby. Transferor and City agree to execute such additional or supplementary instructions as may be appropriate or necessary to enable the escrow holder to comply with the terms of this Agreement, to pay off the East West Bank Loan, and close the transaction; provided, however, that in the event of any conflict between the provisions of this Agreement and any additional supplementary instructions, the terms of this Agreement shall control.

6.2 Closing Date

The consummation of the transfer contemplated hereby (the "Closing") shall be held and delivery of all items to be made at the Closing under the terms of this Agreement shall be made at the offices of Title Company located at 455 Market Street, Suite 2100, San Francisco, California 94105, on June 30, 2014, or on such earlier date as City and Transferor may mutually agree (the "Closing Date"), subject to the provisions of Article 5 [Conditions Precedent]. The Closing Date may not be extended without the prior written approval of both Transferor and City, except as otherwise expressly provided in this Agreement. In the event the Closing does not occur on or before the Closing Date, Title Company shall, unless it is notified by both parties to the contrary within five (5) days after the Closing Date, return to the depositor thereof items which may have been deposited hereunder. Any such return shall not, however, limit the provisions hereof or otherwise relieve either party hereto of any liability it may have for its wrongful failure to close.

6.3 Transferor's Delivery of Documents

At or before the Closing, Transferor shall deliver to City through escrow, the following:

- (a) a duly executed and acknowledged Deed;
- (b) a properly executed affidavit pursuant to Section 1445(b)(2) of the Federal Tax Code in the form attached hereto as Exhibit D, and on which City is entitled to rely, that Transferor is not a "foreign person" within the meaning of Section 1445(f)(3) of the Federal Tax Code;
- (c) a properly executed California Franchise Tax Board Form 590 certifying that Transferor is a California resident if Transferor is an individual or Transferor has a permanent place of business in California or is qualified to do business in California if Transferor is a corporation or other evidence satisfactory to City that Transferor is exempt from the withholding requirements of Section 18662 of the State Tax Code;
- (d) such resolutions, authorizations, or other partnership documents or agreements relating to Transferor and its partners as City or the Title Company may reasonably require to demonstrate the authority of Transferor to enter into this Agreement and consummate the transactions contemplated hereby, and such proof of the power and authority of the individuals executing any documents or other instruments on behalf of Transferor to act for and bind Transferor;

(e) closing statement in form and content satisfactory to City and Transferor; and

(f) the duly executed certificate regarding the continued accuracy of Transferor's representations and warranties as required by Subsection 5.1(a) hereof.

(g) originals of the following documents, all to the extent such documents exist and are either in the possession or control of Transferor, or any affiliate of Transferor, or may be obtained by Transferor, or any affiliate of Transferor, through the exercise of commercially reasonable efforts, but without any representation by Transferor as to accuracy or the City's right to rely thereon: structural calculations for the Improvements; site plans; certified copies of the as-built plans and specifications for the Improvements; recent inspection reports by Transferor's engineers; service contracts; utility contracts; maintenance contracts; employment contracts, management contracts; brokerage and leasing commission agreements which may continue after Closing; certificates of occupancy; presently effective warranties or guaranties received by Transferor from any contractors, subcontractors, suppliers or materialmen in connection with any construction, repair or alteration of the Improvements or any tenant improvements; insurance policies, insurance certificates of tenants, and reports of insurance carriers insuring the Property and each portion thereof respecting the claims history of the Property; environmental reports, studies, surveys, tests and assessments; soils and geotechnical reports; and any other contracts or documents of significance to the Property (collectively, the "Documents").

6.4 City's Delivery of Documents and Funds

At or before the Closing, City shall deliver to Transferor through escrow the following:

(a) an acceptance of the Deed executed by City's Director of Property;

(b) a closing statement in form and content satisfactory to City and Transferor;

(c) funds to pay in full the East West Bank Loan, as provided in Article 2 hereof; and

(d) reconveyances for the deeds of trust for the City's HOME loan and the City's Hotel Tax loan

6.5 Other Documents

Transferor and City shall each deposit such other instruments as are reasonably required by Title Company as escrow holder or otherwise required to close the escrow, to pay off the East West Bank Loan, and consummate the transfer of the Property in accordance with the terms hereof, including, without limitation, an agreement (the "Designation Agreement") designating Title Company as the "Reporting Person" for the transaction pursuant to Section 6045(e) of the Federal Tax Code and the regulations promulgated thereunder, and executed by Transferor, City and Title Company. The Designation Agreement shall be substantially in the form attached hereto as Exhibit E and, in any event, shall comply with the requirements of Section 6045(e) of the Federal Tax Code and the regulations promulgated thereunder.

7. EXPENSES AND TAXES

7.1 Apportionments

The following are to be apportioned through escrow as of the Closing Date:

(a) Utility Charges

Transferor shall cause all the utility meters to be read on the Closing Date, and will be responsible for the cost of all utilities used prior to the Closing Date. All utility deposits paid by Transferor shall remain the property of Transferor and City shall reasonably cooperate to cause such deposits to be returned to Transferor to the extent Transferor is entitled thereto.

(b) Other Apportionments

Amounts payable under any contracts assumed pursuant hereto, annual or periodic permit or inspection fees (calculated on the basis of the period covered), and liability for other normal Property operation and maintenance expenses and other recurring costs shall be apportioned as of the Closing Date.

7.2 Closing Costs

City shall pay the cost of any desired survey, the premium for the Title Policy and the cost of the endorsements thereto, and escrow and recording fees. City shall pay the cost of any transfer taxes applicable to the transfer. Transferor shall be responsible for all costs incurred in connection with the prepayment or satisfaction of any loan, bond or other indebtedness secured by the Property including, without limitation, any prepayment fees, penalties or charges. Any other costs and charges of the escrow for the transfer not otherwise provided for in this Section or elsewhere in this Agreement shall be paid by the Transferor.

7.3 Real Estate Taxes and Special Assessments

General real estate taxes payable for the tax year prior to year of Closing and all prior years shall be paid by Transferor at or before the Closing. General real estate taxes payable for the tax year of the Closing shall be payable by the City as of the Closing Date. At or before the Closing, Transferor shall pay the full amount of any unpaid special assessments against the Property, including, without limitation, interest payable thereon, applicable to the period prior the Closing Date.

7.4 Post-Closing Reconciliation

If any of the foregoing proration cannot be calculated accurately on the Closing Date, then they shall be calculated as soon after the Closing Date as feasible. Either party owing the other party a sum of money based on such subsequent proration shall promptly pay such sum to the other party.

7.5 Survival

The provisions of this Section shall survive the Closing.

8. REPRESENTATIONS AND WARRANTIES

8.1 Representations and Warranties of Transferor

Transferor represents and warrants to and covenants with City as follows:

(a) To the best of Transferor's knowledge, there are now, and at the time of the Closing will be, no material physical or mechanical defects of the Property, and no violations of any laws, rules or regulations applicable to the Property, including, without limitation, any earthquake, life safety and handicap laws (including, but not limited to, the Americans with Disabilities Act).

(b) The Documents furnished to City are all of the relevant documents and information pertaining to the condition and operation of the Property to the extent available to Transferor, and are and at the time of Closing will be true, correct and complete copies of such documents.

(c) No document or instrument furnished or to be furnished by the Transferor to the City in connection with this Agreement contains or will contain any untrue statement of material fact or omits or will omit a material fact necessary to make the statements contained therein not misleading, under the circumstances under which any such statement shall have been made.

(d) Transferor does not have knowledge of any condemnation, either instituted or planned to be instituted by any governmental or quasi-governmental agency other than City, which could detrimentally affect the use, operation or value of the Property.

(e) To Transferor's knowledge, all water, sewer, gas, electric, telephone, and drainage facilities and all other utilities required by law or by the normal use and operation of the Property are and at the time of Closing will be installed to the property lines of the Property and are and at the time of Closing will be adequate to service the Property.

(f) To Transferor's knowledge, there are no easements or rights of way which have been acquired by prescription or which are otherwise not of record with respect to the Property, and there are no easements, rights of way, permits, licenses or other forms of agreement which afford third parties the right to traverse any portion of the Property to gain access to other real property. There are no disputes with regard to the location of any fence or other monument of the Property's boundary nor any claims or actions involving the location of any fence or boundary.

(g) There is no litigation pending or, after due and diligent inquiry, to the best of Transferor's knowledge, threatened, against Transferor or any basis therefor that arises out of the ownership of the Property or that might detrimentally affect the use or operation of the Property for its intended purpose or the value of the Property or the ability of Transferor to perform its obligations under this Agreement.

(h) Transferor is the legal and equitable owner of the Property, with full right to convey the same, and without limiting the generality of the foregoing, Except for the purchase option to Mercy Housing California, which will be terminated by the Closing, Transferor has not granted any option or right of first refusal or first opportunity to any third party to acquire any interest in any of the Property.

(i) Transferor is a limited liability corporation duly organized and validly existing under the laws of the State of California and is in good standing under the laws of the State of California; this Agreement and all documents executed by Transferor which are to be delivered to City at the Closing are, or at the Closing will be, duly authorized, executed and delivered by Transferor, are, or at the Closing will be, legal, valid and binding obligations of Transferor, enforceable against Transferor in accordance with their respective terms, are, and at the Closing will be, sufficient to convey good and marketable title (if they purport to do so), and do not, and at the Closing will not, violate any provision of any agreement or judicial order to which Transferor is a party or to which Transferor or the Property is subject.

(j) Transferor represents and warrants to City that it has not been suspended, disciplined or disbarred by, or prohibited from contracting with, any federal, state or local governmental agency. In the event Transferor has been so suspended, disbarred, disciplined or prohibited from contracting with any governmental agency, it shall immediately notify the City of same and the reasons therefore together with any relevant facts or information requested by City. Any such suspension, debarment, discipline or prohibition may result in the termination or suspension of this Agreement.

(k) Transferor knows of no facts nor has Transferor failed to disclose any fact that would prevent City from using and operating the Property after Closing in the normal manner in which it is intended.

(l) Transferor hereby represents and warrants to and covenants with City that the following statements are true and correct and will be true and correct as of the Closing Date: (i) to the best of Transferor's knowledge, neither the Property nor any real estate in the vicinity of the Property is in violation of any Environmental Laws; (ii) the Property is not now, nor to the best of Transferor's knowledge has it ever been, used in any manner for the manufacture, use, storage, discharge, deposit, transportation or disposal of any Hazardous Material; (iii) to the best of Transferor's knowledge there has been no release and there is no threatened release of any Hazardous Material in, on, under or about the Property; (iv) there have not been and there are not now any underground storage tanks, septic tanks or wells or any aboveground storage tanks at any time used to store Hazardous Material located in, on or under the Property, or if there have been or are any such tanks or wells located on the Property, their location, type, age and content has been specifically identified in Transferor's Environmental Disclosure, they have been properly registered with all appropriate authorities, they are in full compliance with all applicable statutes, ordinances and regulations, and they have not resulted in the release or threatened release of any Hazardous Material into the environment; (v) to the best of Transferor's knowledge the Property does not consist of any landfill or of any building materials that contain Hazardous Material; and (vi) the Property is not subject to any claim by any governmental regulatory agency or third party related to the release or threatened release of any Hazardous Material, and there is no inquiry by any governmental agency (including, without limitation, the California Department of Toxic Substances Control or the Regional Water Quality Control Board) with respect to the presence of Hazardous Material in, on, under or about the Property, or the migration of Hazardous Material from or to other property. As used herein, the following terms shall have the meanings below:

(i) "Environmental Laws" shall mean any present or future federal, state or local laws, ordinances, regulations or policies relating to Hazardous Material (including, without limitation, their use, handling, transportation, production, disposal, discharge or storage)

or to health and safety, industrial hygiene or environmental conditions in, on, under or about the Property, including, without limitation, soil, air and groundwater conditions.

(ii) "Hazardous Material" shall mean any material that, because of its quantity, concentration or physical or chemical characteristics, is deemed by any federal, state or local governmental authority to pose a present or potential hazard to human health or safety or to the environment. Hazardous Material includes, without limitation, any material or substance defined as a "hazardous substance," or "pollutant" or "contaminant" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA", also commonly known as the "Superfund" law), as amended, (42 U.S.C. Section 9601 et seq.) or pursuant to Section 25281 of the California Health & Safety Code; any "hazardous waste" listed pursuant to Section 25140 of the California Health & Safety Code; any asbestos and asbestos containing materials whether or not such materials are part of the structure of the Improvements or are naturally occurring substances on or about the Property; petroleum, including crude oil or any fraction thereof, natural gas or natural gas liquids; and "source," "special nuclear" and "by-product" material as defined in the Atomic Energy Act of 1985, 42 U.S.C. Section 3011 et seq.

(iii) "Release" or "threatened release" when used with respect to Hazardous Material shall include any actual or imminent spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into or inside any of the improvements, or in, on, under or about the Property. Release shall include, without limitation, "release" as defined in Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9601).

(m) At the time of Closing, there will be no leases or other occupancy agreements affecting any of the Property. At the time of Closing there will be no outstanding written or oral contracts made by Transferor for any of the Improvements that have not been fully paid for and Transferor shall cause to be discharged all mechanics' or materialmen's liens arising from any labor or materials furnished to the Property prior to the time of Closing. There are no obligations in connection with the Property which will be binding upon City after Closing except for matters which are set forth in the Preliminary Report.

(n) Transferor is not a "foreign person" within the meaning of Section 1445(f)(3) of the Federal Tax Code.

8.2 Indemnity

Transferor, on behalf of itself and its successors and assigns, hereby agrees to indemnify, defend and hold harmless City, its Agents and their respective successors and assigns, from and against any and all liabilities, claims, demands, damages, liens, costs, penalties, losses and expenses, including, without limitation, reasonable attorneys' and consultants' fees, resulting from any misrepresentation or breach of warranty or breach of covenant made by Transferor in this Agreement or in any document, certificate, or exhibit given or delivered to City pursuant to or in connection with this Agreement. The foregoing indemnity includes, without limitation, costs incurred in connection with the investigation of site conditions and all activities required to locate, assess, evaluate, remediate, cleanup, remove, contain, treat, stabilize, monitor or otherwise control any Hazardous Material. The indemnification provisions of this Section shall survive beyond the Closing, or, if title is not transferred pursuant to this Agreement, beyond any termination of this Agreement.

9. RISK OF LOSS AND POSSESSION

9.1 Risk of Loss

If any of the Property is damaged or destroyed prior to the Closing Date, or if condemnation proceedings are commenced against any of the Property, then the rights and obligations of Transferor and City hereunder shall be as follows:

(a) If such damage or destruction is fully covered by Transferor's insurance except for the deductible amount thereunder, and the insurer agrees to timely pay for the entire cost of such repair, and such damage or destruction would cost less than One Million Dollars (\$1,000,000) (the "Threshold Damage Amount") to repair or restore, then this Agreement shall remain in full force and effect and City shall acquire the Property upon the terms and conditions set forth herein. In such event, Transferor shall assign to City at Closing all of Transferor's right, title and interest in and to all proceeds of insurance on account of such damage or destruction pursuant to an instrument satisfactory to City.

(b) If such damage or destruction is not fully covered by Transferor's insurance (other than the deductible amount), if the cost of the damage or destruction would equal or exceed the Threshold Damage Amount, or if condemnation proceedings are commenced against any of the Property, then, City shall have the right, at its election, either to terminate this Agreement in its entirety, or only as to that portion of the Property damaged or destroyed or subject to condemnation proceedings, or to not terminate this Agreement and accept transfer of the Property (or the portion not damaged or affected by condemnation, as the case may be). City shall have thirty (30) days after Transferor notifies City that an event described in this Subsection (b) has occurred to make such election by delivery to Transferor of an election notice. City's failure to deliver such notice within such thirty (30)-day period shall be deemed City's election to terminate this Agreement in its entirety. If this Agreement is terminated in its entirety or in part pursuant to this Subsection (b) by City's delivery of notice of termination to Transferor, then City and Transferor shall each be released from all obligations hereunder pertaining to that portion of the Property affected by such termination. If City elects not to terminate this Agreement, Transferor shall notify City of Transferor's intention to repair such damage or destruction, in which case this Agreement shall remain in full force and effect, and Transferor shall be entitled to any proceeds of insurance or condemnation awards. Any repairs elected to be made by Transferor pursuant to this Subsection shall be made within one hundred eighty (180) days following such damage or destruction and the Closing shall be extended until the repairs are substantially completed. As used in this Section, the cost to repair or restore shall include the cost of lost rental revenue, including additional rent and base rent.

9.2 Insurance

Through the Closing Date, Transferor shall maintain or cause to be maintained, at Transferor's sole cost and expense, a policy or policies of property insurance in amounts equal to the full replacement value of the Improvements, insuring against all insurable risks, including, without limitation, fire, vandalism, malicious mischief, lightning, windstorm, water, and other perils customarily covered by casualty insurance and the costs of demolition and debris removal. Transferor shall furnish City with evidence of such insurance upon request by City.

9.3 Possession

Possession of the Property shall be delivered to City on the Closing Date.

10. MAINTENANCE; CONSENT TO NEW CONTRACTS

10.1 Maintenance of the Property by Transferor

Between the date of Transferor's execution of this Agreement and the Closing, Transferor shall maintain the Property in good order, condition and repair, reasonable wear and tear and activities permitted under the Master Lease excepted, and shall make all repairs, maintenance and replacements of the Improvements and otherwise operate the Property in the same manner as before the making of this Agreement, as if Transferor were retaining the Property.

10.2 City's Consent to New Contracts Affecting the Property; Termination of Existing Contracts

After the date this Agreement is executed by the Transferor, Transferor shall not enter into any lease or contract, or any amendment thereof, or permit any tenant of the Property to enter into any sublease, assignment or agreement pertaining to the Property, without in each instance obtaining City's prior written consent thereto. Transferor shall terminate prior to the Closing, at no cost or expense to City, any and all management agreements affecting the Property that City does not agree in writing prior to the Closing to assume.

11. GENERAL PROVISIONS

11.1 Notices

Any notice, consent or approval required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given upon (i) hand delivery, against receipt, (ii) one (1) day after being deposited with a reliable overnight courier service, or (iii) two (2) days after being deposited in the United States mail, registered or certified mail, postage prepaid, return receipt required, and addressed as follows:

City:

Mayor's Office of Housing
City and County of San Francisco
1 South Van Ness Avenue, 5th Floor
San Francisco, California 94103
Attn: Director
Re: 1500 Page Street
Facsimile No.: (415) 701-5501

with copy to:

Evan Gross
Deputy City Attorney
Office of the City Attorney
City Hall, Room 234
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4682
Re: 1500 Page Street
Facsimile No.: (415) 554-4755

Transferor:

1500 Page Street, LLC
601 Laguna Street
San Francisco, CA 94102
Attn: Nader Shabahangi

Facsimile No.: (415)-276-4191

or to such other address as either party may from time to time specify in writing to the other upon five (5) days prior written notice in the manner provided above. For convenience of the parties, copies of notices may also be given by facsimile, to the telephone number listed above, or such other numbers as may be provided from time to time. However, neither party may give official or binding notice by facsimile. The effective time of a notice shall not be affected by the receipt, prior to receipt of the original, of a facsimile copy of the notice.

11.2 Brokers and Finders

Neither party has had any contact or dealings regarding the Property, or any communication in connection with the subject matter of this transaction, through any licensed real estate broker or other person who could claim a right to a commission or finder's fee in connection with the transfer contemplated herein. In the event that any broker or finder perfects a claim for a commission or finder's fee based upon any such contact, dealings or communication, the party through whom the broker or finder makes his or her claim shall be responsible for such commission or fee and shall indemnify and hold harmless the other party from all claims, costs, and expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred by the indemnified party in defending against the same. The provisions of this Section shall survive the Closing.

11.3 Successors and Assigns

This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors, heirs, administrators and assigns. City shall have the right, upon notice to Transferor, to assign its right, title and interest in and to this Agreement to the Nominee or one (1) or more assignees at any time before the Closing Date.

11.4 Amendments

Except as otherwise provided herein, this Agreement may be amended or modified only by a written instrument executed by City and Transferor.

11.5 Continuation and Survival of Representations and Warranties

All representations and warranties by the respective parties contained herein or made in writing pursuant to this Agreement are intended to be, and shall remain, true and correct as of the Closing, shall be deemed to be material, and, together with all conditions, covenants and indemnities made by the respective parties contained herein or made in writing pursuant to this Agreement (except as otherwise expressly limited or expanded by the terms of this Agreement), shall survive the execution and delivery of this Agreement and the Closing, or, to the extent the context requires, beyond any termination of this Agreement. All statements contained in any certificate or other instrument delivered at any time by or on behalf of Transferor in conjunction with the transaction contemplated hereby shall constitute representations and warranties hereunder.

11.6 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

11.7 Merger of Prior Agreements

The parties intend that this Agreement (including all of the attached exhibits and schedules, which are incorporated into this Agreement by reference) shall be the final expression of their agreement with respect to the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous oral or written agreements or understandings. The parties further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever (including, without limitation, prior drafts or changes therefrom) may be introduced in any judicial, administrative or other legal proceeding involving this Agreement.

11.8 Parties and Their Agents; Approvals

The term "Transferor" as used herein shall include the plural as well as the singular. If there is more than one (1) Transferor, then the obligations under this Agreement imposed on Transferor shall be joint and several. As used herein, the term "Agents" when used with respect to either party shall include the agents, employees, officers, contractors and representatives of such party. All approvals, consents or other determinations permitted or required by City hereunder shall be made by or through City's Director of Property unless otherwise provided herein, subject to applicable law.

11.9 Interpretation of Agreement

The article, section and other headings of this Agreement are for convenience of reference only and shall not affect the meaning or interpretation of any provision contained herein. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa, and each gender reference shall be deemed to include the other and the neuter. This Agreement has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with herein. In addition, each party has been represented by experienced and knowledgeable legal counsel. Accordingly, any rule of law (including California Civil Code Section 1654) or legal decision that would require interpretation of any ambiguities in this Agreement against the party that has drafted it is not applicable and is waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the purposes of the parties and this Agreement.

11.10 Attorneys' Fees

In the event that either party hereto fails to perform any of its obligations under this Agreement or in the event a dispute arises concerning the meaning or interpretation of any provision of this Agreement, the defaulting party or the non-prevailing party in such dispute, as the case may be, shall pay the prevailing party reasonable attorneys' and experts' fees and costs, and all court costs and other costs of action incurred by the prevailing party in connection with the prosecution or defense of such action and enforcing or establishing its rights hereunder (whether or not such action is prosecuted to a judgment). For purposes of this Agreement, reasonable attorneys' fees of the City's Office of the City Attorney shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the City Attorney's services were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the Office of the City Attorney. The term "attorneys' fees" shall also include,

without limitation, all such fees incurred with respect to appeals, mediations, arbitrations, and bankruptcy proceedings, and whether or not any action is brought with respect to the matter for which such fees were incurred. The term "costs" shall mean the costs and expenses of counsel to the parties, which may include printing, duplicating and other expenses, air freight charges, hiring of experts, and fees billed for law clerks, paralegals, and others not admitted to the bar but performing services under the supervision of an attorney.

11.11 Sunshine Ordinance

Transferor understands and agrees that under the City's Sunshine Ordinance (San Francisco Administrative Code, Chapter 67) and the State Public Records Law (Gov. Code Section 6250 et seq.), this Agreement and any and all records, information, and materials submitted to the City hereunder public records subject to public disclosure. Transferor hereby acknowledges that the City may disclose any records, information and materials submitted to the City in connection with this Agreement.

11.12 Conflicts of Interest

Through its execution of this Agreement, Transferor acknowledges that it is familiar with the provisions of Section 15.103 of the San Francisco Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California, and certifies that it does not know of any facts which would constitute a violation of said provision, and agrees that if Transferor becomes aware of any such fact during the term of this Agreement, Transferor shall immediately notify the City.

11.13 Notification of Limitations on Contributions

Through its execution of this Agreement, Transferor acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the selling or leasing of any land or building to or from the City whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or a board on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. Transferor acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. Transferor further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of Transferor's board of directors, chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than twenty percent (20%) in Transferor; any subcontractor listed in the contract; and any committee that is sponsored or controlled by Transferor. Additionally, Transferor acknowledges that Transferor must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. Transferor further agrees to provide to City the name of the each person, entity or committee described above.

11.14 Non-Liability of City Officials, Employees and Agents

Notwithstanding anything to the contrary in this Agreement, no elective or appointive board, commission, member, officer, employee or agent of City shall be personally liable to

Transferor, its successors and assigns, in the event of any default or breach by City or for any amount which may become due to Transferor, its successors and assigns, or for any obligation of City under this Agreement.

11.15 Earned Income Credit (EIC) Forms

San Francisco Administrative Code Section 12O requires that employers provide their employees with IRS Form W-5 (Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found.

(a) Transferor shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty (30) days following the date on which this Agreement becomes effective (unless Transferor has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by Transferor; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Agreement.

(b) Failure to comply with any requirement contained in Subsection (a) of this Section shall constitute a material breach by Transferor of the terms of this Agreement. If, within thirty (30) days after Transferor receives written notice of such a breach, Transferor fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty (30) days, Transferor fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Agreement or under applicable law.

(c) Any Subcontract entered into by Transferor shall require the subcontractor to comply, as to the subcontractor's Eligible Employees, with each of the terms of this Section.

(d) Capitalized terms used in this Section and not defined in this Agreement shall have the meanings assigned to such terms in Section 12O of the San Francisco Administrative Code.

11.16 Counterparts

This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

11.17 Effective Date

As used herein, the term "Effective Date" shall mean the date on which the City's Board of Supervisors and Mayor enact a resolution approving and authorizing this Agreement and the transactions contemplated hereby, following execution of this Agreement by both parties.

11.18 Severability

If any provision of this Agreement or the application thereof to any person, entity or circumstance shall be invalid or unenforceable, the remainder of this Agreement, or the application of such provision to persons, entities or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each other provision of this Agreement shall be valid and be enforceable to the fullest extent permitted by law, except to the

extent that enforcement of this Agreement without the invalidated provision would be unreasonable or inequitable under all the circumstances or would frustrate a fundamental purpose of this Agreement.

11.19 Agreement Not to Market Prior to Effective Date

Transferor agrees that unless and until this Agreement terminates pursuant to its terms, Transferor shall not negotiate with any other parties pertaining to the transfer of the Property and shall not market the Property to third parties.

11.20 Cooperative Drafting; Advice of Counsel.

This Agreement has been drafted through a cooperative effort of both parties, and both parties have had an opportunity to have the Agreement reviewed and revised by legal counsel. No party shall be considered the drafter of this Agreement, and no presumption or rule that an ambiguity shall be construed against the party drafting the clause shall apply to the interpretation or enforcement of this Agreement. City and Transferor each represents and warrants to the other that it has had the advice of counsel of its own choosing in the negotiations for and the preparation of this Agreement and has read and understands the contents of this Agreement and its legal effect.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, TRANSFEROR ACKNOWLEDGES AND AGREES THAT NO OFFICER OR EMPLOYEE OF CITY HAS AUTHORITY TO COMMIT CITY TO THIS AGREEMENT UNLESS AND UNTIL APPROPRIATE LEGISLATION OF CITY'S BOARD OF SUPERVISORS SHALL HAVE BEEN DULY ENACTED APPROVING THIS AGREEMENT AND AUTHORIZING THE TRANSACTIONS CONTEMPLATED HEREBY. THEREFORE, ANY OBLIGATIONS OR LIABILITIES OF CITY HEREUNDER ARE CONTINGENT UPON THE DUE ENACTMENT OF SUCH LEGISLATION, AND THIS AGREEMENT SHALL BE NULL AND VOID IF CITY'S BOARD OF SUPERVISORS AND MAYOR DO NOT APPROVE THIS AGREEMENT, IN THEIR RESPECTIVE SOLE DISCRETION. APPROVAL OF ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY BY ANY DEPARTMENT, COMMISSION OR AGENCY OF CITY SHALL NOT BE DEEMED TO IMPLY THAT SUCH LEGISLATION WILL BE ENACTED NOR WILL ANY SUCH APPROVAL CREATE ANY BINDING OBLIGATIONS ON CITY.

The parties have duly executed this Agreement as of the respective dates written below.

TRANSFEROR:

1500 Page Street LLC,
a California limited liability company

By: _____
Nader Shabahangi
Manager

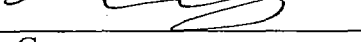
CITY:

CITY AND COUNTY OF
SAN FRANCISCO, a municipal corporation

By: _____
John Updike
Director of Property

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____

Evan Gross
Deputy City Attorney

By: _____
Olson Lee
Director, Mayor's Office of Housing

Title Company agrees to act as escrow holder in accordance with the terms of this Agreement and to execute the Designation Agreement (attached hereto as Exhibit E) and act as the Reporting Person (as such term is defined in the Designation Agreement). Title Company's failure to execute below shall not invalidate the Agreement between City and Transferor.

TITLE COMPANY:

CHICAGO TITLE INSURANCE COMPANY

By: _____

Its: _____

Date: _____

EXHIBIT A

REAL PROPERTY DESCRIPTION

All that certain real property located in the County of San Francisco, State of California, described as follows:

[LEGAL DESCRIPTION TO COME FROM PRELIMINARY REPORT]

LEGAL DESCRIPTION

EXHIBIT "A"

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

COMMENCING at the point of intersection of the Northerly line of Page Street and the Westerly line of Masonic Avenue; running thence Northerly and along said line of Masonic Avenue 50 feet; thence at a right angle Westerly 108 feet; thence at a right angle Southerly 50 feet to the Northerly line of Page Street; thence at a right angle Easterly along said line of Page Street 108 feet to the point of commencement.

BEING part of Western Addition Block No. 664.

APN: Lot 4, Block 1223

EXHIBIT B
GRANT DEED

GRANT DEED

RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:

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

The undersigned hereby declares this instrument to be
exempt from Recording Fees (CA Govt. Code § 27383)
and Documentary Transfer Tax (CA Rev. & Tax Code
§ 11922 and S.F. Bus. & Tax Reg. Code § 1105)

(Space above this line reserved for Recorder's use only)

GRANT DEED

(Assessor's Parcel No. 1223 004)

FOR VALUABLE CONSIDERATION, receipt of which is hereby acknowledged, 1500 Page Street, LLC, a California limited liability company, hereby grants to the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation, the real property located in the City and County of San Francisco, State of California, described on Exhibit A attached hereto and made a part hereof (the "Property").

TOGETHER WITH any and all rights, privileges and easements incidental or appurtenant to the Property, including, without limitation, any and all minerals, oil, gas and other hydrocarbon substances on and under the Property, as well as any and all development rights, air rights, water, water rights, riparian rights and water stock relating to the Property, and any and all easements, rights-of-way or other appurtenances used in connection with the beneficial use and enjoyment of the Land and all of Grantor's right, title and interest in and to any and all roads and alleys adjoining or servicing the Property.

Executed as of this ____ day of _____, 20__.

1500 PAGE STREET, LLC
a California limited liability company

By: _____
Nader Shabahangi
Manager

State of California)
) ss
County of San Francisco)

On _____, before me, _____, a notary public in and for said State, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

CERTIFICATE OF ACCEPTANCE

This is to certify that the interest in real property conveyed by the foregoing Grant Deed to the City and County of San Francisco, a municipal corporation, is hereby accepted pursuant to Board of Supervisors' Resolution No. 18110 Series of 1939, approved August 7, 1957, and the grantee consents to recordation thereof by its duly authorized officer.

Dated: _____

By: _____

John Updike
Director of Property

EXHIBIT C
PRELIMINARY REPORT

EXHIBIT D

**CERTIFICATE OF TRANSFEROR
OTHER THAN AN INDIVIDUAL
(FIRPTA Affidavit)**

Section 1445 of the Internal Revenue Code provides that a transferee of a United States real property interest must withhold tax if the transferor is a foreign person. To inform the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation, the transferee of certain real property located in the City and County of San Francisco, California, that withholding of tax is not required upon the disposition of such U.S. real property interest by 1500 Page Street, LLC, a California limited liability company ("Transferor"), the undersigned hereby certifies the following on behalf of Transferor:

1. Transferor is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);
2. Transferor's U.S. employer identification number is 61-1521542; and
3. Transferor's office address is 601 Laguna Street, San Francisco, CA, 94102.

Transferor understands that this certification may be disclosed to the Internal Revenue Service by the transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalty of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Transferor.

Dated: _____, 20__.

On behalf of:

1500 Page Street, LLC,
a California limited liability company

By: _____
Nader Shabahangi
Manager

EXHIBIT E

DESIGNATION AGREEMENT

This DESIGNATION AGREEMENT (the "Agreement") dated as of _____, 20____, is by and among 1500 PAGE STREET, LLC, a California limited liability company ("Transferor"), the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("City"), and CHICAGO TITLE INSURANCE COMPANY ("Title Company").

A. Pursuant to that certain Transfer Agreement entered into by and between Transferor and City, dated _____, 20____ (the "Transfer Agreement"), Transferor has agreed to transfer to City, and City has agreed to accept from Transferor, certain real property located in City and County of San Francisco, California, more particularly described in Exhibit A attached hereto (the "Property"). The transfer of the Property is sometimes hereinbelow referred to below as the "Transaction").

B. Section 6045(e) of the United States Internal Revenue Code of 1986 and the regulations promulgated thereunder (collectively, the "Reporting Requirements") require an information return to be made to the United States Internal Revenue Service, and a statement to be furnished to Transferor, in connection with the Transaction.

C. Pursuant to Subsection 2(b)(i) of the Transfer Agreement, an escrow has been opened with Title Company, Escrow No. 13-36914876-A-JM, through which the Transaction will be or is being accomplished. Title Company is either (i) the person responsible for closing the Transaction (as described in the Reporting Requirements) or (ii) the disbursing title or escrow company that is most significant in terms of gross proceeds disbursed in connection with the Transaction (as described in the Reporting Requirements).

D. Transferor, City and Title Company desire to designate Title Company as the "Reporting Person" (as defined in the "Reporting Requirements") with respect to the Transactions.

ACCORDINGLY, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Transferor, City and Title Company agree as follows:

1. Title Company is hereby designated as the Reporting Person for the Transaction. Title Company shall perform all duties that are required by the Reporting Requirements to be performed by the Reporting Person for the Transaction.

2. Transferor and City shall furnish to Title Company, in a timely manner, any information requested by Title Company and necessary for Title Company to perform its duties as Reporting Person for the transaction.

3. Title Company hereby requests Transferor to furnish to Title Company Transferor's correct taxpayer identification number. Transferor acknowledges that any failure by Transferor to provide Title Company with Transferor's correct taxpayer identification number may subject Transferor to civil or criminal penalties imposed by law. Accordingly, Transferor hereby certifies to Title Company, under penalties of perjury, that Transferor's correct taxpayer identification number is 61-1521542.

4. The names and addresses of the parties hereto are as follows:

TRANSFEROR:

1500 Page Street, LLC
601 Laguna Street
San Francisco, CA 94102
Attn: Nader Shabahangi
Facsimile No.: (415) 276-4191

CITY:

Director of Property
25 Van Ness Avenue, Suite 400
San Francisco, CA 94102
Facsimile No.: (415) 552-9216

TITLE COMPANY:

Chicago Title Company
455 Market Street, 21st Floor
San Francisco, CA 94105
Attn: Terina King
Facsimile No.: (415) 896-9423

5. Each of the parties hereto shall retain this Agreement for a period of four (4) years following the calendar year during which the date of closing of the Transaction occurs.

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the date and year first above written.

TRANSFEROR:

1500 PAGE STREET, LLC, A California
limited liability company

By: _____
Nader Shabahangi
Manager

Date: _____

CITY:

CITY AND COUNTY OF
SAN FRANCISCO, a municipal corporation

By: _____
John Updike
Director of Property

Date: _____

Title Company:

CHICAGO TITLE INSURANCE COMPANY

Date: _____

By: _____

Its: _____

OPTION TO LEASE AGREEMENT

This Option to Lease Agreement (this "**Agreement**") is entered into as of this ____ day of _____ 2014, by and between the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("**City**"), acting by and through the Mayor's Office of Housing and Community Development ("**MOHCD**"), and MERCY HOUSING CALIFORNIA 57, A California Limited Partnership, and its permitted successors and assigns hereunder (the "**Optionee**"), with reference to the following facts:

RECITALS

A. The City is the fee owner of that certain real property and the improvements thereon, located at 1500 Page Street, San Francisco and more particularly described in Exhibit A attached hereto (the "**Property**").

B. Optionee desires to develop the Property with up to 17 studio and one-bedroom units for developmentally disabled low-income persons (the "**Project**"). In order to develop the Project, Optionee desires to enter into a ground lease with the City in which the City will lease to Optionee the Property subject to certain conditions as provided herein.

C. Optionee intends to develop the Project with 9% Low Income Housing Tax Credits and other sources, if necessary.

D. In order to apply for Project financing, Optionee desires to obtain from the City, and the City desires to grant to Optionee, upon the specific terms and conditions set forth in this Agreement, the exclusive right and option to lease the Property.

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL PROMISES CONTAINED IN THIS AGREEMENT, THE PARTIES AGREE AS FOLLOWS:

AGREEMENT

Section 1. Grant of Option. The City grants to Optionee the option to lease the Property and purchase the improvements located thereon for the consideration and under the terms and conditions set forth in this Agreement (the "**Option**").

Section 2. Term of Option: Exercise.

a. Term and Extension of Term. The term of the Option (the "**Term**") shall be for a period commencing on the date of this Agreement and ending June 30, 2015, (the "**Initial Term**") unless extended. So long as the Optionee is not then in default, Optionee may request an extension of the Term for an additional six (6) months (the "**Extended Term**") by giving written notice to the City between the date that is thirty (30) days prior to the expiration of the Initial Term and at any time before the expiration of the Initial Term. The Extended Term shall commence on 12:01 A.M. on the day immediately following the expiration of the Initial Term and shall end on December 31, 2015. All references in this Agreement to the Term shall mean the Initial Term, and if extended as set forth above, the Extended Term. During the Term, Optionee and City

staff agree to negotiate in good faith to complete all of the terms and conditions of the ground lease of the Property from the City to Optionee consistent with this Agreement (upon completion of such negotiations, the "**Ground Lease**"). The final terms of the Ground Lease must be agreed to by Optionee, the City's Director of Property, and the MOHCD Director or her/his designee, in writing, before Optionee's exercise of the Option. The Term shall end on the dates set forth above or, if earlier, on the effective date of the Ground Lease.

b. Exercise of Option. At any time following approval of the Ground Lease by the City's Director of Property and the MOHCD Director and before the expiration of the Term, Optionee may exercise the Option by giving written notice to the City (the "**Option Notice**").

c. Expiration. The Option shall expire at midnight on the last day of the Term. If the expiration of the Term falls on a Saturday, Sunday or legal holiday in the State of California, then the Option may be exercised on the next following business day. Upon termination of the Option and a written request by the City, Optionee shall sign and deliver a quitclaim deed or such other document as may be reasonably required by the City to evidence the termination of the Option.

Section 3. Option Consideration. The Option is granted in consideration of Optionee's obligation to negotiate in good faith for the Ground Lease and for advancement of the Project. The Option consideration is related to the Option only and in no way relates to Ground Lease payments that will be owed to MOHCD.

Section 4. Ground Lease of the Property. MOHCD staff shall prepare the initial form of ground lease substantially in the form used by MOHCD for projects in which MOHCD is the fee owner of property that will be developed for affordable housing. The Ground Lease shall be in accordance with the following:

- i. Term of Ground Lease. The Ground Lease shall become effective immediately following the full execution by the parties and shall end seventy-five (75) years from the date of construction completion of the Project, provided that the tenant shall have an option to extend the term for an additional twenty-four (24) years for no additional consideration (but rent shall continue during any extended term as set forth below).
- ii. Taxes and Assessments. The tenant shall be responsible for the payment of any and all property taxes and assessments levied against the leasehold estate and the Property during the term of the Ground Lease subject to any abatement available therefrom.
- iii. Project Use. The Property shall be used during the term of the Ground Lease only for affordable housing, with

maximum rent and income levels set at no greater than 50% area median income, and approved ancillary uses.

- iv. Rent. The tenant shall pay the landlord annual rent in the amount of ten percent (10%) of the land value of the Property (as determined by a MAI appraiser selected by, and at the sole cost of, the tenant, and set in the Ground Lease), consisting of \$1 in base rent and the remainder in residual rent. The residual rent shall be payable only to the extent proceeds are available from the Project. The annual rent shall be adjusted on the fifteenth (15th) anniversary of the expiration of the first full calendar lease year and every fifteen (15) years thereafter, and shall be equal to ten percent (10%) of then appraised value of the land as determined by a MAI appraiser selected by, and at the sole cost of, the tenant. Any such adjustment shall be made to the residual rent and not the base rent. Notwithstanding the forgoing, in the event that the Project is financed under the U.S. Department of Housing and Urban Development's ("HUD") Section 811 program, City and Optionee hereby acknowledge and agree that the annual rent terms during the term of the HUD financing shall be as required by HUD and the Section 811 program regulations.
- v. Construction and Operation of the Project. The tenant shall be responsible, at its sole cost, for construction, operation, and maintenance of the Project during the Ground Lease term.
- vi. Title to Property. The Ground Lease shall provide that the City will own fee title to the land, and the Optionee will own fee title to all improvements constructed or otherwise located on the land, during the Ground Lease term.
- vii. Disposition of Improvements at End of Lease. At the end of the Ground Lease term, fee title to all the improvements shall vest in the City without further action of any party, without any obligation by the City to pay any compensation therefor to the tenant and without the necessity of a deed from the tenant to the City.
- viii. Mortgage Protections. The Ground Lease shall include standard mortgage protection provisions.
- ix. Defaults; Right to Cure. The City will provide any notice of any defaults under the Ground Lease to the tenant's limited partners and lenders, and allow any such parties the right to

cure a default by the tenant under the Ground Lease. Pursuant to the terms of the Ground Lease, City shall not be entitled to terminate the Ground Lease following any uncured default by the tenant during the fifteen (15) year tax credit compliance period for the Project, except if such default is failure to pay rent.

- x. Encumbrances. The Ground Lease will permit the tenant to encumber its leasehold interest in the Property to secure any loans deemed necessary by the tenant, as approved by MOHCD. Any funds from a loan secured by the Property must be used in or on the Property.

Section 5. Closing.

- a. Expenses. All expenses, fees or costs (except attorneys' fees and costs) incurred in connection with the Ground Lease of the Property, including but not limited to city and county documentary transfer tax, conveyance taxes, recording charges (if any), and costs of title insurance shall be borne by the Optionee. Each party shall bear its own attorneys' fees and costs incurred in connection with negotiation and execution of this Agreement and the Ground Lease.

- b. Proration of Taxes. Real property taxes on the Property shall be prorated as of the date of closing of the Ground Lease.

- c. Title Insurance. The closing of the Ground Lease shall be conditioned on the issuance to the tenant of an ALTA leasehold policy of title insurance, from a title company chosen by the tenant, insuring the tenant's leasehold interest in the Property subject only to reasonable exceptions approved by the tenant.

Section 6. Notices. All notices or other communications made pursuant to this Agreement shall be in writing and shall be deemed properly delivered, given or served to the parties at the following addresses when (i) mailed by certified mail, postage prepaid, return receipt requested; (ii) sent by express delivery service, charges prepaid with a delivery receipt; or (iii) personally delivered when a delivery receipt is obtained:

City: City and County of San Francisco Mayor's Office of Housing and
Community Development
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103
Attn: Director

with a copy to: Real Estate Division
City and County of San Francisco
25 Van Ness Avenue, Suite 400
San Francisco, California 94102
Attn: Director of Property

Optionee: Mercy Housing California 57
1360 Mission Street, Suite 300
San Francisco, CA 94103
Attn: President

All notices so delivered, mailed or sent shall be deemed received as of the date shown on the delivery receipt as the date of delivery, the date delivery was refused or the date the notice was returned as undeliverable. Either party may change its address for the purposes of this paragraph by giving prior written notice of the change to the other party in the manner provided in this Section 6. Any notice required under this Agreement that is sent by a Party shall be sent to, or contemporaneously copied to, all of the other Parties.

Section 7. Assignment of Option. Without the prior written consent of the City, Optionee may assign its rights and obligations under this Agreement to any limited liability company in which Mercy Properties California or its corporate affiliate is the managing member or partner, or a limited partnership in which Mercy Properties California or its corporate affiliate is a general partner. All other transfers by Optionee shall require the prior written consent of the City.

Section 8. Binding Effect. This Agreement and its terms and conditions shall bind upon and inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns. By approving this Agreement, the City's Board of Supervisors approves the Ground Lease with the substantive terms described in Section 4 without the need for additional action by the Board of Supervisors; provided, if there are any material changes that are to the detriment of the City, as determined by the MOHCD Director, then such material changes will be subject to Board of Supervisor approval before the Ground Lease becomes effective.

Section 9. Time. Time is of the essence of this Agreement.

Section 10. Further Documents. Upon the reasonable request of the other party, each party will execute, acknowledge and deliver or cause to be executed, acknowledged and delivered, such further instruments and documents as may be reasonably necessary in order to carry out the intent and purpose of this Agreement, including escrow instructions.

Section 11. Commission. Each party to this Agreement represents to the other party that it has not engaged or used the services of any person, firm or corporation that may claim a broker's commission or finder's fee upon execution of this Agreement or the Ground Lease, and each party to this Agreement agrees to hold the other party harmless from any loss, damage, expense or liability, including attorney's fees, resulting from any claim by any person, firm or corporation based upon its having acted as broker or finder on behalf of said indemnifying party.

Section 12. Captions. The captions of the paragraphs of this Agreement are for convenience and reference only, and the words contained in the captions shall in no way

be held to explain, modify, amplify or aid in the interpretations, constructions or meaning of the provisions of this Agreement.

Section 13. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same Agreement.

Section 14. Entire Agreement; Signatures. This Agreement contains the entire agreement between the parties respecting the matters set forth, and supersedes all prior agreements between the parties respecting the matters set forth.

Section 15. Attorneys' Fees. In any action between Optionee and the City to enforce or interpret any of the terms of this Agreement, the prevailing party shall be entitled to recover costs of suit and expenses including, without limitation, reasonable attorneys' fees.

Section 16. Effective Date. Notwithstanding anything to the contrary contained herein, this Agreement shall not be effective until the date on which the City's Board of Supervisors and Mayor enact a resolution approving and authorizing this Agreement and the transactions contemplated hereby, following execution of this Agreement by both parties.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, OPTIONEE ACKNOWLEDGES AND AGREES THAT NO OFFICER OR EMPLOYEE OF CITY HAS AUTHORITY TO COMMIT CITY TO THIS AGREEMENT UNLESS AND UNTIL APPROPRIATE LEGISLATION OF CITY'S BOARD OF SUPERVISORS SHALL HAVE BEEN DULY ENACTED APPROVING THIS AGREEMENT AND AUTHORIZING THE TRANSACTIONS CONTEMPLATED HEREBY. THEREFORE, ANY OBLIGATIONS OR LIABILITIES OF CITY HEREUNDER ARE CONTINGENT UPON THE DUE ENACTMENT OF SUCH LEGISLATION, AND THIS AGREEMENT SHALL BE NULL AND VOID IF CITY'S BOARD OF SUPERVISORS AND MAYOR DO NOT APPROVE THIS AGREEMENT, IN THEIR RESPECTIVE SOLE DISCRETION.

[Signatures appear on following page]

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

CITY:

CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation

By: _____
John Updike
Director of Property

By: _____
Olson Lee
Director, Mayor's Office of
Housing and Community Development

APPROVED AS TO FORM:
DENNIS J. HERRERA
City Attorney

By: _____
Evan Gross
Deputy City Attorney

OPTIONEE:

Mercy Housing California 57, A California Limited Partnership

By: Mercy Housing California Special Needs, a California nonprofit public benefit corporation, its general partner

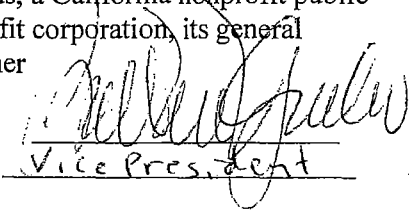
By: 
Its: Vice President

EXHIBIT A

Property Description

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY AND COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

[LEGAL DESCRIPTION TO COME FROM PRELIMINARY REPORT]

LEGAL DESCRIPTION

EXHIBIT "A"

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

COMMENCING at the point of intersection of the Northerly line of Page Street and the Westerly line of Masonic Avenue; running thence Northerly and along said line of Masonic Avenue 50 feet; thence at a right angle Westerly 108 feet; thence at a right angle Southerly 50 feet to the Northerly line of Page Street; thence at a right angle Easterly along said line of Page Street 108 feet to the point of commencement.

BEING part of Western Addition Block No. 664.

APN: Lot 4, Block 1223

File # 140448



SAN FRANCISCO PLANNING DEPARTMENT

General Plan Referral

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

Date: April 29, 2013
Case No. 2013.0352R
1500 Page Street Acquisition and Lease of Property


Block/Lot No: 1223/004

Project Sponsors: John Updike, Acting Director
San Francisco Real Estate Department
25 Van Ness Avenue, Suite 400
San Francisco, CA 94102

Applicant: Same as Above

Staff Contact: Lily Langlois -- (415) 575-9083
lily.langlois@sfgov.org

Recommendation: Finding the project, on balance, is in conformity with the
General Plan

Recommended
By: 
John Rahaim, Director of Planning

PROJECT DESCRIPTION

On March 19, 2013, the Planning Department (herein "the Department") received a request from the City and County of San Francisco Real Estate Division to consider the acquisition and ground lease of 1500 Page Street. The Mayor's Office of Housing is proposing to lease the site to Mercy Housing for management of the property during the predevelopment phase of an affordable housing project. A preliminary project assessment letter was issued on May 8, 2012 Case No. 2012.0258U.

The subject property is located at the northwest corner of Masonic and Page Street. Currently there is a four story building formally occupied by a residential care facility. The property is located in a RM-1 (Public Use) Zoning District and a 55-X Height District.

ENVIRONMENTAL REVIEW

On 04/23/13, the Environmental Planning Division of the Planning Department determined that the project is Categorical Exempt from Environmental Review as a Categorical Exemption Class 26 as defined by CEQA, per CEQA Guidelines Section 15326: Acquisition of Housing for Housing Assistance Programs.

GENERAL PLAN COMPLIANCE AND BASIS FOR RECOMMENDATION

As described below, the Project is consistent with the Eight Priority Policies of Planning Code Section 101.1 and is, on balance, in-conformity with the following Objectives and Policies of the General Plan:

Note: General Plan Objectives and Policies are in **bold font**; General Plan text is in regular font. Staff comments are in *italic font*.

Housing Element

OBJECTIVE 1

IDENTIFY AND MAKE AVAILABLE FOR DEVELOPMENT ADEQUATE SITES TO MEET THE CITY'S HOUSING NEEDS, ESPECIALLY PERMANENTLY AFFORDABLE HOUSING.

The site would be used for affordable housing.

POLICY 1.1

Plan for the full range of housing needs in the City and County of San Francisco, especially affordable housing

The site would be used for affordable housing

POLICY 1.3

Work proactively to identify and secure opportunity sites for permanently affordable housing.

Urban Design Element

OBJECTIVE 4

IMPROVEMENT OF THE NEIGHBORHOOD ENVIRONMENT TO INCREASE PERSONAL SAFETY, COMFORT, PRIDE AND OPPORTUNITY

The project proposes to convert an existing vacant building to a residential use.

Eight Priority Policies Findings

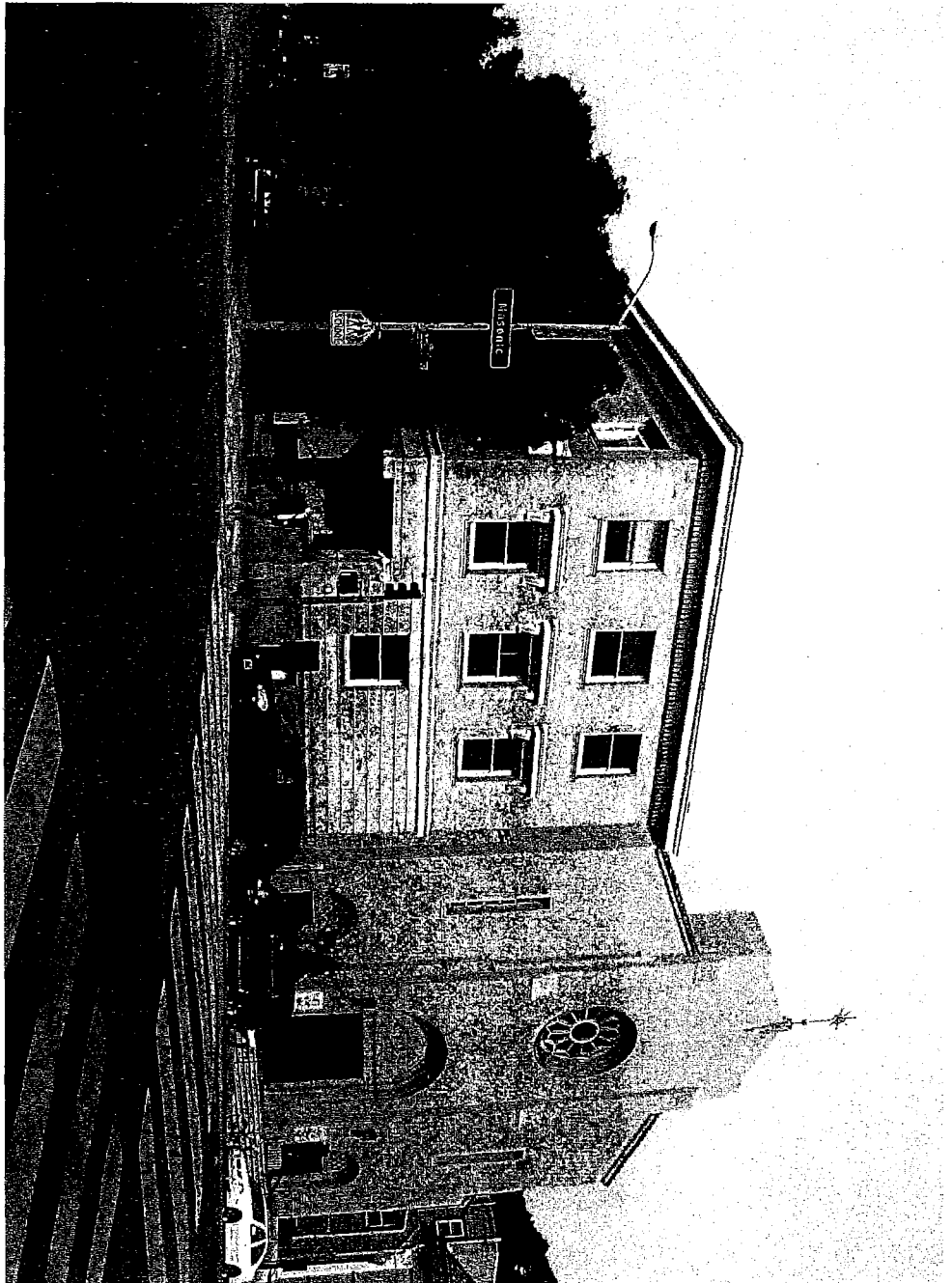
The subject project is found to be consistent with the Eight Priority Policies of Planning Code Section 101.1 in that:

1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced.
The project will not affect existing neighborhood-serving retail uses or opportunities for employment in or ownership of such businesses.
2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhood.
The project will not affect housing, and would enhance neighborhood character.
3. That the City's supply of affordable housing be preserved and enhanced.
The project would have no adverse effect on the City's supply of affordable housing. When the project is built it will increase the supply of affordable housing.
4. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking.
The project would not result in commuter traffic impeding MUNI's transit service, overburdening the streets or altering current neighborhood parking.
5. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for residential employment and ownership in these sectors be enhanced.
The project would not affect the existing economic base in this area.
6. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake.
The project would not affect the City's preparedness to protect against injury and loss of life in an earthquake.
7. That landmarks and historic buildings be preserved.
The project will not affect landmarks or historic buildings.
8. That our parks and open space and their access to sunlight and vistas be protected from development.
The proposed project would not affect City parks or open spaces, or their access to sunlight and vistas.

RECOMMENDATION:	Finding the Project, on balance, in-conformity with the General Plan
------------------------	---

cc: John Updike, Real Estate Division

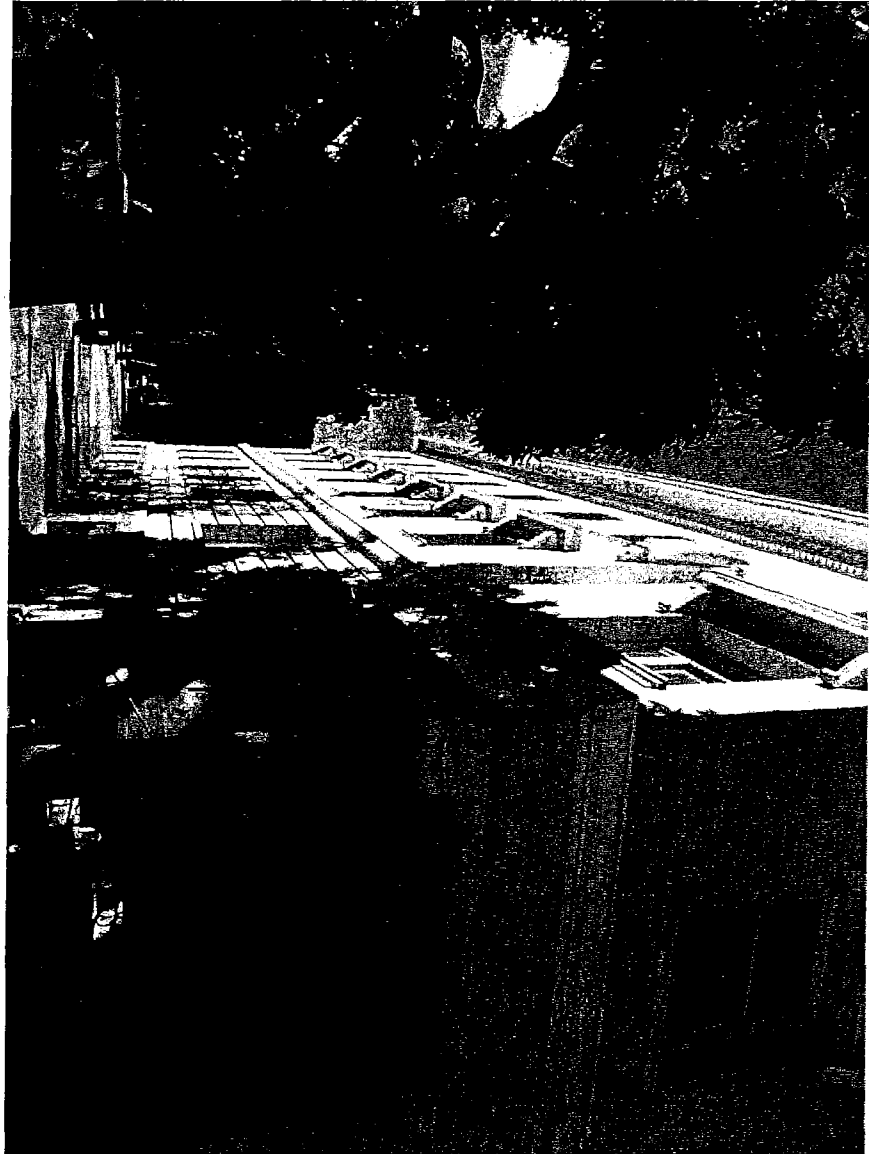
I:\Citywide\General Plan\General Plan Referrals\2013\2013.0352R 1500 Page Street Acquisition and Lease of Property.doc

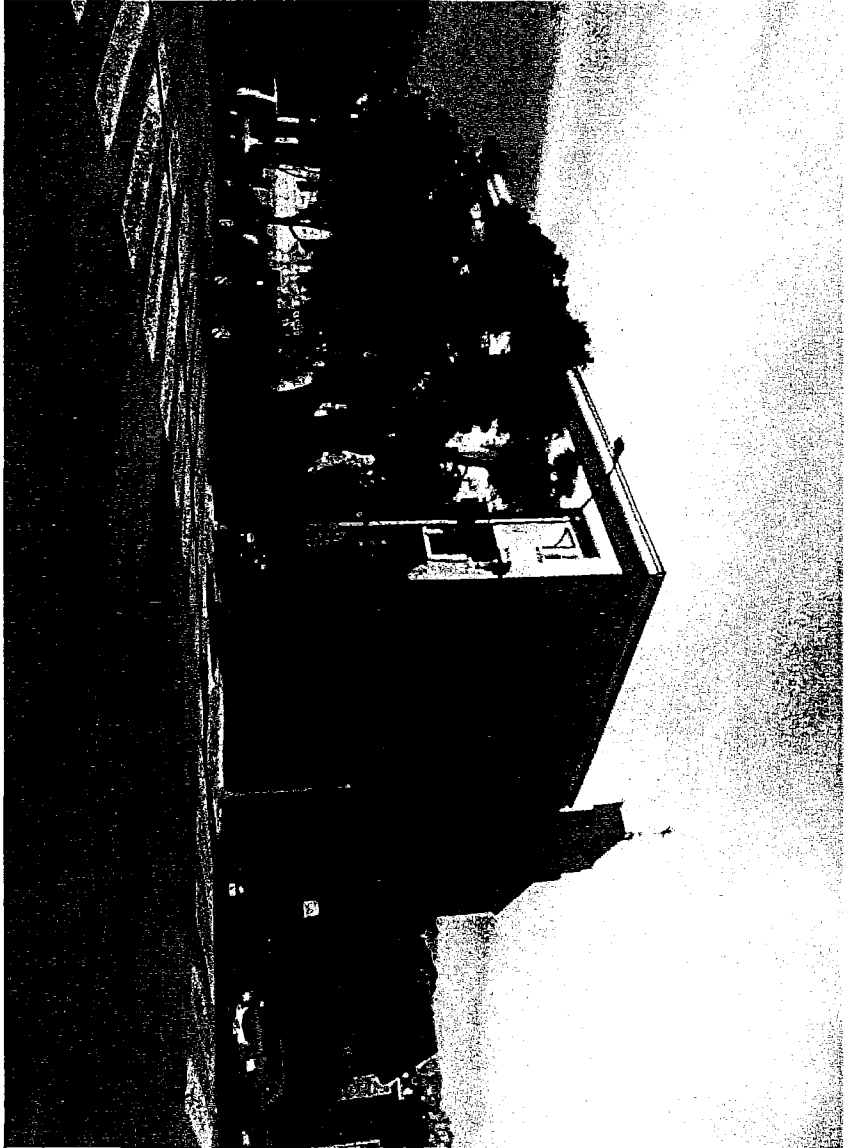


1500 Page (at Masonic)

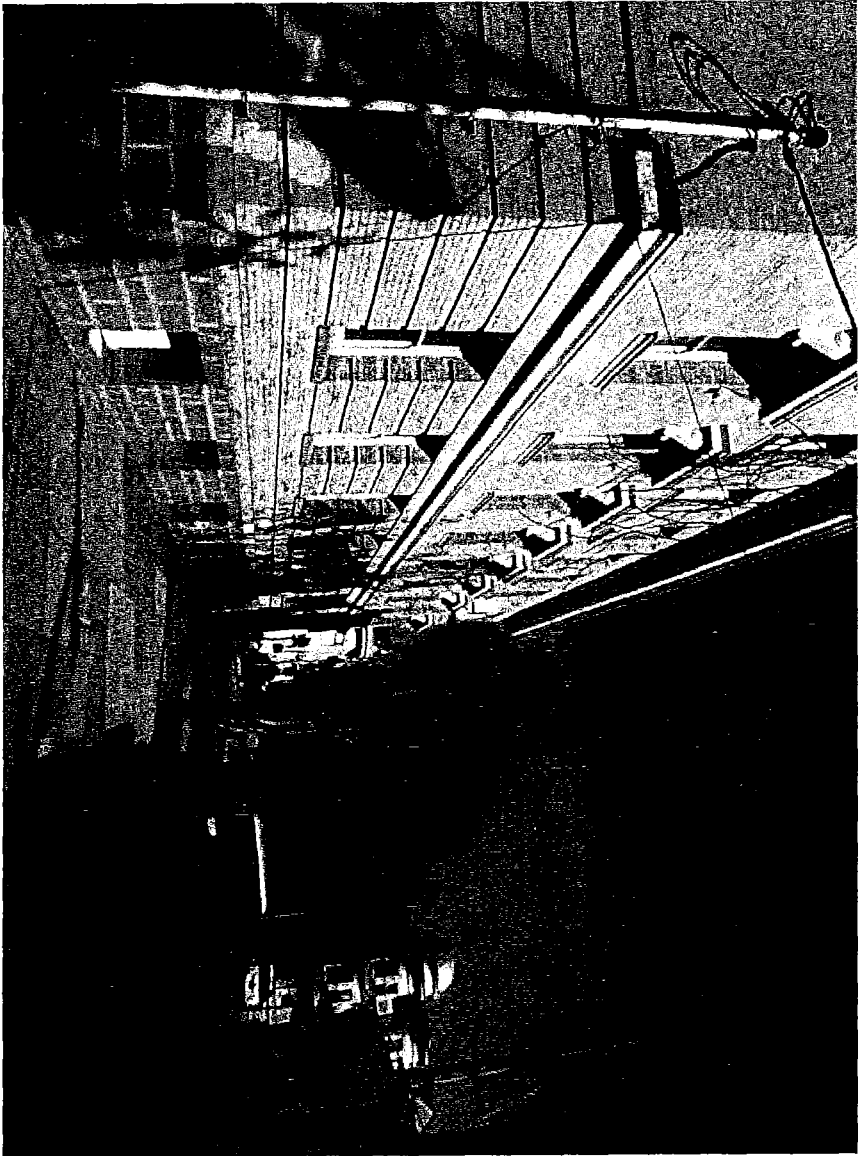
FILE# 140448
Received on Committee
5/7/14

Front Entrance

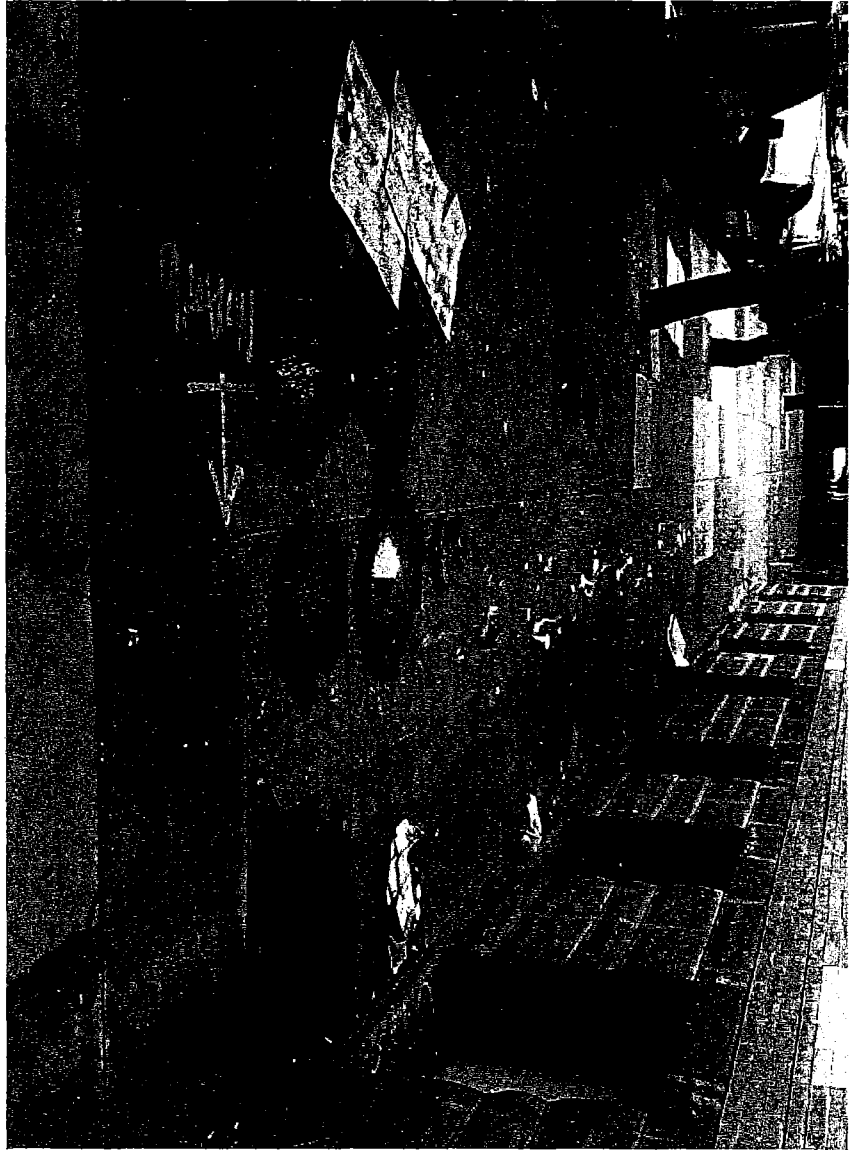




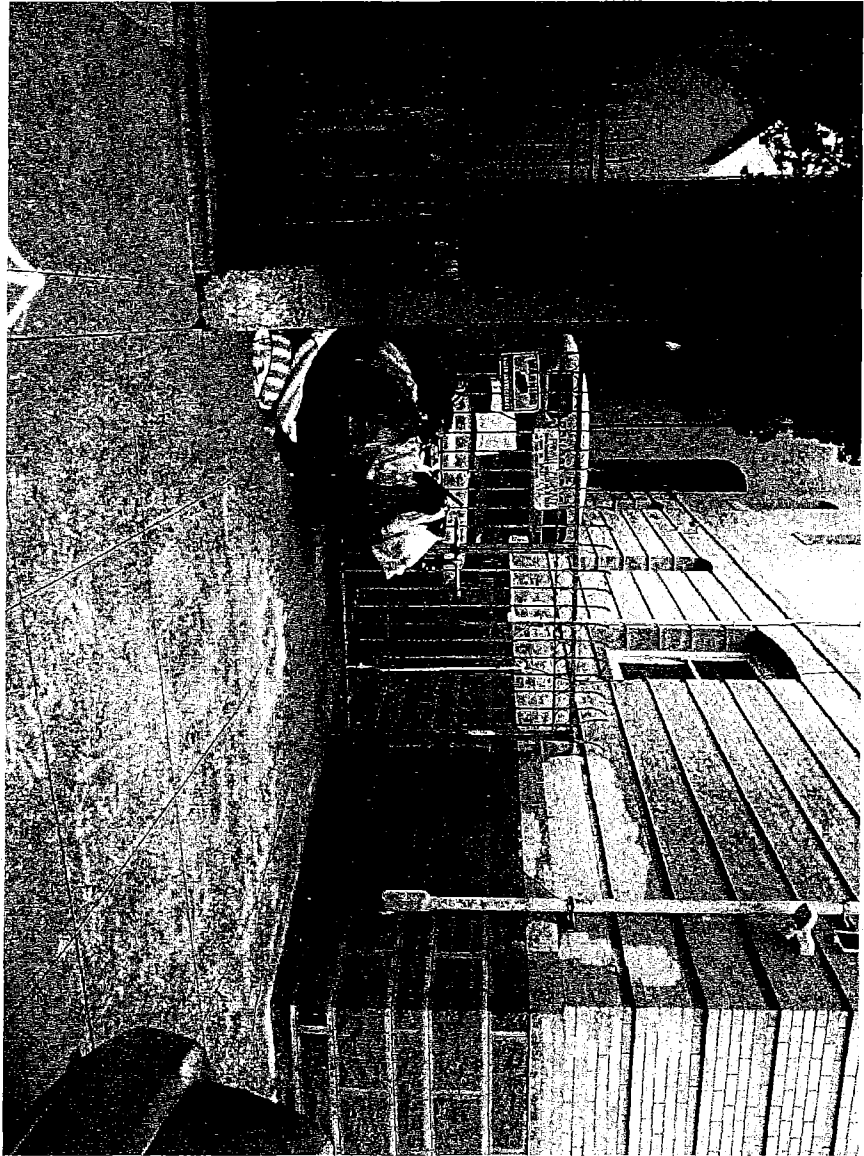
Exterior



Exterior

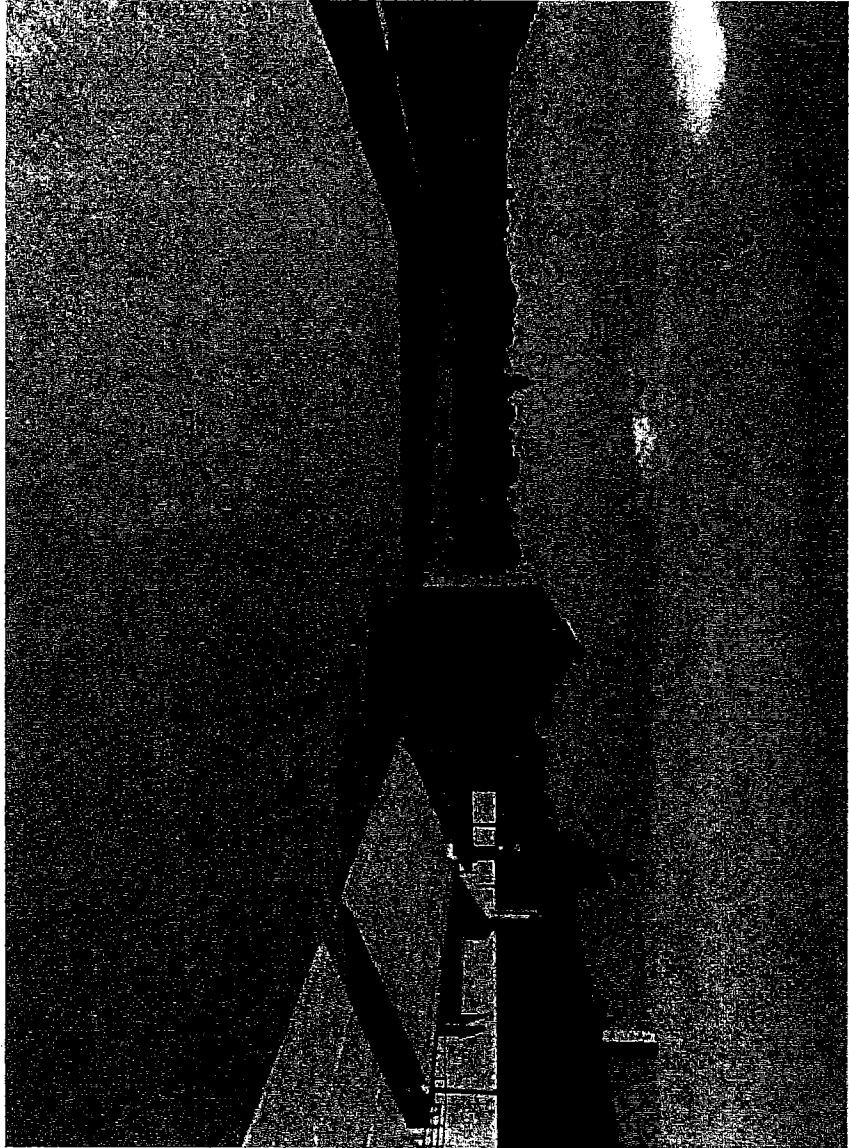


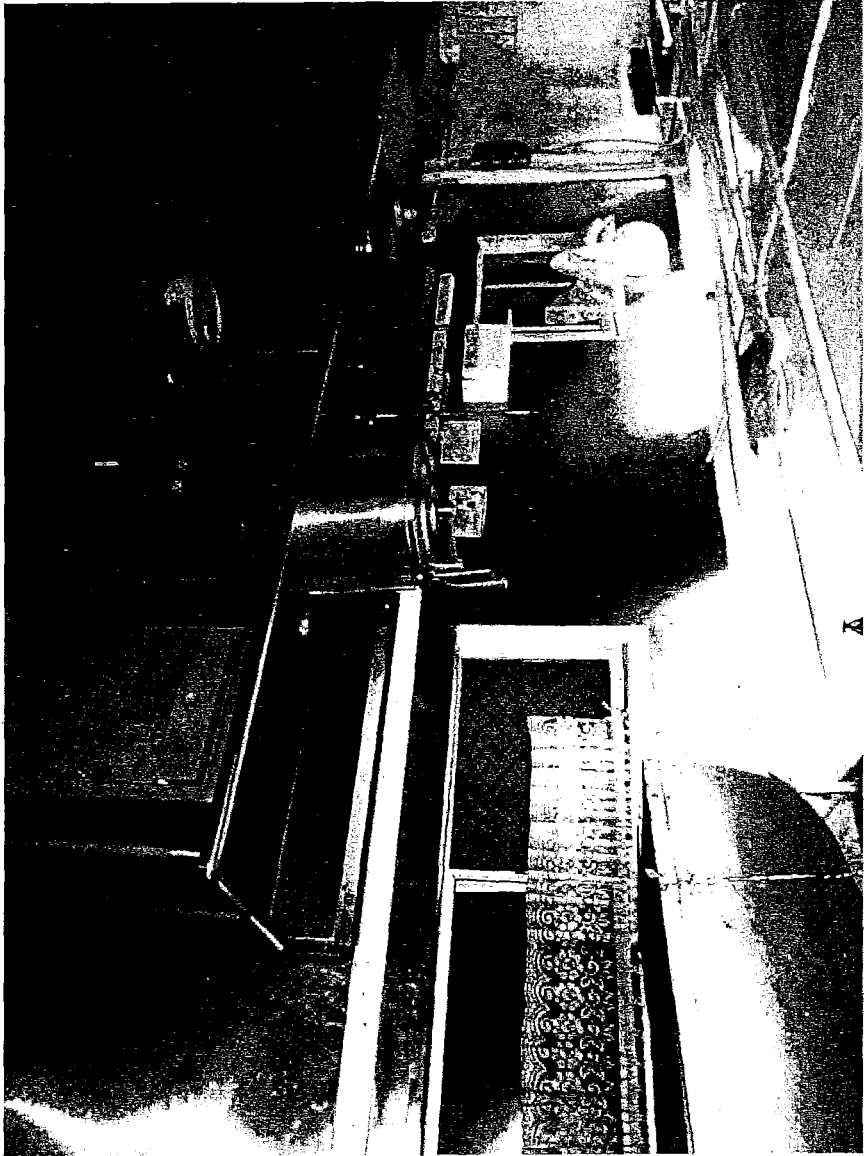
Vacant Property



Vacant Property

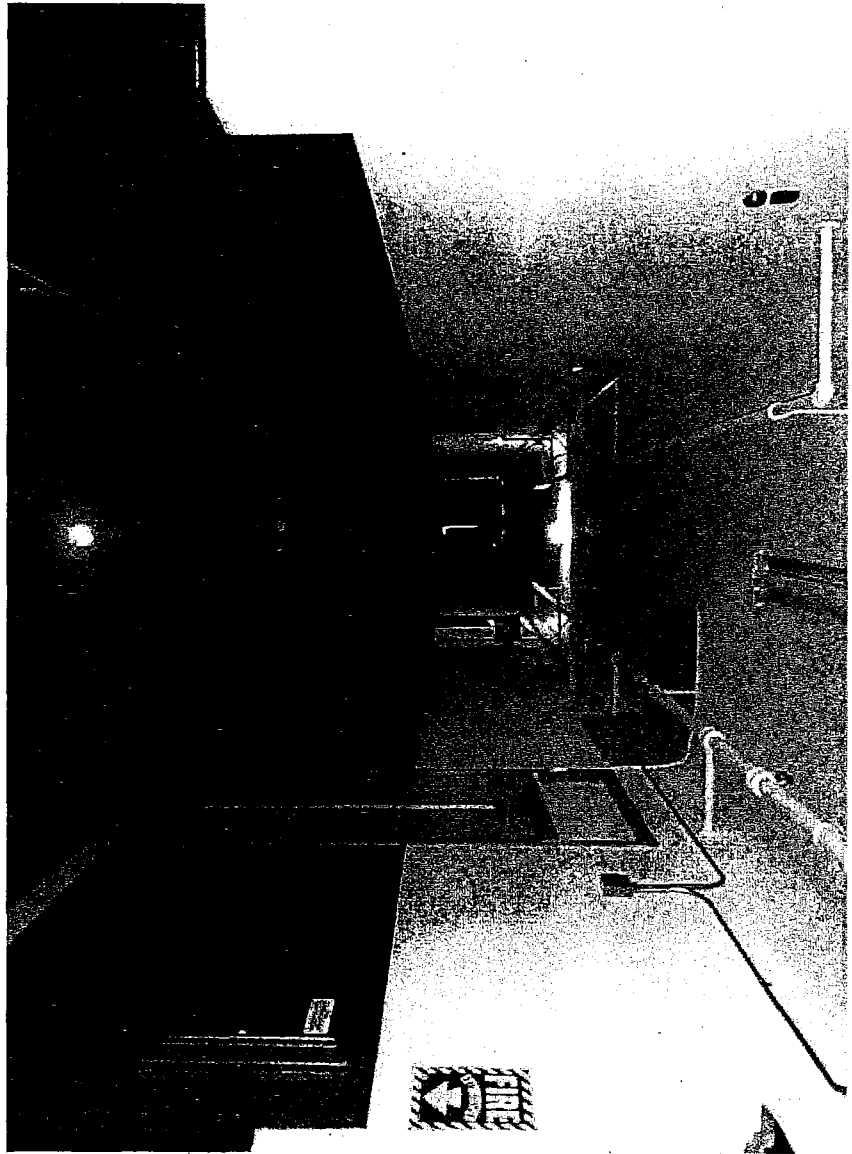
Roof

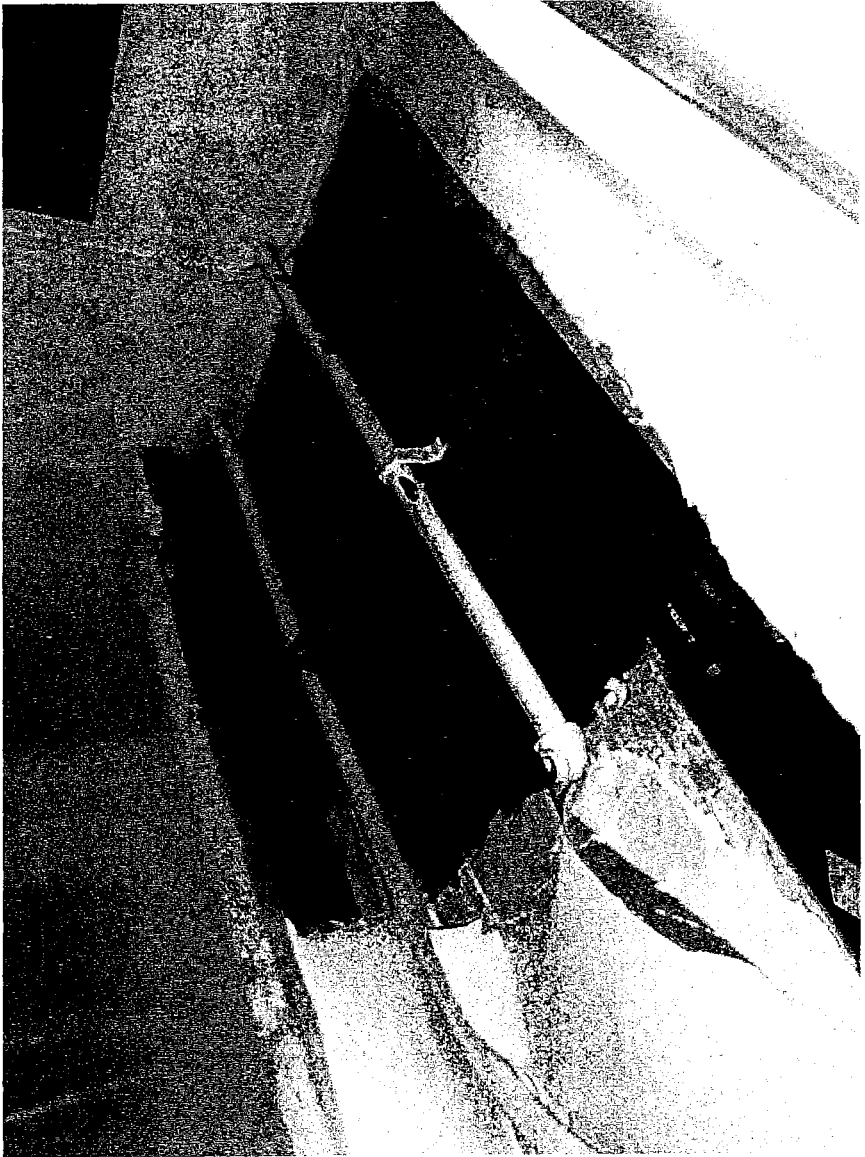




Shared Kitchen

Interior Hallway



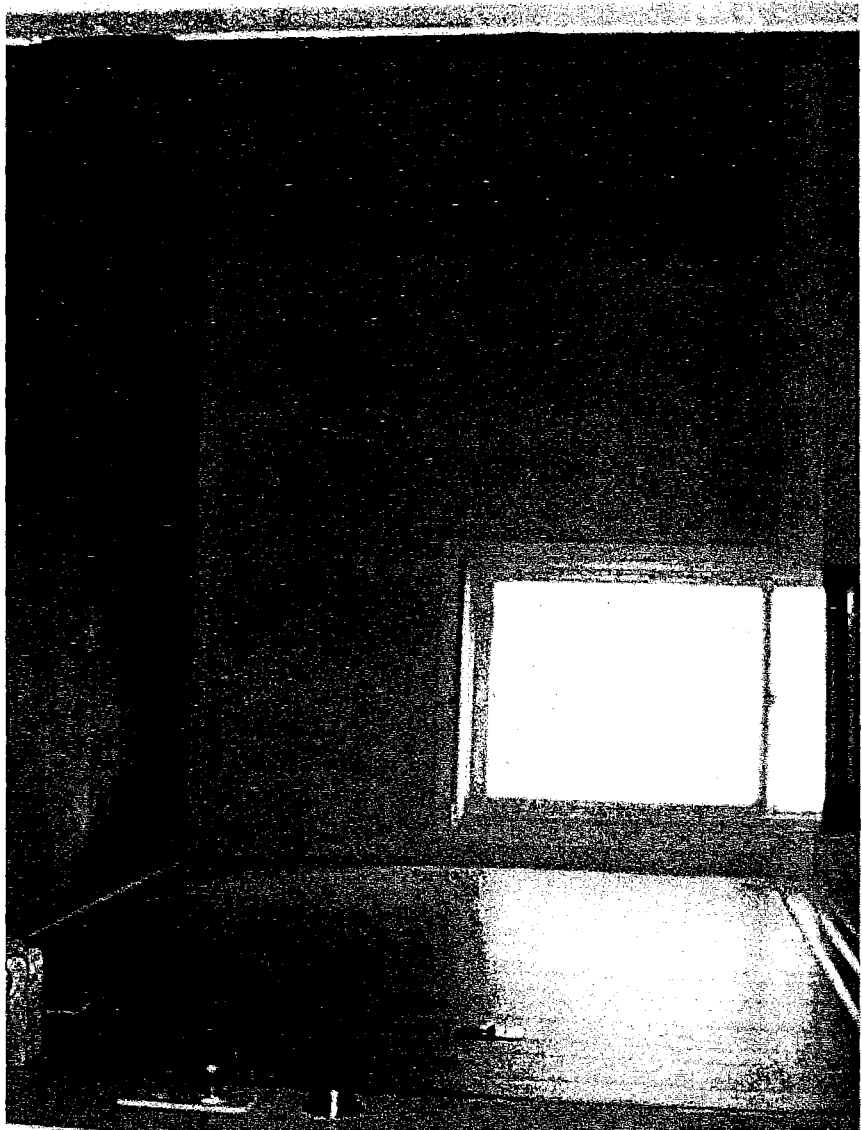


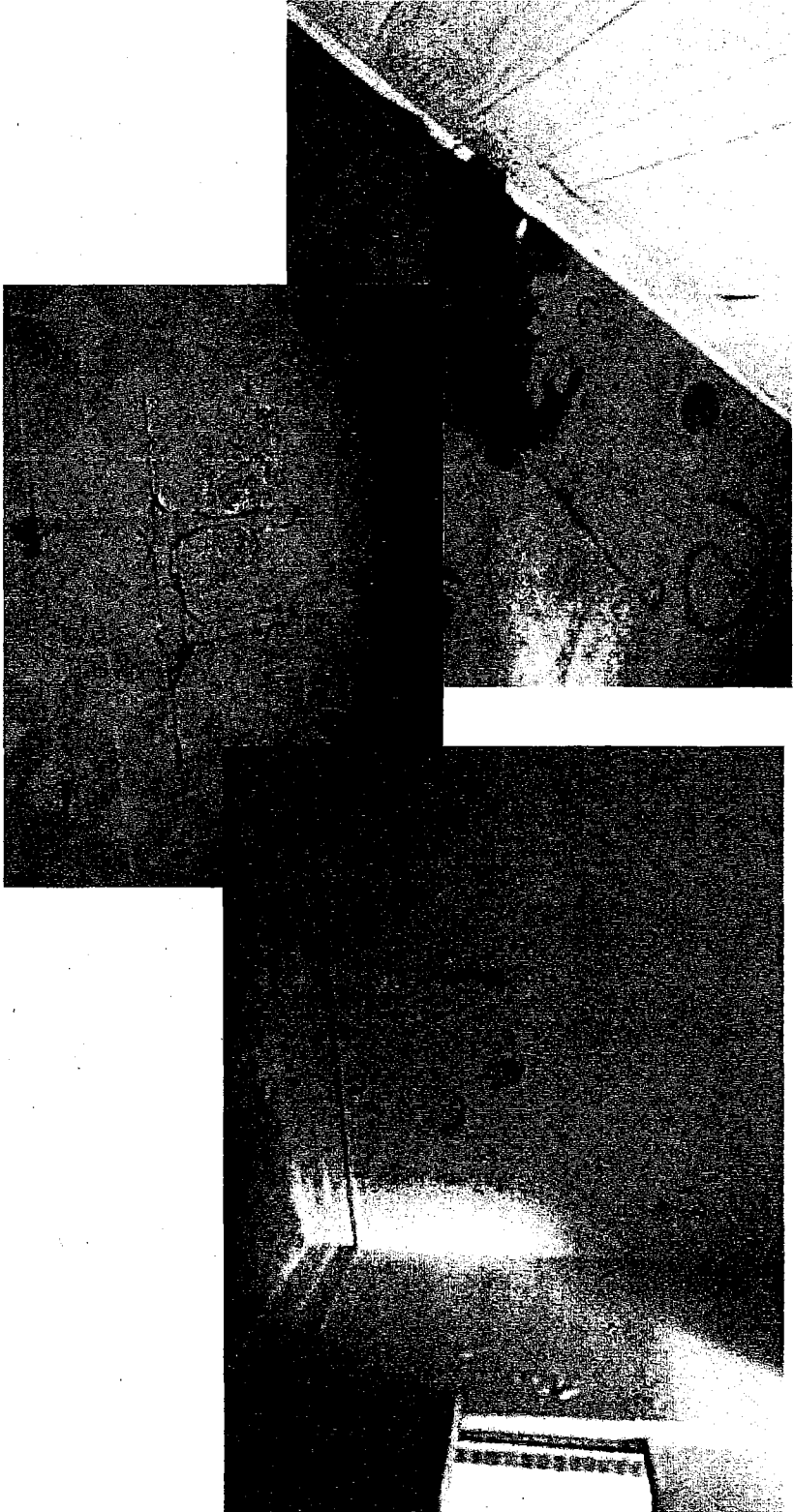
Exploratory Demo (Testing)

Bedroom



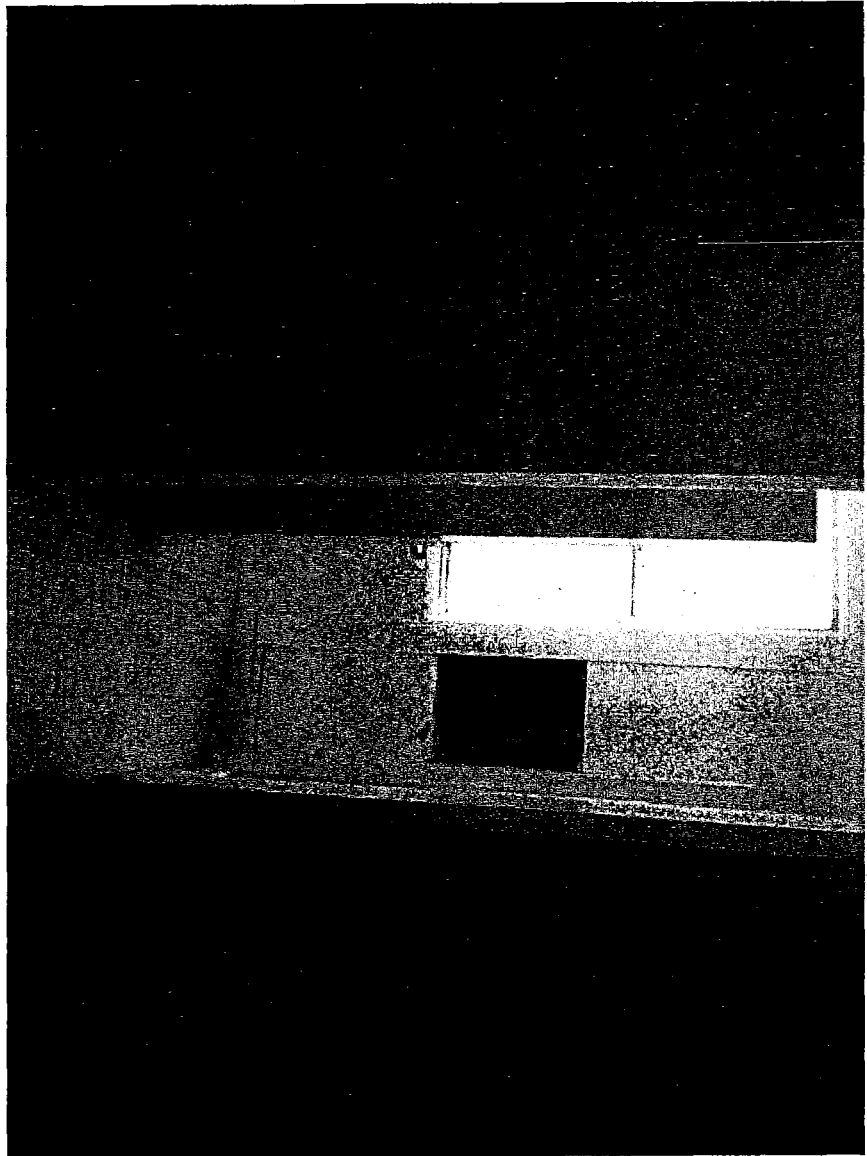
Bedroom

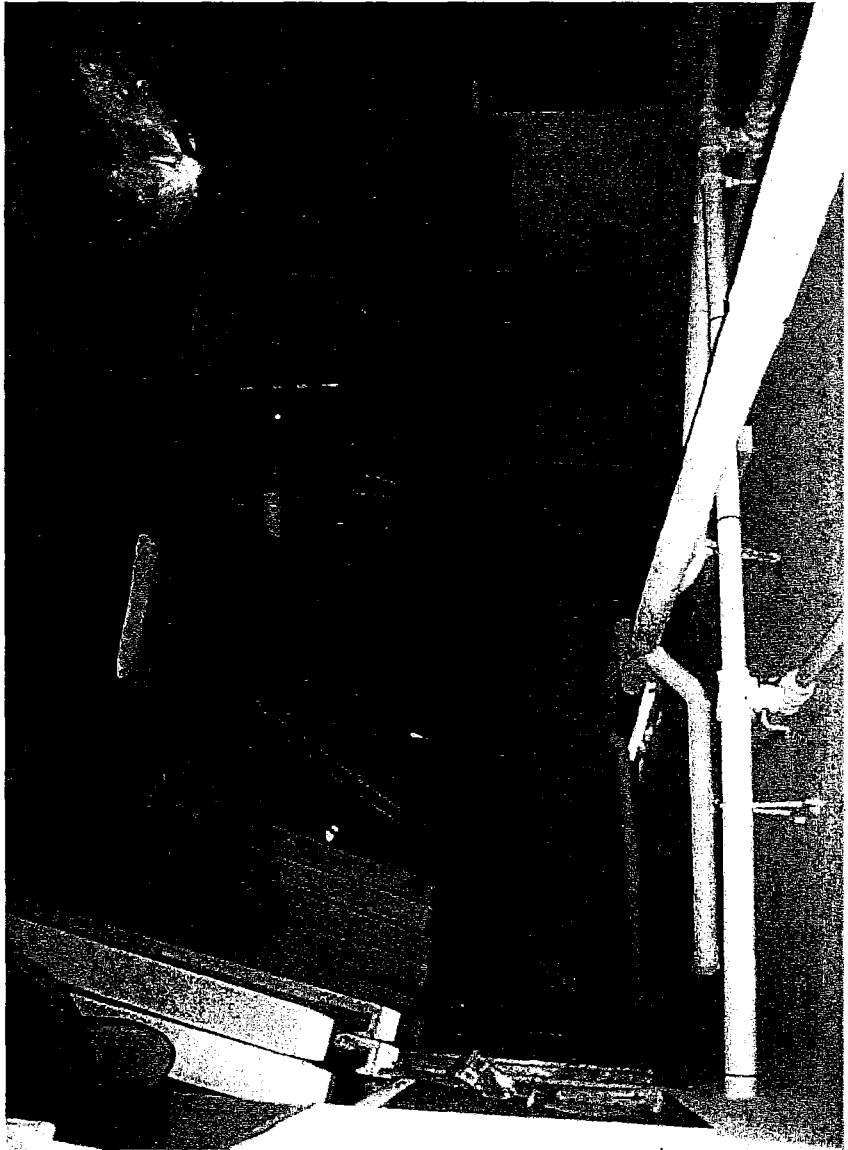




Flooring and Wall Conditions

Shared Bathroom

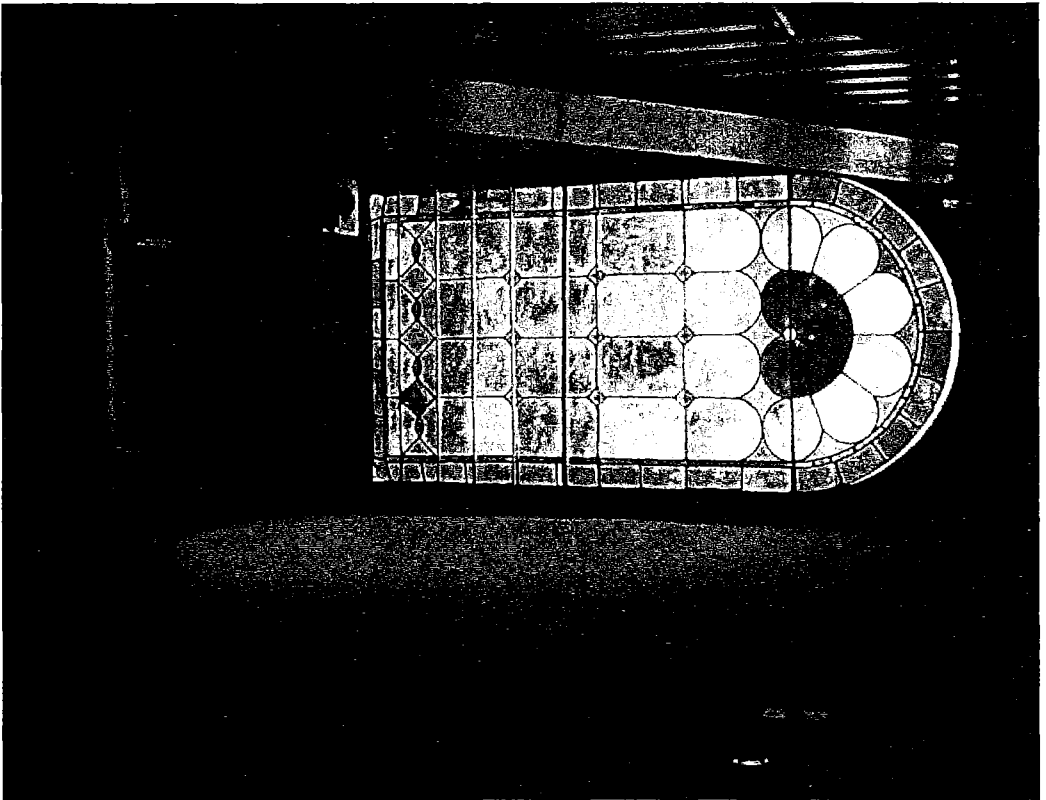




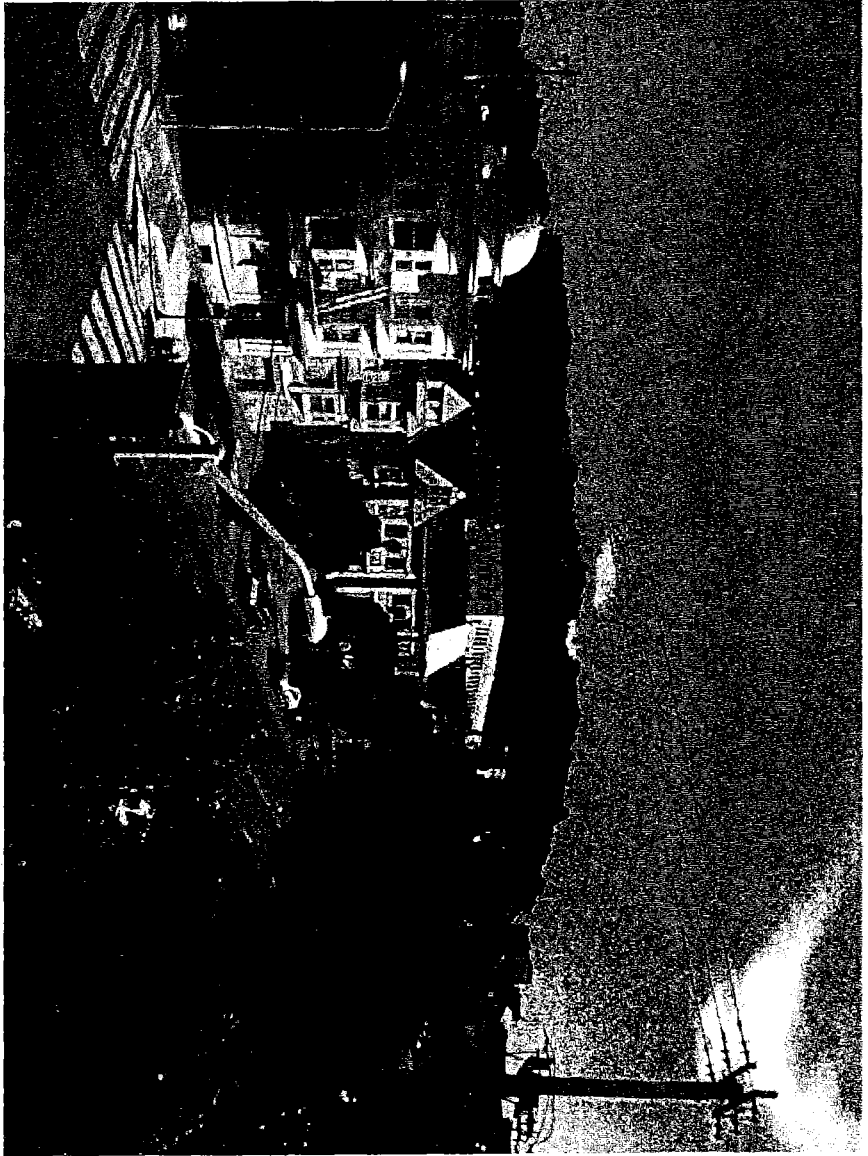
Basement



Basement



Stained Glass Window in Stairway to be
Refurbished



View from Upper Floor

BOARD of SUPERVISORS



City Hall
Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

May 5, 2014

File No. 140448

Sarah Jones
Environmental Review Officer
Planning Department
1650 Mission Street, 4th Floor
San Francisco, CA 94103

Dear Ms. Jones:

On April 29, 2014, Supervisor Breed introduced the following legislation:

File No. 140448

Resolution authorizing the execution and performance of a Transfer Agreement between the City and County of San Francisco and 1500 Page Street, LLC, a California limited liability company, for the transfer of real property and improvements located at 1500 Page Street, for the development of 16 units of affordable housing for persons with developmental disabilities and one manager's unit; authorizing the execution and performance of an Option to Ground Lease and a Ground Lease between the City and County of San Francisco and Mercy Housing California 57, a California limited partnership; adopting findings under the California Environmental Quality Act; and adopting findings that the conveyance is consistent with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

A handwritten signature in cursive script, appearing to read "Linda Wong".

By: Linda Wong, Assistant Clerk
Budget and Finance Sub-Committee

Attachment

c: Nannie Turrell, Environmental Planning
Jeanie Poling, Environmental Planning

*Exempt from CEQA per CEQA
Guidelines Section 15326
(issued 4/23/2013) and Section
15301 (issued 7/03/2013) under
Case No. 2013.0352.
Nannie R Turrell
May 6, 2014*

1233

Introduction Form

By a Member of the Board of Supervisors or the Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [] inquires"
- 5. City Attorney request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Question(s) submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

Breed

Subject:

Transfer Agreement, Option to Ground Lease, and Ground Lease of Real Property located at 1500 Page Street.]

The text is listed below or attached:

Resolution authorizing the execution and performance of a Transfer Agreement between the City and County of San Francisco and 1500 Page Street LLC, a California limited liability company, for the transfer of real property and improvements located at 1500 Page Street, San Francisco, for the development of 16 units of affordable housing for persons with developmental disabilities and 1 manager's unit; authorizing the execution and performance of an Option to Ground Lease and a Ground Lease between the City and County of San Francisco and Mercy Housing California 57, a California limited partnership; adopting findings under the California Environmental Quality Act; and adopting findings that the conveyance is consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1.

Signature of Sponsoring Supervisor:

A handwritten signature in black ink, appearing to be "L. B. L.", written over a horizontal line.

For Clerk's Use Only:

