INFORMATIONAL MEMORANDUM

TO: Agency Commissioners

FROM: Fred Blackwell, Executive Director

SUBJECT: Update on the Martin Luther King / Marcus Garvey Square Cooperative Apartments, Inc., a California mutual benefit nonprofit corporation, 211 limited equity cooperative housing units; 1680 Eddy Street.

Martin Luther King - Marcus Garvey Square Cooperative Apartments, Inc. (“MLK/MGS” or the “Co-op”) is a 211-unit FHA Section 236 / Section 221 d (3) insured below market rate cooperative located in the former Western Addition Redevelopment Project Area A-2.

The MLK/MGS Board of Directors (the “Board”) approached the Agency in the late 1990’s seeking financial assistance for the rehabilitation of the site. The Co-op membership or shareholders have divided over whether or not the Co-op should be rehabilitated. Some members of the Board and shareholders convinced other shareholders that the health and safety issues identified by the U.S. Department of Housing and Urban Development (“HUD”) would ever be of consequence. Those individuals were proven wrong when in January, 2005, when HUD issued a notice of default due eroding physical conditions, security problems, and management issues. In anticipation of HUD terminating the Section 8 rental assistance contract, the Mayor wrote to HUD requesting more time for the Co-op to develop a plan to correct the deficiencies. Speaker Nancy Pelosi joined various City Departments in helping MLK/MGS to stave off HUD’s termination of its rental subsidies to enable the Co-op to develop a responsive plan of action.

In response to the default, MLK/MGS issued a Request for Proposals for a Tax Credit deal in September, 2005 to solicit a development partner with the technical expertise to assess the existing physical conditions; obtain the necessary financing and approvals and to supervise the rehabilitation activities. The Board selected Related Companies of California (“Related”) because of their expertise with similar projects and because of its financial strength.

The MLK/MGS Board and Shareholders rejected a tax credit financing option because it would have required converting the cooperative to a rental development for at least 15 years. Related was then instructed to secure financing that would preserve the cooperative ownership structure. In November, 2007, the Shareholders cast an assent vote in support of the selection of Related to work as their developer to secure financing and a rehabilitation plan that would meet the HUD goals.

In April 2008, the Agency Commission authorized a $1 million predevelopment loan to the Co-op. This loan enabled MLK/MGS to develop rehabilitation plans and specifications needed to obtain new financing. In March 2009, the Agency Commission
authorized an additional $4 million to cover the cost of preliminary investigations for assessing the rehabilitation needs of MLK/MGS. One requirement of the Redevelopment Agency loan is that the Co-op must remain affordable for an additional 45 years.

The last financing hurdle was overcome on March 31, 2010, when MLK/MGS closed a Citibank construction loan in the amount of $36 million. The proceeds of the loan will pay for rehabilitation of the Co-op. The loan proceeds will also cover the cost of any temporary move Co-op shareholders will make for approximately 30-60 days while their units are being renovated. The rehabilitated Co-op will meet or exceed all of the HUD requirements for continuing their Section 8 rental assistance contract.

A ground breaking celebration is planned for Saturday, April 10, 2010 from 10:30 a.m. to 1:00 p.m. at MLK/MGS.

(Originated by Michele Davis, Development Specialist)

Fred Blackwell
Executive Director