

BOARD of SUPERVISORS



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MEMORANDUM

TO: Robert Collins, Executive Director, Rent Board
Kate Hartley, Director, Mayor's Office of Housing and Community
Development

FROM: *ll*
bt Linda Wong, Assistant Clerk
Budget and Finance Sub-Committee

DATE: March 14, 2019

SUBJECT: SUBSTITUTE LEGISLATION INTRODUCED

The Board of Supervisors' Budget and Finance Sub-Committee has received the following substitute legislation, introduced by Supervisor Fewer on January 15, 2019:

File No. 181212-2

Ordinance amending the Administrative Code to confer upon certain nonprofit organizations a first-right-to-purchase, consisting of both a right of first offer and a right of first refusal, over all multi-family residential buildings (and related construction sites and vacant lots) in the City, for the purpose of creating and preserving rent-restricted affordable rental housing; establishing related procedures for the selection of such nonprofits, preservation of rent-restricted affordable housing, and implementation and enforcement; and affirming the Planning Department's determination under the California Environmental Quality Act.

If you have comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102 or by email at: linda.wong@sfgov.org.

c: Eugene Flannery, Office of Housing and Community Development
Amy Chan, Office of Housing and Community Development

1 [Administrative Code - Nonprofit Organizations' First-Right-to-Purchase Multi-Family
2 Residential Buildings]

3 **Ordinance amending the Administrative Code to confer upon certain nonprofit**
4 **organizations a first-right-to-purchase, consisting of both a right of first offer and a**
5 **right of first refusal, over all multi-family residential buildings (and related construction**
6 **sites and vacant lots) in the City, for the purpose of creating and preserving rent-**
7 **restricted affordable rental housing; establishing related procedures for the selection**
8 **of such nonprofits, preservation of rent-restricted affordable housing, and**
9 **implementation and enforcement; and affirming the Planning Department's**
10 **determination under the California Environmental Quality Act.**

11 NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
12 **Additions to Codes** are in *single-underline italics Times New Roman font*.
13 **Deletions to Codes** are in *strikethrough italics Times New Roman font*.
14 **Board amendment additions** are in double-underlined Arial font.
15 **Board amendment deletions** are in ~~strikethrough Arial font~~.
16 **Asterisks (* * * *)** indicate the omission of unchanged Code
17 subsections or parts of tables.

18 Be it ordained by the People of the City and County of San Francisco:

19 Section 1.

20 The Planning Department has determined that the actions contemplated in this
21 ordinance comply with the California Environmental Quality Act (California Public Resources
22 Code Sections 21000 et seq., "CEQA"). This determination is on file with the Clerk of the
23 Board of Supervisors in File No. 181212 and is incorporated herein by reference. The Board
24 affirms this determination.

25 Section 2. The Administrative Code is amended by adding Chapter 41B, consisting of
Sections 41B.1 through 41B.14, to read as follows:

1 “Agency” means the Mayor’s Office of Housing and Community Development, or any
2 successor agency, department, or office.

3 “Area Median Income” means the Unadjusted Area Median Income published by the U.S.
4 Department of Housing and Urban Development for the geographic area that includes the City.

5 “City” means the City and County of San Francisco.

6 “Fee Interest” means ownership of real property in fee simple absolute.

7 “Multi-Family Residential Building,” or “Building,” means any privately-owned real property
8 in San Francisco improved with three or more residential rental units (whether or not the property also
9 includes non-residential uses), any privately-owned real property on which three or more residential
10 units are under construction, and any privately-owned vacant lot on which the Planning Code and
11 other applicable laws would permit the construction of three or more residential rental units.

12 “Purchase of a Multi-Family Residential Building,” or “Purchase,” means to acquire any
13 interest that is transferred pursuant to the Sale of a Multi-Family Residential Building.

14 “Purchaser” means the individual, individuals, entity, or entities engaged, or seeking to
15 engage, in the Purchase of a Multi-Family Residential Building.

16 “Sale of a Multi-Family Residential Building,” or “Sale,” is defined in Section 41B.3.

17 “Sell” means to engage in the Sale of a Multi-Family Residential Building.

18 “Seller” means the individual, individuals, entity, or entities engaged, or seeking to engage, in
19 the Sale of a Multi-Family Residential Building.

20 “Qualified Nonprofit” is defined in Section 41B.4(a).

21
22 **SEC. 41B.3. “SALE OF A MULTI-FAMILY RESIDENTIAL BUILDING” DEFINED.**

23 **(a) General Definition.** As used in this Chapter 41B, “Sale of a Multi-Family Residential
24 Building,” or “Sale,” means any of the following:

1 (1) The transfer, in exchange for money or any other thing of economic value, of a
2 present interest in the Multi-Family Residential Building, including beneficial use, where the value of
3 the present interest is the Fee Interest in the Multi-Family Residential Building, or substantially equal
4 to the value of that Fee Interest;

5 (2) If an interest in the Multi-Family Residential Building is held by a trust, the
6 transfer, in exchange for money or any other thing of economic value, of a beneficial interest in the
7 trust, where the value of the beneficial interest in the trust is substantially equal to the value of the Fee
8 Interest of the Multi-Family Residential Building; or

9 (3) If an interest substantially equal to the value of the Fee Interest of the Multi-
10 Family Residential Building is held by any kind of corporate entity or partnership (including, but not
11 limited to, a corporation, limited liability company, general partnership, limited partnership, or limited
12 liability partnership), and if that interest is substantially equal in value to the total value of assets held
13 by the corporate entity or partnership, the transfer, in exchange for money or any other thing of
14 economic value, of a controlling interest in the corporate entity or partnership.

15 (b) **Multiple Owners.** For purposes of this Section 41B.3, in any instance in which multiple
16 entities (whether those entities are natural persons, trusts, corporate entities, partnerships, or any other
17 kind of entity, or any combination of different kinds of entities) hold interests in a Multi-Family
18 Residential Building, the transfer of multiple interests by or in those entities shall be considered the
19 transfer of a single interest, if the transfers are made in connection with substantially the same
20 transaction or set of transactions.

21 (c) **Exclusions.** Notwithstanding subsections (a) and (b), “Sale of a Multi-Family
22 Residential Building,” or “Sale,” does not include any of the following:

23 (1) Any transfer made under a mortgage, deed of trust, or deed in lieu of
24 foreclosure;

1 (2) Any transfer made in connection with any bankruptcy proceeding (including, but
2 not limited to, any transfer made by a bankruptcy trustee);

3 (3) Any transfer of an interest in real property held by the Federal government, by
4 the State government, or by any special district created by State law (including, but not limited to, any
5 transfer of any such interest held because of a taxpayer's nonpayment of tax);

6 (4) Any transfer by devise or intestacy, or any other transfer made in connection
7 with a bona fide effort to pass an interest in real property to one's devisees or heirs (including, but not
8 limited to, such transfers made in connection with a living trust); or

9 (5) Any transfer between or among spouses, domestic partners, siblings (including,
10 but not limited to, half-siblings, step-siblings, and adoptive siblings), parents (including, but not limited
11 to, step-parents and adoptive parents) or guardians and their children, grandparents and their
12 grandchildren, aunts or uncles and their nieces or nephews, great-aunts or great-uncles and their
13 grand-nieces or grand-nephews, or first or second cousins, or any combination thereof.

14
15 **SEC. 41B.4. QUALIFIED NONPROFITS.**

16 (a) Annual Selection of Qualified Nonprofits. The Agency shall establish a process for
17 certifying, on an annual basis, nonprofit organizations that meet the following criteria:

18 (1) The organization is a bona fide nonprofit, as evidenced by the fact that it is
19 exempt from federal income tax under 26 U.S.C. § 501(c)(3);

20 (2) The organization has demonstrated a commitment to the provision of affordable
21 housing for low- and moderate-income City residents, and to preventing the displacement of such
22 residents;

23 (3) The organization has demonstrated a commitment to community engagement, as
24 evidenced by relationships with neighborhood-based organizations or tenant counseling organizations;

1 (4) The organization has demonstrated the capacity (including, but not limited to,
2 the legal and financial capacity) to effectively acquire and manage residential real property at multiple
3 locations in the City; and

4 (5) The organization has, within the previous three years, acquired or partnered
5 with another nonprofit organization to acquire at least two residential buildings under a “Small Sites”
6 program operated by the Agency consistent with Section 415.5(f)(2)(A) of the Planning Code, or under
7 this Chapter 41B.

8 Nonprofit organizations that the Agency certifies as having met these criteria shall be known as
9 “Qualified Nonprofits.” An organization’s certification as a Qualified Nonprofit shall be valid for a
10 period not to exceed one year, but the Agency shall solicit new applications for Qualified Nonprofit
11 status at least once each calendar year, at which time existing Qualified Nonprofits shall be eligible to
12 apply for renewed certification as Qualified Nonprofits. In the absence of new information raising
13 doubts about whether the organization qualifies as a Qualified Nonprofit, an existing Qualified
14 Nonprofit’s application for renewed certification as a Qualified Nonprofit shall be routinely and swiftly
15 granted.

16 **(b) Existence and Publication of Qualified Nonprofits List.** The Agency shall publish on
17 its website, and make available upon request, a list of Qualified Nonprofits. In addition to such other
18 information as the Agency may include, this list shall include contact information for each Qualified
19 Nonprofit. This contact information shall include, but need not be limited to, a mailing address, an e-
20 mail address that the Qualified Nonprofit monitors regularly, and a telephone number.

21 **(c) Disqualification of Qualified Nonprofits.** The Agency shall promptly investigate any
22 complaint alleging that a Qualified Nonprofit has failed to comply with this Chapter 41B. If, after
23 providing the Qualified Nonprofit with notice and opportunity to be heard, the Agency determines that
24 a nonprofit organization listed as a Qualified Nonprofit has failed to comply with this Chapter, the
25 Agency may suspend or revoke that nonprofit organization’s certification as a Qualified Nonprofit.

1
2 **SEC. 41B.5. GENERAL PROVISIONS.**

3 **(a) First Right to Purchase Conferred.** *This Chapter 41B shall be construed to confer*
4 *upon each Qualified Nonprofit a first right to purchase any Multi-Family Residential Building for Sale*
5 *in the City. This first right to purchase shall consist of both a right of first offer, as set forth in Section*
6 *41B.6, and a right of first refusal, as set forth in Section 41B.7.*

7 **(b) Confidential Information Protected.** *Any information obtained from a Seller by a*
8 *Qualified Nonprofit under this Chapter 41B—including, but not limited to, disclosures made under*
9 *Section 41B.6(c) and (e), and terms and conditions of an offer of Sale made under Section 41B.7(b)—*
10 *shall be kept confidential to the maximum extent permitted by law, except that a Qualified Nonprofit*
11 *may, if otherwise permitted by law, share such information with other Qualified Nonprofits to facilitate*
12 *Qualified Nonprofits' exercise of the rights conferred by this Chapter. Nothing in this Chapter permits*
13 *or requires the disclosure of information where such disclosure is otherwise prohibited by law.*

14 **(c) Preexisting Rights Unaffected.** *This Chapter 41B shall not be construed to impair any*
15 *contract, or affect any property interest held by anyone other than the Seller of a Multi-Family*
16 *Residential Building (including, but not limited to, any interest held under a mortgage, deed of trust, or*
17 *other security interest; any option to purchase; or any right of first offer or right of first refusal), in*
18 *existence before the effective date of this Chapter.*

19
20 **SEC. 41B.6. RIGHT OF FIRST OFFER.**

21 **(a) General Construction.** *This Section 41B.6 shall be construed to confer upon each*
22 *Qualified Nonprofit a right of first offer with respect to any Multi-Family Residential Building for Sale*
23 *in the City, as set forth in this Section. This right of first offer is cumulative with the right of first*
24 *refusal set forth in Section 41B.7.*

1 **(b) Opportunity for Qualified Nonprofits to Submit Offers.** *Before the Seller of a Multi-*
2 *Family Residential Building may offer that Building for Sale to any Purchaser other than a Qualified*
3 *Nonprofit, or otherwise solicit any offer to Purchase that Building from any Purchaser other than a*
4 *Qualified Nonprofit, the Seller shall notify each Qualified Nonprofit, via e-mail, of its intent to Sell the*
5 *Building, and shall provide each Qualified Nonprofit with an opportunity to make an offer to Purchase*
6 *the Building as set forth in subsections (d)–(f). The Seller shall submit this notification on the same*
7 *calendar day and, to the extent possible, at the same time, to each of the e-mail addresses included on*
8 *the Agency’s list of Qualified Nonprofits pursuant to Section 41B.4(b).*

9 **(c) Related Disclosures.** *When the Seller, pursuant to subsection (b), notifies each*
10 *Qualified Nonprofit, via e-mail, of its intent to sell a Multi-Family Residential Building, the Seller shall*
11 *also provide each Qualified Nonprofit with the following information:*

- 12 **(1)** *The number of rental units in the Building;*
13 **(2)** *The address or location of each rental unit; and*
14 **(3)** *The rate of rent due for each unit.*

15 **(d) Time for Qualified Nonprofits to Express Interest.** *No later than 11:59 p.m. on the fifth*
16 *full calendar day after a Seller has, pursuant to subsection (b), notified a Qualified Nonprofit, via e-*
17 *mail, of its intent to Sell a Multi-Family Residential Building, that Qualified Nonprofit shall notify the*
18 *Seller and every other Qualified Nonprofit, via e-mail, as to whether or not that Qualified Nonprofit*
19 *wishes to further consider whether to make an offer to Purchase the Building. If, after 11:59 p.m. on*
20 *the fifth full calendar day after a Seller has notified each Qualified Nonprofit of its intent to Sell the*
21 *Building, no Qualified Nonprofit has so notified the Seller, the Seller may immediately proceed to offer*
22 *the Building for Sale to, and to solicit offers of Purchase from, prospective Purchasers other than*
23 *Qualified Nonprofits, subject to the right of first refusal set forth in Section 41B.7. If, at or before*
24 *11:59 p.m. on the fifth full calendar day after a Seller has notified each Qualified Nonprofit of its intent*
25 *to Sell the Building, each Qualified Nonprofit has notified the Seller that the Qualified Nonprofit does*

1 not wish to further consider whether to make an offer to Purchase the Building, the Seller may likewise
2 immediately offer the Building for Sale to, and solicit offers of Purchase from, prospective Purchasers
3 other than Qualified Nonprofits, subject to the right of first refusal set forth in Section 41B.7.

4 (e) **Additional Disclosures.** If, no later than 11:59 p.m. on the fifth full calendar day after a
5 Seller has notified a Qualified Nonprofit of its intent to Sell a Multi-Family Residential Building, the
6 Qualified Nonprofit has, consistent with subsection (d), notified the Seller that the Qualified Nonprofit
7 wishes to further consider whether to make an offer to Purchase the Building, the Seller shall disclose
8 to the Qualified Nonprofit, via e-mail, the name or names of any tenant or tenants in each rental unit of
9 the Building, as well as any available contact information for each tenant.

10 (f) **Time for Qualified Nonprofits to Make Offer.** Upon receipt, via e-mail, of the
11 disclosures described in subsection (e), the Qualified Nonprofit shall have 25 additional calendar days
12 to decide whether to make an offer to Purchase the Building, and to submit any such offer to the Seller.
13 Any such offer of Purchase shall be presumed to be contingent upon the Qualified Nonprofit's ability to
14 conduct due diligence and secure financing in a manner consistent with subsection (g), unless the
15 Seller and the Qualified Nonprofit expressly agree otherwise in writing.

16 (g) **Seller Free to Accept or Reject Offer.** The Seller is free to accept or reject any offer of
17 Purchase submitted by a Qualified Nonprofit under subsection (e). Any such acceptance or rejection
18 shall be communicated in writing. If the Seller rejects all such offers of Purchase, or if the 25-day
19 period described in subsection (e) has elapsed and no Qualified Nonprofit has submitted an offer of
20 Purchase, the Seller may immediately offer the Building for Sale to, and solicit offers of Purchase from,
21 prospective Purchasers other than Qualified Nonprofits, subject to the right of first refusal set forth in
22 Section 41B.7.

23 (h) **Seller's Acceptance of Offer.** If the Seller accepts an offer of Purchase submitted by a
24 Qualified Nonprofit, the Qualified Nonprofit shall have 60 days to conduct due diligence and secure
25 financing related to the Purchase, unless the Seller and the Qualified Nonprofit have expressly agreed

1 otherwise in writing. At the end of this 60-day period (or any other period to which the Seller and the
2 Qualified Nonprofit have expressly agreed in writing), the Seller shall proceed to Sell the Multi-Family
3 Residential Building to the Qualified Nonprofit in a manner consistent with the Qualified Nonprofit's
4 offer of Purchase.

5
6 **SEC. 41B.7. RIGHT OF FIRST REFUSAL.**

7 **(a) General Construction.** This Section 41B.7 shall be construed to confer upon each
8 Qualified Nonprofit a right of first refusal with respect to any Multi-Family Residential Building for
9 sale in the City, as set forth in this Section. This right of first refusal is cumulative with the right of first
10 offer set forth in Section 41B.6.

11 **(b) Written Offer of Sale to Qualified Nonprofits; Terms and Conditions Set by Market.**
12 Except as provided in subsection (f), whenever the Seller of a Multi-Family Residential Building
13 receives from a Purchaser other than a Qualified Nonprofit an offer to Purchase the Multi-Family
14 Residential Building that the Seller wishes to accept, and whenever the Seller of a Multi-Family
15 Residential Building makes an offer to Sell the Multi-Family Residential Building that a Purchaser
16 other than a Qualified Nonprofit expresses a desire to accept, the Seller shall, before any such offer of
17 Purchase or Sale may be accepted, offer to Sell the Building to each Qualified Nonprofit. This offer of
18 Sale to Qualified Nonprofits shall contain the same terms and conditions (including, but not limited to,
19 price) as the offer of Purchase previously received by the Seller which the Seller wishes to accept or the
20 offer of Sale previously made by the Seller which a Purchaser has expressed a desire to accept, except
21 that the terms and conditions in the offer of Sale to Qualified Nonprofits shall not be inconsistent with
22 the applicable timeframe described in subsection (c) or (d). The offer of Sale to Qualified Nonprofits
23 shall be submitted in writing, on the same calendar day (and, to the extent possible, at the same time),
24 to each of the e-mail included on the Agency's list of Qualified Nonprofits. If the Seller has not
25

1 previously made the disclosures set forth in Section 41B.6(c) and Section 41B.6(e) with respect to the
2 Multi-Family Residential Building, the Seller shall include those disclosures with the offer of Sale.

3 **(c) Time for Qualified Nonprofits to Accept Offer, in General.** Except as provided in
4 subsection (d), no later than 11:59 p.m. on the fifth full calendar day after a Seller has submitted an
5 offer of Sale to a Qualified Nonprofit via e-mail, that Qualified Nonprofit shall notify the Seller and
6 every other Qualified Nonprofit, via e-mail, of its decision to accept or reject the Seller's offer of Sale.
7 If, during this time period, any Qualified Nonprofit decides to accept the Seller's offer of Sale, that
8 Qualified Nonprofit shall immediately notify the Seller and every other Qualified Nonprofit of that
9 decision, via e-mail. After a Qualified Nonprofit notifies the Seller of its decision to accept the Seller's
10 offer of Sale, and notwithstanding any defect in that Qualified Nonprofit's notice to other Qualified
11 Nonprofits, that Qualified Nonprofit shall be deemed to have accepted the offer of Sale, and no other
12 Qualified Nonprofit may accept the Seller's offer of Sale, whether or not the time period described in
13 this subsection (c) has elapsed.

14 **(d) Time for Qualified Nonprofits to Accept Offer, Absent Prior Opportunity to Exercise**
15 **Right of First Offer.** Notwithstanding subsection (c), if Qualified Nonprofits have not previously had
16 an opportunity to exercise the right of first offer set forth in Section 41B.6 with respect to the Sale of a
17 Multi-Family Residential Building (because, for example, the Seller of the Building has received an
18 unsolicited offer to Purchase the Building), each Qualified Nonprofit shall notify the Seller and every
19 other Qualified Nonprofit, via e-mail, of its decision to accept or reject the Seller's offer of Sale no
20 later than 11:59 p.m. on the 30th full calendar day after the Seller has, pursuant to subsection (b),
21 notified the Qualified Nonprofit of its intent to Sell a Multi-Family Residential Building. If, during this
22 time period, any Qualified Nonprofit decides to accept the Seller's offer of Sale, that Qualified
23 Nonprofit shall immediately notify the Seller and every other Qualified Nonprofit of that decision, via
24 e-mail. After a Qualified Nonprofit notifies the Seller of its decision to accept the Seller's offer of Sale,
25 and notwithstanding any defect in that Qualified Nonprofit's notice to other Qualified Nonprofits, that

1 Qualified Nonprofit shall be deemed to have accepted the offer of Sale, and no other Qualified
2 Nonprofit may accept the Seller's offer of Sale, whether or not the time period described in this
3 subsection (d) has elapsed.

4 (e) **Qualified Nonprofit's Acceptance of Offer.** If, in accordance with subsection (c) or (d),
5 as applicable, a Qualified Nonprofit notifies the Seller that the Qualified Nonprofit has decided to
6 accept the Seller's offer of Sale, the Seller shall proceed to Sell the Multi-Family Residential Building
7 to that Qualified Nonprofit in a manner consistent with the offer of Sale. A Qualified Nonprofit that so
8 notifies the Seller (that is, before any other Qualified Nonprofit so notifies the Seller) shall be obliged
9 to Purchase the Multi-Family Residential Building in a manner consistent with the offer of Sale.

10 (f) **Qualified Nonprofits' Rejection of Offer.** If, at or before the deadline set forth in
11 subsection (c) or (d), as applicable, each Qualified Nonprofit has notified the Seller that it does not
12 wish to accept the Seller's offer of Sale, the Seller may immediately proceed with the Sale of the Multi-
13 Family Residential Building, consistent with the offer of Purchase or offer of Sale that the Seller
14 previously received from, or made to, a Purchaser other than a Qualified Nonprofit, as described in
15 subsection (b). If, after the deadline set forth in subsection (c) or (d), as applicable, no Qualified
16 Nonprofit has notified the Seller that it has decided to accept the Seller's offer of Sale, the Seller may
17 likewise immediately proceed with the Sale of the Multi-Family Residential Building, consistent with
18 such offer of Purchase or offer of Sale. If, however, the Seller does not proceed with the Sale of the
19 Building in a manner consistent with such offer of Purchase or offer of Sale, and instead receives from
20 a Purchaser other than a Qualified Nonprofit a materially different offer to Purchase the Multi-Family
21 Residential Building that the Seller wishes to accept, or makes a materially different offer to Sell the
22 Multi-Family Residential Building that a Purchaser other than a Qualified Nonprofit expresses a desire
23 to accept, that materially different offer of Purchase or offer of Sale shall be considered a new offer of
24 Purchase or offer of Sale for purposes of subsection (b).

1 (g) Conditional Third-Party Sales Agreements Permitted. If, as described in subsection
2 (b), the Seller of a Multi-Family Residential Building receives from a Purchaser other than a Qualified
3 Nonprofit an offer to Purchase the Multi-Family Residential Building that the Seller wishes to accept,
4 or if the Seller of a Multi-Family Residential Building makes an offer to Sell the Multi-Family
5 Residential Building that a Purchaser other than a Qualified Nonprofit expresses a desire to accept,
6 that offer of Sale or offer of Purchase may be accepted subject to the contingency that no Qualified
7 Nonprofit exercises the right of first refusal conferred by this Section 41B.7. In such a circumstance,
8 the Seller and the Purchaser shall each expressly acknowledge, in writing, that the Purchaser's
9 Purchase of the Multi-Family Building will not occur if a Qualified Nonprofit exercises the right of first
10 refusal conferred by this Section.

11
12 **SEC. 41B.8. PRESERVATION AS RENT-RESTRICTED AFFORDABLE HOUSING.**

13 (a) Existing Tenants Protected. Following the Purchase of a Multi-Family Residential
14 Building by a Qualified Nonprofit under the first right to purchase conferred by this Chapter 41B, each
15 existing residential tenant in the Building shall be permitted to retain that tenant's existing leasehold
16 interest according to the terms (including, but not limited to, duration) of that tenant's existing lease.

17 (b) Affordable Housing Preserved. Any Multi-Family Residential Building Purchased by a
18 Qualified Nonprofit under the first-right-to-purchase conferred by this Chapter 41B shall be
19 maintained as rent-restricted affordable housing in perpetuity. For purposes of this subsection (b),
20 "rent-restricted affordable housing" shall mean that the mean value of all rents paid by residential
21 tenants in the Building shall not exceed 80% of Area Median Income, and that the gross household
22 income of new tenants in the Building shall not exceed 120% of Area Median Income. The Agency
23 shall establish procedures to ensure that each Building acquired under this Chapter is subject to a
24 Notice of Special Restrictions setting forth the manner in which that Building shall be preserved as
25 rent-restricted affordable housing.

1
2 **SEC. 41B.9. INCENTIVES.**

3 **(a) Access to Buyers.** *The Agency shall endeavor to maintain and publicize the list of*
4 *Qualified Nonprofits described in Section 41B.4 in a manner that, to the maximum extent feasible,*
5 *promotes the existence of the Qualified Nonprofits as a readily accessible pool of potential buyers for*
6 *Multi-Family Residential Buildings. The Agency shall, to the maximum extent permitted by law and*
7 *otherwise feasible, publicize the existence of this list in a manner intended to facilitate voluntary sales*
8 *to Qualified Nonprofits in a manner that avoids or minimizes the need for a broker, other search costs,*
9 *or other transaction costs.*

10 **(b) Partial City Transfer-Tax Exemption.** *The Board of Supervisors may, by ordinance,*
11 *provide that a Qualified Nonprofit's Purchase of a Multi-Family Residential Building under the right of*
12 *first offer set forth in Section 41B.6 is exempt from the increased rate of tax imposed by Business and*
13 *Tax Regulations Code Section 1102(d)–(f), to the extent permitted by, and in a manner consistent with,*
14 *Section 1102.*

15 **(c) Potential Federal Tax Benefits.** *Any Qualified Nonprofit that Purchases a Multi-*
16 *Family Residential Building under the right of first offer set forth in Section 41B.6 shall, to the*
17 *maximum extent permitted by law and otherwise feasible, be obliged to work with the Seller in good*
18 *faith to facilitate an exchange of real property of the kind described in 26 U.S.C. § 1031, for the*
19 *purpose of facilitating the Seller's realization of any federal tax benefits available under that section of*
20 *the Internal Revenue Code.*

21 **(d) Information to Sellers.** *The Agency shall produce an information sheet describing the*
22 *benefits of a Seller's decision to accept a Qualified Nonprofit's offer of Purchase made in connection*
23 *with the right of first offer set forth in Section 41B.6. The information sheet shall further explain that,*
24 *even if a Seller does not accept a Qualified Nonprofit's offer to Purchase a Multi-Family Residential*
25 *Building pursuant to the right of first offer set forth in Section 41B.6, the Building will still be subject to*

1 the right of first refusal set forth in Section 41B.7. The information sheet shall contain a field in which
2 the Seller may acknowledge, in writing, that the Seller (or the Seller's authorized representative) has
3 read and understood the information sheet. A Qualified Nonprofit that makes an offer to Purchase a
4 Multi-Family Residential Building under the right of first offer set forth in Section 41B.6 shall include a
5 copy of, or link to, this information sheet with that offer of Purchase, but any failure to comply with this
6 Section 41B.9(d) shall have no effect on a Qualified Nonprofit's exercise of the right of first offer set
7 forth in Section 41B.6.

8
9 **SEC. 41B.10. ENFORCEMENT.**

10 (a) **Seller Certification.** Every Seller of a Multi-Family Residential Building in the City
11 shall, within 15 days of the Sale of that Building, submit to the Agency a signed declaration, under
12 penalty of perjury, affirming that the Sale of that Building substantially complied with the requirements
13 of this Chapter 41B. Each such declaration shall include the address of the relevant Building; the
14 Agency shall publish all such addresses on its website at least once per week. Failure to file the
15 declaration required by this subsection (a) shall be an infraction punishable to the maximum extent
16 provided by Section 36900(b) of the California Government Code.

17 (b) **Civil Action.** In the event that a Seller Sells a Multi-Family Residential Building without
18 substantially complying with the requirements of this Chapter 41B, a Qualified Nonprofit may institute
19 a civil action, in a court of competent jurisdiction, to remedy that violation of this Chapter, in a manner
20 consistent with subsections (c) and (d).

21 (c) **Remedies.** Remedies in a civil action brought under this Section 41B.10 shall include,
22 but need not be limited to, the following, which may be imposed cumulatively:

23 (1) **Damages** in an amount sufficient to remedy the harm to the Qualified Nonprofit.
24 There shall be a rebuttable presumption that this amount is equal to the difference between the price of
25 the relevant Multi-Family Residential Building at the time of the Sale made in violation of this Chapter

1 41B, and the price for which the Qualified Nonprofit could purchase that Multi-Family Residential
2 Building at the time when damages are awarded;

3 (2) If the Seller's violation of this Chapter was knowing or willful, mandatory civil
4 penalties in an amount proportional to the culpability of the Seller and the value of the relevant Multi-
5 Family Residential Building. There shall be a rebuttable presumption that this amount is equal to 10%
6 of the Sale price of the Multi-Family Residential Building for a first willful or knowing violation of this
7 Chapter, 20% of the Sale price for a second willful or knowing violation, and 30% of the Sale price for
8 each subsequent willful or knowing violation. Civil penalties assessed under this subsection (b)(2)
9 shall be payable to the Citywide Affordable Housing Fund established by Section 10.100-49 of the
10 Administrative Code;

11 (3) Reasonable attorneys' fees; and

12 (4) Such other remedies as might be available under State law, except to the extent
13 that any such remedies would be inconsistent with subsection (d).

14 (d) **Limitation on Remedies.** Any remedy imposed in a civil action under this Section
15 41B.10 shall be imposed only against the Seller or a party that has willfully colluded with the Seller to
16 violate this Chapter 41B. In no event shall any such remedy deprive the Purchaser of a Multi-Family
17 Residential Building of any interest in that Multi-Family Residential Building, or otherwise affect any
18 property interest held by the Purchaser, unless the Purchaser willfully colluded with the Seller to
19 violate this Chapter.

20 **SEC. 41B.11. IMPLEMENTATION.**

21 The Agency shall have the power to interpret and implement this Chapter 41B. The Agency
22 shall, within 90 days of the effective date of this Chapter, promulgate appropriate rules or regulations
23 interpreting and implementing this Chapter, including the establishment of procedures to implement
24 this Chapter, in a manner that the Agency deems most appropriate. The Agency may thereafter revise
25 those rules or regulations from time to time.

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2 **SEC. 41B.12. UNDERTAKING FOR THE GENERAL WELFARE.**

3 In enacting and implementing this Chapter 41B, the City is assuming an undertaking only to
4 promote the general welfare. It is not assuming, nor is it imposing on its officers and employees, an
5 obligation for breach of which it is liable in money damages to any person who claims that such breach
6 proximately caused injury.

7
8 **SEC. 41B.13. CONSTRUCTION WITH OTHER LAWS.**

9 Nothing in this Chapter 41B shall be construed to conflict with any State or Federal law, or
10 with any provision of the Charter.

11
12 **SEC. 41B.14. SEVERABILITY.**

13 If any section, subsection, sentence, clause, phrase, or word of this Chapter 41B, or any
14 application thereof to any person or circumstance, is held to be invalid or unconstitutional by a
15 decision of a court of competent jurisdiction, such decision shall not affect the validity of the remaining
16 portions or applications of the Chapter. The Board of Supervisors hereby declares that it would have
17 passed this Chapter and each and every section, subsection, sentence, clause, phrase, and word not
18 declared invalid or unconstitutional without regard to whether any other portion of this Chapter or
19 application thereof would be subsequently declared invalid or unconstitutional.

20
21 Section 3. Effective Date. This ordinance shall become effective 30 days after
22 enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the
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24
25

1 ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board
2 of Supervisors overrides the Mayor's veto of the ordinance.

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4 APPROVED AS TO FORM:
5 DENNIS J. HERRERA, City Attorney

6 By: Matthew Lee
7 MATTHEW LEE
8 Deputy City Attorney

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REVISED LEGISLATIVE DIGEST

(1/15/2019)

[Administrative Code - Nonprofit Organizations' First-Right-to-Purchase Multi-Family Residential Buildings]

Ordinance amending the Administrative Code to confer upon certain nonprofit organizations a first-right-to-purchase, consisting of both a right of first offer and a right of first refusal, over all multi-family residential buildings (and related construction sites and vacant lots) in the City, for the purpose of creating and preserving rent-restricted affordable rental housing; establishing related procedures for the selection of such nonprofits, preservation of rent-restricted affordable housing, and implementation and enforcement; and affirming the Planning Department's determination under the California Environmental Quality Act.

Existing Law

Under existing law, those selling residential real property in San Francisco are (with limited potential exceptions—e.g., for housing projects that have received public financial assistance, see S.F. Admin. Code Chapter 60) generally free to sell such property to whomever they wish.

Amendments to Current Law

This ordinance would, in general, give certain City-approved nonprofit organizations a first-right-to-purchase—consisting of both a right of first offer and a right of first refusal—over all privately owned buildings containing three or more residential rental units, as well as such buildings under construction and vacant lots where such buildings could be built, anywhere in the City.

Nonprofit organizations upon which the ordinance conferred this right, called “Qualified Nonprofits,” would be selected by the Mayor’s Office of Housing and Community Development based on criteria set forth in the ordinance—for example, demonstrated commitment to the provision of affordable housing for low- and moderate-income City residents, and demonstrated capacity to effectively acquire and manage residential real property at multiple locations in San Francisco.

As noted above, the first-right-to-purchase conferred by the ordinance would consist of both a right of first offer and a right of first refusal. As to the right of first offer, the prospective seller of a multi-family residential building would be required to notify Qualified Nonprofits of its intent to sell the building before offering the building for sale to the general public. The prospective seller would also be required to disclose certain information concerning the building—in particular, the number and addresses of rental units, and applicable rent.

Qualified Nonprofits would then have five full calendar days to express interest in purchasing the building. If a qualified nonprofit did express such an interest, the seller would be required to make certain additional disclosures (in particular, tenants' names and contact information), and the qualified nonprofit would have 25 additional days to make a firm offer of purchase, which the seller would be free to accept or reject.

If a seller did not sell the building to a qualified nonprofit under the ordinance's right of first offer, then the building would be subject to the ordinance's right of first refusal. Under the ordinance's right of first refusal, a seller who wishes to accept a private buyer's offer to purchase the building (or who had made an offer to sell the building that a private buyer wishes to accept) must first provide Qualified Nonprofits with an opportunity to match that offer and purchase the building in place of the private buyer. The ordinance generally provides for a five-day period for Qualified Nonprofits to exercise this right of first refusal, but extends this period to 30 days for situations in which Qualified Nonprofits have not previously had an opportunity to exercise their right of first offer (because, for example, the seller of the building has received an unsolicited offer to purchase the building).

Property purchased by Qualified Nonprofits under the proposed ordinance would be required to be preserved as rent-restricted affordable housing, as defined by the ordinance, under a notice of restrictions to be recorded against the property. In particular, the ordinance provides that the mean value of all rents paid by residential tenants in the building could not exceed 80% of Area Median Income, and that the gross household income of new tenants in the building could not exceed 120% of Area Median Income.

The ordinance contemplates potential incentives to encourage sales to Qualified Nonprofits outside the context of the ordinance's right of first refusal, including the potential for a partial exemption from the City's transfer tax and the potential for Qualified Nonprofits to facilitate sellers' efforts to obtain federal tax benefits under 26 U.S.C. § 1031.

The ordinance would require those who sell property subject to the ordinance to file a signed declaration, under penalty of perjury, affirming that the sale of that property substantially complied with the ordinance. The Mayor's Office of Housing and Community Development would be required to publish the addresses associated with such declarations on its website at least once per week. In the event that property subject to the ordinance were sold in violation of the ordinance, a Qualified Nonprofit would be empowered to institute a lawsuit to remedy that violation, with potential remedies against the seller to include damages and (for knowing or willful violations) civil penalties presumptively tethered to the value of the relevant property.

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