

MEMORANDUM OF UNDERSTANDING

WHEREAS, U.A. Local 38 Pension Trust Fund (“Trust Fund”) is the owner of that certain property bordered generally by Market Street, 12th Street, Brady Street and Colton Street, as more specifically shown on the map attached hereto as Exhibit A; and

WHEREAS, The Trust Fund and Strada Brady LLC, a California limited liability company (“Strada”, and together with the Trust Fund, the “Owner”) have entered into a certain Disposition and Development Agreement pursuant to which Strada will develop the Property as a mix of residential and ground floor retail uses in accordance with the City’s Market Octavia Area Plan, as more particularly described on Exhibit B (the “Project”) and pursuant to a 99-year ground lease between the Trust Fund and Strada; and

WHEREAS, The Property includes the Civic Center Hotel, a five-story single-room occupancy hotel; and

WHEREAS, The Civic Center hotel includes 71 “Protected Units” as defined by the building’s Initial Status Determination as per the San Francisco Residential Hotel Unit Conversion and Demolition Ordinance (the “Residential Hotel Ordinance”) and 81 unrestricted “tourist units”; and

WHEREAS, The Civic Center Hotel is in extremely poor physical condition, and an appraisal has determined that the structure is at the end of its useful economic life. The interior improvements, residential rooms, bathrooms, mechanical systems, and common areas are unsuitable for long-term use; and

WHEREAS, Pursuant to the Residential Hotel Ordinance, in order to convert/demolish the Civic Center Hotel, the property owners are required to either (i) construct or cause to be constructed 71 replacement units (the 81 tourist units do not require replacement or relocation), which for this project would consist of a new market-rate, 71-unit “micro apartment” project subject only to the relocation and rent control rights of remaining Civic Center Hotel tenants (if any) in the applicable Protected Units; or (ii) pay a public or non-profit entity an amount equal to 80% of the cost of constructing 71 comparable micro units plus site acquisition costs (on or off site); or (iii) construct or cause to be constructed low-income replacement units, which includes an option for less than one-to-one replacement; and

WHEREAS, Strada is currently processing entitlements for the Project that would provide (i) up to approximately 500 market-rate residential rental units, (ii) 8,000-10,000 gross square feet of ground floor retail, (iii) an approximately 20,000-square-foot union hall and collective bargaining and office space for the Local 38 Plumbers and Pipefitters Union, (iv) more than 25,000 square feet of new public open space, and (v) the Community Housing Partnership Supportive Housing Project described below and will also generate significant additional resources for more affordable housing (the “Project Entitlements”); and

WHEREAS, as part of the Project Entitlements, Strada, together with its non-profit supportive housing partner, Community Housing Partnership (“CHP”), intends to satisfy or exceed the inclusionary housing and SRO replacement requirements that apply to the Property and the Project Entitlements, including under the Market Octavia Area Plan and the Residential Hotel Ordinance, by (i) building an

approximately 110-unit, 100% rent-restricted supportive housing development (the “CHP Supportive Housing Project”) on the Property that offers more than 1-for-1 replacement of the Protected Units and that is phased in a manner that ensures no displacement of existing Civic Center Hotel residents, who will have the right to move into the new CHP Supportive Building before construction begins on the Civic Center Hotel site, and (ii) by Strada paying the City’s Affordable Housing Fee on 20% of the market - rate units, as more specifically set forth in Section 2 below (the “Affordable Housing Plan”); and

WHEREAS, it is anticipated that it will take approximately 24 months to complete the Project Entitlements and related pre-construction activities, including final architecture and engineering documents and other pre-construction activities (the “Pre-Development Period”); and

WHEREAS, The City and County of San Francisco (the “City”), acting by and through its Department of Human Services (“HSA”) and the Mayor’s Office of Housing and Community Development (“MOHCD”) has an urgent need for housing, for individuals whom are homeless and has requested the Pension Trust Fund, Strada and CHP to implement a plan to allow the continued operation of the Civic Center Hotel for such uses during the 24-month Pre-Development period; and

WHEREAS, The Pension Trust Fund is willing to help meet that need for housing by maintaining and keeping the Civic Center Hotel operational for an interim period of 24 months as set forth below until better long term housing can be offered for Civic Center Hotel residents and others through the construction of the CHP Supportive Housing Project as part of the larger Project, but it is essential that such interim use be structured in a manner that does not inhibit or delay the ability to deliver the better long term housing provided by the Project.

NOW THEREFORE, in light of the foregoing Recitals, the Pension Trust Fund, Strada, CHP and the City agree to work together to advance the objectives set forth in this MOU, subject to the understanding and agreements set forth below.

1. Interim Operation of the Civic Center Hotel. The Trust Fund, Strada, CHP and the City shall work together in good faith to try to achieve the following objectives related to keeping the Civic Center Hotel open and operating during the Pre-Development Period:
 - A. The Trust Fund would enter into a master lease of the Civic Center Hotel with CHP (the “Interim Lease”). The term of the Interim Lease shall be for 24 months, and could be extended on a month-to-month basis thereafter upon the consent of the parties. Other than with regard to the Tenant Improvement Allowance described below, the Interim Lease shall be “triple-net” to the Trust Fund with no obligations of operation, repair or maintenance during the term of the Interim Lease. Under the terms of the Interim Lease the Trust Fund shall be paid a monthly rent of \$30,000 per month, provided that the Trust Fund shall grant or cause to be granted to CHP a Tenant Improvement Allowance to perform the short-term repairs described on Exhibit C attached hereto (the “TI Allowance”). The amount of the TI allowance shall be capped at the greater of the actual costs of the TI Allowance and \$100,000 and will be amortized over 10 months by reducing the rent for the initial 10 months of the Interim Lease accordingly. Under the terms of the Interim Lease, CHP shall operate the Civic Center Hotel in accordance with the Supportive Services Contract Described below.

- B. Concurrently with the Interim Lease, and subject to Sections 3 through 6 below, HSA and CHP would enter into a services contract (the “Supportive Services Contract”). Under the proposed terms of the Supportive Services Contract, HSA would provide adequate funding for operating the property, included but not limited to funding for: the Master Lease payments, property management, on-going maintenance and repairs (excluding major capital improvements), support services and asset management services. Under the terms of the Contract, CHP shall be responsible for the day-to-day operations of the site and for provision of support services to assist program participants in stabilizing their lives and moving towards self-sufficiency. The Contract would be structured like or as the HSA’s standard stabilization housing contract so that the individuals receiving transitional housing and services under the Contract shall be informed that this is transitional housing, where they will not pay rent, execute a lease or have the rights and privileges of tenancy. This would be a program under which participants will need to comply with program rules and the house rules of the property.
2. Affordable Housing Plan for the Project. Subject to Section 3 below, Strada, CHP and the City shall work together in good faith to try to achieve the following objectives related to the Affordable Housing Plan for the Project:
- A. Strada paying a 20% Affordable Housing Fee calculated on the market-rate development approved for the Project in the Project Entitlements. The amount of the fee will be based on the then-applicable Affordable Housing Fee Schedule published by the City’s Planning Department. By way only of example, based on the 2015 Affordable Housing Fee Schedule and Strada’s Preliminary Project Application for the Project, including the projected unit mix, the Affordable Housing Fee from the Project is currently estimated to be approximately \$29 million. As set forth in Section 2.D below, approximately 50% of that Affordable Housing Fee could be directed to help finance the CHP Supportive Housing Project and 50% could be paid to MOH to help fund other affordable housing projects in San Francisco.
- B. Strada and CHP are co-developing the 110 unit CHP Supportive Housing Project pursuant to a joint venture agreement pursuant to which Strada would be responsible for cost overruns and CHP would be the long-term owner and operator of the CHP Supportive Housing Project.
- C. Completing the CHP Supportive Housing Project before other construction begins on the Civic Center Hotel site to ensure that existing residents of the Civic Center Hotel can move directly to the CHP Supportive Housing Project without being subject to even temporary displacement.
- D. The CHP Supportive Project may be financed as follows:
- i. Strada provides the land for the CHP Supportive Housing Project pursuant to a no-cost 99-year ground lease. The current estimated fair market value of this land is approximately \$5,000,000.
 - ii. Strada advances the predevelopment costs for the CHP Supportive Housing Project, including the costs of securing the portion of the Project Entitlements related to the CHP Supportive Housing Project and architecture and

engineering related to 50% schematic drawings for the CHP Supportive Housing Project. These predevelopment costs are currently estimated to be approximately \$1,250,000.

- iii. CHP and Strada seek 4% Low Income Housing Tax Credits and tax-exempt bond financing for construction.
 - iv. MOHCD could dedicate up to approximately 50% of the Affordable Housing Fees generated from the market-rate housing, estimated to be \$14,500,000 out of a total Affordable Housing Fee estimated to be \$29,000,000, to provide further “gap financing” for the CHP Supportive Housing Project. The CHP Supportive Housing Project would then comply with all standard requirements and terms for MOHCD-funded projects.
 - v. Strada provides “gap financing” estimated in the approximate amount of \$5,000,000, but could be required to pay for cost overruns on the CHP Supportive Housing Project if applicable.
- E. Alternatively, Strada could provide inclusionary affordable units within the market-rate project instead of paying the 20% Affordable Housing Fee, in which case Strada would fully fund the “gap financing” for the CHP Supportive Project. Strada will continue discussing this alternative with MOHCD and other community stakeholders.
- F. The Project Entitlement plans do not include an increase in heights or density under existing zoning for the Property under the Market and Octavia Plan other than to increase the height applicable only to the CHP Supportive Housing Project from 40 feet to 65 feet.
- G. Because (i) building supportive homeless housing as part of a market-rate housing development on site is unprecedented and (ii) the Affordable Housing Plan provides significantly more affordable housing benefits than are required under the Market Octavia Plan or the SRO Ordinance, Strada and CHP shall seek to have the City’s Planning Department process the Project Entitlements as a category 1A project pursuant to its priority processing guidelines.

3. No Liability; Termination. The parties are entering into this MOU in order to cooperate on the preliminary work to be performed with respect to the Project and CHP Supportive Housing Project as described above. The parties understand and agree that the City would not be willing to enter into this MOU if it could result in any liability or cost to the City. Accordingly, in the event that Owner or CHP believes that the City has violated any of the terms of this MOU, their sole remedy shall be to terminate this MOU. Furthermore, any party shall have the right to terminate this MOU with respect to its participation in the tasks described in this MOU at any time without cost or liability by providing notice of termination to the other parties.

4. City Discretion. The City acknowledges and agrees that under this MOU, the City is not committing itself or any of its departments or offices, or agreeing to approve any land use entitlements or undertake any other acts or activities relating to the subsequent independent exercise of discretion by HSA, MOHCD, the Planning Commission, the Board of Supervisors, the Mayor, or any other agency, commission, or department of the City, and that the documents and approvals for the Project and CHP Supportive Housing Project are subject to the prior approval of HSA, MOHCD, the Planning Commission, Board of Supervisors, and the Mayor, each in its sole and absolute discretion. Notwithstanding anything to the contrary herein, HSA, MOHCD and each of their respective boards, commissions, departments, and officials, each shall exercise its sole discretion over all matters relating to the Project and CHP Supportive Housing Project over which it has jurisdiction consistent with legal requirements, customary practices, and public health, safety, convenience, and welfare, and each shall retain, at all times, its respective authority to take any action under its jurisdiction consistent with the foregoing.

5. Environmental Review. Any final project or phase of the Project and/or the CHP Supportive Housing Project ultimately proposed by Owner and/or CHP shall be subject to a process of thorough public review and input and all necessary and appropriate approvals; that process must include environmental review under CEQA before a City agency, commission, board, or any other City decision-maker may consider approving the Project and/or the CHP Supportive Housing Project; and the Project and the CHP Supportive Housing Project will require discretionary approvals by a number of government bodies after public hearings and environmental review. Nothing in this MOU commits, or shall be deemed to commit, the City or any of its departments or offices to approve or implement any project, and they may not do so until environmental review of the project as required under CEQA has been completed. Accordingly, all references to "Project" or "CHP Supportive Housing Project" in this MOU shall mean the proposed project subject to future environmental review and consideration by the City. The City and any other public agency with jurisdiction over any part of the project shall have the absolute discretion before approving the Project and/or the CHP Supportive Housing Project to: (i) make such modifications to the project(s) as may be necessary to mitigate significant environmental impacts; (ii) select other feasible alternatives to avoid or substantially reduce significant environmental impacts; (iii) require the implementation of specific measures to mitigate any specific impacts of the project(s); (iv) balance the benefits of the project(s) against any significant environmental impacts before taking final action if such significant impacts cannot otherwise be avoided; and (v) determine whether or not to proceed with the project(s).

6. No Representation or Warranty; Exculpation. Owner and CHP agree and acknowledge that City has made no representation or warranty that the necessary regulatory approvals for the development and construction of the Project and/or the CHP Supportive Housing Project can be obtained. Owner and CHP further agree and acknowledge to the following:

(a) City is entering into this MOU and would enter into any negotiated documents related to the Project and/or the CHP Supportive Housing Project, if any, in its proprietary capacity and not in its regulatory capacity or pursuant to its police powers;

(b) City staff and executives have no authority or influence over any regulatory agency, including but not limited to City officials acting in a regulatory capacity, and Owner and CHP shall have the sole obligation to obtain all necessary approvals from any regulatory agencies having jurisdiction over the Project and/or the CHP Supportive Housing Project;

(c) City expressly makes no guarantee, nor shall there be any presumption, that any of the regulatory approvals (including the City, acting in its regulatory capacity or pursuant to its police powers) required to develop and construct the Project and/or the CHP Supportive Housing Project will be issued by the appropriate regulatory agency; and

(d) City staff have no obligation to advocate, promote or lobby any regulatory agency and/or any City official for any regulatory approval or for approval of the Project and/or the CHP Supportive Housing Project, or of any form of document negotiated pursuant to this MOU, and any such advocacy, promotion or lobbying shall be done by Owner at Owner's sole cost and expense.

7. Sunshine. Owner and CHP understand and agree that under the City's Sunshine Ordinance (San Francisco Administrative Code Chapter 67) and the State Public Records Law (California Government Code Section 6250 *et seq.*) apply to this MOU and any and all records and materials submitted to the City in connection with this MOU.

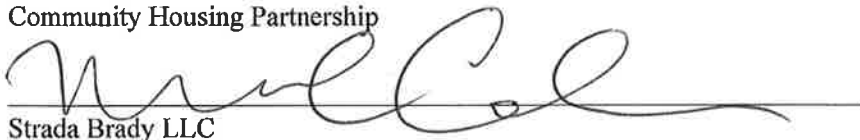
Dated: April 28, 2015



City and County of San Francisco, acting by and through its Mayor's Office

U.A Local 38 Pension Trust Fund

Community Housing Partnership



Strada Brady LLC

EXHIBITS

(To Be Inserted)

Exhibit A: Property Description and Parcel Map

Exhibit B: Project Description

Exhibit C: Tenant Improvement Scope of Work