

**SUMMARY REPORT PURSUANT TO SECTION 33433  
OF THE  
CALIFORNIA HEALTH AND SAFETY CODE  
ON A  
GROUND LEASE  
BY AND BETWEEN  
THE HOUSING AUTHORITY OF THE CITY OF SANTA ANA  
AND  
THE COUNTY OF ORANGE  
AND  
WASHINGTON SANTA ANA HOUSING PARTNERS, L.P.**

The following Summary Report has been prepared pursuant to the requirements imposed by California Health and Safety Code Section 33433 (Section 33433). The report sets forth certain details of the proposed Ground Lease by and between the Housing Authority of the City of Santa Ana (Agency), the County of Orange (County) (collectively, the County and the Agency are referred to as “Lessor”) and Washington Santa Ana Housing Partners, L.P. (Tenant).

In 2007, the former Community Redevelopment Agency of the City of Santa Ana (Former Redevelopment Agency) used Property Tax Increment Housing Set-Aside (Set-Aside) funds to purchase the property located at 1126, 1136 and 1146 Washington Avenue (Agency Site). Following the dissolution of redevelopment in California in 2012, this property was transferred as a housing asset to the Agency, acting as the housing successor to the Former Redevelopment Agency.

The County owns an adjacent property to the south of the Agency Site (County Site). The County and Agency have executed a Joint Powers Agreement to provide a combined Agency Site and County Site (collectively “Site”), totaling approximately 2.28 acres of undeveloped land, to allow for the development of multifamily affordable housing project (Project).

To effectuate the development of the Project, the Agency and County propose to ground lease the Site to the Tenant for no more than 65 years. The Tenant proposes to construct and operate an 86-unit apartment project that will be subject to long-term income and affordability covenants. Eighty-five (85) of the units will be restricted to Extremely Low Income households, and one unit will be reserved for an on-site manager.

The Site will be conveyed to the Tenant in the form of a ground lease that will remain in effect for 65 years. In addition, the Agency will provide financial assistance to the Tenant per the requirements imposed by loan agreements that are separate from the Ground Lease.

Due to the fact that the Agency Site was purchased with Set-Aside funds, the proposed conveyance of the property is subject to the reporting requirements imposed by Section 33433. Specifically, Section 33433 requires the conveying entity to prepare a report that summarizes the financial terms associated with the proposed disposition transaction.

The following Summary Report is based upon the information contained within the Ground Lease, and is organized into the following seven sections:

- I. **Salient Points of the Ground Lease:** This section summarizes the major responsibilities imposed on the Agency, the County and the Tenant by the Ground Lease.
- II. **Cost of the Ground Lease to the Agency and the Former Redevelopment Agency:** This section details the total cost to the Agency/Former Redevelopment Agency associated with implementing the Ground Lease.
- III. **Estimated Value of the Interests to be Conveyed Determined at the Highest Use Permitted under the Property's Zoning:** This section estimates the values of the interests to be conveyed or leased determined at the highest uses permitted under the requirements imposed by the zoning in place on the Agency Site.
- IV. **Estimated Reuse Value of the Interests to be Conveyed:** This section summarizes the valuation estimate for the Agency Site based on the required scope of development, and the other conditions and covenants required by the Ground Lease.
- V. **Consideration Received and Comparison with the Established Value:** This section describes the compensation to be received by the Agency, and explains any difference between the compensation to be received and the established value of the Agency Site.
- VI. **Blight Elimination:** This section describes the existing blighting conditions on the Site, and explains how the Ground Lease will assist in alleviating the blighting influence.
- VII. **Conformance with the AB1290 Implementation Plan:** This section describes how the Ground Lease achieves goals identified in the Agency's adopted AB1290 Implementation Plan.

This report and the Ground Lease are to be made available for public inspection prior to the approval of the Ground Lease.

## I. SALIENT POINTS OF THE GROUND LEASE

### A. Project Description

The following describes the scope of development for the Project:

1. The Project will include 86 apartment units which will be constructed in two four-story residential buildings surrounding two interior, landscaped courtyard/amenity spaces.
2. The Project's unit mix is as follows:
  - a. Sixteen (16) studio units;
  - b. Twenty-six (26) one-bedroom units;
  - c. Twenty-two (22) two-bedroom units;
  - d. Seventeen (17) three-bedroom units; and
  - e. Five (5) four-bedroom units.
3. A sound wall is being positioned along the eastern property line adjacent to the US Interstate 5 ramp.
4. The Project's affordability mix is summarized as follows:
  - a. Eighty-five (85) units will be rented to Extremely Low Income households earning less than or equal to 30% of the Orange County median income (AMI); and
  - b. One unit will be un-restricted and rented to an on-site manager.
5. Forty-three (43) units will be set-aside for Permanent Supportive Housing (PSH).

**B. Agency Responsibilities**

The Ground Lease requires the Agency to accept the following responsibilities:

1. Together with the County, the Agency will convey the Site to the Tenant in the form of a long-term ground lease for the purposes of constructing and operating the Project.
2. The Ground Lease will have the following terms:
  - a. The Ground Lease will commence on the Effective Date subject to the preconditions identified in Section 5.1.2;
  - b. The Ground Lease will have no longer than a 65-year term; and
  - c. The Ground Lease shall be executed by the Executive Director and/or other Agency designee.

3. The Agency agrees to ground lease the Agency Site to the Tenant based on the following payment terms:
  - a. "Agency Base Rent" of \$4,108,136, which is equal to the appraised fair market value of the Agency Site.
  - b. The Agency Base Rent will bear interest at a simple rate of three percent (3%) per year commencing on the Commencement Date.
  - c. The Agency Base Rent will be repaid through a share of the Project's Residual Receipts.
  - d. Once the Agency Base Rent has been repaid in full, the Tenant shall have no further obligation for Agency Base Rent.
  - e. Any net refinancing/net syndication proceeds received by the Tenant shall be used to pay any unpaid Agency Base Rent.
4. Through separate Loan Agreements, the Agency will provide the Tenant with not less than \$4.53 million in financial assistance (Agency Loans) based on the following:
  - a. The Agency will provide a \$3.01 million loan of HOME Program funds (HOME Loan) allocated to the City of Santa Ana (City) by the United States Department of Housing and Urban Development (HUD).
  - b. The Agency will provide a \$1.64 million loan of Neighborhood Stabilization Program funds (NSP Loan) allocated to the City by HUD.
5. The Agency Loans will be repaid out of the same applicable percentage of Residual Receipts as used to repay the Agency Base Rent.
6. The Agency will provide two (2) business days' prior written notice to Tenant to enter the Site.

### **C. County Responsibilities**

The Ground Lease requires the County to accept the following responsibilities:

1. Together with the Agency, the County will convey the Site to the Tenant in the form of a long-term ground lease for the purposes of constructing and operating the Project.
2. The Ground Lease will have the following terms:
  - a. The Ground Lease will commence on the Effective Date subject to the preconditions identified in Section 5.1.2;

- b. The Ground Lease will have no longer than a 65-year term; and
  - c. The Ground Lease shall be executed by the Chief Real Estate Officer.
3. The County agrees to ground lease the County Site to the Tenant based on the following payment terms:
- a. "County Base Rent" of \$2,341,864, which is equal to the appraised fair market value of the County Site.
  - b. The County Base Rent will bear interest at a simple rate of three percent (3%) per year commencing on the Commencement Date.
  - c. The County Base Rent will be repaid through a share of the Project's Residual Receipts.
  - d. Once the County's Base Rent has been repaid in full, the Tenant shall have no further obligation for County Base Rent.
  - e. Any net refinancing/net syndication proceeds received by the Tenant shall be used to pay any unpaid County Base Rent.
4. Through a separate Loan Agreement, the County will provide the Tenant with not less than \$2.65 million in financial assistance (County Loan).
5. The County Loan will be repaid out of the same applicable percentage of Residual Receipts as used to repay the County Base Rent.
6. The County will provide two (2) business days' prior written notice to Tenant to enter the Site.

#### **D. Tenant's Responsibilities**

The Ground Lease requires the Tenant to accept the following responsibilities:

- 1. Accept conveyance of the Site from the County/Agency in the form of a long-term ground lease. The Ground Lease will have the following terms:
  - a. The Ground Lease will commence on the Effective Date subject to the preconditions identified in Section 5.1.2; and
  - b. The Ground Lease will have no longer than a 65-year term.
- 2. The Tenant is required to pay ground rent as follows:

- a. "Agency Base Rent" of \$4,108,136, which is equal to the appraised fair market value of the Agency Site.
  - i. The Agency Base Rent will bear interest at a simple rate of three percent (3%) per year commencing on the Commencement Date.
  - ii. The Agency Base Rent will be repaid through a share of the Project's Residual Receipts.
  - iii. Once the Agency Base Rent has been repaid in full, the Tenant shall have no further obligation for Agency Base Rent.
  - iv. Any net refinancing/net syndication proceeds received by the Tenant shall be used to pay any unpaid Agency Base Rent.
- b. "County Base Rent" of \$2,341,864, which is equal to the appraised fair market value of the County Site.
  - i. The County Base Rent will bear interest at a simple rate of three percent (3%) per year commencing on the Commencement Date.
  - ii. The County Base Rent will be repaid through a share of the Project's Residual Receipts.
  - iii. Once the County's Base Rent has been repaid in full, the Tenant shall have no further obligation for County Base Rent.
  - iv. Any net refinancing/net syndication proceeds received by the Tenant shall be used to pay any unpaid County Base Rent.
3. Prior to commencement of construction of the Initial Improvements, the Tenant shall provide to the Lessor information demonstrating that the Tenant has secured sufficient financing to construct the Project.
4. Tenant shall provide the Lessor with written construction status reports on a monthly basis starting at the commencement of construction.
5. The Tenant shall pay all Taxes, Operating Costs and Utility Costs during the Ground Lease Term.
6. The Tenant may use the Site for the construction, development, entitlement, operation, maintenance, replacement and repair of the Project.
7. The Tenant shall obtain all the required land use approvals, entitlements and permits necessary for the development of the Site.

8. The Tenant shall comply with all applicable laws.
9. Tenant shall ensure that the following requirements are satisfied:
  - a. Enter into a written contract with a general contractor based upon the "Construction Contract Documents" approved pursuant to the Option Agreement;
  - b. Obtain written agreement from the general contractor that the construction contract can be assigned to the County and/or Agency if the Tenant fails to perform;
  - c. Provide evidence to Lessor that assures the Tenant has sufficient monies available to complete the proposed construction;
  - d. Within sixty (60) days following completion of any substantial improvements, the Tenant shall provide the Lessor with a complete set of reproducibles and two sets of "As-Built" plans;
  - e. At the conversion of construction financing for the Project, the Tenant shall establish and maintain a Capital Improvement Fund during the Ground Lease Term. The Tenant shall deposit \$347 per unit per year, with a ten percent (10%) escalator applied every five years, into the Capital Improvement Fund;
  - f. Tenant shall maintain the premises in good order, condition and repair throughout the Ground Lease Term;
  - g. Tenant must maintain all required insurance throughout the Ground Lease Term.
  - h. Within one hundred eighty (180) days after the end of each accounting year, the Tenant shall submit to the Auditor Controller and the Agency a balance sheet, income statement and cash flow statement prepared by a Certified Public Accountant (CPA) reflecting the business transacted during the preceding accounting year.

## II. COST OF THE GROUND LEASE TO THE AGENCY / FORMER REDEVELOPMENT AGENCY

The costs incurred by the Agency and the Former Redevelopment Agency to implement the Ground Lease are estimated as follows:

Property Acquisition Cost	\$1,911,000
Property Management / Miscellaneous Costs	103,000
Total Agency Cost	\$2,014,000

The Agency will ground lease the Agency Site to the Tenant for an Agency Base Rent of \$4.11 million. The Agency Base Rent will be repaid through residual receipts over the Ground Lease Term, and any remaining balance will be due at the end of the Ground Lease Term. However, given that residual receipts payments are completely dependent on the cash flow produced by the Project over time, it is too speculative to predict the net present value of the payments that will be applied to the Agency Base Rent.

## III. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE HIGHEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

Section 33433 requires the Agency to identify the value of the interests being conveyed at the highest and best uses permitted under zoning in place on the Site. The valuation must be based on the assumption that near-term development is required, but the valuation does not take into consideration any extraordinary use, quality and/or income restrictions being imposed on the development by the Agency.

An appraisal prepared by Kinetic Valuation Group on November 1, 2019 estimates the market value of the Site at \$6.45 million, or \$65 per square foot of land area. Based on the 63,423 square feet of land area attributed to the Agency Site, the market value of the Agency Site is estimated at \$4.11 million.

## IV. ESTIMATED REUSE VALUE OF THE INTERESTS TO BE CONVEYED

Keyser Marston Associates, Inc. (KMA), the Agency's financial consultant, prepared a reuse valuation analysis of the Project based on the financial terms and conditions imposed by the Ground Lease and separate Agency Loan documents. The KMA analysis concluded that the fair reuse value of the Site is negative \$4.6 million. This means that the Site needs to be conveyed at no cost plus \$4.6 million in financial assistance needs to be provided to the Project in order to make the scope of development required by the Ground Lease financially feasible. Through separate loan agreements, the City proposes to provide \$4.6 million in financial assistance to the Project.



## **V. CONSIDERATION RECEIVED AND COMPARISON WITH THE ESTABLISHED VALUE**

The Ground Lease imposes extraordinary controls on the Project. The impacts created by these requirements reduce the value of the Project from \$4.11 million at the highest use permitted under the current zoning, to the established fair reuse value of negative \$4.6 million.

The Ground Lease requires the Tenant to pay Base Rent to the Agency based on Residual Receipts payments that are generated from cash flow generated by the Project over time. At the end of the Ground Lease Term, the Tenant must repay any outstanding balance of Agency Base Rent. Given that the Base Rent Payments received by the Agency will be greater than the established fair reuse value of negative \$4.60 million, it can be concluded that the Agency is receiving fair consideration for the interests being conveyed to the Tenant.

## **VI. BLIGHT ELIMINATION**

The Project includes 85 units that will be subject to long-term income and affordability covenants. In accordance with California Redevelopment Law, as portrayed in the California Health and Safety Code Section 33433, the conveyance of property that results in the provision of housing for low- or moderate-income persons satisfies the blight elimination criteria imposed by Section 33433. Furthermore, the conveyance of the Agency Site will assist in the elimination of blight by allowing for the redevelopment a vacant property. Thus, the Project fulfills the blight elimination requirement.

## **VII. CONFORMANCE WITH THE AB1290 IMPLEMENTATION PLAN**

The last AB1290 Implementation Plan completed by the Agency was for the 2010 to 2015 period. The Implementation Plan contemplates the development of affordable housing within the Merged Project Area. Specifically, under the heading *Short-Term Goals and Objectives*, the Implementation Plan includes the following: “Expand the community’s supply of housing, including opportunities for low and moderate income housing.” Therefore, the proposed Project is in conformance with the AB 1290 Implementation Plan.