Citywide Affordable Housing Loan Committee

Small Sites Program Loan Evaluation

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

375 14th Street

375 14th Street, San Francisco, CA 94103 (between Julian and Valencia)

Up to $7,700,000 Permanent Financing Request

Evaluation of Request for:	Permanent Financing
Loan Committee Date:	April 5, 2024
Prepared By:	Sophie Rubin, Project Manager
NOFA/PROGRAM/RFP:	Small Sites Program and Preservation and Seismic Safety (PASS) Program
Sources and Amounts of New Funds Recommended:	Up to $5,700,000 SSP Soft Debt Up to $2,000,000 PASS Up to $7,700,000 total
Applicant/Sponsor(s) Name:	San Francisco Housing Development Corporation (SFHDC)
Supervisor and District:	Hillary Ronen, District 9
Number of Units with Unit Mix:	16 units: 12 studios and 4 one-bedroom units

1. SUMMARY/BRIEF PROJECT UPDATE

San Francisco Housing Development Corporation (SFHDC or Sponsor) requests up to $2,000,000 in Preservation and Seismic Safety ("PASS") Program funding and up to $5,700,000 in Small Sites Program ("SSP") funding from the Mayor's Office of Housing and Community Development ("MOHCD") for the permanent financing of the 16-unit residential property located at 375 14th Street in the Mission neighborhood of San Francisco (the "Project").

On January 19, 2022, MOHCD issued a soft commitment letter for the 16-unit Project, which then obtained approximately $5,860,000 from the San Francisco Housing Accelerator Fund ("SFHAF") for the acquisition and rehabilitation of the site. SFHDC completed the purchase on February 2, 2022.

This Project is the first Small Site to include both Rent Control and MOHCD-restricted units, and as such requires a waiver from MOHCD's Small Sites Guidelines. As negotiated with five households, their units will remain under the jurisdiction of the Rent Board and will not initially be restricted by the City's Small Sites Declaration of Restrictions. Once each of the five units is voluntarily vacated by the current tenant, that unit will become subject to the same affordability restrictions as the other MOHCD-restricted units in the building, through the filing of an updated Declaration of Restrictions.

The five exempt units under the Rent Board will receive an annual rent increase subject to the Rent Board's maximum allowable rent increase published annually. The units will not be subject to Capital Improvement Passthrough for current scope of work but would be subject to a Passthrough for any future capital improvements as permitted by Rent Board ordinance.

Rehabilitation of the Project is not complete. The requested permanent financing from MOHCD will pay off the existing SFHAF loan, fund replacement and operating reserves, and cover additional closing costs, in addition to funding the remainder of the construction.

The original proposed construction completion date was November 1, 2022, with MOHCD take-out closing and repayment of the SFHAF loan scheduled for June 30, 2023. However, the five tenants whose units are remaining under Rent Board jurisdiction had been continuing an ongoing two-year rent strike, and have not allowed access to their units to complete the rehabilitation of the building. This has caused the Project to stall, with SFHDC completing the renovations for 9 out of the 16 total units, as completing the final details of the rehab for two vacant units relies on access to one or more of the five units occupied by the tenants who had been withholding access. After two years of meetings, negotiations, and multiple third-party involvement through SF Bar Association, the SF Housing Rights Committee and the Eviction Defense Collaborative, the residents have seemingly come to agreement on a settlement, and paid their April 2024 rent on March 29, 2024.

Via email, both the sponsor and the tenants have agreed to proposed settlement terms which are in the process of being formally drafted by the tenant's legal counsel. SFHDC will review with its counsel prior to execution and acceptance of paid April 2024 rent.

The agreement between SFHDC and the five Rent Board households include the following substantive terms:

- The sponsor will forego 24 months of back rent;
- Tenants will temporarily relocate to vacant on-site units to allow a phased unit rehabilitation;
- Tenants will not receive Rent Ordinance or Small Sites relocation payments;
- Tenants will stay current on their rent starting April 2024, including the months of temporary relocation;
- Tenants will not receive "passthrough" of capital improvements costs for the current/planned renovations, which normally would be allowed under the Rent Ordinance.

To avoid additional interest payments on the HAF loan and a potential default on the part of the Sponsor, MOHCD staff is recommending Loan Committee approval for 375 14th Street's permanent financing, including PASS debt which would include interest-only payments for the first eighteen months allowing the Project to complete construction, lease up, and stabilize.

The Project will provide 16 permanently affordable units in the City's Mission District and maintain housing stability for low-income, long-time San Francisco residents. While requiring a waiver of the Small Sites Guidelines, the Project will also establish a precedent wherein future SSP Project acquisitions will now allow residents the option to join the City's Small Sites Program or remain under the Rent Board and be subject to Capital Improvement Passthroughs. Tenant advocacy groups such as Housing Rights Committee and the SF Anti-displacement Coalition have requested this policy change in recent years in an effort to maintain Rent Board protections for existing residents. This policy change will also serve to broaden the SSP portfolio to larger unit-count sites (Big Sites), which have historically been more challenging to acquire due to lower tenant acceptance of SSP requirements such as annual income certification and an alternative rent increase structure than that of the Rent Board. **Background**

Built in 1925, 375 14th Street is a 7,200 square foot residential property consisting of a 2-story building over a partially submerged basement with 11 parking spots. There are 16 residential units, 12 of which are studios and 4 of which are one-bedroom units. Four studios and one 1-bedroom unit will remain under Rent Board jurisdiction until turnover. The conditions of the building at acquisition were below average. The plumbing, electrical, and fire alarm systems were outdated. Bathrooms and kitchens lacked ventilation and were deteriorating. The facade was in disrepair, including windows and siding, that required full replacement. All interior and exterior surfaces had lead-based paint. The rehabilitation scope included in-unit repair and replacement of finishes, bathroom and kitchen refurbishment including new appliances, replacement of exhaust fans, lights, wall heaters, exterior repair and painting, window replacements as needed, common area upgrades to finishes and resurfacing the garage, upgrading the plumbing system, upgrading the electrical system, replacing hot water tanks, replacing the fire alarm, and treating dry rot. Residents of the five units that are remaining under the Rent Board jurisdiction have not allowed entry to their units for upgrades and repairs, and this has also prohibited plumbing upgrades to three other vacant units, as they will not be habitable until walls between the units can be removed to access the plumbing system. For more on the completed rehabilitation scope, please see **Section 6.5 and Appendix E**.

The Project is in District 9, in the Mission neighborhood, which has experienced more gentrification in the past decade than any other neighborhood in San Francisco. The community at 375 14th St comprises primarily long-term San Franciscans and Mission neighborhood tenants, and SFHDC learned about the sale of the building through the COPA notifications.

At Project acquisition, for the 11 units that are entering the Small Sites Program, the average household AMI was 44%, with an average rent AMI of 49%. The Sponsor is projecting that at full occupancy it will have an average rent AMI of 57% for the 11 units, with a rent burden averaging 35%. This is due to the four vacant units having rents set at 20% below market rate, raising the rent AMI. At full occupancy, the average rent at the Project cannot exceed 80% AMI.

Out of the 11 units that are entering the Small Sites Program, there are three vacancies and eight households (including, currently, the property manager) who have income-certified for the Small Sites Program. The five households remaining under the Rent Board have not income certified, but new residents coming in at turnover of those units will be subject to the SSP program and will income certify.

Total Project Costs and Sources

Funding Source	Initial Soft Commitment	Current Request
PASS	$1,910,000 ($119,375/unit)	Up to $2,000,000 ($125,000/unit)
SSP	up to $4,800,000 ($300,000/unit)	Up to $5,700,000 ($356,250/unit)

Total Funding Request	up to $6,710,000 ($419,375/unit)	Up to $7,700,000 ($481,250/unit)

While the total funding request is $990,000 higher than the initial soft commitment, the SSP funding request is $356,250/unit, which is $213,750/unit below the maximum SSP funding of $570,000/unit. **See Appendix A** for Maximum Allowable Subsidy Per Current SSP Guidelines.

2. PRINCIPAL DEVELOPMENT ISSUES

Ongoing rent strike and tenant engagement: The majority of tenants supported the acquisition and conversion of their building to permanently affordable housing under the Small Sites Program. However, five households expressed opposition to being removed from the jurisdiction of the City's Rent Board Ordinance by withholding rent payments following the acquisition. To address their concerns, a new Declaration of Restrictions was recorded in November 2023 specifically identifying the five units that will remain under Rent Board jurisdiction until unit turnover. However, the tenants have continued to refuse to pay rent since April 2022 awaiting a formal settlement agreement confirming their units would remain under the Rent Board and that annual rent increases would be subject to the Rent Ordinance rather than the Smalls Site Program. In December 2023, the Sponsor filed unlawful detainer actions with the court, and since then has been working to negotiate payment of back rent, as well as payment of rent going forward, and the terms for relocation necessary for the Sponsor to complete life-safety upgrades in the units. The tenants and Sponsor have reached an agreement via email and are awaiting a formal settlement agreement currently being drafted by the tenant's counsel. SFHDC has received April rent payments but will wait to deposit payments until the settlement agreement is reviewed by their counsel and executed by all parties.

Incomplete construction: The five households on strike have not allowed access to their units to inspect conditions or complete the rehabilitation. This has also interfered with completing the renovations of two other vacant units that require access to the Rent Board units. MOHCD will waive program requirement that construction be complete at conversion and will condition the disbursement of remaining loan funds subject to receipt and approval of temporary relocation agreements for each of the five households. SFHDC will also need to provide a new plan and budget for the rehabilitation of the five units as a single project under City contracting requirements. See section 6.5 for both completed and remaining construction scope and Appendix F for milestone schedule and Gantt chart of phased relocation.

Timeline extension and significant cost increases: The Project was initially slated to complete construction in November of 2022. The SFHAF granted an extension to the initial loan, which expired in June of 2023. SFHDC has not been able to meet standard MOHCD closing conditions requiring construction completion and project stabilization. However, in the interest of preserving affordable housing MOHCD supports paying off the SFHAF loan and seeing the Project through to completion and stabilization. Despite these unique circumstances, the Project is requesting less than the maximum allowable soft debt subsidy per unit with the **Sponsor bearing responsibility for any project cost overruns that exceed the $5.7M SSP financing commitment requested in this evaluation.**

3. BORROWER/GRANTEE PROFILE

SFHDC Small Sites LLC is the owner of the property.

SFHDC, its sole member, is a nonprofit community benefit corporation formed in 1988 by African American residents of San Francisco who were combating the widespread, forced displacement of the 1960s-70s that disproportionately affected African Americans and other people of color. Today, SFHDC provides access to quality affordable housing and supportive services while offering free and low-cost financial education, housing counseling assistance, and foreclosure intervention counseling. SFHDC will be transferring ownership to a single-purpose, wholly owned entity, SFHDC Small Sites 375 14th Street LLC, in the near future, to be the long-term owner.

For more detailed experience of key staff and the Board of Directors, see **Appendix B.**
For recent development activity, see **Appendix C.**

3.1 Racial Equity Vision

The mission of San Francisco Housing Development Corporation (SFHDC) is to provide quality affordable housing in Black communities in San Francisco, particularly the Bayview and the Western Addition. Since 1988 SHFDC has focused on serving those communities not just with affordable housing, but with financial empowerment counseling, supportive resident services, and economic development support. Its connection with community members through our involvement in various aspects of community life allows SFHDC to see the full picture of the struggles clients face and create housing, resident services, financial counseling, and economic development programs that serve their needs in a holistic and supportive manner.

SFHDC is dedicated to anti-displacement work, including through the Small Sites program; as of January 2024, they have 5 small sites either in the pipeline or completed, totaling 70 units that will be preserved as affordable. Creating stable housing for vulnerable populations and racially inclusive communities has been the focus of SFHDC's work since its founding.

3.2 Asset Management Performance & Capacity

The Asset Management staff at SFHDC did not apply for the Welfare Tax Exemption (WTE) on this Project until February of 2024, despite acquiring the building in early 2022. In addition, the Sponsor did not request the exemption to be retroactive to the date of acquisition. As a result, it is a loan condition that the Sponsor re-apply for the WTE and request the refund be retroactive to the date of acquisition and add at least one more year's property tax payment to the budget. See Section 8.2 and Loan Conditions (Section 10).

The Sponsor also had issues with delayed applications for the WTE on two joint venture (JV) partnership projects, due at least in part to the complicated nature of obtaining an organizational clearance from the Board of Equalization, since the other partner was a for-profit entity.

SFHDC is also the owner of Small Site 520 Shrader. The AMR for FY 2021-22, which was due in December 2022 was submitted on March 14th, 2024. The SFHDC audit for FY 2022-23 is not completed at this time and therefore the AMR for FY 2022-23 for 520 Shrader will be submitted late. SFHDC Asset Management staff have explained the delay in providing the AMR based on the availability of the audit.

For more information on SFHDC, its assets, and the MOHCD Asset Manager's evaluation, see **Appendix D.**

3.3 Development Experience.

Since its founding in 1988, the San Francisco Housing Development Corporation (SFHDC) has developed more than 1,600 affordable homes in San Francisco and has another 600 affordable homes in the development pipeline. SFHDC builds both ownership and rental homes for low- and middle-income families and individuals, seniors, and those with physical and mental disabilities. SFHDC aims to create projects that act as economic catalysts that transform communities into thriving and self-sustaining neighborhoods throughout San Francisco and are proud that their projects create temporary and permanent jobs during and after construction.

Two Small Site acquisition/rehabilitation projects that SFHDC conducted as a JV with the Mission Economic Development Agency (MEDA), 168 Sickles and 520 Shrader, were completed on time and on budget without significant issues.

	Developed	Owned
No. Projects	8	12

No. Units	539	700

Mission Economic Development Agency (MEDA) provided additional support on this Project. SFHDC and MEDA have a multi-site MOU in place in which MEDA supports site acquisition and asset management services until SFHDC increases asset management capacity. MEDA receives 50% of the developer fees on all acquisitions for which support is provided. To-date, SFHDC and MEDA have successfully completed the two preservation projects/acquisitions mentioned above.

4. SELECTION PROCESS

4.1 Small Sites Program Funding

A Notice of Funding Availability ("NOFA") was published on July 24, 2014, to provide acquisition and rehabilitation financing for multi-family rental buildings of 5 to 25 units. The NOFA established a fund to help stabilize buildings occupied by low- to moderate-income tenants throughout San Francisco that are particularly susceptible to market pressure resulting in property sales, evictions, and rising tenant rents. Since the NOFA's publication and submission deadline, the Small Sites Program aims to fund projects on a first come first served basis according to funding availability.

This project is subject to the revised guidelines for the SSP program published in November 2022. However, is not MOHCD's practice to use the scoring rubric when evaluating permanent financing to take out the initial loan, and **the SSP scoring rubric was not in use when the HAF underwrote the Project in 2021.** The Project would receive a base score of 87 if it were underwritten today, exceeding the minimum threshold of 70 points, indicating that it meets goals of the SSP Program including community stabilization and housing affordability.

SSP Scoring Rubric: Project Name/Address

Category	Points
Housing Affordability	35/35
Community Stabilization	35/35
Geographic Equity (D9)	17/30
Total Base Score	**87/100**

4.2 Preservation and Seismic Safety Program (PASS)

The Preservation and Seismic Safety Program (PASS) provides low-cost and long-term financing to fund seismic retrofits, as well as the acquisition, rehabilitation, and preservation of affordable multi-family housing. The Program was created to complement the City's anti-displacement and preservation strategy, including the Small Sites Program. PASS was initially funded by repurposing $261 million in underutilized bond authority funds from the 1992 Seismic Safety Loan Program. $72 million was funded in the first issuance of the PASS program in February 2019. The second issuance of $103 million closed in December 2020. The third issuance is scheduled for fall 2024. The Project is considered an eligible property under Section 2.1 of the PASS Program Regulations.

5. SITE

5.1 <u>Brief Site Description.</u>

375 14th Street is a 7,200 square foot residential property consisting of a 2-story building over a partially submerged basement with 11 parking spots. There are 16 residential units, 12 of which are studios and 4 of which are one-bedroom units. The building covers the full site.

5.2 <u>Site Characteristics.</u>

Address:	375 14th Street
Lot/Block:	Lot 3547/Block 018B
Lot Square footage:	7,200 sf
Building age:	1925
Number of buildings:	1
Number of floors:	2 (with parking underneath)
Building typology:	Residential (Apartment - 16 units)
Unusual characteristics (including surrounding uses):	N/A – just off Valencia Street in the Mission, surrounded by similar medium density residential

5.3 <u>Commercial Space</u>: N/A – no commercial space

5.4 <u>Article 34 Authority.</u> The MOHCD approval letter is pending and will be issued prior to close.

6. DEVELOPMENT PLAN

6.1 <u>Site Control.</u>

Purchase Price: $3,200,000

Owner: SFHDC Small Sites LLC

Purchase & Sale contract executed: September 23, 2021

Original HAF loan maturation date: July 21, 2023

Final extension expiration of HAF loan: January 21, 2024

6.2 Appraisal.

The property was appraised by Hamilton Ricci and Associates, Inc on November 2, 2021. The value conclusions were:

Market Values	
As Is	$3,200,000
As Stabilized at Market Rents	$5,270,000
As Stabilized at MOHCD Restricted Rents	$4,475,000

6.3 Title Issues.

Delinquent refuse charges of $1,390.60 by the City of San Francisco were recorded against the property on September 25, 2023. They may be included in the next property tax bill, though payment is required as a loan condition (see Section 10).

6.4 Proposed Property Ownership Structure.

SFHDC Small Sites LLC owns fee title to the land and the improvements of the subject property.

6.5 Rehabilitation Scope.

The Project was acquired and partially rehabilitated with financing provided by SFHAF. It is now requesting take-out financing from MOHCD, after which time, the remainder of the scope will be completed.

The rehabilitation scope was initially determined by a Capital Needs Assessment ("CNA") completed by Association Reserves on October 27, 2021. It evaluated the existing conditions and proposed repairs and upgrades to keep the building in above-average condition for at least 20 years. The rehabilitation scope completed under the SFHAF included significant updating of 11 of the 16 residential units.

1. Electrical system: Full rewire and electrical system upgrade (no service upgrade required).
2. Roof: Skylight replace and surfaces repairs.
3. Exterior: Siding and windows replace, stucco acrylic coat, and painting.
4. Flooring: New vinyl plank flooring.
5. Common Area: Fire alarm upgrade, lighting, new vinyl plank flooring, and patch and paint walls, ceilings, and doors.
6. Unit Upgrades: Included new kitchen appliances, cabinets, and countertops, full bathroom refurbishment, and new drywall and painting.

7. HVAC: new electric heating and Kitchen hoods installation and bathroom exhaust fans replacement.
8. Other: Lead-based paint (LBP) was identified in the interior and exterior of the building. Asbestos was identified in one unit's ceiling. The project underwent complete asbestos abatement and LBP encapsulation.

The work that remains to be done includes plumbing upgrades in the remaining 5 units and in two of the vacant studios whose plumbing cannot be upgraded without access to units under the rent board, as well as completing the in-unit upgrades for the remaining 5 units.

6.6 MOHCD Construction Representative Evaluation

This Project is not complete but is requesting permanent financing from MOHCD. The scope of work completed thus far, as well as the work that still needs to be completed, were both reviewed by MOHCD Construction Representative Harry Wong in **Appendix E.**

6.7 Population to Be Served

The Project accommodates a diverse community comprising families with kids, individuals, couples, and older adults, including formerly homeless and long-term residents, with tenancies spanning from over 10 years to recent move-ins as of 2020. Notably, the building directly assists two households with Section 8 tenant-based vouchers. Households come from a variety of ethnic and racial backgrounds, including Latino, Black, White, and Southeast Asian households.

6.8 Unit Mix & Affordability

Time	Acquisition (December 2021) – 4 units vacant				Current (2024) – 4 units vacant			
Metric	Rent ($)	HH Annual Income ($)	HH AMI (%)	Rent AMI (%)	Rent Increase (%)	New Rent ($)	Rent AMI (%)	Rent Burden
Average	$1,178	$53,367	44%	49%	24%	$1,462	57%	35.46%
Median	$1,323	$55,200	48.9%	52.5%	2.7%	$1,359	37%	24.85%

Note that in the table above, the 5 units that elected to stay under the Rent Board are not represented. The rent AMI of the Project at full occupancy, less the 5 Rent Board units, is projected to be 57%. The Project qualifies for the Small Sites Program with at least 66% of the Project (8 out of 11 Small Sites households) earning an average income at or below 80% AMI. It is a condition of the loan that the Sponsor must demonstrate that no tenants in the Small Sites Program have a rent burden greater than 50%, a condition that one unit does not currently meet. Note that there is a significant rent increase (average but not median), due to the 4 units that are currently vacant and are projected to rent at 20% below market rate. (The current tenants have not experienced significant rent increases.)

6.9 Marketing & Occupancy Preferences.

The Project is subject to MOHCD's marketing procedures and future vacant units, including vacancies that arise from units that opted to stay under the Rent Board, will be marketed according to multifamily marketing procedures. This includes the four current vacancies, and the five units that are not currently part of the Small Sites Program/MOHCD portfolio, which will need to be filled from the waitlist when and as they turn over. Units will be subject to the Certificate of Preference Program and the Live/Work in San Francisco Preference.

7. FINANCING PLAN

7.1 Sources and Uses. See **Exhibit A**

7.2 Loan Terms

Program	**PASS**				**SSP**
Term	**40 years**				**40 years**
Note Type	Market Rate Note	Below Market Note	Deferred Note	**PASS TOTAL**	**Soft debt Loan**
Loan Amount	$1,157,100	$638,400	$104,500	**$1,900,000***	**Up to $5,700,000**
Per unit	$144,638	$79,890	$13,062	**$237,500**	**$356,250**
Rate	3.87289%	0.95763%	0.95763%	**2.74201%**	**3% simple**
Repayment type	fully amortizing		balloon payment at maturity		residual receipts
Loan Priority	Senior, first position Subordinate to City's Declaration of Restrictions				Subordinate to senior financing & City's Declaration of Restrictions

*Up to $2,000,000 for flexibility

7.3 Underwriting Requirements & Refinancing Assumptions

The PASS loan will be interest-only for eighteen months after the loan closes to provide a runway for the Sponsor to complete construction and stabilize the Project by leasing vacant units and obtaining rent from the tenants who are currently striking. The following underwriting requirements and refinancing assumptions have been applied to determine the size of the respective loans, in accordance with the current Small Sites Program Guidelines and the PASS Program Regulations, with a waiver for the PASS debt to be interest-only for eighteen months.

Residential Vacancy	5%, which is reasonable given the central location of the building in the Mission district
Commercial Vacancy	N/A
Replacement and Operating Reserves	Projected to be funded through Year 20 of the Project's lifecycle to ensure that refinancing will not be required until at least that time. See more on reserves in **Section 7.3** below.

7.3 Development Budget

Development Budget Analysis/Comments. All fees are sized based on the current SSP Guidelines.

1. Sufficiency of Reserves

   Replacement Reserves: Capitalized replacement reserves in the amount of $355,000 satisfy the SSP Guidelines that require the higher of $2,000 per unit or the amount necessary to pay replacement costs for the next 20 years, as specified in an approved 30-year CNA study.

   Operating Reserves: Capitalized operating reserves in the amount of $61,931 (25% of the first-year operating budget for all 16 units in the building) are budgeted to support unanticipated operating costs for at least 20 years, in line with SSP Guidelines**.** While not currently modeled, any refund is expected to be added to the Operating Reserves in the year that it is received.

2. Developer Fee

   Developer fee in the amount of $240,000 meets the SSP Guidelines and includes:

   - $80,000 standard cash-out at acquisition, which was reinvested into the Project as sponsor equity, and therefore is being re-paid through MOHCD sources when the SFHAF loan is taken out.
   - An additional $160,000 payable at the end of rehabilitation, which is the standard $10,000/unit paid at conversion. **This portion of the developer fee is at risk until construction is completed.** Any increase in costs beyond what have been approved in this Evaluation will need to be paid out of this portion of the developer fee.

7.4 Disbursement

Acquisition, predevelopment, and construction funds will be released at escrow in the form of a payoff of the SFHAF loan. Additionally, the MOHCD SSP loan will cover additional construction costs operating and replacement reserves, PASS loan fees, the remainder of SFHDC's developer fee and closing costs. Legal costs may be drawn down after the closing draw.

8. PROJECT OPERATIONS

8.1 **Annual Operating Budget:** see Exhibit B

8.2 **Annual Operating Budget Analysis/Comments.**

The Project's Annual Operating Budget includes the following:

PUPY Operating Expense: (w/out reserves):	$10,066
Annual Reserve Deposits:	$5,600 per SSP Underwriting Guidelines of $350/PUPY (for projects with >11 units and <30 units)
Property Taxes:	The Project will qualify for the welfare tax exemption for 11 of the 16 units. The remaining 5 units will qualify for exemption at turnover, or as new state legislation allows for buildings serving the primary purpose of affordable housing. SFHDC is budgeting $13,650, broken down into $1,400 for special assessments and $12,250 ad valorem for the 5 non-exempt units. The Welfare Tax Exemption was applied for in February 2024; SFHDC expects it to be approved in 2024. **See section 3.2** for more detail on these dates and assumptions.
Surplus Cash:	$11,412 in Year 1
Annual Monitoring Fees:	$5,000 ($2,500 for loan servicing and $2,500 for monitoring) per PASS Program Regulations.

8.3 **20-year Cash Flow & Debt Service Coverage Ratio (DSCR)**

As required by the SSP Guidelines, the cash flow remains positive for 20 years even with the following assumptions: 2.5% escalation of income per year and 3.5% escalation in expense assumptions.

Also required by the SSP Guidelines, the DSCR must remain be at least 1.15 for 20 years. In the case of this request, the DSCR starts at 1.15 in Year 1 and steadily rises, hitting its maximum DSCR in Year 16 at 1.235.

9. RECOMMENDED CLOSING CONDITIONS

1. All reserve accounts must be established in separate FDIC insured, interest-bearing accounts prior to closing.
2. All existing permits and construction contracts for the current scope of work (e.g., not the five units that have not yet been rehabilitated) must be closed out and notice of completion must be recorded.
3. Sponsor must demonstrate that no tenants in the Small Sites Program have a rent burden greater than 50%.

10. RECOMMENDED LOAN CONDITIONS

1. Sponsor will resolve any outstanding issues with all remaining tenants, including all tenants commencing paying rent and a signed relocation plan under Chapter 37 of the San Francisco Administrative Code as applicable, to commence the rehabilitation of all 5 remaining units.
2. Sponsor will provide to MOHCD a new plan and budget for the rehabilitation of the five (5) remaining units as a single project under City contracting requirements within 60 days of closing. MOHCD will not disburse funds for a unit-by-unit rehabilitation.
3. SFHDC will demonstrate other committed sources of funding (if needed) to complete the rehabilitation of the five (5) remaining units within 60 days of closing.
4. Sponsor must submit a new Welfare Tax Exemption application to request reimbursements retroactive to the property acquisition date. If received, any Welfare Tax Exemption refund must be deposited into the operating reserve. Sponsor must likewise deposit any welfare tax exemption received in the future due to the vacation of units currently under the Rent Board into the property’s operating reserve. Lastly, Sponsor must add at least one more year’s property tax payment to the budget.
5. As each unit currently under the Rent Board is vacated, Sponsor must alert MOHCD so that the unit can be marketed through DAHLIA, and an updated Declaration of Restrictions can be recorded.
6. As each unit currently under the Rent Board is vacated, Sponsor must apply for an updated Welfare Tax Exemption (if and as necessary to obtain the Exemption for that unit) and provide evidence to MOHCD that it has been applied for.
7. Sponsor must provide proof of payment of delinquent refuse charges levied against the property.

Attachments:

Appendix A	Calculation of Maximum Allowable SSP Subsidy Per Unit (According to November 2022 SSP Guidelines)
Appendix B	Development and Asset Management Teams
Appendix C	Recent Development Activity
Appendix D	MOHCD Asset Management analysis
Appendix E	MOHCD Construction Rep analysis at takeout and Gantt chart of phased rehab and relocation under MOHCD loan
Appendix F	**Phase II Milestone Schedule** and Gantt chart of phased rehabilitation
Appendix G	SFHAF Appendix
Exhibit A	Sources and Uses
Exhibit B	Annual Operating Budget
Exhibit C	20-Year Cash Flow
Exhibit D	Permanent Financing Proforma

LOAN APPROVAL RECOMMENDATION

[ ] APPROVE. [ ] DISAPPROVE.

____ Date: ____________________

Daniel Adams, Director
Mayor's Office of Housing and Community Development

[ ] APPROVE. [ ] DISAPPROVE.

____ Date: ____________________

Thor Kaslofsky, Executive Director
Office of Community Investment and Infrastructure

[ ] APPROVE. [ ] DISAPPROVE.

____ Date: ____________________

Salvador Menjivar, Housing Director
Department of Homelessness and Supportive Housing

[ ] APPROVE. [ ] DISAPPROVE.

____ Date: ____________________

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

REQUEST FOR ACQUISITION AND REHAB FINANCING FOR 375 14th STREET

Adams, Dan (MYR) <Dan.Adams@sfgov.org>

Tue 4/9/2024 6:46 PM

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

Hi Vanessa – I vote yes to approve the above listed request.

Daniel Adams
Director
Mayor’s Office of Housing and Community Development
City and County of San Francisco

Request for Acquisition and Rehab Financing for 375 14th Street

Slutzkin, Marc (CII) <marc.slutzkin@sfgov.org>

Fri 4/5/2024 11:57 AM

To:Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>
Cc:Ely, Lydia (MYR) <lydia.ely@sfgov.org>;Kaslofsky, Thor (CII) <Thor.Kaslofsky@sfgov.org>;Colomello, Elizabeth (CII) <elizabeth.colomello@sfgov.org>

Hi Vanessa,

I approve the above request on behalf of OCII.

Thanks

Marc

OCII office of COMMUNITY INVESTMENT and INFRASTRUCTURE

Marc Slutzkin
Deputy Director

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www.sfocii.org

375 14th street

Menjivar, Salvador (HOM) <salvador.menjivar1@sfgov.org>

Tue 4/9/2024 2:34 PM

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

I support the San Francisco Housing Development Corporation (SFHDC) request of up to $7,700,000 in financing to
take out an acquisition/rehabilitation loan from the San Francisco Housing Accelerator Fund (SFHAF) for a 16-unit residential building located at 375 14th street. The request includes up to $2,000,000 in senior debt in the form of PASS funds (2016 GO Bonds series 2020C) and up to $5,700,000 in SSP residual receipts debt.

Best,

salvador

Salvador Menjivar
Director of Housing
Pronouns: He/Him
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REQUEST FOR ACQUISITION AND REHAB FINANCING FOR 375 14th STREET

Katz, Bridget (CON) <bridget.katz@sfgov.org>
Fri 4/5/2024 11:58 AM
To:Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

Approve

Bridget Katz
Deputy Director, Office of Public Finance
Controller's Office | City & County of San Francisco
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Appendix A: Calculation of Maximum Allowable SSP Subsidy Per Unit According to November 2022 SSP Guidelines

Unit type(s)	# of units	Subsidy per unit	Subsidy total
Studio	12	$350,000/unit	$4,200,000
1-bedroom	4	$400,000/unit	$1,600,000
TOTAL		$362,500/unit (avg)	$5,800,000
Multiplier bonus for high-scoring projects based on SSP Scoring Rubric*:		120%	
Maximum Subsidy:		$435,000/unit	$6,960,000
Requested Amount		Up to $356,250/unit	Up to $5,700,000

*Project base score of 87/100 and 104/100 with bonus applied

Appendix B: Development and Asset Management Teams.

John Lopez, Asset Manager: John brings over 20 years of experience in the Asset Management of large portfolio of multifamily assets on West Coast, providing annual property/portfolio budgets, and generating monthly/quarterly Variance to Budget analysis, identifying causes/solutions and impact on forecasts. John also has provided underwriting (net cash flow/NAV accretion/IRR/ROE/risk analysis) for $7BN in acquisitions, developments, and redevelopments for on-balance-sheet transactions, partnerships, and Fund investments. He also provides the ability to Integrate market research into financial performance forecasts, along with updating quarterly rolling forecasts providing notable revisions to senior staff and Operations management. John holds a PhD/ABD from the University of California at Santa Barbara, along with a BS in Mathematics from Washington State University.

Reginald Hairston, Development Project Manager: Reginald brings over 20 years of experience in multifamily and affordable housing operations and capital improvements to his role as a Project Manager leading program development, identifying potential acquisitions, assessing project feasibility and coordinating contractors and property management operations. He has been responsible for all aspects of day-to-day supervision for low- and moderate-income multi-location housing portfolios while consistently exceeding GRM%, Occupancy, and Retention Goals. He is a California Certified Residential Manager with Section 8 and Tax Credit (COS) certifications plus active participation in every phase of housing and property management for diverse client populations and broad resident demographics. Reginald holds a BA in Pre Law and Analytical Theory from the University of California, Berkeley.

Tom Kostosky, Associate Director of Real Estate Development: Mr. Kostosky has worked in the development, construction, and operation of housing for over 30 years, with an emphasis on the development of Affordable Housing. His main area of focus is financing the development of multi-family and senior housing developments, often using the Low-Income Housing Tax Credit in conjunction with other funding sources. Tom brings vast multi-family housing development experience to the development team, including projects financed through the Tax-Exempt Bond Program, 4% and 9% Tax Credits, and conventional lending sources. He has developed Senior Housing, multi-family apartments, and townhome developments. Tom has been involved in site selection, rezoning, site plan approval, and financing for portfolios of over 1,800 total units. Tom holds a BS in Urban Planning and Landscape Architecture from Michigan State University.

Sara Lope, Construction Manager Consultant. Sara was a Construction Manager at MEDA for over two years and has now transitioned to creating her own Consulting Company, Zubi Consulting, LLC. She holds a B.A. in Architecture from Newschool of Architecture and Design in San Diego, and a B.A. in Construction Management from Universidad Politecnica de Burgos, Spain. Her architectural background has helped with structural, ADU's and commercial ADA improvements, and her construction management expertise have allowed her to assist in over 30 SSP projects.

Jose Garcia, Associate Director, Preservation (MEDA). Jose attended Cal Poly San Luis Obispo, receiving a B.A. in Business Administration with a concentration in International Business. He is determined to keep a strong Latino Community in the Mission District. Before joining MEDA, Jose was a Relocation Consultant for Overland, Pacific, and Cutler LLC, where he worked alongside MEDA during the rehabbing of five former public housing developments under the Rental Assistance Demonstration (RAD) program (a total of 439 units for seniors and disabled San Franciscans). Jose has been involved in 29 out of the 39 SSP buildings in different phases. Jose has completed one new construction project: 681 Florida, a 130-unit building for formerly homeless individuals and families and is currently managing 1979 Mission Street. The development is envisioned as two separate buildings on the site, each addressing unique housing needs. The first is anticipated to accommodate up to 150 units, 100% of which will be reserved for formerly houseless individuals. The second building is anticipated to accommodate up to 300 units of family affordable housing.

Appendix C: Recent Development Activity

	Name/Location	Status/Year Completed	Total Units
1	520 Shrader Street (SSP)	Acquired 05/31/2019 Complete 02/07/2020	7 Units
2	168 Sickles Avenue Street (SSP)	Acquired 03/31/2021 Complete 10/14/2022	12 Units
3	375 14th Street (SSP) (this project)	Acquired 01/31/2022 Expected Completion 07/31/2025	16 Units
4	936 Geary (SSP)	Acquired 12/17/2021 Expected Completion 03/01/2024	33 Units
4	528 Natoma Street (SSP)	Acquired 05/27/2022 Expected Completion 05/27/2024	4 Units

Appendix D: Asset management Evaluation of Project Sponsor

SFHDC has five projects in its asset management portfolio, including 70 residential and two commercial units. The buildings range in size from four to 31 residential units, with an average size of 14 units. SFHDC is also the Managing General Partner on 11 tax credit properties but reports that it has “limited asset management responsibility” on those sites.

SFHDC’s current asset management staff includes an Asset Manager and Senior Analyst (1.0 FTE), and an Assistant Project Manager/Project Accountant (0.5 FTE). There are 1.5 FTEs dedicated to the SFHDC asset management portfolio, resulting in an average of 47 units assigned to each FTE. These filled Real Estate Development staff positions are further supported by consultant time and the SFHDC finance staff, including the Finance Administrator and Chief Financial Officer.

Plan to hire additional 0.5 FTE Assistant Asset Manager this calendar year as part of the recently adopted strategic framework.

The scope and duties for the asset management team is portfolio management including:
Project feasibility and underwriting;
Verification of operational costs;
Coordination of operating budgets;
Monitoring ongoing operations and compliance (AMRs, monitoring bank accounts, funds management, cash flow management);
Preparation of annual tax exemptions; and
Coordination of asset management and other functional teams, including property management, accounting, and facilities management.

The current fiscal year budget for the asset management team at SFHDC is $150,000. SFHDC plans to hire an additional 0.5 FTE Assistant Asset Manager this calendar year in association with its recently adopted strategic framework.

Within the next five years, the number of projects expected to be in SFHDC’s Asset Management portfolio is 20. SFHDC would add 2.0 FTEs for asset management for those projects.

SFHDC’s asset management capacity, as represented to MOHCD, appears to be adequate and appropriate for the size of its existing portfolio of affordable housing and the anticipated growth thereof in the next five years. MOHCD staff expects that, with the current staffing level and planned increase and with the skills sets and experience of the current personnel, SFHDC should be able to provide sufficient oversight and management of its real estate assets. This assumes that 2B Living will continue to provide proper property management services.

Notwithstanding this positive assessment, SFHDC has been challenged in recent years to complete annual audits within reasonable timeframes and to provide timely Annual Monitoring Reports to MOHCD. For example, the audit of SFHDC Small Sites, LLC, for 2022 was completed ten months after the close of the year. AMRs are due five months after the close of the prior year, and they must be submitted with the audit. SFHDC should endeavor to schedule, prepare for and complete audits of financial statements for itself and all affiliates no later than four months after the close of their business year to allow sufficient time to complete and submit Annual Monitoring Reports on time to MOHCD.

Appendix E: MOHCD Construction Representative Evaluation

A site walk-through was conducted on March 8, 2024, with SFHDC's Reginald Hairston, Architect Sara Lope and 375 14th Street's Manager, Avery. This project sponsors indicated the following:

Under Building Permit No. 201805229735, the previous building owner completed the permitted work to comply with the City's mandatory soft-story retrofit program. (SFDBI's records indicate that the work was completed on 1/15/2019.)

The Project Sponsors indicated the three-story building has two floors of residential units over ground floor garages and utility spaces.

Prior to renovation, the project sponsors indicated that 375 14th Street had galvanized plumbing pipes. Out of the 16 residential units planned for bathroom and kitchen renovation with galvanized piping replacement, 5 tenants refused entry into their residential units by the General Contractor and subcontractors to perform the planned renovation work.

According to the project sponsors, the renovation materials for the 5 residential units are currently stored in the garage facing 14th Street. No access could be provided to confirm the quantity and quality of the stored materials.

Since the renovation was completed in November 2022, Sara Lope pointed out water damage at a hallway wall adjacent to one of the not-renovated residential units, whose likely cause is from the leaking galvanized piping.

The existing Fire Sprinkler System is limited to the corridor area and not full coverage. Current Codes would require full coverage, but 375 14th Street is "grandfathered" as existing and non-conforming and currently not subject to a retroactive City ordinance to upgrade to full coverage with new dedicated fire sprinkler water service/meter and backflow preventer.

With gas stoves, the 400-amp main electrical panel appears adequate since the building manager indicated that electrical breakers do not typically trip.

New boiler and hot water tanks have been installed.

The existing steam radiator heating system has been replaced with a new electric wall heater at the renovated residential units. Unknown how heating is provided at the existing non-renovated units.

The existing roof was evaluated by Gateway Roofing and determined to have 10 years of useful life remaining.

The existing building's exterior has been newly painted to improve its weather-resistance.

A new intercom system has been installed except at the 5 non-renovated units.

According to the Project Sponsors, a new data CAT-6 jacks have been provided at the new renovated units (except at the 5 non-renovated units). With existing exposed phone lines at the roof, the assumption is that these existing phone lines serve the non-renovated units.

The existing Laundry Room has a single washer and dryer and was not renovated.

New Trash Chute installed at lightwell. (Existing deteriorated trash chute remains in-place at same lightwell.)

Since the condition of the existing residential units' entry doors are still acceptable, they have not been replaced and therefore, the existing non-conforming conditions (deadbolt and lockset are not interconnected for single-release action with no door self-closing device and/or hinge) are acceptable.

No access to the existing ground floor garages and conditions were not reviewed.

Building Issues:

Existing Galvanized Piping: Since the galvanized piping at the 5 residential units were not replaced, the ongoing leaking could lead to following:
Dry rot damage to adjacent wood framing.
Mold and mildew issues.
Leak could migrate to adjacent areas and to second floor residential units and/or ground floor areas below and result in damage to recently renovated ceiling, wall and/or floor surfaces.
The repair of the above costs and relocation costs can be significant and can be an ongoing liability if the 5 residential units continue to not be renovated.

Accessibility: 375 14th Street has a raised step at its entry porch and entry door, no ground floor residential unit and no elevator. While the ground floor garages can be renovated into accessible studios, none have been planned and the cost for new accessible studios could be substantial if the change-of-use from garages to residential triggers additional seismic improvements.
The renovation did not include providing 5% mobility (or off-site mobility units) and 2% communication units.

Fire Alarm System: The installed fire alarm system will comply with SFFD's retroactive ordinance requirements. Unfortunately, with the 5 unrenovated residential units, the fire alarm system could not be completed and therefore, the building is not in-compliance and may be subject to SFDBI and/or SFFD's Notice of Violation and Abatement proceedings.

Integrated Pest Management: 375 14th Street did not incorporate Integrated Pest Management with extensive caulking at wall/floor/base/cabinet intersections. Where possible

Existing Sewer line: If not already performed, a camera study of the existing sewer line will be required to confirm its condition. Older buildings like 375 14th Street typically have existing sewer pipes that have breaks due to settlement, deteriorated piping or due to overgrown tree roots. If camera study shows sewer line replacement is required, such work will be required to avoid sewage backup at the building.

Ground Floor Second Exit:

The existing mechanical duct and new trash chute exposed at the exit's path does not comply with the Code's minimum width and head clearance.
Existing gas meters are exposed along the exit's path.

Punch List: The completed renovation has the following noticeable items that need correction:

2" contrasting stripes are required at the stairs' new tread flooring as required by Code.
Remove tape covering door viewer at residential unit's entry door.
Reattach ceiling light fixture at corridor.

Appendix F: Phase II Milestone Schedule and Gantt chart of phased rehabilitation

SFHDC will continue with the support of Jose Garcia (Preservation Associate Director - MEDA) and Sara Lope (Construction Manager Consultant - Zubi Consulting) through the completion of construction of the second phase of this project, the rehabilitation of the remaining 5 residential units. SFHDC will commence with the MOHCD procurement process as soon as a settlement is reached with the 5 remaining households. The 5-month pre-construction timeline will allow for the relocation preparation before construction start. Construction has been outlined to allow for in-house relocation.

Phase II Milestone Schedule: 18 months

No.	Performance Milestone	Start Date	End Date	Duration (Weeks)	Duration (Months)
A	**Takeout/Refi**	**6/2/2024**	**6/2/2024**		
B	**Pre-Construction**	**6/2/2024**	**10/27/2024**	**21**	**5**
1	**BID/SOW Preparation** Residential Rehab	6/2/2024	6/16/2024	2	
2	**BID Packet Review** Internal review	6/16/2024	6/30/2024	2	
3	**Construction Bidding Process**				
	NOISB and Bid Posting Packet NOISB and Bid packet sent	6/30/2024	7/28/2024	4	
	BID Posted	7/28/2024	8/25/2024	4	
	BID Tally/Bid Award	8/25/2024	9/8/2024	2	
	Contract Signing Qualifying Scope/VE and Contract Execution	9/8/2024	9/22/2024	2	
4	**NTP**				
	NTP Documents and coordinates OLSE Meeting	9/22/2024	10/6/2024	2	
	MOHCD Reviews and Approves NTP	10/6/2024	10/20/2024	2	
	GC Pull Permits	10/20/2024	10/27/2024	1	
C	**Construction**	**10/27/2024**	**11/23/2025**	**56**	**13**
	Residential Rehab	10/27/2024	8/31/2025	44	10
	Rehab Cushion	8/31/2025	10/26/2025	8	2
	Construction Closing Requirements (Retention Release)	10/26/2025	11/23/2025	4	

Appendix G: SFHAF Appendix

1. **Environmental Issues/Site Suitability.**

Phase I/II Site Assessment Status and Results: A Phase I Environmental Site Assessment Report, prepared by Partner Engineering and Science, Inc. on October 29, 2021, did not identify any recognized, controlled, or historical environmental conditions. The Phase I report identified environmental concerns regarding the suspected presence of asbestos-containing materials ("ACMs") and lead-based paint ("LBP"), due to the age of the building.

Phoenix Environmental Consulting, LLC prepared an Environmental Assessment: Asbestos Survey Report on October 25, 2021. Twenty suspect material samples were taken from the Project to determine if asbestos was present in materials that might be impacted during renovations. The survey found evidence of ACMs in the form of Chrysolite in around 4 to 5 % in unit #5 acoustic ceiling.

Environmental Lead Detect Inc. prepared three Lead Paint Inspection Reports on November 24, 2021. One report was prepared for unit 28, common areas and building exterior, the second report was for units 5, 21, 23, 24, 25, and 26, and the third one for units 7, 6, 3, 22, 27, 2 and 1. Reports showed that the tested areas contained readings that were registered at or above the LBP action level of 1.0mg/cm2.

2. **Entitlements**
    1. Zoning

    375 14th Street is zoned NCT (Valencia Street Neighborhood Commercial Transit) within 55-X Height District. The rehabilitation scope did not change the use, height, or bulk of the building.

    2. Local/Federal Environmental Review -N/A

3. **Relocation**

The Borrower spent $350,000 in relocation for 11 households across 6 months (Relocation specialist services and lease-breaking fees for the temp units). The remaining 5 households will relocate within the building during phase II of construction.

4. **Performance Schedule**

No.	Performance Milestone	Estimated or Actual Date
1.	SSP Financing Commitment	1/19/2022
2.	Site Acquisition	2/1/2022
3.	Development Team Selection	N/A
4.	General Contractor Selection -	3/14/2022

5.	Design	-
	Submit Bid Package for MOHCD Approval	N/A
6.	Permits	-
	Building Permit Application Submitted	4/15/2022
7.	Construction	-
a.	Notice to Proceed	5/6/2022
b.	Complete Construction	11/9/2022
8.	Marketing & Lease-up	
a.	Lease Vacant Units	N/A (occurring under MOHCD loan later)
9.	Close Out MOHCD Loan(s)	6/2/2024

5. **Development Team During HAF Period**

5.1 Project Manager.
Name: Reginald Hairston
Percentage of Time Spent on Project: 45%
Experience: See **Section 3**

5.2 Architect.
Firm: n/a
Fee/Hours: n/a

5.3 Contractor.
Firm: Blackline Construction, Inc.
Procurement Requirements: n/a

5.4 Other Consultants: N/A

5.5 Property Manager: 2BL Property Management

2B Living Property Management (2BL), has been managing property for in SF for 13 years, and specifically for four years for SFHDC. 2BL has managed over 150 units in the SSP portfolio, and over 5000 units' total. Unit inspections are conducted annually.

6. **Construction Management Fee:** $25,500