

Citywide Affordable Housing Loan Committee

San Francisco Mayor's Office of Housing and Community Development
Department of Homelessness and Supportive Housing
Office of Community Investment and Infrastructure
Controller's Office of Public Finance

MEMORANDUM

DATE: MAY 12, 2023
TO: CITYWIDE AFFORDABLE HOUSING LOAN COMMITTEE
FROM: ANNE ROMERO, SENIOR PROJECT MANAGER
RE: **REQUEST FOR INCREASED COMMITMENT LETTER DUE TO INCREASE IN SCOPE OF WORK FOR HOMEKEY GRANADA HOTEL, 1000 SUTTER STREET**
Request for up to an additional \$26,005,887 in OCOH Funds
Total CCSF Amount at Perm Takeout is up to \$71,125,575 (\$7,934,504 General Funds / up to \$63,191,071 OCOH)

Episcopal Community Services (ECS) is requesting approval of a commitment for an increased permanent loan for the Homekey Granada development, as unforeseen conditions pertaining to the seismic condition and deteriorated plumbing have increased the development cost and delayed construction during the ongoing rehabilitation. This increase would be funded using Our City Our Home funds (OCOH). OCOH was created in November 2018 when voters increased business taxes to support housing and services for people experiencing homelessness and to prevent homelessness. These funds are distributed directly through the Department of Homelessness and Supportive Housing (HSH). This increased permanent funding commitment is needed now to keep construction on track.

In October 2020, ECS acquired the 10-story plus basement, 214-Single Room Occupancy (SRO) Granada Hotel (Project) for \$46,000,000 using the State of California's Homekey Program award and City General Funds. Since then, the Project has expended \$13.5 million in rehabilitation costs funded entirely by a San Francisco Housing Accelerator Fund (HAF) loan, which is anticipated to be taken out by City funds at Project completion. Including cost increases presented below, the City's takeout of the HAF loan is estimated at up to \$63,191,071, an increase of \$26M, with total City financing projected at \$71,125,575, or \$329K / unit. The proposed total sources are \$7.9 in General Fund and \$63.1 million in OCOH funds.

	Original	Proposed	Variance	Cost Per Unit
Homekey:	42,334,020	42,334,020	0	197,823
Total City:	45,119,688	71,125,575	26,005,887	332,363
Total:	87,453,708	113,459,595	26,005,887	530,185

SFHAF Takeout	37,185,184	63,191,071	26,005,887	295,285
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1. Project Overview and Project Status

a. Project Overview

As part of the State’s response to COVID-19, the California Department of Housing and Community Development (HCD) made Homekey Program 1.0 grant funding available for localities to purchase and rehabilitate buildings to convert them into permanent, long-term housing for Californians experiencing homelessness.

The City, acting through HSH and in partnership with ECS, applied for nearly \$45M in funds from the HCD NOFA issued on July 16, 2020, to acquire and rehabilitate the 214 room Granada Hotel and convert it to permanent supportive housing. The Department of Homelessness and Supportive Housing (HSH) was the lead applicant for the Homekey funds and identified their longtime development partner Episcopal Community Services (ECS) to own and operate the property. HSH is funding and overseeing the project, and ECS acquired the site, is rehabilitating the property, and will own, operate and provide services for the permanent supportive housing. ECS was selected as the development partner through an RFI that HSH issued on July 24, 2020 (HSH’s RFI #HSH2020-100: Potential Permanent Supportive Housing Sites).

ECS has provided essential services to homeless San Franciscans since 1983, utilizing a holistic approach that addresses the multiple causes leading to homelessness. This past year ECS has served more than 13,300 people. ECS owns and master leases over 1,200 units of permanent supportive housing for people formerly experiencing homelessness with all properties located in the Tenderloin and South of Market neighborhoods, and currently has 633 affordable housing units (tax credit and Homekey projects) in active construction or under permanent conversion in SF and Marin counties. ECS provides asset management oversight and on-site support services to all of those units and partners with Caritas Management Corporation for property management services.

HAF was identified as the initial lender, with take-out financing to come at project completion using City funds. The Project received the Homekey award of \$44.8 million on September 21, 2020, of which \$42,334,020 is for acquisition and capital costs and the remainder for operating subsidy over the initial two years. On October 6, 2020, the Board of Supervisors approved the transaction including executing a Standard Agreement with HCD for the Homekey funding and

committing HSH funds of up to \$23 million inclusive of acquisition funding. Granada was the first of six Homekey awards that the City has received, totaling approximately \$136 million in State funds.

Development Team

Architect	HKIT
General Contractor	BBI
Structural Engineer	IDA
MEP Engineer	Randall Lamb
Civil Engineer	Luk & Associates
Relocation	Pati Boyle
Environmental	RMD
Legal	Goldfarb Lipman
Construction Manager	Marx-Okubo (formerly the team utilized Waypoint Consulting and then Steve Gallaher)

b. Site

Granada Hotel is a 10 story plus basement Single Room Occupancy (SRO) residential hotel located at the corner of Sutter and Hyde Streets that was constructed around 1908. The public records indicated a total unit count of 232, but over time some units had been combined by a previous owner to be larger units, resulting in 212 rooms for tenants and 2 on-site property management units, for a total of 214 rooms. Upon acquisition in 2020, Granada Hotel had 152 vacancies out of 214 total rooms. Currently there are 52 legacy residents and 45 non-legacy residents who have been referred by coordinated entry who are residing at the property, 45% occupancy. Upon completion, 100% of the rooms will become permanent supportive housing units. Existing legacy tenants include low-income senior residents who are at-risk of homelessness and displacement due to their limited household income and the unrestricted rents. The rooms average 200 square feet in size, and approximately half contain a private bathroom. Common bathrooms on each floor serve the other units.

Address: 1000 Sutter Street
 Assessor’s Parcel #: Block 0729 Lot 005
 Lot Size: 9,104 square feet
 Building Type: 10 Story hotel plus basement with 214 rooms, 126 bathrooms
 Construction date: Circa 1908
 Basement: Basement level utility and dry storage rooms
 Foundation: Concrete
 Square Footage:

Dining and Kitchen	3,185
Resident Services & Property Management	2,323
Residential Unit Spaces	80,980
TOTAL Square Footage	86,488

c. Scope of rehabilitation

The original plan was for a modest rehabilitation program at the property to provide accessibility, habitability, seismic improvements, and increase the quality and square footage of programmatic spaces. Due to the rapid acquisition timeline requirements of the Homekey award, however, the scope of rehabilitation had to be refined post-acquisition, and unforeseen conditions due to the age of the building were encountered. A Physical Needs Assessment (PNA) was conducted in November 2020 by BASIS Architecture and Consulting, Inc. which evaluated the project to be in good condition.

The original scope of work included seismic improvements with new micropiles, pile caps and new concrete shear walls in the basement and Fiber Reinforced Polymer (FRP) reinforcement throughout the height of the building, renovation of individual SRO units with private baths, new shared bathrooms on selected building floors, limited rehabilitation of SRO units' interior finishes including new paint and flooring as well as repair or replacement of radiators, renovation of community bathrooms at the residential floors and improvements to the common areas at the ground floor and basement. The cost estimate for the above original scope was \$35.2M, with \$6.5M value-engineered to reach a target construction budget of \$28.7M. The value-engineered items were primarily in reducing the Seismic/FRP scope to the minimum Code requirements as well as omitting new bathroom vanities in the SRO units and combining the corresponding reductions in General Contractors' Fee, Bond, Tax and Insurance.

However, upon acquisition, the Sponsor noted additional unforeseen conditions problems that needed to be addressed. Typical for rehabilitation of older buildings, dry rot in the framing, as well as inadequate, aging and/or non-Code compliant infrastructure (framing, electrical, radiator heating and plumbing systems) have required replacement and/or correction via change orders added to the Contract Sum, which have depleted all contingencies in the Project budget. Originally constructed in 1908, the existing galvanized plumbing system is at the end of its useful life. While the original scope of work included \$300,000 to repair plumbing stacks as needed, the entire plumbing system (supply, drain, vent and stack lines) shows signs of deterioration that have recently led to failure/leaks and ensuing damage to interior finishes (ceiling, wall and flooring) as well as residents' belongings.

Given the Granada's age and deteriorated conditions, the existing scope of work is proving to be similar to some of the recently completed Rental Assistance Demonstration (RAD) projects, which had a significantly higher Contract Sum to address seismic improvements, galvanized pipe replacement, upgrades to the electrical and mechanical systems, sewer repairs, interior improvements to the residential units, etc.

In mid-September 2022, ECS reached out to MOHCD for technical assistance from its Construction Representative (CR) team. Since that date through April 2023, MOHCD CR has participated in weekly OAC calls, supplemented the Project team with expertise on construction issues and facilitated work with Cal OSHA and City Agencies like SFMTA and SFDBI Housing Inspection Services. Change order review is done by the architect and the new sponsor construction manager team from Mark Okubo, as well by HAF's CM representative, De Witt Brock. MOHCD's sign-off is not required on change orders and payment applications. The Marx-Okubo team is knowledgeable and responsive.

d. Cost Increases

The primary areas of cost increase since the previous Loan Committee review are the following:

- August 2021 – The structural condition of the building was evaluated, and the construction rough order of magnitude estimate for structural FRP strengthening was reviewed by MOHCD and HSH.
- September 2021 – ECS made a request to HSH and MOHCD for additional funding for FRP structural reinforcement and financing costs, and received an HSH commitment of additional \$5.9 million, bringing the total City commitment for take-out to \$49,705,570, which allowed SFHAF to increase their loan.
- July 2022 – Change Order for FRP scope for Levels 2-9 came in at \$10.7 million.
- September 2022 – Project team determined it is infeasible to do the entire FRP scope given the cost; the team is proposing to adjust it to cover code required floors only, which consist of the Basement, Ground Floor, and First Floor of the building.
- April 2023 – Request for additional funds to cover existing building condition of galvanized pipeline replacement, which has become a top priority. The useful lifespan of galvanized piping is typically 50 – 60 years, whereas the building is over 110 years old. During the occupied rehabilitation, there have been continued water leaks and pipe bursts at various locations of the building, which have caused damage to the units and new finishes. There is a risk of mold due to excess water trapped in walls and floors. Replacement will require extended water shut-offs for pipe replacement, and the pipe issues have resulted in additional tenant relocation costs and replacement of damaged tenant belongings.

i. Current galvanized pipeline replacement and associated costs request.

BBI has not yet provided a final cost breakdown for the galvanized piping change order but received BBI's revised schedules and cost estimates in mid-February 2023. ECS is requesting that BBI review and submit all back up documentation, per line item of the proposed cost estimates of the galvanized piping replacement scope. In addition, ECS is facilitating multiple coordination efforts with BBI, HKIT, Randall Lamb, and the Plumbing Subcontractor, to evaluate the full galvanized piping replacement scope and evaluate any design and construction issues that may arise. The final change order for the galvanized piping work will be produced after the construction drawings are complete and final bids are received from subcontractors. The estimates proposed in February 2023 include assumptions for the full galvanized piping replacement throughout the building. The general conditions mark up and extended general conditions will be adjusted accordingly. BBI will perform a review of their actual general conditions and general requirements costs to date and use this as the basis for projecting the extended general conditions and general requirements associated with the galvanized piping work.

Concurrently, ECS is actively reviewing all aspects of the Project's architecture, design, engineering, and construction scope, to ensure value engineering measures and cost saving alternatives are thoroughly evaluated, without affecting the integrity of the work or impact the residents' life safety and quality of life. ECS is reaching out to a 3D Scanning company to scan selected areas of the buildings (13 units/bathrooms), to actively identify the costs of evaluating the building condition behind the walls early, and

provide the evaluation to the architect and engineer, without relying on BBI’s exploratory demolition of the units to understand the condition behind the walls, to be funded by GC hard cost contingency. The projected cost for full galvanized pipe replacement is \$20,091,667.

Construction Cost Increases

USES	ORIGINAL BUDGET	HAF Upsize Sept 2021 - Seismic	HAF Upsize CURRENT REQUEST	PROPOSED REVISED BUDGET	Variance
Construction*	24,945,058	5,351,945	12,184,799	42,481,802	17,536,744
Construction Contingency	5,642,367	195,982	5,696,941	11,535,290	5,892,923
Architecture & Engineering	1,403,675		351,921	1,755,596	351,921
HAF Loan Origination Fee	371,852	123,206	198,927	693,985	322,133
HAF Construction Loan Interest	1,358,057	243,087	803,115	2,404,259	1,046,202
Soft cost contingency	182,382		855,964	1,038,346	855,964
TOTAL:	33,903,391	5,914,220	20,091,667	59,909,278	26,005,887

*includes bus lane concrete pad required by SFDPW for 10' by 70' concrete pad

- Increased hard scope is estimated at \$12,185,799
- A 27% hard cost contingency on the entire hard construction scope of \$5.7 million is requested to cover committed and pending approved change orders, since the hard cost contingency has been entirely depleted. This very high hard cost contingency is recommended by the MOHCD construction representative given the unknowns in the plumbing scope.
- Additional architecture services and coordination are estimated at \$350K
- HAF Loan Origination fee is around \$200K
- Additional HAF construction loan interest for both the increased funding and to carry the original loan through project completion is around \$800K
- An increased soft cost contingency is requested to bring the soft cost contingency to 10%, given the extended timeline for the galvanized pipe replacement and increased relocation costs through October 2024.

2. Proposed Development Budget

a. Total Sources

<i>Permanent Budget</i>			May 2023 Request		
SOURCES	ORIGINAL BUDGET	SFHAF Upsize Sept 2021	SFHAF Upsize CURRENT REQUEST	PROPOSED REVISED BUDGET	Variance from Original
CCSF - HSH GF Acquisition Loan	6,606,165			6,606,165	-
CCSF - orig HAF Take-out	37,185,184			37,185,184	-
CCSF - Perm Only	1,328,339			1,328,339	-
CCSF - HAF Upsize - September 2021		5,914,220		5,914,220	5,914,220
CCSF - HAF Upsize Request - CURRENT			20,091,667	20,091,667	20,091,667
Total City Sources	45,119,688	5,914,220	20,091,667	71,125,575	26,005,887
<i>Non-City Sources</i>					
Homekey	42,334,020			42,334,020	-
Total Non-City Sources	42,334,020			42,334,020	-
TOTAL SOURCES	87,453,708	5,914,220	20,091,667	113,459,595	26,005,887

- The current request is to increase the HAF perm takeout loan by \$20,091,667
- Total City sources will be \$71,125,575
- HAF loan terms are as follows:
 - 3.5% on the \$43M loan
 - 5.5% on upside loan

b. Total Uses

			May 2023 Request		
USES	ORIGINAL BUDGET	SFHAF Upsize Sept 2021	SFHAF Upsize CURRENT REQUEST	PROPOSED REVISED BUDGET	Variance from Original
Acquisition	46,000,000			46,000,000	-
Construction	24,945,058	5,351,945	12,184,799	42,481,802	17,536,744
Construction Contingency	5,642,367	195,982	5,696,941	11,535,290	5,892,923
Architecture and Design	1,403,675		351,921	1,755,596	351,921

Engineering & Environmental Studies	177,515			177,515	-
Construction Loan Origination Fee	371,852	123,206	198,927	693,985	322,133
Construction Loan Interest	1,358,057	243,087	803,115	2,404,259	1,046,202
Legal Costs	125,000			125,000	-
Title and Recording; taxes	1,517,232			1,517,232	-
Insurance	1,628,156			1,628,156	-
Furnishings	484,000			484,000	-
PGE / Utility Fees	166,713			166,713	-
Relocation	341,400			341,400	-
Permit Fees	315,257			315,257	-
Materials Testing and Engineering	186,998			186,998	-
Due diligence, start up costs, precon	238,207			238,207	-
Construction management	329,000			329,000	-
Appraisal	12,500			12,500	-
Soft cost contingency	182,382		855,964	1,038,346	855,964
Operating reserve	796,339			796,339	-
Replacement reserve	232,000			232,000	-
Developer fee	1,000,000			1,000,000	-
TOTAL USES	87,453,708	5,914,220	20,091,667	113,459,595	26,005,887

c. Operating Proforma

Per the Homekey application, the City assumed responsibility for the provision of long-term operating and services subsidies for the project once the Homekey operating subsidies expire. MOHCD entered into a LOSP Agreement on January 8, 2021, with Homekey funds in the amount of \$5,520,000 which covered the Project for the initial two years, and LOSP General Fund subsidy started in late CY 2022. The initial operating budget had a total first year operating expense of \$3,185,354, or \$13,730 / PUPA,

with the understanding that the LOSP contract would be re-sized at conversion take out based on project operations and presented to Loan Committee along with the full underwriting of the permanent take-out request.

3. Schedule

TASK	ORIGINAL (at GMP)	REVISED WITH PIPE REPLACEMENT
Homekey Acquisition	11/13/2020	11/13/2020
Due Diligence / Design	11/2020 – 02/2022	11/2020 – 02/2022
Permit obtained	02/03/2022	02/03/2022
Notice to Proceed	03/18/2022	03/18/2022
Construction Start	04/10/2022	04/10/2022
Additional HSH Financing Approved	12/20/2021 - \$5.9M	Current Request - pending 5/12/23 Loan Committee
Construction Completion	9/25/2023	10/21/2024
100% Lease Up	12/31/2023	1/30/2025

4. Staff Recommendations:

- a. Staff recommends approval of this increase in City funding to complete the rehabilitation, including the full scope of galvanized pipe replacement.

5. COMMITMENT UPSIZE CONDITIONS:

- 1. Sponsor to copy HSH and MOHCD on the quarterly construction updates submitted to HAF
- 2. Sponsor to work closely with their Construction Manager, HSH and MOHCD to reduce costs, where appropriate, in order to reduce the City total funding needed at permanent loan closing.

6. Loan Committee Modifications:

LOAN COMMITTEE RECOMMENDATION

Approval indicates approval with modifications, when so determined by the Committee.

APPROVE. DISAPPROVE. TAKE NO ACTION.

Eric D. Shaw, Director
Mayor’s Office of Housing and Community Development

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Salvador Menjivar, Director for Housing
Department of Homelessness and Supportive Housing

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Thor Kaslofsky, Executive Director
Office of Community Investment and Infrastructure

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Anna Van Degna, Director
Controller’s Office of Public Finance

Date: _____

- Attachments:
- Attachment A - Development Budget
 - Attachment B - Project Photos and Rendering

1000 Sutter Loan Committee approval

Ely, Lydia (MYR)

Thu 7/6/2023 9:23 PM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

Hi Vanessa,

I approve of the gap loan commitment for 1000 Sutter Street that was at Loan Committee on May 12, 2023.

Thank you, and sorry for the delay,

Lydia

- - - -

Lydia Ely

Deputy Director for Housing

SF Mayor's Office of Housing and Community Development

Office phone: (628) 652-5821

Cell phone: (415) 225-2936

1000 Sutter Street

Menjivar, Salvador (HOM)

Fri 5/12/2023 1:10 PM

To: Shaw, Eric (MYR) <eric.shaw@sfgov.org>

Cc: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

I support ECS request to increase the City permanent loan for the Homekey Granada development, located at 1000 Sutter Street, by \$26,005,887, as unforeseen conditions pertaining to the seismic condition and deteriorated plumbing have increased the development cost and delayed construction during the ongoing rehabilitation.

Best,

salvador



Salvador Menjivar
Director of Housing
Pronouns: He/Him

San Francisco Department of Homelessness and Supportive Housing
salvador.menjivar1@sfgov.org | 415-308-2843

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Approval of Request for Increased Permanent Loan Financing for 1000 Sutter St

Kaslofsky, Thor (CII)

Fri 5/12/2023 12:28 PM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

Cc: Colomello, Elizabeth (CII) <elizabeth.colomello@sfgov.org>; Shaw, Eric (MYR) <eric.shaw@sfgov.org>; Ely, Lydia (MYR) <lydia.ely@sfgov.org>

Hi Vanessa,

I approve the above request on behalf of OCII.

Thanks!

Best Regards,

Thor



Thor Kaslofsky

Executive Director

One South Van Ness Avenue, 5th Floor

San Francisco, CA 94103

415.749.2588

thor.kaslofsy@sfgov.org

www.sfocii.org

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1000 Sutter Street Increased Permanent Financing

Trivedi, Vishal (CON)

Fri 5/12/2023 12:28 PM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

Cc: Shaw, Eric (MYR) <eric.shaw@sfgov.org>

My vote: Aye

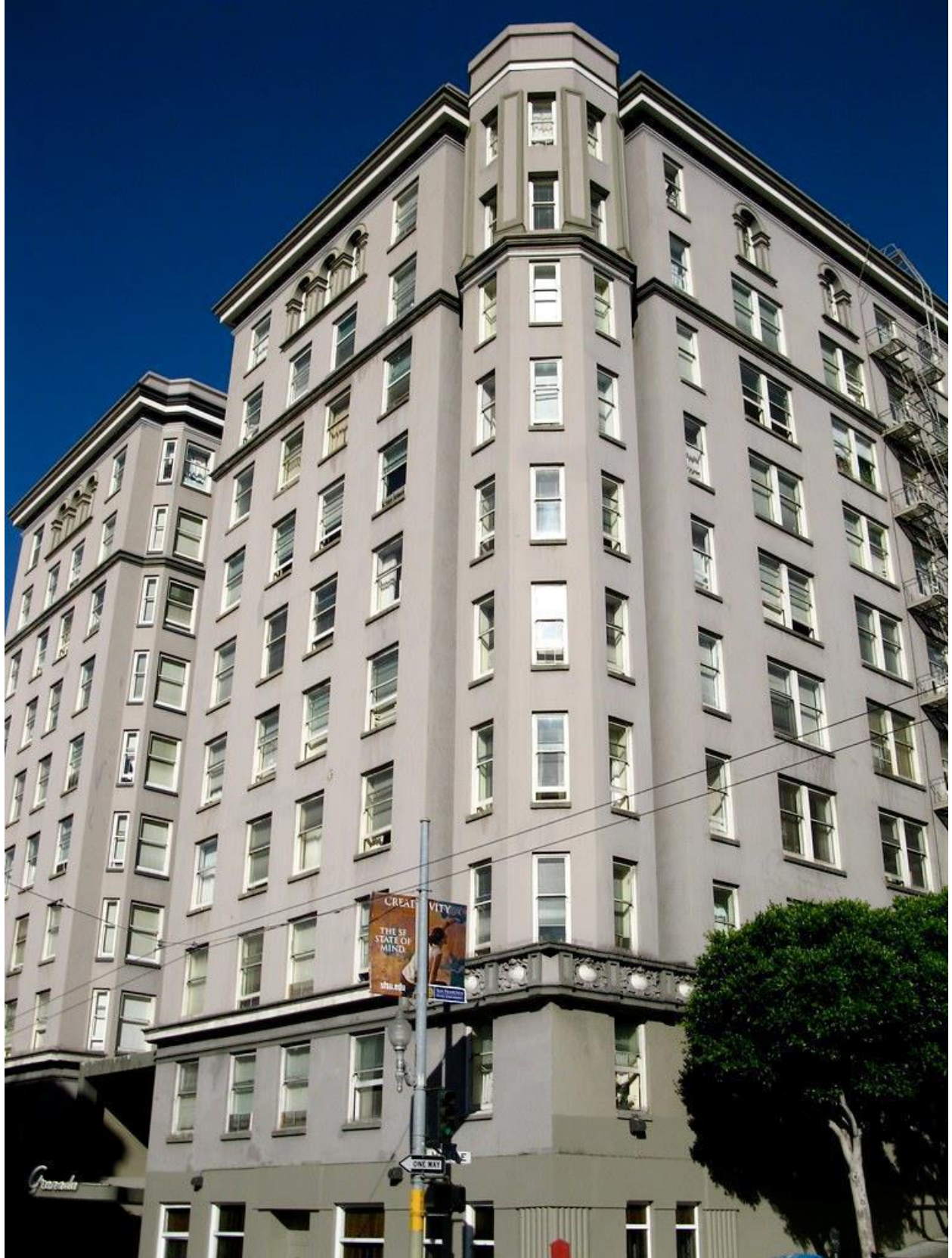
Vishal Trivedi | Financial Analyst

Office of Public Finance | City & County of San Francisco

Email | vishal.trivedi@sfgov.org

Attachment A - Development Budget

Attachment B - Project Photos and Rendering









Rendering – Dining Room



Rendering – Community Room

