MEMORANDUM

TO: Agency Commissioners

FROM: Fred Blackwell, Executive Director

SUBJECT: Authorizing a First Amendment to a Ground Lease with 650 Eddy, L.P., a California limited partnership, for 650 Eddy Street in conjunction with the development of 83 very low-income rental units; Citywide Tax Increment Housing Program

EXECUTIVE SUMMARY

In December 2008, Tenderloin Neighborhood Development Corporation (“TNDC”) and Community Housing Partnership (“CHP”) completed the development of Arnett Watson Apartments, 83 units of supportive housing for formerly homeless families and individuals (the “Project”). To develop and own the Project, TNDC and CHP formed 650 Eddy, L.P., a California limited partnership (the “Partnership”), to acquire the Site and develop the Project with CHP Eddy, LLC, as its general partner. The development is nine stories and contains 83 units consisting of 36 studios, 33 one-bedroom and 14 two-bedroom units. There is a small ground floor retail space, six parking spaces and 25 bicycle stalls. The building includes a community room, management offices, service provision offices, as well as a laundry room and kitchen. All residents are formerly homeless and referred from the City’s Human Services Agency (“HSA”). HSA also provides operating subsidies in the form of a Local Operating Subsidy Grant to supplement revenue received from rent payments, as well as through the Shelter Plus Care Program. The Partnership owns the Project improvements and the Agency owns the land at the Project site and has executed a ground lease (the “Ground Lease”) with the Partnership. The Mayor’s Office of Housing (“MOH”) provided funds for the development of the Project and is managing the Project on behalf of the City.

Permanent financing includes tax-exempt multifamily bonds, low income housing tax credit equity, Affordable Housing Funds from the Federal Home Loan Bank, an Affordable Housing Fund Loan and a HOME Loan from the City and County of San Francisco, and a State Multifamily Housing Program (“MHP”) loan. In order to comply with MHP regulations, the Agency must amend the ground lease to remove the Developer’s right of first refusal to purchase the land in the event that the Agency sells the land. The full term of the Ground Lease is 99 years.

Staff recommends authorization of a First Amendment to the Ground Lease with 650 Eddy, L.P.

DISCUSSION

Background
In February 2005, the Citywide Affordable Housing Loan Committee approved $1,855,463 for acquisition and predevelopment financing for 650 Eddy Street, a proposal submitted under
MOH’s 2004 Notice of Funds Available for Supportive Housing for Chronically Homeless Individuals and Families. This commitment was comprised of a $1,000,000 tax increment grant from the Agency for site acquisition, and $855,463 HOME loan from MOH for the first year predevelopment costs. On April 19, 2005, the Commission approved the $1,000,000 Tax Increment Grant Agreement with the Partnership to allow the Partnership to partially fund the acquisition of the Site. Also on April 19, 2005, Commission authorized the Executive Director to execute an Option Agreement with the Partnership. The Partnership purchased the Site in July 2005 for $2,975,056 with the Agency tax increment grant and private financing from Citibank and Local Initiatives for Support Corporation. Subsequently, MOH provided an additional $13.6 million in financing for acquisition, predevelopment and construction costs. On March 7, 2007, consistent with the terms of the Option Agreement between the Agency and the Partnership, the Partnership assigned the Site to the Agency in exchange for termination of the Grant Agreement and for execution of the Ground Lease. Tax credit, bond, and City financing closed in March 2007 and construction started in April 2007. Construction was completed in December 2008. The building is fully leased up and currently serving 83 formerly homeless households.

**Ground Lease Amendment**

The original ground lease terms are $1 per year for an initial 70-year term with an option for extension for a 29-year term, for a total term of 99 years. The improvements will revert to Agency ownership after the 99-year term. A permanent State of California MHP loan in the amount of $6,091,709 is the last financing source to be closed. In order to accommodate MHP’s requirements, which consider a right of first refusal to be an impediment to their ability to secure their loan on the Partnership’s leasehold interest in the Property, the Agency is removing from the Ground Lease the Partnership’s right of first refusal to purchase the land in the event that the Agency sells the land. However, it should be noted that this change will not prevent the Partnership from making an offer to purchase the Property in the unlikely event that the Agency would sell the land prior to the expiration of the Ground Lease.

**CALIFORNIA ENVIRONMENTAL QUALITY ACT**

Authorizing the First Amendment to change the terms of the Ground Lease is an Agency administrative activity that will not cause any physical change in the environment, and is not subject to environmental review under the California Environmental Quality Act (“CEQA”), pursuant to CEQA Guidelines Section 15378(b)(5).

*Staff recommends authorization of a First Amendment to the Ground Lease with 650 Eddy, L.P.*

*(Originated by Anne Romero, Mayor’s Office of Housing and Elizabeth Colomello, Development Specialist)*

Fred Blackwell  
Executive Director