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| Item 1 File 23-0740 | Department: Department of Homelessness and Supportive Housing (HSH), Real Estate Division (RED) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the acquisition of 1174-78 Folsom Street and 663 Clementina Street, which includes 42 studio apartments to be converted to permanent supportive housing for Transitional Aged Youth (TAY). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The property proposed for purchase was selected following a Request for Information (RFI). • As of May 2023, 34 of the Property's units were occupied, with the remaining 8 units vacant. The City intends to relocate the 34 existing tenants. • In May 2023, the Board of Supervisors authorized HSH to apply for \$14.7 million in State Homekey grant funds to support the acquisition and operation of the property (File 23-0506). <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • HSH and the Real Estate Division (RED) have negotiated a purchase and sale agreement with the owners of the Property for an amount of \$27,150,000, plus \$75,000 for closing costs. In addition to purchase price and closing costs, there are additional costs for relocation of the 34 existing tenants of approximately \$1.8 million. Overall, the total cost to acquire the property and relocate existing tenants is approximately \$29 million, or \$690,237 per unit. • The agreement includes a damages clause of up to \$2,700,000 in case of default by the City. • Ongoing costs for building operations and supportive services are estimated to be \$1.36 million annually, or \$32,381 per unit per year. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. | |

MANDATE STATEMENT

Administrative Code Section 23.3 states that the Board of Supervisors must approve acquisitions and conveyances of real property by resolution. An appraisal of the property is required if the Real Estate Division determines that the fair market value is greater than \$10,000 and an appraisal review is required if the fair market value is greater than \$200,000.

BACKGROUND

Expansion of Permanent Supportive Housing

According to the proposed resolution, as of December 2022, the City has acquired or contracted 3,081 new units of permanent supportive housing (PSH) since July 2020.

Included in HSH's PSH portfolio is housing dedicated to Transitional Aged Youth (TAY), or young adults exiting homelessness, ages 18-24. According to HSH and as of June 2023, the Department has 490 PSH units dedicated to people under the age of 24. Of the 490 PSH units, 299 units are site-based and 191 units are scattered-site. In site-based PSH, tenants live in a building either owned or master leased by the City or a non-profit provider and receive support services on-site. In scattered-site PSH, tenants use subsidies to live in private-market units and receive support services from mobile providers.

Homekey Grant Application

In May 2023, the Board of Supervisors authorized HSH to apply for Homekey grant funds in an amount not to exceed \$14,720,000 to support the acquisition and operation of the 1174-78 Folsom Street and 663 Clementina Street (File 23-0506). According to the Department, the grant application was submitted May 31, 2023 for the amount of \$14,720,000, or the maximum allowed under Homekey. Per the Homekey Round 3 Notice of Funding Availability (NOFA), the individual award announcements will be made within 60-90 days of the application. If the \$14.72 million is awarded, HSH plans to use \$11.3 million of the funds for the acquisition of the Property, and the remainder of the acquisition cost will be supplemented by Proposition C funds. The remainder of the of the award will be used for operating and relocation costs, described below.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would make the following actions:

1. Approve and authorize the Director of Property, on behalf of HSH, to acquire the property located at 1174-1178 Folsom Street and 663 Clementina Street for \$27,150,000 plus an estimated \$75,000 for typical closing costs, for a total anticipated amount of \$27,225,000;
2. Approve and authorize a Purchase and Sale Agreement with Greenseed Folsom Land LLC, which includes a liquidated damages clause of up to \$2,700,000 in case of default by the City;
3. Authorize the Director of Property to make immaterial changes to the agreement;

4. Affirm the Planning Department's determination that the purchase is not considered a project under the California Environmental Quality Act (CEQA); and
5. Adopt the Planning Department's findings that the purchase agreement is consistent with the General Plan and Planning Code Section 101.1.

An appraisal conducted by Colliers International Valuation & Advisory Services confirmed that the proposed sale price of \$27,150,000 is fair market value. An appraisal review by Mateo Advisors, LLC affirmed the appraised value.

Property Identification Process

In May 2022, the Department of Homelessness and Supportive Housing (HSH) issued a Request for Information (RFI) to identify properties for possible acquisition as site-based PSH to house TAY. The Department received 26 responses, including the property located at 1174-78 Folsom Street and 663 Clementina Street (Property). Properties were evaluated based on number of units, vacancy rate, location, amenities (such as in-unit kitchens and bathrooms), accessibility, and compliance with building code requirements.

According to HSH, 2 out of 26 responses were considered qualified by HSH staff: the proposed Property and 42 Otis Street¹. The Department reports that the 1174 Folsom was prioritized for acquisition based on its location outside of the Tenderloin, appropriate size for the population served, available amenities, new construction, private baths and kitchens, and the potential to qualify for Homekey funding.

The Existing Property

The property proposed for purchase at 1174-78 Folsom Street and 663 Clementina Street will be used as site-based TAY PSH. On approximately 8,000 square feet of land, the Property includes 42 studio apartments, known as OME Apartments. As of May 1, 2023, the Department reports 34 units were occupied, and the remaining 8 units were vacant.

In addition to the 42 units of proposed TAY housing, the property includes second floor office space, ground floor commercial space, basement office/storage, lobbies, community room/outdoor space, and a laundry room. According to HSH, the current state of the office and commercial spaces are as follows:

- A portion of the second-floor office space has been improved with finishes and office cubicles, leaving most of the space unfinished. The programming, design, and build-out of this space will follow the selection of a building operator.
- There are three ground floor commercial units. Two of the commercial spaces have been leased to restaurants, and those leases will be assumed by the City upon acquisition, with

¹ According to the HSH website, the Department is proposing to acquire the building at 42 Otis Street for TAY PSH, which will be heard by the Board of Supervisors no earlier than September 2023. HSH is seeking authorization from the Board of Supervisors to apply for Homekey Grant Funds to support the acquisition and operations of 42 Otis (File 23-0741).

no changes contemplated to those tenancies.² The third commercial unit is vacant, and the programming of this space will follow the selection of a building operator.

Site Condition

The Housing Accelerator Fund hired a consultant to conduct a visual inspection of the Property. In January 2023, the consultant conducted a visual evaluation of the project site, building exteriors, interiors, mechanical, electrical, plumbing systems, and 4 of the 42 total rooms. No detailed analyses or calculations were made to verify the adequacy of the building systems. The report does not provide expert opinions regarding the presence of asbestos, lead, mold, wood-destroying organisms, soil conditions, nor toxicity. The report also does not provide expert opinions regarding the structural, mechanical, or architectural systems, nor is a comprehensive evaluation of building codes provided. The report states, “the observations and resulting report and recommendations do not give warranty, nor do they guarantee the performance of, any building components or systems.” The construction of the Property was completed in 2021. For that reason, the Department does not expect to incur rehabilitation costs.

The visual inspection noted three issues: 1) a basement water leak, 2) an ignition error message on the water heater, and 3) the need to engage inspection services for fire suppression. According to HSH, the Property experienced water intrusion in the basement following rainfall that occurred in the City in late 2022 and early 2023. The Department commissioned a water-proofing consultant to recommend remediation measures of the basement conditions, and the Sellers have agreed to undertake those measures at least 15 days prior to the closing date, at the Seller’s sole expense. Regarding the water heater and fire suppression, HSH reports both have been addressed by the Seller and reviewed by City staff.

Tenant Relocation Plan

HSH intends to relocate the 34 existing residents at the property. According to HSH, According to HSH, to be eligible for Homekey funds and create a site focused on TAY, HSH is proposing to operate a PSH site specific to youth, rather than mix TAY residents with other tenants or serve non-PSH households.

According to HSH, persons displaced by projects that receive either federal and/or state funds, such as Project Homekey funding, are required to be assisted under applicable federal and/or state relocation laws and guidelines. Therefore, HSH hired a consultant, Revival Development Services, to develop and implement a Relocation Plan to relocate the existing tenants, described below.

Operations & Support Services

The proposed Property would require ongoing operating and support services costs, which would be provided by third-party non-profit providers. In Summer 2023, HSH intends to issue competitive solicitations to select non-profit providers to lease the site, provide property management operations, and provide support services at the Property. HSH’s intended timeline

² According to HSH, the assumed leases involve two restaurants, Liang’s Village Restaurant and Bay of Burma. The lease with Liang’s Village Restaurant expires 2030 and has a base rent of \$7,611 per month. The lease with Bay of Burma expires 2026 and has a base rent of \$3,229 per month.

to begin leasing the Property is in early 2024 following execution of a Lease and Property Management Agreement with selected providers. HSH expects that the lease of City property will require Board of Supervisors approval.

Deposit

Section 2.2 of the proposed purchase and sale agreement states that the City is required to put a deposit of \$2,700,000 within ten days of the effective date of the agreement or the Homekey Award Date. The effective date of the purchase and sale agreement is the date the agreement is executed, upon approval of the proposed resolution by the Board of Supervisors and Mayor.

FISCAL IMPACT

Acquisition Costs

The total cost to purchase the property, including closing costs, is \$27,225,000, with additional relocation costs for existing tenants of approximately \$1.8 million for a total of \$28,989,970, or \$690,237 per unit. If awarded, HSH plans to use \$12,157,485 of Homekey funds to acquire the property and relocate the existing tenants. The remaining costs of \$16,832,485 will be funded through Proposition C funds.

Relocation Plan Funding & Cost Estimate

As noted above, the Department hired a relocation consultant, Revival Development Services, to develop the Relocation Plan for the existing 34 tenants. Revival's estimated total relocation cost is approximately \$1.8 million, or \$51,911 per existing tenant. The remaining cost of approximately \$0.4 million is budgeted towards the relocation consulting fee, housing assistance, and a 10% contingency. See Exhibit 3 below for a detailed description of the estimated cost of relocation for the project.

Exhibit 3: Relocation Plan Cost Estimate

| Item | Amount |
|--------------------------------|--------------------|
| Relocation Consulting | \$136,000 |
| Housing Assistance | 1,372,518 |
| Moving Assistance ³ | 96,000 |
| Subtotal | \$1,604,518 |
| Contingency (10%) ⁴ | 160,452 |
| Total Estimate | \$1,764,970 |
| Existing Tenants | 34 |
| Cost per Tenant | \$51,911 |

Source: Relocation Plan, Revival Development Services

Approximately \$1.4 million of the \$1.8 million relocation cost estimate is budgeted towards housing assistance. Based on federal regulations, eligible tenants can choose either rental assistance, which is generally the difference between their current rent and their new rent (42 months or a maximum of \$7,200), or down payment assistance for purchasing (a lump sum payment equal to 42 months of rental subsidy).

If awarded, 50 percent of relocation costs would be offset by the Homekey grant.

Operating and Support Services Costs

As noted above, third-party non-profit providers will lease, operate and provide support services at the Property. Overall, the annual cost to both operate and provide support services at the Property is \$1.36 million, or \$32,381 per unit per year; this equates to a monthly cost of \$2,698 per unit.

Estimated Tenant Improvements

As noted above, most of the second-floor office space is unfinished, and the Department reports the office space will need to be built-out to accommodate the specific office and services needs of TAY housing. Additionally, a vacant commercial unit will be used for programming, as well. The tenant improvement scope of work and estimated costs will depend on the programming and design that will be determined by the future operator, in coordination with HSH. Tenant improvements will be funded through Proposition C funds.

RECOMMENDATION

Approve the proposed resolution.

³Eligible tenants can choose to self-move their belongings (an estimated \$1,000 lump sum received by tenant) or use professional residential moving (paid directly by HSH and ranging \$1,500-\$3,000).

⁴A 10% contingency is used to mitigate against potential cost increases, including provisions of services not yet considered in the plan, higher than the estimated rent differential payments, moving cost increases on formal bids and ultimate vendor contracts.