

Mayor's Office of Housing and Community Development
City and County of San Francisco



London N. Breed
Mayor

Eric D. Shaw
Director

To: Honorable Members, Board of Supervisors

From: Joyce Slen, Mayor's Office of Housing & Community Development
Mara Blitzer, Mayor's Office of Housing & Community Development

Date: September 11, 2020

Subject: Resolution approving multifamily housing revenue bonds for the 53 Colton Supportive Housing Project

The **Mayor's Office of Housing & Community Development** ("MOHCD") respectfully requests that the Board of Supervisors (the "Board") review and approve a resolution authorizing the issuance of a multifamily housing revenue bond in an aggregate principal amount not to exceed \$33,520,000 for the construction of a 100% affordable housing project at 53 Colton that will provide permanent supportive housing for formerly homeless households ("Project").

EXECUTIVE SUMMARY

Community Housing Partnership ("CHP") and Strada Investment Group ("Strada"), through 53 Colton, L.P. (the "Partnership" or "Borrower") intend to construct the Project, which will be comprised of 96 furnished studios, restricted at 60% Area Median Income ("MOHCD AMI"), and subsidized through the City's Local Operating Subsidy Program ("LOSP"). Tenants will be referred to the Project through the Department of Homelessness and Supportive Housing ("HSH") Coordinated Entry System ("CES"). Approximately 35 units at the Project will be reserved for permanent residents of the Civic Center Hotel. The Project is part of a larger 2.2-acre mixed-use development at 1629 Market Street (which includes the Civic Center Hotel) developed by Strada. Strada is contributing the land at 53 Colton under a 99-year ground lease, co-developing the Project with CHP, and contributing \$10 million to develop the Project.

The Resolution authorizes the issuance, sale and delivery of multifamily housing revenue bonds in one or more series in an aggregate principal amount not to exceed \$33,520,000 for the purpose of providing financing for the construction of the Project; approving the form of and authorizing the execution of an indenture of trust providing the terms and conditions of the bonds; approving the form of and authorizing the execution of a regulatory agreement and declaration of restrictive covenants; approving the form of and authorizing the execution of a construction loan agreement; authorizing the collection of certain fees; approving modifications, changes, and additions to the documents; ratifying and approving any action taken in connection with the bonds and the Project; and granting general authority to City officials to take actions necessary to implement the Resolution.

To expedite construction of the Project and mitigate the financial impacts of COVID-19 on tax credits, the Partnership requested MOHCD to provide a permanent loan to the Project. On August 21, 2020, the Partnership received Citywide Affordable Housing Loan Committee approval for a permanent loan from MOHCD of up to \$4,000,000 (the "MOHCD Loan") to pay off the construction loan (and the bonds) at completion of the Project. The MOHCD Loan will have an interest rate of up to 3.0%, a 55-year term, residual receipts repayment, secured by a deed of trust, and require an affordable housing restriction for life of the Project.

The Project will also be permanently financed with State Tax Credits, 4% Federal Low-Income Housing Tax Credits, a loan from the State of California's Housing & Community Development (HCD) Multifamily Housing Program (MHP), and general partner equity in developer fee and from Strada. The Project is scheduled to start construction in October 2020 and complete construction in July 2022.

PROJECT HISTORY

Pursuant to [Ordinance No. 242-17](#) in 2017, the Board of Supervisors approved a Development Agreement between the City and County of San Francisco and Strada Brady, LLC, a California limited liability company (and affiliate to Strada Investment Group) for the mixed-use development project to an approximately 2.2-acre site located at Market, 12th, Stevenson, Chase Court, and Brady Streets, (the "Master Plan Area" or "Master Plan Development"). The Master Plan Area is owned by the U.A. Local 38 Pension Trust Fund and currently comprised of three buildings, four surface parking lots, the San Francisco Local 38 Plumbers Union Hall, existing retail uses, and residential uses like the Civic Center Hotel, a Single Room Occupancy ("SRO") Hotel-- operating as a 93-bed Navigation Center for individuals experiencing homelessness. The Civic Center Hotel will be renovated as part of the Master Plan Area after the Project is completed. Existing Civic Center Hotel residents will be relocated to the Project in approximately 35 units to avoid off-site displacement.

The 53 Colton parcel is owned by the U.A. Local 38 Pension Trust Fund and ground leased to Strada Brady, LLC for a 99-year term and \$1 annual payment. In November 2017, Strada and CHP entered into a Limited Liability Company Agreement to co-develop, construct, own, and operate the Project. Per this Agreement, Strada has committed to provide a \$10MM contribution to the Project. Approximately 35 units at the Project will be reserved for permanent residents from the Civic Center Hotel. All tenants will income qualify under the California Tax Credit Allocation Committee ("TCAC") regulatory requirements and earn less than 60% AMI. As original tenants from Civic Center Hotel move out, units will be filled by referrals from the CES.

BORROWER ENTITY

The borrower entity is 53 Colton, L.P. CHP Colton, LLC is the managing General Partner/Managing member. At construction finance closing, Enterprise Community Partners, the Project's tax-credit investor, will be the limited partner and own a 99.99% interest in the borrower entity.

Founded in 1990, CHP is a San Francisco nonprofit dedicated to helping homeless people secure housing and become self-sufficient. CHP develops, property manages, provides services to supportive residential properties. CHP currently owns, manages and/or provides support services in 16 buildings in San Francisco – a total of over 1,100 units, with 303 more in development. Together they house more than 1,500 formerly homeless individuals. CHP also delivers comprehensive services to its residents. Through

individualized case management, employment programs, health services, youth and family programs, and civic engagement initiatives, CHP helps residents become active members of their community.

Strada Investment Group is a real estate investment and development firm focused on urban infill, transit-oriented locations in California. The firm was founded in 2010 in San Francisco on the premise that successful real estate development in high barrier-to-entry markets can best be achieved by applying a combination of public and private sector experience. Strada has experience in ground-up development and the adaptive reuse and repositioning of existing buildings. Strada has acquired and actively managed over \$250MM worth of real estate with top-tier capital partners. The firm has a fully integrated development team with deep experience entitling, financing, building, and operating a wide variety of asset types, including market-rate and affordable housing. Strada currently has more than 1,000 residential units under various stages of development in the Bay Area.

CHP and Strada co-managed the Project's entitlements and development process and co-secured the Project's financing. CHP will manage all lease up and operational start up activities, while Strada will manage all construction close out and punch list issues. CHP will be the owner, property manager, and service provider of 53 Colton post permanent loan conversion.

HSH and its predecessor agencies have funded many supportive services contracts with CHP over the organization's long history serving San Franciscans experiencing homelessness. CHP will provide services designed to support formerly homeless people, including resident engagement, case management, behavioral health services and housing retention services.

PROJECT FINANCING AND COVID IMPACT

The Project received a competitive bond and tax credit allocation award from the California Tax Credit Allocation Committee ("TCAC") and California Debt Limit Allocation Committee (CDLAC) on April 14, 2020. The bond allocation needs to be assigned and issued within 180 days of the allocation date, which is October 13, 2020. Issuance of the bonds will fund a construction loan for the Project. The Project was awarded both federal Low-Income Housing Tax Credits and state tax credits.

The COVID-19 pandemic has impacted the Project's initial financing assumptions, in turn, reducing tax credit pricing and creating a gap in the Project's permanent financing (which MOHCD will fund to close the gap); and a delay in selecting the Project's construction lender and tax credit investor (which were selected as of July 2020). The downturn in the financial market reduced the 4% tax credit rate from 3.19% in December 2019 to 3.07% in August 2020-- reducing the tax credit equity contribution in projects. Recent affordable housing deals are also seeing a \$0.01 to \$0.05 reduction in tax credit pricing, creating larger project gaps. The MOHCD Loan will enable the Project to move forward and meet the Project's CDLAC and TCAC deadline and support the City's overall goal to end homelessness in San Francisco by building 96-units of supportive housing. If MOHCD were to not provide a gap loan, the Project would be delayed and required to re-apply for competitive state financing, impacting the Project's schedule significantly.

Permanent supportive housing is the most effective way to end homelessness for people who are chronically homeless, meaning they have been homeless for a year or more and have at least one disabling condition that impacts their ability to find and maintain housing. In Fiscal Year 2018-2019, less than 2% of San Francisco residents housed in permanent supportive housing were evicted. This demonstrates a high level of residential stability for tenants in permanent supportive housing.

The COVID-19 crisis has exacerbated the existing public health crisis of homelessness. The COVID-19 pandemic represents a significant health risk for people experiencing homelessness. People living in public spaces or in congregate settings, have limited access to preventive measures like frequent handwashing, social distancing, and rapid access to health care. People living unsheltered are also far more likely to have chronic health conditions, one of the most significant risk factors with coronavirus. In addition to the increased health risk associated with homelessness, the City and County of San Francisco also anticipates seeing an increase in need for homeless services in the economic fallout from the pandemic.

The global pandemic has increased the awareness that housing is essential to the health and well-being of all people, and especially the City’s most vulnerable residents. Permanent housing not only ends homelessness for its residents but will ultimately protect them from the spread of COVID-19 better than temporary shelter. As the City continues its response to the COVID-19 pandemic, it will require continued investments in evidence-based practices that permanently end homelessness, like permanent supportive housing.

PROJECT SUMMARY

Construction Type:	Type V over two levels of Type I podium with basement	Project Type:	New Construction
Number of Stories:	6	Lot Size (acres and sf):	0.18 acres / 7,780 sf
Number of Units:	96	Architect:	David Baker Architects
Total Residential Area:	28,831 square feet (“sf”)	General Contractor:	Suffolk Construction
Total Commercial Area:	0 sf	Property Manager:	CHP
Total Building Area:	47,969 sf	Supervisor and District:	Matt Haney (D6)
Land Owner:	U.A. Local 38 Pension Trust Fund		
Total Development Cost (TDC):	\$51,778,619	Total Acquisition Cost:	\$171,697
TDC/unit:	\$539,361	TDC less land cost/unit:	\$537,676
Parking?	None		

SOURCES AND USES SUMMARY

Permanent Sources	Amount
MOHCD - GAP	\$4,000,000
HCD - MHP	\$11,530,497
Tax Credit Equity	\$17,048,314
Certified State Tax Credits	\$5,612,200
General Partner Loan (Strada)	\$10,000,000
General Partner Equity (Developer Fee)	\$3,597,608
Total	\$51,788,619

Permanent Uses	Amount
Acquisition	\$171,697
Hard Costs	\$34,895,639
Soft Costs	\$10,132,111
Reserves	\$791,564
Developer Fee	\$5,797,608
Total	\$51,788,619

ANTICIPATED FINANCING TIMELINE

Milestones	Anticipated Dates
• Introduction of Resolution	September 15, 2020
• Budget & Finance Committee Hearing	September 30, 2020
• Board Considers Approval of Resolution	October 6, 2020
• Closing of the Bonds/Construction Start	October 2020
• Estimated Project Completion Date	July 2022

RECOMMENDATION

MOHCH recommends approval of the Resolution by the Board. The consideration of this matter by the Board is greatly appreciated. Please contact Joyce Slen (joyce.slen@sfgov.org), or Mara Blitzer (mara.blitzer@sfgov.org).