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.

WHEREAS, In April 2006, the Mayor’s Office of Housing and Community Development (“MOHCD”) issued a Notice of Funding Availability (“NOFA”) to provide acquisition and predevelopment financing for the development of supportive housing for chronically homeless persons; and
WHEREAS, Pacific Institute/Age Song submitted an application in response to
the NOFA and was selected to be the developer for the development of a 46-bed
residential care facility for chronically homeless persons (the "Original Project") to be
located at 1500 Page Street (Assessor's Block 1223, Lot 004) (the "Property"); and

WHEREAS, Pacific Institute/Age Song established a separate entity named
1500 Page Street LLC, a California limited liability company ("Transferor") under which
to acquire the Property and develop the Original Project; and

WHEREAS, In March 2007, Transferor acquired the Property for $2,850,000
using a $1,000,000 acquisition loan from East West Investment, Inc., a California
corporation (the "Senior Bank Loan"), and a $2,080,950 acquisition and
predevelopment loan from MOHCD (the "MOHCD Acquisition Loan"); and

WHEREAS, After acquiring the Property, the Transferor engaged in
predevelopment activities for the Original Project, which activities were funded by a
$1,057,400 loan from MOHCD (the "Predevelopment Loan" and together with the
MOHCD Acquisition Loan, the "City Debt"); and

WHEREAS, Due to economic and real estate market conditions, the Transferor
was unable to obtain financing for the Original Project, and as a result the Transferor
and MOHCD determined that the Original Project was not feasible; and

WHEREAS, Transferor no longer has the funds necessary to maintain the
Property or pay the debt service required under the Senior Bank Loan, and is therefore
in severe and imminent risk of defaulting under the Senior Bank Loan; and

WHEREAS, In order to protect its interest in the Property and further the City's
general plan priority of preserving and enhancing the supply of affordable housing,
MOHCD and Transferor worked together to determine an alternate plan to develop the
Property; and
WHEREAS, The Transferor's organizational mission is to operate residential care facilities and not other types of affordable rental housing projects; and

WHEREAS, On June 17, 2011, the Citywide Affordable Housing Loan Committee approved MOHCD's selection of Mercy Housing California ("Sponsor") to develop the Property into 16 units of affordable housing for low- and very-low income persons with developmental disabilities and 1 manager's unit (the "Current Project"); and

WHEREAS, On February 21, 2012, Sponsor obtained an award of $2,347,800 in HUD 811 financing to develop the Current Project; and

WHEREAS, An appraisal dated February 13, 2014 valued the Property now at $1,500,000; and

WHEREAS, According to the appraisal report, the significant decrease in the value of the Property is due to: (1) the cost to renovate the building exceeds the value of the improvements leaving value only in the land, and (2) the 38 units in the existing building are registered as Single Room Occupancy units, and thus under Administrative Code Chapter 41 must be replaced one for one, which significantly diminishes the development potential for the Property; and

WHEREAS, Because the Senior Bank Loan is senior to the City Debt, if Transferor defaults under the Senior Bank Loan, East West Investment Inc. would likely foreclose on its Property lien, which would result in the loss of the Property as an affordable housing asset and the loss of the City's investment in the Property; and

WHEREAS, MOHCD's mission is to preserve and facilitate development of affordable housing for residents of San Francisco and, therefore, proposes to retain the Property rather than lose it and its secured loans to a foreclosure sale; and
WHEREAS, MOHCD approached East West Investment, Inc. regarding the
Senior Bank Loan in an attempt to negotiate a reduction in the Senior Bank Loan
balance in connection with the reduction in the Property's appraised value; and
WHEREAS, East West Investment, Inc. is currently considering MOHCD's
request but unlikely to negotiate a reduction in the balance of its loan given its senior
loan status, and therefore MOHCD must arrange for the repayment of the full amount
of the Senior Bank Loan in connection with the proposed Property transfer; and
WHEREAS, In the event that East West Investment, Inc. responds affirmatively
and is willing to reduce a portion of its loan balance, MOHCD's repayment amount will
decrease, accordingly; and
WHEREAS, MOHCD and the Sponsor determined that the amount of existing
City Debt secured by the Property would not be supportable by the Current Project,
and thus transferring that debt over to the Current Project in connection with the
proposed Property transfer would make the project financially infeasible; and
WHEREAS, MOHCD has negotiated a transfer agreement with Transferor (the
"Transfer Agreement") to receive title to the Property in consideration for the
outstanding balance as of the closing date under the Senior Bank Loan in an amount
not to exceed $836,706 and the cancellation of the City Debt (the "Transfer Price"),
subject to the conditions described in the Transfer Agreement, a copy of which is on file
with the Clerk of the Board of Supervisors in File No. 140448 and incorporated herein
by reference; and
WHEREAS, The Director of Property and the Director of MOHCD have
determined that the Transfer Price exceeding the fair market value of the Property is
justified in order to both prevent the foreclosure and loss of the Property as an

affordable housing resource and to make the development of new affordable housing on the Property financially feasible; and

WHEREAS, MOHCD has negotiated an option to ground lease with Mercy Housing California 57, a limited partnership formed by the Sponsor (the “Option”), a copy of which is on file with the Clerk of the Board of Supervisors in File No. 140448 and incorporated herein by reference, pursuant to which Mercy Housing California 57 has a right to enter into a ground lease for the Property in order to develop the Current Project (the “Ground Lease”), subject to certain terms and conditions set forth in the Option; and

WHEREAS, The Sponsor was awarded the Option without a competitive bidding process based on the determination by the Director of Property and the Director of MOHCD that it would be impractical or impossible to obtain competitive bids because the Sponsor is the selected developer of the Current Project and has already obtained a HUD financing award for the Current Project, and because of the financial and development restrictions related to the Property, as described above; and

WHEREAS, The Option expires on June 30, 2015, with an extension option for 1 additional 6-month period, and sets forth the material terms of the Ground Lease as follows: (i) a term of 75 years with an extension option for 24 additional years; (ii) tenant shall be responsible for all property taxes and assessments levied against the Property; (iii) the Property shall be used during the term of the ground lease only for affordable housing with maximum rent and income levels set at no greater than 50% area median income; (iv) the annual base rent shall be $1 for so long as HUD is senior lender and 10% of fair market value at all times thereafter; (v) tenant shall be responsible for construction, operation and maintenance of the Property; (vi) the City will own fee title to the land and the tenant will own fee title to all improvements; (vii) at
the end of the term, fee title to all the improvements shall vest in the City; (viii) the
ground lease shall include standard mortgagee protection provisions; (ix) the City will
provide any notice of and defaults to the tenant and the tenant's limited partners and
lenders and allow any such parties the right to cure such default; (x) the tenant can
encumber its leasehold interest to secure loans, as approved by MOHCD; and

WHEREAS, In order to consummate the transfer and ground lease of the
Property, the Board of Supervisors desires to authorize the execution, delivery and
performance of the Transfer Agreement, the Option and, if the Sponsor exercises the
Option, the Ground Lease (collectively, the "Transaction Documents"); and

WHEREAS, By letter dated April 29, 2013, the Department of City Planning
adopted and issued a General Plan Consistency Finding, a copy of which is on file with
the Clerk of the Board, wherein the Department of City Planning found that the
acquisition and ground lease of the Property are consistent with the City's General Plan
and with the Eight Priority Policies under Planning Code Section 101.1; and on
December 12, 2013, the Department of City Planning also found that acquisition,
ground lease and substantial rehabilitation of the Property are categorically exempt
from Environmental Review; now, therefore, be it

RESOLVED, That the Board of Supervisors hereby adopts the findings
contained in the document dated December 12, 2013, from the Department of City
Planning regarding the California Environmental Quality Act, and hereby incorporates
such findings by reference as though fully set forth in this Resolution; and, be it

FURTHER RESOLVED, That the Board of Supervisors hereby finds that the
acquisition and ground lease of the Property are consistent with the General Plan, and
with the eight Priority Policies of Planning Code Section 101.1 for the same reasons as
set forth in the letter of the Department of City Planning, dated April 26, 2013, and
hereby incorporates such findings by reference as though fully set forth in this
Resolution; and, be it

FURTHER RESOLVED, That the Board of Supervisors hereby finds that, in
accordance with Administrative Code Section 23.30, the award of the Transaction
Documents to Sponsor without a competitive bidding process is authorized because it
would have been impractical or impossible to obtain competitive bids, for the reasons
set forth by the Director of Property and Director of MOHCD, and because it was done
in furtherance of the proper public purpose of preserving the potential development of
new affordable housing; and, be it

FURTHER RESOLVED, That in accordance with the recommendation of the
Director of Property and the Director of MOHCD, the Board of Supervisors approves
the Transaction Documents, and authorizes the Director of Property (or his designee)
and the Director of MOHCD (or his designee) to execute and deliver the Transaction
Documents and any such other documents that are necessary or advisable to complete
the transaction contemplated by the Transaction Documents, including the Ground
Lease (if the Sponsor exercises the Option); and, be it

FURTHER RESOLVED, That the Board of Supervisors authorizes the Director
of Property (or his designee) and the Director of MOHCD (or his designee), in
consultation with the City Attorney, to enter into any additions, amendments or other
modifications to the Transfer Agreement, the Option and, if the Option is exercised, the
Ground Lease, and any other documents or instruments necessary in connection
therewith, that the Director of Property and the Director of MOHCD determine are in the
best interests of the City, do not materially decrease the benefits to the City with
respect to the Property, do not materially increase the obligations or liabilities of the
City, and are necessary or advisable to complete the transaction contemplated therein
and that effectuate the purpose and intent of this Resolution, such determination to be
conclusively evidenced by the execution and delivery by the Director of Property (or his
designee) and the Director of MOHCD (or his designee) of any such additions,
amendments, or other modifications; and, be it

FURTHER RESOLVED, That all actions authorized and directed by this
Resolution and heretofore taken are hereby ratified, approved and confirmed by this
Board of Supervisors; and, be it

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

FURTHER RESOLVED, That MOHCD shall report back to the Board of Supervisors
during the June 2014 budget review on (a) the reliability of financing sources for the 1500
Page Street project; alternative financing that would be available if the project is not awarded
low income housing tax credits or other major sources of financing; and the impact of the
1500 Page Street and other pipeline projects on the City's access to future low income
housing tax credits; and MOHCD's procedures to manage project costs once the project
receives financing; and (b) procedures to vet the accuracy of appraisals prior to purchasing
property, and further mitigate the risks to MOHCD as the gap lender for affordable housing,
such as requiring a feasible back-up financing plan.
RECOMMENDED:

John Updike, Director of Property

Olson Lee, Director, Mayor's Office of Housing and Community Development
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.

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

Date Approved 05/23/2014