

5/7/14

FILE NO. 140448

RESOLUTION NO. 162-14

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  
25

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

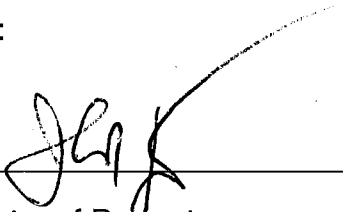
8 FURTHER RESOLVED, That within thirty (30) days of the Transfer Agreement being  
9 fully executed by all parties the MOHCD shall provide the final Transfer Agreement to the  
10 Clerk of the Board for inclusion into the official file; and be it

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



City and County of San Francisco

City Hall  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4689

Tails  
Resolution

File Number: 140448

Date Passed: May 13, 2014

Resolution authorizing the execution and performance of a Transfer Agreement in the amount of \$4,558,269 which expires on June 30, 2014 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 one manager's unit; authorizing the execution and performance of an Option to Ground Lease in the amount of \$0 which expires on June 30, 2015 and a Ground Lease in the amount of \$1 annual base rent for so long as HUD is senior lender and 10% of fair market value at all times thereafter bearing a 75 year term and one 24 year extension 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.

May 07, 2014 Budget and Finance Sub-Committee - AMENDED, AN AMENDMENT OF THE WHOLE BEARING NEW TITLE


May 07, 2014 Budget and Finance Sub-Committee - RECOMMENDED AS AMENDED

May 13, 2014 Board of Supervisors - ADOPTED

Ayes: 11 - Avalos, Breed, Campos, Chiu, Cohen, Farrell, Kim, Mar, Tang, Wiener and Yee

File No. 140448

I hereby certify that the foregoing Resolution was ADOPTED on 5/13/2014 by the Board of Supervisors of the City and County of San Francisco.

  
Angela Calvillo  
Clerk of the Board

  
Mayor

  
Date Approved