

File No. 101437

Committee Item No. _____

Board Item No. 46

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Board of Supervisors Meeting

Date: December 14, 2010

Cmte Board

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| <input type="checkbox"/> | <input checked="" type="checkbox"/> | Resolution |
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| <input type="checkbox"/> | <input type="checkbox"/> | Budget Analyst Report |
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| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
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OTHER

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Completed by: Annette Lonich

Date: December 9, 2010

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document is in the file.

1 [Ground Lease - Redevelopment Agency Land at 701 Golden Gate Avenue to Mary Helen
2 Rogers Senior Community, LP]

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5 **Resolution approving the Redevelopment Agency of the City and County of San**
6 **Francisco's lease of land at Assessor's Block 768, Lot 13, commonly known as 701**
7 **Golden Gate Avenue, southwest corner of Golden Gate Avenue and Franklin Street,**
8 **San Francisco, California (the "Site") in San Francisco's Western Addition**
9 **neighborhood, to MHRSC, LP, a California limited liability corporation, for 70 years for**
10 **the purpose of developing housing for very low-income senior households.**

11

12 WHEREAS, The Agency and the City desire to increase the City's supply of affordable
13 housing and encourage affordable housing development through financial and other forms of
14 assistance; and,

15 WHEREAS, The Agency-owned parcel located at the southwest corner of Golden Gate
16 Avenue and Franklin Street, Assessor's Block 768, Lot 13, San Francisco, California, in San
17 Francisco's Western Addition neighborhood ("Property"; "Site"), is an underutilized lot
18 currently improved by a surface parking lot that, by Board of Supervisors Resolution No. 824-
19 01, must be developed as permanent, quality, affordable supportive housing for very low-
20 income, seniors ("Project"); and,

21 WHEREAS, The Agency Commission selected MHRSC, a California limited
22 partnership an affiliate of Chinatown Community Development Center and Em Johnson, Inc.
23 (now Urban Core, LLC), Inc. ("Developer"), to develop and operate the Project as housing
24 units for very low-income senior households; and,

25

1 WHEREAS, The Agency has provided Developer with financial assistance to leverage
2 equity from an allocation of low-income housing tax credits and other funding sources in order
3 to construct 99 (plus one manager's unit) units of affordable rental housing, support service
4 space, and ground floor commercial, which financing require that the Developer demonstrate
5 site control; and,

6 WHEREAS, The Agency has proposed a long-term ground lease agreement ("Ground
7 Lease") with the Developer to allow the Developer to construct and operate improvements on
8 the Site while allowing the Agency to ensure that the affordability of the housing is maintained
9 over the long term; and,

10 WHEREAS, The Agency and the Developer have entered into a ground lease (the
11 "Ground Lease"), in which the Agency will lease the Property for Fifteen Thousand Dollars
12 (\$15,000.00) per year, in exchange for the Developer's agreement, among other things, to
13 operate the Project with rent levels affordable to Lower Income Households; and,

14 WHEREAS, Because the Property was purchased with tax increment money, Section
15 33433 of the California Health and Safety Code requires the Board of Supervisors' approval of
16 its sale or lease, after a public hearing; and,

17 WHEREAS, Notice of the public hearing has been published as required by Health and
18 Safety Code Section 33433; and

19 WHEREAS, The Agency prepared and submitted a report in accordance with the
20 requirements of Section 33433 of the Health and Safety Code, including a copy of the
21 proposed Ground Lease, and a summary of the transaction describing the cost of the Ground
22 Lease to the Agency, the value of the property interest to be conveyed, the lease price and
23 other information was made available for the public inspection; now, therefore, be it

24 RESOLVED, That the Board of Supervisors of the City and County of San Francisco
25 does hereby find and determine that the lease of the Property from the Agency to MHRSC,

FILE NO.

RESOLUTION NO.

1 L.P., a California limited partnership: (1) will provide housing for very low-income seniors; (2)
2 is consistent with the Agency's citywide Tax Increment Affordable Housing Program, pursuant
3 to California Health and Safety Code Section 33342.2, et. seq.; (3) the less than fair market
4 value rent of approximately Fifteen Thousand Dollars (\$15,000.00) per year for a period of
5 seventy (70) years is necessary to achieve affordability for Very Low Income Households; and
6 (4) the consideration to be received by the Agency is not less than the fair reuse value at the
7 use and with the covenants and conditions and developments costs authorized by the Ground
8 Lease; and, be it

9 FURTHER RESOLVED, That the Board of Supervisors hereby approves and
10 authorizes the Agency to execute the Ground Lease of the Property from the Agency to
11 MHRSC, a California limited partnership, substantially in the form of the Ground Lease lodged
12 with the Agency General Counsel, and to take such further actions and execute such
13 documents as are necessary to carry out the Ground Lease on behalf of the Agency.

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SUMMARY OF MARY HELEN ROGERS SENIOR HOUSING DEVELOPMENT

Action Requested:

Approving the Redevelopment Agency of the City and County of San Francisco's lease of the land at Assessor's Block 768, Lot 13, to MHRSC, LP, a California limited partnership ("Developer"), for 70 years for the purpose of creating a housing development for very low-income senior households.

Project Summary:

The Mary Helen Rogers Senior Housing site ("Property"; "Site"), currently improved by a surface parking lot, is located at 701 Golden Gate Avenue, the southwest corner of Golden Gate Avenue and Franklin Street, Assessor's Block 768, Lot 13, along San Francisco's Western Addition neighborhood. As part of the Central Freeway replacement plan, the City of San Francisco sold the Property to the Agency in 2002 for an appraised market value, \$2,887,500, and with the proviso that the Agency develop it as very low-income senior housing. The developer, MHRSC, LP ("Developer"), now seeks to develop 99 units (plus one manager's unit) of permanent, supportive, affordable housing for very low-income seniors ("Project") on the Site. The development plan includes a mix of studios and one-bedroom units; ground floor commercial; support service space; and resident community space.

To facilitate the Project's development, the Agency has executed a loan agreement with the Developer in an amount not to exceed \$15,465,000, which has leveraged equity from California Tax Credits, Affordable Housing Program funds through the Federal Home Loan Bank, and various other sources. Through the ground lease, the Agency will maintain ownership of the land and the Developer will own and operate the improvements.

The Agency has successfully used the proposed financing and lease structure for many similar affordable housing developments in San Francisco. This structure provides developers with the site control necessary to build and preserve affordable housing, while allowing the Agency to ensure that the affordability of the housing is maintained over the long term. Because the Agency has purchased the land using tax increment funds, the Board of Supervisors must approve the Ground Lease Agreement.

Property:	Assessor's Block 768, Lot 13
Land Owner:	Redevelopment Agency of the City and County of San Francisco, a public body, corporate and politic of the State of California
Proposed Developer/ Lessee:	MHRSC, LP, a California limited partnership
Length of Lease:	70 years plus one twenty-year option for 29 years

Lease Payment: \$15,000 annual rent

Use of Property: Affordable housing for very low-income senior households

November 23, 2010

33433 Report

This report is submitted pursuant to Section 33433 of the California Health and Safety Code. Specifically, the Section states that before any property that was acquired, in whole or in part, with tax increment moneys is sold or leased for development, the sale or lease shall first be approved by the legislative body by a resolution after a public hearing. The Board of Supervisors is the legislative body for purposes of Section 33433.

The San Francisco Redevelopment Agency ("Agency") administers a Citywide Affordable Housing Program for the purposes of funding the development of affordable housing, pursuant to the Community Redevelopment Law of the State of California, the California Constitution, and all applicable local codes and ordinances. The Program, in place since 1989, has facilitated the acquisition, construction, and/or rehabilitation of affordable housing throughout the City and County of San Francisco through the use of the Agency's tax increment funds and its authority as a tax-exempt mortgage revenue bond issuer.

The Mary Helen Rogers Senior affordable housing rental project site (the "Property" or "Project") is currently improved by a surface parking lot at the southwest corner of Golden Gate Avenue and Franklin Street along San Francisco's Central Freeway corridor, Assessor's Block 768, Lot 13. The Property became available for development after the demolition of the Central Freeway. In 2000, the California Department of Transportation transferred the Property, along with 21 others, to the City in order to implement State legislation that mandated the demolition of the Central Freeway. In 2002, by Resolution No. 824-01, the San Francisco Board of Supervisors approved the sale of the Property to the Agency for the express purpose of developing affordable senior housing. The Agency bought the Site from the City for \$2,887,500, its appraised market value. The transfer was part of a larger housing replacement program for the Central Freeway parcels, described in greater detail in the Mayor's Office's "Octavia Boulevard Development Strategy," 2001. The developer, MHRSC, L.P., ("Developer"), an affiliate of Chinatown Community Development Center and Em Johnson, Inc., now seeks to develop 99 units (plus one manager's unit) of permanent, supportive, affordable housing for very low-income seniors ("Project") on the Site. The development plan includes a mix of studios and one-bedroom; commercial space; support service space; parking; and resident community space.

To facilitate the Project's development, the Agency has executed a permanent loan with the Developer in an amount not to exceed \$15,465,000, which will leverage equity from the sale of 9% low-income housing tax credits, Affordable Housing Program funds through the Federal Home Loan Bank, and a conventional mortgage. The Agency will continue to own the Property, but will provide site control to the Developer through a long term ground lease ("Ground Lease"). Through this Ground Lease, the Agency will maintain ownership of the land and the Developer will own and operate the improvements.

The following summarizes the project in accordance with Section 33433 requirements:

- A. "A copy of the proposed sale or lease." Please refer to the Ground Lease Agreement (Attachment 1).
- B. "A summary which describes and specifies all of the following:"
- (i) "The cost of the agreement to the agency, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the Agency, plus the expected interest on any loans or bonds to finance the agreements."

The total cost of the Agency's 2002 acquisition of the land was \$2,887,500, plus closing costs. The Agency will not incur clearance, relocation, or improvement costs. Furthermore, no interest will be generated on loans or bonds used to finance the land acquisition or the subsequent lease to the Developer.

- (ii) "The estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the plan."

The value of the land at 701 Golden Gate Avenue that is to be leased to the Developer, determined as of June 28, 2010, at the highest and best use permitted under the plan is \$4,550,000.

- (iii) "The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease. The purchase price or present value of the lease payments that the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then the agency shall provide as part of the summary an explanation of the reasons for the difference."

The estimated value of the land to be conveyed, determined with the conditions, covenants, and development costs required by the sale, is \$4,550,000. The property is being leased to the developer for a period of 70 years. The annual ground rent is \$455,000, but with only \$15,000 guaranteed. The balance of the annual rent is to be paid from residual receipts to the extent any surplus cash is available. The present value of the anticipated lease payments is \$208,085, using a blended discount rate of 8% percent.

The present value of the fixed total rental amount, including the residual land interest at the end of the 70-year term, is substantially less than the fair market value of the interest to be leased, determined at the highest and best use. Only \$15,000 of the annual rent is guaranteed and the remainder is to be paid from "surplus cash" generated by the Project annually, i.e., operating income that is in excess of operating expenses. The less than fair market value rent is necessary to achieve affordability for Very Low Income Senior Households and the consideration to be received by the Agency is not less than the fair reuse value at the use and with the covenants and conditions and development costs authorized by the Ground Lease. This lease structure is necessary to ensure the continued and successful operation of the Project, but creates a high level of uncertainty regarding the value of the rents that the Agency will actually collect. This risk factor is reflected in the blended discount rate used to calculate the present value of the projected lease payments.

- (iv) "An explanation of why the sales or lease of the property will assist in the elimination of blight, with reference to all supporting facts and materials relied upon in making this explanation."

The lease of the property will assist in the elimination of blight by providing housing opportunities for a population – very low-income seniors – that is underserved by the market and therefore at serious risk of homelessness. In addition, the lease and development of this property will transform a vacant, underutilized parcel, bringing quality architecture, new homes, and neighborhood-serving commercial space to the community.

- (v) This report has been made available to the public at the offices of the San Francisco Redevelopment Agency, 1 South Van Ness Avenue, 5th Floor, San Francisco, California, no later than the time of publication of the first notice of hearing as mandated by California Health and Safety Code Section 33433.

