THE METRO HOTEL

(434 and 435 13th Street, San Diego, CA)

PROPERTY ANALYSIS AND FEASIBILITY STUDY

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PART I: EXECUTIVE SUMMARY

The Metro Hotel represents an opportunity to convert a troubled SRO Hotel to a fully functioning, appropriately resourced supportive housing project that addresses homelessness in San Diego. The following report describes the best practices of supportive housing and makes recommendations for incorporating them into the operations of the Metro Hotel – both in the immediate and longer term.

The Metro Hotel was constructed in 1989-90 as short-term, workforce housing for individuals. The project was originally financed with conventional debt, funding from the San Diego Housing Commission, and federal Low Income Housing Tax Credits. The non-profit group, Housing Opportunities, Inc. (HOI) developed the property and served as the managing partner/owner, but when the organization closed down in 1999, the Alpha Project took over as the owner/operator.

Many of the local housing professionals who were interviewed for this report have acknowledged that the Metro Hotel has "never worked very well from the beginning" and that there have always been problems associated with the properties. The property owners and operators have struggled with high vacancy rates, high turnover, operating deficits, deteriorating physical conditions, and a lack of capital to perform necessary maintenance procedures. Many different reasons have been given for this lack of success including a lack of services, the small unit size and shared bathrooms, construction deficiencies, deferred maintenance, high operating costs combined with below market rents, and poor property management.

Based on an analysis of the current situation at the Metro Hotel, this report provides a list of Findings and Recommendations for immediate action. The recommendations focus on clarifying goals of the different agencies, defining roles, maintaining momentum of the team in order to make progress, investigating ways to provide relief to the tenants while improving the building's cash flow, and increasing the accountability of the operator/owner and other team members.

The report goes on to describe Key Considerations which should be taken into account to determine the best long term development scenario for the project. The first consideration is the need for relocation. The challenges associated with relocation include longer construction timelines, increased strain on tenants and building staff, high costs, and difficulty in determining how to approach the rehabilitation and in defining the scope of work. Rough estimates indicate that relocating the tenants of the Metro Hotel could cost as much as $1,000,000 or more. On the positive side, there are consultants who specialize in relocation, and tenants have an opportunity to engage in the design process which ensures a better finished product.

The next consideration is new construction versus rehabilitation. Studies have shown that in permanent supportive housing programs which provide a mixture of room types, including studios with private baths and SRO type rooms with shared baths located off the hallways, <u>the single biggest determinant of whether or not tenants stay in the housing</u>

is whether or not they have a private bath. Evidence indicates that the buildings are worth saving, but if the units are reconfigured to include private baths, the project would loose an estimated 59 of the 193 units. If the projects are demolished, the total units from new construction on each parcel at six stories would be 207 and with new construction on 435 at six stories and 434 at eight stories would be 229. Rehabilitation, however, is considered a much "greener" approach based on the principles of environmental sustainability.

Community space is important in supportive housing for many reasons which range from encouraging tenants to come out of their units to providing adequate space for the social service program. A new construction project will, of course, be able to achieve more in the planning of the common areas, but there is definitely potential for improving the appearance and function of the common spaces at the Metro Hotel through a rehabilitation project.

Lastly, the report looks at the following five potential development scenarios:

1. Repair both buildings and continue to operate in the current configuration
2. Reconfigure and rehabilitate both buildings
3. Demolish one building and rebuild as supportive housing and repair the other and continue to operate it in the current configuration
4. Demolish both buildings and rebuild as supportive housing
5. Relocate tenants, remove rent restrictions, and sell to market rate developer to operate or demolish

Each development scenario is described in terms of its advantages and disadvantages. For example, renovating the existing buildings in its current configuration requires the least amount of effort and cost, but will the problems that have plagued the Metro continue? And how do we compare these costs to the costs over the long-term if the project fails?

There are many "variations on a theme" that represent excellence in supportive housing. Each project is unique and based on a variety of individual factors. The Metro Hotel has its own unique qualities as well, and as a result, while this report presents some recommendations and options, it also leaves several policy issues open for key decision makers to discuss in order to determine the best course of action

PART II: PURPOSE AND ORGANIZATION OF THE REPORT

The purpose of this report is to provide information and make recommendations to improve the operation of the Metro Hotel.[1] The recommendations attempt to incorporate supportive housing "best practices" in order to best serve the existing tenants who are formerly homeless and often struggling with mental illness, addiction, and other disabilities. Over the last 15 years, the development and operation of supportive housing – or easily accessible, permanent, affordable housing linked to comprehensive support services – has emerged as the strategy with the most potential for decreasing and, possibly ending, homelessness. Government agencies, non-profit organizations, and other advocates are working together more and more to create a broader net of supportive housing opportunities.

The report begins with a description of the ingredients necessary to create and provide quality, supportive housing. The report goes on to describe the current situation at the Metro Hotel. This section also includes significant findings which, in combination with the Key Considerations section, are critical for evaluating both the Immediate Recommendations as well as potential Development Scenarios in the final section.

Finally, this report includes a Potential Development Scenarios for the Metro Hotel matrix which is a condensed graphic representation of the impacts and considerations of each scenario to help Centre City Redevelopment Corporation (CCDC) Board Members, CCDC staff, and others as they consider the best approach to improving the Metro Hotel.

Although the Housing Commission and CCDC are currently engaged in a discussion of how to transfer ownership of the subject land and the existing notes, this report does not make recommendation as to how those negotiations should be carried out. It is assumed that these agencies will continue their discussion in good faith to develop a solution which guarantees that the Metro Hotel can become a valuable asset to the community as well as to the tenants who live there.

PART 1II: WHAT IS SUPPORTIVE HOUSING?

Supportive housing is by its very nature a complicated endeavor. It requires partnerships between government, non-profits and sometimes for-profits to carry out its various component parts. Supportive housing is never a cookie cutter product; each project is unique; each one is challenging to get off the ground; and each project requires a collaborative effort to operate.

The following is a description of the key aspects of a successful supportive housing project, reflecting the best practices that the Corporation for Supportive Housing

[1] Throughout this report, "The Metro Hotel" is used to refer to both properties, 434 and 435 13th Street; When referring to the individual buildings, "435" is used for the larger building and "434" for the smaller one.

promotes. This is not a comprehensive discussion, but attempts to provide a general overview to frame this report.

Supportive housing consists of three component parts: 1) development and financing of a property, 2) property management and 3) supportive services. These "three legs of the stool" must all function properly to ensure success.

Development of the project entails the acquisition and rehabilitation or new construction of a site. The most common approaches are the acquisition of an existing apartment building (or conversion of a congregate care facility, hotel or some other use that does not require massive reconstruction) or new construction on a vacant or underutilized lot. New construction and substantial rehabilitation projects are most often sponsored and owned by a non-profit housing developer or a service agency with support from a development consultant. The consultant could be a single individual, a firm or a non-profit housing developer. For minor rehabilitation work, a service agency might contract directly with a contractor to carry out the work without assistance from a development consultant. Supportive housing should be located near public transportation and services since most tenants don't have cars. Projects should include private units with kitchens and baths – either for individuals or families – and common areas throughout the building to be used for socializing and service delivery. Because neighborhood opposition can be a threat to the viability of even the best supportive housing project, efforts should be made early on in the development process to gain community support for the project.

Financing supportive housing is also unique from market rate and affordable projects. Supportive housing projects typically cannot support debt service, although rental subsidies may enable it to support some. Supportive housing requires an operating subsidy – whether in the form of project based rental subsidies or a capitalized operating reserve - because extremely low, very low & low income tenants are not able to pay rent in an amount sufficient to cover operating costs per unit. At the same time, supportive housing should try to target the lowest incomes possible because tenants will typically earn 20-25% of median. In addition, operating costs for supportive housing units can be expected to be higher than for other affordable housing units. Along these same lines, financing strategies should maximize the availability of operating and replacement reserves for supportive housing projects. Lastly, because of the numerous funding sources which are typically required to finance supportive housing, it is critically important to analyze the planned combination of funding sources to ensure that there are no incompatibilities or conflicting regulations.

Property management, including lease-up, enforcement of lease terms, payment of operating expenses, performance of ongoing maintenance and repairs, and compliance with funder requirements is carried out by a professional property management company with a strong track record of managing supportive housing. Property management can either be contracted out to a third party (either a for-profit or non-profit), or carried out by the project owner, to the extent they have adequate experience and resources to perform in a professional manner.

Supportive services are provided to residents in a clearly defined manner (pursuant to a written plan) that ensures that adequate and appropriate services are being delivered to the people living in the housing. The service delivery program will be accompanied by a tenant engagement strategy, although the services should be voluntary. The agency delivering the services will be adept at fundraising for these services on an ongoing basis. The services can either be delivered by the project owner or contracted out to a qualified service provider, or collaboration of providers. A supportive services program should also include an evaluation component, where service utilization and outcomes are tracked. The supportive housing projects that are the most successful at keeping people housed follow a service delivery model that incorporates a "harm reduction" approach, where tenants are encouraged to address their issues in steps and seek incremental positive change. Tenants should also be allowed to remain in the housing as long as they follow the terms of their lease agreements; there should be no limits on the length of tenancy.

In addition, asset management is a critical function. Oversight of the long term property needs such as disbursement of reserves, refinancing debt (if applicable), and embarking on capital improvements during the life of the project should be a defined role of the property owner, but aspects of it may be contracted out to the property manager or other experienced consultant.

Supportive housing serves individuals and families who are homeless and have a disability or other special needs. The target population to be served at the property is clearly defined by the project sponsor.

A broad approach to the target population can be taken that incorporates the widest range of supportive housing tenants; i.e.: anyone who is homeless and disabled. However, most supportive housing projects target a more defined population. With respect to homeless status, a sponsor might target the chronically homeless, or more broadly serve those who are homeless at the time of applying for the units and/or those at-risk of homelessness. With respect to disabilities, a project can target subpopulations such as people with a specific disability such as mental illness, HIV/AIDS, or a specific segment of the population, such as transition age youth, women, or seniors. The decision-making process can be driven by various factors, including:

i. the sponsor agency specializes in serving a particular population,
ii. the community has identified a high priority population to serve, or
iii. a funding opportunity is designed for a specific population

Regardless of the population served or the reason for selecting that group, the key features that should accompany all supportive housing projects are

iv. a clear identification of who's being served,
v. confirmation that the targeting of a population or subpopulation complies with fair housing laws,
vi. a comprehensive supportive service program will be in place that adequately and appropriately serves the residents, and
vii. confirmation that the housing will serve a need in the community

The <u>ownership</u> of supportive housing can occur in a variety of forms. The most common supportive housing ownership structure is non-profit ownership, or non-profits holding long-term leases (30 - 55 years or more). In these cases the non-profit "owner" is responsible for all aspects of the property, ensuring that: 1) capital needs are addressed (rehabilitation up front, as well as repairs and maintenance throughout the life of the project), 2) the property is being professionally managed, 3) services are being provided, and 4) the asset is being carefully managed over the term of the lease. One entity does not necessarily carry out all of these functions, but the owner is the responsible party to "cause" all of these activities to be properly executed. The following are a few examples of who plays which role found in "best practice" supportive housing projects:

	Variation #1	***Variation #2***	***Variation #3***
OWNER	Non-profit housing developer	Service Provider	Non-profit housing developer and service provider as joint venture partners
DEVELOPER	Non-profit housing developer	Development consultant	Non-profit housing developer partner
PROPERTY MANAGEMENT	Non-profit housing developer's affiliated entity	Contract with a third party (often a for-profit)	Non-profit housing developer's affiliated entity, or third party
SERVICES	Contract with a services provider	Service Provider	Service Provider partner

PART IV: PROJECT DESCRIPTION AND FINDINGS

<u>Project History</u>

The Metro Hotel was constructed in 1989-90 and opened on September 28th, 1990 as short-term, workforce housing for individuals. The project was originally financed with conventional debt, funding from the San Diego Housing Commission, and federal Low Income Housing Tax Credits. The non-profit group, Housing Opportunities, Inc. (HOI) originally developed the property and served as the managing partner/owner, but when the organization closed down in 1995, the Alpha Project took over.

<u>Property and Neighborhood Description</u>

The Metro Hotel is located at 434 and 435 13th Street in the East Village neighborhood near Downtown San Diego. The property consists of two non-contiguous parcels located on opposite sides of 13th Street between J Street and Island Avenue. 434 13th Street is located on the west side of the street and contains 57 SRO style rooms. 435 13th Street, located on the east side, contains 136 SRO style rooms. The total number of units in the project is 193. Each building has one larger unit on the 1^{st} floor, originally intended for an onsite manager that is now used for offices and/or storage.

The East Village neighborhood has experienced a lot of recent development fueled by the new Petco stadium, although this development has slowed considerably in the last year. The neighborhood is close to downtown and well served by public transportation. Many commercial/retail options are within walking distance, and social service providers are located nearby. The Metro Hotel has established roots in the community, and neighbors are likely to welcome any improvements.

Finding #1: The location of the Metro Hotel is ideal for a supportive housing project which provides a strong foundation for preserving and improving the housing.

The Market Study, prepared by Goldrush Realty Advisors, Inc. in June of 2007, reported that there are several multi-unit rental properties with studio and one bedroom units in the immediate and outside area which serve homeless, special needs, or very low income individuals or couples. These properties, all constructed or remodeled since 2003, include features and services of quality, supportive housing – such as: adequate apartment sizes with private kitchens and baths, common and service space, services on site, and rental and operating subsides. Occupancies at these properties are all high with sometimes large waiting lists, and staff from all the properties reported an inability to serve all who request housing. The Market Study concluded that there is an unmet demand and supply shortage for this type of housing and that there is no evidence the conditions will change.

Both 434 and 435 contain SRO rooms which average approximately 100 square feet in size (although some are larger than others). Each SRO room contains a single bed, a counter across from the bed along the wall with a sink, a microwave and under-counter refrigerator, a window with blinds, and an open closet. The furniture, which comes with the unit, is made out of particle board and generally in poor condition, although the property management staff does their best to refurbish it when units become vacant.

Bathrooms are at located along the hallway and shared.[2]

Finding #2: All of the tenants of 434 and 435 share common restrooms; none of the SRO rooms contain a private bathroom.

Each building has laundry and a front desk area and lobby, although the one at 434 is not currently used except for the food bank on Thursdays. 435 has a larger public lobby which spans the whole front of the building, and there is a front desk clerk at the reception area on duty 24/7. The property management offices are directly behind this reception area. There is also a computer room and an office on the north side of the

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[2] 434 has four co-ed, four men's, and four women's bathrooms for a total of 12. 435 has 12 co-ed, six men's, and four women's bathrooms for a total of 22.

courtyard at 435, but they are both closed. The building is organized around an exterior courtyard.

Current Ownership Structure, Debt and Operating Deficits

The buildings are currently owned by the San Diego SRO Limited Partnership and the land is owned by the San Diego Housing Commission which leases the land to the partnership through a 55 year ground lease. The ground lease which was executed in 1989 requires the lessee, the owner of the buildings, to start paying a lease fee of 6% of the gross annual rents to the Housing Commission in year 16, or in this case, 2005. The current owner, the San Diego SRO Limited Partnership, was assumed and restructured by Alpha Project representatives in 1999 when the Housing Commission asked them to step in and keep the existing partnership intact to avoid having to refinance the HC's existing loans. The current owner now consists of the general partner, the Metro Hotel Community Association, G.P. and Metro Housing of San Diego as the limited partner.

According to Alpha Project, the current officers of the managing general partner are Bob McElroy, President, who is also the head of Alpha Project and two other board members of the Alpha Project. Metro Housing of San Diego, the limited partner, has two officers, Christopher Harris, a former board member of the Alpha Project, and Christopher Vassar, an attorney and accountant. They both live in San Diego but are otherwise not actively involved in other housing or non-profit community work.

According to recent unaudited financial statements, the property is carrying long term liabilities of roughly $1,400,000. The Housing Commission is carrying about $900,000, and there is an additional $434,000 loan where the lender is not identified. There also appears to be two notes payable to the Alpha Project in the amount of $65,000. No interest has been paid on the Housing Commission loans which has resulted in a current liability on the balance sheet of $785,855 in accrued interest. The current owner has also not yet been able to pay the Housing Commission the ground lease fee.

The property shows a cumulative net loss of $305,000 since its inception from operating deficits,[3] and the cash flow statements for all of 2006 and through October of 2007 show deficits of $54,047 and $68,004 respectively. The current owner and management company have made a considerable effort to repair the buildings in the last two years. The cost of these improvements is showing up as an expense of $71,691 in 2006 and $178,673 through October of 2007. Without looking more closely at these costs, it is impossible to know if they would be classified as capital improvements or repairs. If they were capital improvements, it is possible that the building could produce positive cash flow at the current rents if a high occupancy level was maintained and the buildings were renovated and only requiring planned maintenance and replacement. More analysis would be necessary to determine if the cash flow would be sufficient to pay interest and the ground lease fee.

[3] It is unclear, however, if this includes depreciation.

The owner and property manager have used the building reserves to cover the deficits and the reserve balance has dwindled from $99,744 at the end of 2006 to $38,281.11 at the end of October 2007.

Finding #3: If the current deficits continue and the reserves are utilized at the same rate as in the last year, the project accounts will be emptied out within the next year leaving the project strapped for cash.

Rent Restrictions and Affordability

In 1989, the Housing Commission recorded 55-year rent restrictions against the property making 97 units affordable to individuals earning 90% of the California Minimum Wage (currently $14,040 per year) and 96 units affordable to tenants with incomes at or below 40% of Area Median Income (currently $19,650 per year). Rents are calculated by applying the 30% affordability standard, which assumes that a household can afford to spend 30% of its gross income on housing costs. Currently, 97 units are rented at $331/month with phone and 96 units are rented at $461/month with phone.

The units in the Metro Hotel are primarily occupied by some of San Diego's most vulnerable residents, many of whom came through a referring agency that offers emergency services to the area's homeless. According to the current property management company, over 60% of tenants came through a referring agency and the rest are folks who are "down on their luck." Virtually all of the residents are receiving some form of government assistance – i.e. SSI. Many of the residents are disabled and suffer from multiple issues, including mental illness and addiction.

Today, individuals who are receiving SSI get roughly $800-900/month in benefits which is 20-25% of Area Median Income (AMI). According to the Market Study completed for this property, a person on SSI income would have to pay 108% of their income for a market rate studio unit. And the tenants of the Metro Hotel receiving SSI are paying between 39.5% and 55.75% of their gross monthly income towards rent.

Finding #4: The current rent structure is <u>not</u> affordable to the existing tenant population according to the federal 30% affordability standard.

To further evidence the severity of this situation, the rent roll from the third quarter 2005 showed the following (from Keyser-Marston report):

Distribution of AMI:

<35% AMI	137 units	70%
35%-50%	10 units	5%
Vacant	37 units	19%
No data provided	7 units	4%
Missing units	4 units	2%

Although this data is old and the project is almost 99% occupied at the current time, the sample is an indication of the percent of income that the majority of Metro Hotel tenants are paying towards rent. The Market Study verified that the current rents are not affordable to a formerly homeless population with incomes typically at 20-25% of AMI from supplemental security income (SSI). It also identified the need for an operating subsidy for the project – both for affordability and to raise current rent levels to assist in generating positive cash flow for the property.

The Value of the Property

Jones, Roach & Caringella, Inc. appraised the property on August 1, 2007. The report concludes that the highest and best use of the property[4] is the "continued occupancy as an SRO hotel with remedy for deferred maintenance and related damage." According to Robert Caringella, the appraiser, although he did not include it in his report, the highest and best use would require the lifting of the rent restrictions and the ability to charge market rents for the SRO rooms. This was a difficult property to appraise with the ground lease and the rent restrictions, and he was looking at the maximum value of the property in the private sector.

What follows is a brief discussion of the conclusions of the appraisal report. It is important to keep in mind, however, that in each of his valuations, the appraiser is assuming that the rent restrictions would be lifted. If the goal, however, is to retain the Metro Hotel as affordable housing for very low income individuals, there is social value in these buildings that cannot be easily quantified.

The appraiser determined upfront in his report that the highest and best use of the property as vacant land would be to hold onto it for future or mixed-use development, considering the recent slow down in the area's multi-unit, residential market. Therefore, the appraiser looked at the value of the fee simple interest of the property as improved after repairs, using both a sales comparison and income capitalization approach. He also valued the leased fee interest, subject to the ground lease, by applying a locally supported capitalization rate for similar properties to the potential income stream to determine the present value of the ground lease fee for the term of the lease.

According to a thorough analysis of comparable sales in the area, the appraiser valued a fee simple interest in the property at $6,400,000. This takes into account the $1,000,000 in repairs and improvements that would need to be made to make it comparable with the recent sales. This value also assumes the property has no ground lease and no affordable rent restrictions.

In addition, the appraiser looked at the monthly rents of comparable SROs in the area and valued the fee simple interest through the income capitalization approach at $5,830,000 (which also takes into account the estimated repairs of $1,000,000). Similarly, this value assumes the property has no ground lease and no affordable rent restrictions.

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[4]The highest and best use of a property is the physically possible, legally permissible, financially feasible, and maximally productive use of a property that results in the highest value.

Although the appraiser qualified his analysis as limited in scope to determine the amount of discount that would need to be applied to these two values to account for buying out the ground lease, he valued the property at between $4,300,000and $5,000,000 if the rent restrictions are lifted and the buyer is responsible for removing the leaseholder.

The appraiser valued the leased fee interest at zero given the fact that the property has consistently operated at a deficit and the ground lease fee has not been paid. This scenario assumes that the rent restrictions would remain in place.

However, if the lessee who also operates and manages the property could get it to generate positive cash flow in order to make the ground lease payments of $50,000 annually (6% of gross revenue), the present value of the leased fee interest would be roughly $770,000. Again, this value requires lifting the rent restrictions on the property because considering current rents and operating expenses, the appraiser estimates that the best case scenario for the building would be to break even or produce a slight cash flow. And neither case would enable the lessee to make the ground lease payments.

The Buildings

Unit Configuration

To evaluate the best course of action for the Metro, one of the first things to look at is whether or not the buildings are working programmatically to keep individuals housed by providing a safe place where tenants can begin to work towards greater independence and health. Combined with the lack of services available to the tenants, the configuration of the SRO rooms with shared bathrooms contributes to a more transitional environment, where homeless individuals might go temporarily until they find a more permanent setting or, as is the case in San Diego, when the weather improves and they go back out onto the street.[5]

The focus groups with clients that were recently conducted in Clubhouses in all six Health and Human Services (HHSA) service regions in San Diego as part of the planning process to create the Mental Health Services Act (MHSA) Housing Plan[6] revealed that privacy was consistently a top priority for clients. Having to share a bathroom can be a blow to a person's self esteem that is difficult for many tenants to tolerate. Private bathrooms would make the units easier to rent, decrease the amount of social conflicts between tenants, and increase the likelihood that they will stay housed. The first thing that the property management staff said when asked, what would change about the building was, "Add private bathrooms in the units."

[5] The property manager at the Metro Hotel said that the buildings occupancy levels fluctuate seasonally. They have signed agreements with tenants that they can't leave and come back, although this will most likely not be effective since it does not address the underlying causes of why tenants leave.

[6] "Mental Health Services Act (MHSA) Housing Plan," County of San Diego Health and Human Services Agency Adult/Order Adult Mental Health Services, August 2007, Pg. 14.

Two men's and two woman's shower rooms and two co-ed bathrooms are located on the 2nd, 3rd and 4th floors of 435. Assuming there are on average 39 tenants living on each floor, the result is roughly six people sharing each toilet and nine people per shower.

Some units are bigger than others, but the typical size is about 100 square feet. These rooms are intended primarily for sleep and nothing much else since there is not adequate room for a table, chair, and/or desk. Although the MHSA Housing Plan recommends that efficiency units be a minimum of 350 square feet, there are good examples of efficiencies in supportive housing which average between 200-250 square feet.

Condition

Because of the poor condition of both buildings that has been consistently observed over the years, it is a question as to whether the buildings are worth saving and rehabilitating. In an effort to answer this question, at least four physical assessments have been conducted in the last several years to determine the scope and cost of rehabilitation. These reports have varied in content, but all have suggested that the buildings' physical deficiencies could be adequately addressed.[7]

A Property Condition Assessment was completed in August 2006 by Diligence One, LLC, which estimates $1,518,121 in hard costs would be required to repair and replace components requiring immediate action,[8] and another $176,300 for improvements made between months 12 and 120. This does not include relocation, soft costs, etc.

Rick Vincent, Senior Program Analyst at the San Diego Housing Commission's Housing Rehabilitation Section, conducted a "cursory" inspection of just 434 13th Street on February 28th, 2007. Based on this inspection, he made recommendations for current and future rehabilitation needs for the building and provided rough estimates for the cost of those improvements. His assessment was similar to Diligence One's in that the property needs extensive rehabilitation. His main concerns focused on the water damage caused by minor leaks which were not addressed in the past leading to larger problems, the marginal condition of the bathrooms, and the lack of roof maintenance which has resulted in water penetration into the structure. His estimates came in at $319,700 for immediate requirements and $718,500 for improvements done over the next 5 years.

As part of the Appraisal Report, Heritage Architecture and Planning was engaged to identify a scope of work to improve and repair the buildings and provide an itemized cost estimate for this work. Their report is dated 8/27/07, and it is safe to assume that their inspection took place immediately prior. The total estimated hard costs for their proposed physical improvements for both buildings came in at $949,714.

The following table shows estimated rehabilitation costs from each report:

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[7] Both architects who were consulted for this report indicated that a 17 year old building should be salvageable, although neither has seen the Metro or 434.

[8] See the Diligence One report for a list of items they feel should be addressed immediately.

Report	Rehabilitation Costs	Date of Report
Rick Vincent, Housing Commission*	$1,038,200	February 28th, 2007
Diligence One	$1,694,421	August 2006
Heritage	$949,714	August 27th, 2007

*This report was just for 434.

There is one other property inspection report prepared by David Heatherly Consulting. This report did not contain very much specific information except for a matrix with inspection results from this consultant's attempt to access and inspect each unit of both buildings. But the matrix was not accompanied by cost estimates, or any detail on the nature or scope of the repairs, to make the report of any use.

Although Rick Vincent's report was only for 434 13th Street, there are a couple of items that are easily isolated from each report to compare estimated costs.

Report	Roof Replacement	Exterior Painting
Rick Vincent, Housing Commission	$17,000	28,500
Diligence One	$20,000	$35,000 (includes stucco repair)
Heritage	$41,088	Not Included

In addition, Mr. Vincent's report and Diligence One's report differ in terms of what should be done immediately and what can wait. For example, Vincent's report has immediate bathroom upgrades totaling $46,700 with complete bathroom remodels/reconfiguration (which involves deleting three units) over the next five years totaling $275,000. Diligence One suggests tackling the bathroom renovations immediately at a cost of $240,000. In another example, Vincent suggests replacing all the entry doors to the units immediately for $60,000 while Diligence One recommends replacing six per year for roughly the next 10 years. Heritage's report suggests carrying out all the improvements at one time.

These comparisons are given to demonstrate that there are numerous ways to approach a renovation of these buildings. And the best approach will be driven by the fact that there are tenants living in the building. It is also apparent from this analysis that the value of a Physical Needs Assessment (PNA) decreases as the report ages. In an environment like the Metro Hotel where property management staff are fixing issues as they come up based on level of emergency – i.e. leaks come first, a PNA is not going to be of value unless it is used quickly to determine a rehabilitation plan. It will also be critical to involve the building staff and tenants in the process to make sure to strike a balance between taking care of problems and undertaking an adequate scope up front.

Finding #5: The existing Physical Needs Assessments and inspection reports are out of date and do not give consistent recommendations.

The buildings are both currently 4 stories. They have reinforced, concrete spread footings with stem walls and concrete slabs, floor systems at supported levels composed of lightweight concrete over plywood decking on wood floor trusses, walls are 2x6 wood frame with stucco exteriors, single pane aluminum windows, and the flat roof areas utilize premanufactured wood trusses supporting plywood decking and built up fiberglass membrane roofs. They are 17 years old and were originally designed by the Austin, Hansen, Fehlman Group in San Diego. The flooring material in the common areas, hallways, and most units is vinyl composition tile (although there is carpet in some units). The floors in the common baths and lobby areas are ceramic tile (some of which is new). The buildings and units are heated by a hydronic baseboard radiator system supplied by roof-mounted, gas hot water boilers which also heat the building's water supply. There is no air conditioning in either building.

The buildings are sprinklered, and the current property manager, Tarantino Management Company, has repaired the fire alarm system, although it was not working at the time of Diligence One's report in 2006.

The Diligence One report noted a lack of GFCI receptacles at required locations and exterior lights that were plug connected instead of hard wired. Also, the buildings have some aluminum wiring which was used because copper is more expensive. The report says that infrared scans should be performed to identify "hot spots" in buildings that use aluminum wiring. They also recommend hiring a consultant to do an electrical service load analysis for the buildings which will most likely result in the need for upgraded main service panels, as it was their opinion that the existing service is not adequate. Property management staff, however, said that they do not have regular problems with the electrical service capacity.

Diligence One's report, as did the others, noted many plumbing problems and deficiencies throughout the building and evidence of extensive leaks because of corroded light fixtures, door frames, wet or damp drywall, and missing drywall. The report recommends that the drywall is removed on plumbing walls to assess the condition of piping, the connections, and supports. They did not find significant structural damage, but saw water damaged wood joists and framing.

Diligence One reported that mold was found at:

- Building 434 1st floor – assistant manager's apartment, storage and telephone rooms
- 435 1st floor – north office area
- 435 2nd floor – woman's restroom and storage area
- 435 3rd floor – women's restroom and storage area
- 435 4th floor – men's restroom and storage area
- 435 – south exterior foundation wall by irrigation valves

It appeared from a quick tour of the buildings on December 14th, 2007 that many of the leaks had been repaired or were being repaired and that the mold had been handled. The owner and property management staff also claim to have replaced most if not all of the shower room floors, correctly sloping them towards the drain. The lack of slope in the floors caused some of the leaks.

None of the four physical inspection reports claimed to have tested for hazardous materials – i.e. mold, lead paint or asbestos. The age of the building minimizes the need for lead or asbestos testing, but the presence of mold verified in all these reports is a major concern. Although the current property management company has been successful in fixing the leaks and drainage problems that led to the mold growth and the related damage, the buildings should still be tested for mold to determine if remediation is necessary. Exposure to toxic mold can be extremely hazardous to people's health, resulting in new and often debilitating symptoms and/or weakening the ability of an individual's immune system to fight existing health problems. The continued presence and/or growth of mold in the building would be a major liability to the property owners.

Finding #6: No environmental testing has been done to determine the level of mold growth throughout the buildings.

In regards to handicapped accessibility, the project was built prior to the enactment of Federal Housing Act (FHA) regulations requiring all residential units in buildings of 4 or more units to be built as adaptable and usable by people with disabilities. This project is considered to be legal non-conforming, and the property management staff confirmed that all but one of the common baths was accessible to tenants with physical disabilities.

Property Management

As previously noted, the Metro Hotel has consistently struggled since it began operations in 1990, and many of its problems can be related to poor property management. Unfortunately, a lack of quality property management services is not a problem unique to the Metro Hotel; many affordable and supportive housing projects suffer from poor quality property management and, because property management has been found to be such a critical piece of supportive housing, there is more focus now on improving the quality of property management available to supportive housing operators and owners.

The Metro Hotel has been managed by three separate property management companies since it opened. When the Alpha Project took over the buildings in 1999, Quatro Property Management was managing the properties and not doing an acceptable job. The Alpha Project worked with the California Equity Fund (CEF), the tax credit investor, and brought in the John Stewart Company in 2001. After a time, it became clear that the particular employees assigned to the Metro Hotel were not providing quality services, but Alpha agreed with CEF to keep the John Stewart Company on as the property manager until the tax credit period ran out in 2005.

On June 1st of 2005, Alpha brought in Tarantino Property Management to take over the day-to-day management responsibilities of the buildings. Tarantino manages four other properties – all HUD properties – for the Alpha Project, and both parties have been satisfied with their working relationship. It should be noted, however, that there is no Property Management Plan in place for the buildings.

When Tarantino first took over the Metro Hotel, they kept the existing on-site staff who had previously worked for John Stewart. It didn't take much time, however, for Wende Tarantino, the owner of Tarantino Property Management, to discover that these employees needed to be replaced in order for the situation to improve. In early 2006, Tarantino replaced all the building staff who are all still in their positions. The following staff currently work at the buildings: Annette James, Property Manager, Charles Stone, Assistant Property Manager, Robert Clinnon, Maintenance Manager, Sam Weeks, Maintenance Assistant, and Mary Estrado, Office Manager/Front Desk Clerk. The staff monitor the front desk during the day, and four different security guards rotate shifts in order to provide security 24 hours a day, 7 days a week.

Based on the current condition of the buildings as compared to documented reports and accounts from all the people who were interviewed for this report, there is no doubt that Tarantino Property Management, in partnership with the Alpha Project, has done a tremendous amount over the part 1-2 years to improve the physical environment and fill the buildings with tenants. For example, out of the 34 bathrooms, roughly half or 17 were inoperable and shut down to tenant use in 2005. Today, all the bathrooms have been repaired and are in use.

In regards to vacancies, at the time Tarantino took over in 2005, there were roughly 100 vacancies due to the fact that Mental Health Services, a private non-profit services agency, and Community Research Foundation (CRF) had removed 50+ tenants from the buildings who were receiving case management services as well as rent subsidies through the REACH Supportive Housing Program, but also because of the poor property management and the deteriorating condition of the buildings. CRF Program Manager, Troy Boyle said that there were many reasons why his agency removed the tenants from the Metro, but the leading factor was that they felt it was a "poor use of a Section 8 voucher." Since the Section 8 voucher will only pay the restricted rents at the Metro, the rooms could not compare with the studios and one-bedroom apartments that a Section 8 certificate would also cover out in the private market.

Today, there are only 7 vacancies total which translates into a 4% vacancy rate, well within the standard for residential rental properties.

Although Tarantino's staff has made a lot of progress, there are still physical issues to address at the buildings. Repairs and improvements have been handled on an as needed basis as crises arise, and there is no preventative maintenance plan or capital improvements plan in place. When asked about this, Tarantino and Alpha both reported that it has been difficult to do any long term planning for the buildings since their future has been up in the air for some time.

Finding #7: There is no property management plan, capital improvement plan, or property maintenance plan in place for the buildings.

According to the report by Due Diligence, the buildings had several serious fire/safety and plumbing and building code violations in 2006. The staff report that these violations have all been corrected, but these repairs most likely explains the large decrease in the building reserve account. It should also be noted that the type of population currently living at the Metro Hotel tend to be hard on the building and units and appropriate planning and funding levels need to anticipate this reality. The annual budget line for general maintenance and repair in a supportive housing project will be higher than in market rate or affordable housing. The Metro Hotel could also benefit from an additional full-time staff person on the maintenance/janitorial team as is a more appropriate staffing level for this many units of supportive housing.

<u>Existing Tenant Population, Housing Retention, and Social Services</u>

The majority of Metro Hotel tenants are formerly homeless or chronically homeless individuals who suffer from more than one disability. The property management staff report that over 60% are referred through several local social service agencies providing services to homeless individuals, including crisis shelters and through programs administered by the Health and Human Services Agency of San Diego County, and an even higher number are receiving SSI.

The tenants with the most difficulties and in need of the greatest access to the housing end up at the Metro Hotel. The property has lost more stable potential tenants in the past when properties open up nearby with better unit configurations, private baths, and rent subsidies. One example of this was the opening of Lillian Place one block away which was developed by Wakeland Housing in partnership with the San Diego Interfaith Housing Foundation. Although the lease forbids any tenants to have illegal drugs or alcohol in the buildings or into the rooms, most of the tenants who are living at the Metro are so ill and prone to substance use, it is likely that there is drug use in the building.

The property management staff say that the biggest challenge to keeping tenants housed is the lack of privacy resulting from the shared bathrooms. The shared bathrooms contribute to many sanitary issues as well as interpersonal conflicts. They also identified the no visitor rule and the lack of cooking facilities on site as factors. Unit turnover is higher for the 50% of units with the higher rents of $446 ($461 with phone). Many new tenants are initially placed in the higher rent units because there is more availability there, but they move into a less expensive unit when it becomes available.

When asked about how tenants feel about their lease, the property management staff reported that tenants don't typically read their leases even though the staff spends time going over them to ensure they understand what they are signing. Tenants are often "so happy to get a room" they aren't interested in the details. They also reported that some tenants can't read the lease.

Property management staff did not report a problem with rent collection. Even though there is $22,000 in rent receivables on the balance sheet, it is impossible to know how long that balance has been on the books. Most of the tenants who are referred by a local agency have agreements set up with Third Party Payers which ensures that the Metro Hotel gets the rent each month. Tenants who are not working with Third party Payers have in most cases "graduated" from this arrangement and have worked with building staff to slowly begin to handle their own income and expenses. Staff reported that there was a huge sense of pride associated with this transition.

The property management staff pursue eviction as a last possible resort in all cases and most evictions are a result of non-payment of rent. In the last year, they reported 10 evictions with two related to behavior. Building staff make a big effort to work with tenants to modify behaviors before pursing an eviction.

Tenants of the Metro Hotel have a month to month lease with no restriction on the length of stay. There is a stipulation in the lease, however, that it may be terminated if the tenant's income goes up beyond the maximum allowed. Since most tenants don't increase their incomes dramatically, this has only been enforced once in the last couple of years. Property management staff gave the tenant 90 days to find other housing, although it is questionable whether this action would be allowed by state law.

Alpha and Tarantino both report that there haven't been any tenant complaints about the Metro Hotel for over a year. Before that time, they were receiving 2-3 complaints per day on average, and the San Diego Police Department was there every day for resident issues. To their knowledge, the Police Department has not been there for more than a year. They attribute this to the dedication of the property management staff.

Since a building of this size with the type of tenant typical of the Metro Hotel would generate complaints even in the best of circumstances, staff was asked if a grievance procedure was posted at the building. According to staff, a grievance procedure is not posted although Wende's phone number is posted around the building. She does get calls from time to time about building staff, but "they always work it out." Staff says that they tell tenants what to do if they have a problem and that they do have an incidence report procedure which people use. Building staff claim to have been successful in resolving most of the conflicts that arise. They report that tenants have more trust now in the property management staff and less fear than in previous years.

Currently, there are minimal services offered at the Metro Hotel. There is $800 in the operating budget which supports a case manager, Toby Williams, for 4 hours a week to run the food bank on Thursday afternoons and provide other services as needed for tenants on Tuesdays. She also helps to run a hospice program on-site called "Die with Dignity." Robb Lally, representative for the Alpha Project, said that Alpha supports this position and that the $800 from the operating budget does not cover the amount of time that Toby spends with Metro Hotel tenants. Once the Winter Shelter is closed, she'll spend as much as 1/3 of her time at the Metro Hotel offering case management services, referrals and working to generally stabilize tenants who are experiencing difficulties.

About 6 months ago, the Community Research Foundation (CRF) signed a Memorandum of Understanding (MOU) with the building owner to provide 30 units of housing for the agency's clients. Even though the same agency removed tenants from the Metro in 2005, they chose to enter into this new agreement with the Alpha Project, and Troy Boyle from CRF reports that "the partnership has been going very well." He went on to say that the new MOU does a much better job of defining the roles and responsibilities of each organization. Now, CRF takes total control of their tenants and tells the Metro property management staff to call them directly if there are any problems. Boyle added that the Metro is attractive to CRF because the rents are low comparatively for San Diego; the Alpha Project will take the most troubled and hardest to serve tenants which most landlords won't; and the Metro provides a direct access to housing for individuals struggling with mental health, personal hygiene issues and substance use which is difficult to find.

The MOU provides that CRF will master lease up to 30 units as they become available at the higher rent of $461 (which includes limited phone service) and pay the rent on the units between tenancies for their clients. Only 17 of the 30 are currently occupied, and the balance will be phased in as units become vacant. The Housing Commission staff reported that there are 13-15 Section 8 Vouchers assigned to the Metro Hotel which pay $450/month rent, although Boyle said that the ReachCRF program does not use any Section 8 Vouchers at the Metro. CRF provides comprehensive case management and mental health services to these tenants and pays 100% of the rent for tenants with no income and 70% of the rent for tenants on SSI who pay the other 30%. Boyle said that the tenants come from the emergency shelter system, such as the Neil Good Day Center nearby, mental health service centers, hospitals, and the city's short term residential treatment program.

From 2002 to 2005, the Alpha Project was able to secure a nearly $1 million grant to provide social services on site through the state Supportive Housing Initiative Act (SHIA). During that time, there was one psychologist/director on staff, three case managers, two case aids, and one job developer. According to Robb Lally, this was a stable time at the Metro Hotel where tenants were getting the services they needed. Robb says they were committed to making things work at the Metro Hotel and even organized a trip up to San Francisco for both services and property management staff to visit projects where the two interests were working well together.

Unfortunately, the SHIA grant was not renewed and the County was unable to continue funding for the services. When asked if the Alpha Project had made an effort at the time to seek other sources of funding, Robb said that he looked "everywhere for services the whole 6 months before the funding was ending" but was unsuccessful. He didn't know if Alpha had made any efforts since that time, although the agreement with CRF is an example of securing services for the building tenants on a smaller scale. It is unclear at this time whether Alpha can consistently raise the funds to provide a high level of services to the tenants. It was suggested in the Market Study that the current building owners should develop relationships with service providers or transfer ownership to an organization with a proven track record of providing supportive housing.

Finding #8: The services currently provided to tenants of the Metro Hotel are inadequate considering their level of need.

PART V: FINDINGS AND IMMEDIATE RECOMMENDATIONS

Based on the analysis of the Metro Hotel as presented in the previous section, there are eight significant findings that should inform the course of action selected for the Metro Hotel - whether in the a more immediate timeframe or in regards to a longer term solution.

Summary of Key Findings

1. The location of the Metro Hotel is ideal for a supportive housing project which provides a strong foundation for preserving and improving the housing.

2. All of the tenants of 434 and 435 share common restrooms; none of the SRO rooms contain a private bathroom.

3. If the current deficits continue and the reserves are utilized at the same rate as in the last year, the project accounts will be emptied out within the next year leaving the project strapped for cash.

4. The current rent structure is not affordable to the existing tenant population according to the federal 30% affordability standard.

5. The existing Physical Needs Assessments and inspection reports are out of date and do not give consistent recommendations.

6. No environmental testing has been done to determine the level of mold growth throughout the buildings.

7. There is no property management plan, capital improvement plan, or property maintenance plan in place for the buildings.

8. The services currently provided to tenants of the Metro Hotel are inadequate considering their level of need.

Immediate Recommendations

The following recommendations are intended to address the immediate needs of the properties and the tenants. Where possible, a timeframe has been assigned so the team committed to improving the Metro Hotel can plan and evaluate their progress. These recommendations are meant to be a jumping off point for discussion and will need refining based on priorities and feasibility.

- CCDC Board to clarify its goals and intentions for the Metro Hotel and communicate those goals to CCDC staff, the Housing Commission (HC), and the owner/operator (1 month).
- Based on its goals, CCDC Board to eliminate development scenarios based on this analysis in order to focus on developing more detail for one. Determine a development strategy for CCDC to pursue to best accomplish its goals (1 month).
- CCDC and/or HC to form a Metro Hotel Task Force which meets regularly to monitor progress on the project. Assign a lead staff person to the Task Force to organize meetings and keep everyone on track (1 month).
- CCDC and HC to continue discussion on the transfer of the Metro Hotel with a specific plan in place (3 months).
- CCDC and/or HC to research whether Section 8 Vouchers, if there are in fact some being used at the Metro Hotel through the ReachCRF program or otherwise, can pay Fair Market Rents for units at the Metro Hotel instead of the restricted rent (1 month).[9]
- CCDC and/or HC to explore changing the rent restriction covenant on the land to tie rents to 30% of tenant's AMI (although this is not to be done before the property is adequately financed) (1 month).
- CCDC and/or HC to look at the Ground Lease for any leverage that would require the building owner, as represented by Alpha Project, to agree to performance outcomes and objectives (1 month).
- CCDC and/or HC to bring an architect on board who will be involved through the whole project as a long-term partner. The architect should have extensive experience in designing supportive housing as well as rehabilitation and relocation. Architect will conduct a new PNA as part of his or her scope of work.
- CCDC and/or HC to hire a finance consultant, like Community Economics or the Community Housing Partnership, who specializes in supportive housing to run numbers on a development scenario (3 months).
- Financial consultant to conduct further analysis when the audited financial statements are available to look at operating expenses (2 months) to inform the financial modeling.
- CCDC and/or HC to conduct mold testing (1 month).
- Owner/operator, as represented by Alpha Project, to prepare property budget for fiscal year 2008 and provide to CCDC and/or HC (1 month).

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[9] On November 19th, 2007, the federal Department of Housing and Urban Development (HUD) issued regulations 24 CFR Part 983 "Project-Based Voucher Rents for Units Receiving Low-Income Housing Tax Credits; Final Rule" which revises the low-income housing tax credit (LIHTC) rent provisions of HUD's Project-Based Voucher (PBV) program to not cap the rents at LIHTC levels. Although not directly applicable to the Metro Hotel, this may indicate that HUD would allow payment of FMRs even with rent restrictions in place.

- Owner/operator to provide monthly budget-to-actual reports to CCDC and/or the HC with key indicators like reserve levels, vacancies, rent collection, incidents, etc.
- CCDC and/or HC to begin to define development team roles to create a culture of increased accountability (2 months).
- CCDC and/or HC to meet with Alpha Project representatives to establish an Improvement Plan that includes clear outcomes and timeframes. This will document their ability to perform and make it clear whether or not they can be the sponsor of this project. Most importantly, this Improvement Plan should require that Alpha raise money or create partnerships to bring services into the building (3 months).
- Owner/operator to provide CCDC and/or HC with a Property Management Plan for the building with clear outcomes, quantifiable performance measures, and an evaluation component (2 months).

PART VI: KEY CONSIDERATIONS

Relocation

Having tenants in place when rehabilitating a building is always a major driver of how a construction project is timed and conducted. Whether all the tenants in the building will be permanently or temporarily relocated off-site or moved to areas of the building that are separated off from the building will depend on a variety of factors including, but not limited to, construction scope, configuration of the property to be renovated, occupancy levels, and the availability of other housing to accommodate the tenants. Based on the lack of other housing available, renovating with tenants in place is sometimes the most viable option.

Relocation is always expensive and challenging. When tenants are in place, construction work can be spread over a much longer period of time which will increase costs. It also puts strain on everyone involved, including tenants, the contractor, the developer, property manager, and the service provider. There are consultants specializing in relocation who know the most efficient strategies to minimize the negative impacts on everyone and who can manage the process.

Depending on the situation, relocation can cost $5,000-$10,000 per unit. If the development of the Metro Hotel incorporates an attrition strategy where units are emptied over time as tenants move out, a liberal estimate would assume that at least 100 tenants would need to be relocated. Therefore, relocating the tenants could cost as much as $1,000,000.

Both architects interviewed for this report, who have extensive experience designing and constructing projects with tenants in place, stressed the importance of involving the tenants in the process as early as possible. This way, they will understand why these disruptions are taking place and why the temporary discomfort is worth the result. There needs to be a good deal of back and forth, however, and this will most likely increase the architectural fee as well as the construction costs since the contractor needs to be involved early as well.

Determining a rehabilitation scope and approach that works with tenants in place can also be very difficult. The architect, engineer and contractor have to be willing to take on the challenge and committed to spending time together brainstorming the best possible solution. It requires creativity, time, and a team effort.

On the positive side, architects can solicit input from tenants who will be the best source of information to inform the design. Architect Chris Duncan with Gelfand Partners in San Francisco gave an example of designing housing for formerly homeless youth. As an architect he always maximized closet space, but the youth told him that they don't want storage space because they don't have any stuff and what they needed was more space to hang out with their friends. Longer term tenants will also know things about the building which are important for determining the scope or work.

Rich Caldwall, an architect at HKIT in Oakland who has worked on many projects with tenants in place, says that the right contractor and building department officials who are supportive of what you are trying to do are critical for a project's success. For example, once you cut into and compromise fire rated assemblies in a building, the building department might require that you empty out the whole building making it impossible to do the work with tenants in place.

As noted, involving tenants in the design process who are going to live in the building once it is renovated can have a very positive impact on the final product. This is more difficult, however, with a transitional population. Tenants who are looking for a safe place off the streets, but are planning to move on, do not typically have a long term interest in or familiarity with the housing.

In many cases though architects have worked successfully with existing tenants through a participatory process to figure out what would be the best design for the project, whether it's major reconfiguration of the floor plans or just the addition of smaller architectural features. Being involved contributes to the tenants' pride of place and makes it more likely that the remodeled building will suit their needs. Rich Caldwell says that in his experience when tenants are involved in the design, there is always something that a tenant can point to at the end and proudly say, "That was my idea." From that perspective, rehabilitating the Metro Hotel with tenants in place or relocated temporarily provides an opportunity to engage tenants in something very positive.

Rehabilitation Vs. New Construction

One of the big questions which needs to be answered to determine the best course of action for the Metro Hotel is whether it makes more sense to renovate the buildings and try to fix the problems or to demolish the buildings and build from scratch. It is not an easy question to answer because there are not just cost and feasibility considerations but also programmatic ones which could make or break the success of this project as permanent supportive housing.

Studies have shown that in permanent supportive housing programs which provide a mixture of room types, including studios with private baths and SRO type rooms with shared baths located off the hallways, <u>the single biggest determinant of whether or not they stay in the housing is whether or not they have a private bath</u>. If the goal of the housing is to keep people housed, a shared bathroom environment is not the recommended configuration.[10]

With that said, adding private bathrooms would be the single most difficult and expensive part of re-configuring these buildings, as plumbing work is costly. The fact that the existing bathrooms cover a fairly wide area on each floor could help minimize these costs because it implies that the plumbing distribution system is spread out over a larger area as opposed to being located in an isolated core. This could make it a bit easier and less costly to tie into the existing system with additional plumbing fixtures.

Typically, gut rehab is less expensive than new construction, especially when the plan is to build bigger. Currently, the building is a 4 story, traditionally wood framed building most likely constructed to meet a 1 hour fire protection rating. If new construction was the development strategy chosen for the Metro Hotel, it is possible as per existing zoning to go up to 6 floors at 435 and eight floors at 434. It is possible to go up five to six floors using wood, but it would require non-traditional Type III construction because above 4 stories requires a 2 hour fire protection. Type III construction is more expensive than a traditional wood framed building, which is what is there now. Building above five or six floors would require steel and concrete which is much more expensive than Type III wood construction.

Also, structurally these buildings most likely use non-interrupted interior walls – i.e. the walls between units and the corridor walls, for shear support. Removing these walls in order to increase the size of units would require engineering analysis and creativity. These walls individually are not providing a lot of support, but together they create a system of support which would be compromised. A new system would have to be determined, balancing ideal floor plans with possible engineering solutions within the existing conditions.

In addition, a building designed and constructed in the late 1980's is not going to comply with today's seismic standards. Whether or not a major renovation and reconfiguring would require that the whole building be brought up to today's codes, it is in the interest of the building owners and funders to comply with those codes since they are the minimum legal requirements and are designed to ensure public safety.

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[10]The Market Study observed that because of the configuration service providers are also not likely to refer clients to these buildings and that it will be difficult to secure rental subsides like Section 8 or Shelter Plus Care.

The Market Study, from June of 2007, agrees that the property, as designed, does not well serve its target market and suggests that it is better to have studio units which encourage 2-3 year stays to allow tenants to gradually return to self sufficiency. The Market Study goes on to say that the units are sub-standard even if renovated as is because the configuration and lack of amenities are inferior to competing properties which target a homeless population and come with larger rental subsidies. Their recommendation is to gut the interior to reconfigure to studio units with bathrooms and kitchens and re-work the common areas to allow for common gatherings, socializing and services.

In order to reconfigure the existing units into studio apartments with private baths, a number of units will be lost. There are many ways to imagine redesigning the floor plans of 434 and 435, but the following analysis represents one way to proceed.

Architect Chris Duncan is currently working on a similar rehabilitation where they are taking three adjacent units and reconfiguring them into two units, each with a private bath. Two bathrooms are created in the space of the middle unit. This is potentially feasible without disrupting the existing structural system, but the unit size in this scenario would only be about 150 square feet. Based on that square footage assumption, the following units would be lost:

At 435:

1st Floor	17 units	12 units (loss of 5)
2nd Floor	37 units	25 units (loss of 12)
3rd Floor	41 units	28 units (loss of 13)
4th Floor	41 units	28 units (loss of 13)
	136 units	93 units (loss of 43 units)

At 434:

1st Floor	7 units	5 units (loss of 2)
2nd Floor	17 units	12 units (loss of 5)
3rd Floor	16 units	12 units (loss of 4)
4th Floor	17 units	12 units (loss of 5)
	57 units	41 units (loss of 16 units)

In this scenario, the total loss of units for both buildings would be 59.[11] The project would go from having 193 units to 134.

Although the City's SRO Hotel Regulations as per the Municipal Code prevent the loss of SRO Units from their demolition, conversion or rehabilitation, a proposed project is exempt if it will house very low income tenants.

[11] This is a conservative estimate because it does not take into account the space that will be freed up by the common bathrooms on each floor. Therefore, the loss of units could be less.

In order to determine the unit count for a new construction project according to the existing zoning, the square footage of each building's existing footprint was used as the same footprint for a theoretical new construction project. It is assumed that the new studio units would be 250 square feet in size.[12]

According to Diligence One's report, the gross square footage of 434 as per city documents is 13,502 square feet – or 3,375.50 square feet per floor. The gross square footage of 435 is 28,810 square feet – or 7,202.50 square feet per floor.

Assuming the same lot coverage and 18%[13] of the building's total square footage is circulation and community space, six stories at 435 or 43,215 square feet total (7,202.50*6) would amount to roughly 141 units at 250 square feet each with adequate circulation and community space (43,215*.82=35,436.30/250=141.75 units). At 6 stories at 434, 20,253 square feet total (3,375.50*6) would amount to roughly 66 units at 250 square feet each with adequate circulation and community space (20,253*.82=16,607.46/250=66.43 units). At 8 stories,[14] 434 would be 27,004 square feet total (3,375.50*8), amounting to roughly 88 units at 250 square feet each with adequate circulation and community space (27,004*.82=22,143.28/250=88.57 units).

Total units from new construction on each parcel at 6 stories = 207

Total units with new construction on 435 at 6 stories and 434 at 8 stories = 229

<u>Common Areas/Community Space</u>

Currently, the tenants at the Metro Hotel only have access to the lobbies for hanging out, although some hanging out is done outside the building, especially at 435. There are also balconies on each floor of the 435 which tenants use. There is some additional communal and office space throughout both buildings on the first floor, but other than the office space for property management staff and the courtyard at 435, these spaces are mostly used for storage and kept locked. The reception area at 434 is kept locked except on Thursdays when Toby operates the food bank. The current property manager said the common rooms were closed because there is not adequate service staff to use and monitor the space.

Safety is a big concern for common space in supportive housing and issues can arise when housing people who have long been homeless, or people with limited skills for daily living. Other than the lobbies, the common areas at the Metro Hotel are divided and not centrally accessible, although the courtyard is viewable from some of the offices at 435. Currently, the Metro Hotel has 24/7 front desk coverage at 435 but no staff at 434.

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[12] According to the Centre City Planned District Ordinance, "living units" are permitted by right in this area. A *living unit* is an enclosed space of between 150 and 400 net square feet which is used as a primary residence for a minimum period of one month at a time.
[13] As per architect, Rich Caldwell.
[14] Eight stories are allowable at 434 with the FAR bonus for affordable housing.

A security camera system around both buildings is viewable from the reception area at 435.

In supportive housing, community space is important for many reasons which range from encouraging tenants to come out of their units to providing adequate space for the social service program. There is potential to renovate the existing common areas at the Metro Hotel for tenant use, but in general the existing amount of community space is small for the number of units.

Common areas are used the most when they are located where they are easily accessible. Facilities located down long hallways or in rarely frequented wings are unappealing and sometimes even unsafe. Gathering spaces should be placed where people naturally gather. Trash rooms should be located near people's units and along their daily paths.

Architect Rich Caldwell suggests that in a 4-story building of studios with limited kitchen facilities, it would make sense to have one full, community kitchen on each floor. He said even one every other floor might work, but typically the more people who share a facility – whether it's a bathroom, kitchen or laundry room - the more social conflicts will result. He also acknowledged that having multiple community kitchens requires management and maintenance on the part of building staff, necessitating adequate staffing levels. In his experience, however, a community kitchen has proven to be a very positive opportunity for social interaction amongst tenants and contributes to their pride of place. Since the majority of tenant related conflicts and problems are typically caused by the same small percentage of tenants, eliminating adequate amenities would essentially penalize all the tenants because of the actions of a few.

If it is not possible to provide a common kitchen, architect Chris Duncan says that in unit kitchen facilities should include a full sized fridge and ample storage because tenants receive and buy food in bulk.[15]

Overall, the common area and office space in a supportive housing project is determined by the service needs of the tenants and the service plan. For example, if mental health services will be provided on site, then it would be important to have private offices where service staff can meet one-on-one with tenants. If the service provider plans to offer classes, they will need a room that is big enough to accommodate a larger group of people. One set of design guidelines for supportive housing projects suggest that each project have one room that will accommodate all the tenants at one time.

Whether a new construction or a rehabilitation project, the architect should meet with the social service staff as early in the design process as possible to determine the space needs of the planned service program and incorporate into the design features which will best serve the tenants for the long-term. Property managers may also have experience that can be invaluable in the design process, especially around issues like building security and

[15] Full sized refrigerators and the number of stove burners can prevent an SSI recipient from getting their monthly meal allowance as can access to a "kitchen facility."

materials and finishes. In fact, the best designs for supportive housing come about through innovation, facilitated by a close-knit partnership between the architect, service provider, and property manager. It isn't easy. But the investment in the design phase will pay off in the finished product in terms of ease of maintenance, building durability, and best suiting the tenant's needs.

A new construction project will, of course, be able to achieve more in the planning of the common areas, but there is definitely potential for improving the appearance and function of the common spaces at the Metro Hotel through a rehabilitation project.

Building Green

Today, developers and architects are "building green" to maximize the energy efficiency and resource conservation in the construction and operation of residential and commercial buildings and to create the healthiest, least toxic spaces possible. Green building has become an important consideration for all architecture and construction, including affordable and supportive housing. Non-profit developers are incorporating more and more green features into their buildings, and funders and government are supporting these efforts through programmatic and funding initiatives. A supportive housing project designed and constructed based on green principles will score higher in most funding applications while providing a healthier place for special needs populations.

Many advocates of sustainable building practices say that the greenest building is the one that's already built. The construction of any new building, no matter how much cutting edge green technology it incorporates, will have a significant impact on the environment. An existing building represents a big investment of time, resources and energy, and if the building is demolished, that investment goes to waste.

The concept of embodied energy is relevant to the analysis of whether to preserve or demolish an existing building. For any building, it took energy to manufacture or extract the building materials and transport them to the construction site plus more energy to erect the building. Oftentimes, the energy use of buildings is only associated with the operating energy that the building will use going forward for heat, cooling and general power. If only operating energy is considered, than a new, more energy efficient building will win over an existing building. But if you take into account the energy that is already bound up in existing buildings and the energy used to construct a new building, the overall impact of renovating the existing building will be significantly less every time.

Whether new construction or rehabilitation, building green is becoming the preferred and expected way that architects, developers, lenders, and local building officials approach projects. In many cases, local agencies are offering tax breaks or other incentives to comply with one of several rating programs which certify buildings as achieving different levels of green. Examples of these programs would be the national LEED program launched by the U.S. Green Building Council in 2000 (LEED was originally only applied to commercial buildings but has recently unveiled LEED for Homes to include residential properties), and the newer GreenPoint Rated program created by Build It Green in the

Bay Area which offers ratings for both new construction single family homes and multi-unit residential projects. They are currently working on guidelines for rehabilitation projects. Both programs offer several points in their existing and proposed rating systems for projects that reuse an existing building.

There are many opportunities for incorporating greenbuilding solutions into a rehabilitation of the Metro Hotel. They would range from incorporating the use of non-toxic finishes and paints to even creating a green roof which can absorb rainwater and decrease runoff as well as providing extra insulation for the building. Even though green roofs are usually found on steel framed buildings, it is possible to do it on older, wood-frame structures with some reinforcement. They also provide welcomed green open space in urban areas mostly covered with concrete and asphalt. One wood-frame, residential rehabilitation project in Homestead, PA, was granted matching funds by the Pittsburgh-based Three Rivers Wet Weather Demonstration Project which encouraged green roofs and the remainder of funds from the Three Rivers Foundation. A green roof might not be an appropriate feature for the San Diego climate but this is a good example of the availability of funds for incorporating green solutions – especially innovative ones – into residential projects.

PART VII: THE DEVELOPMENT SCENARIOS

One of the first questions to ask when evaluating the Metro Hotel is whether or not the buildings are suited programmatically for permanent, supportive housing. Regardless of whether there are adequate social services on site, consistent, high quality property management services, and asset management oversight of these buildings, the project's history tells us that the buildings as they are currently configured without private baths does not support the goal of keeping people housed.

The next issue to gauge is the potential to fix some of the problems that have been identified in these buildings. Although there is a good indication that the buildings would be worth reconfiguring and rehabilitating, further analysis must be done to determine how to fix the problems within the constraints of the building's structure and systems, potential for financing, and the fact that the building is currently over 95% occupied.

Concurrently, the impact of the loss of units needs to be considered. As previously demonstrated, a reconfiguration that resulted in roughly 150 square foot units with private baths would eliminate as much as 59 units. Some questions to ask are: Is it possible to justify the loss of the units based on the creation of a better configured and financed replacement of some of the units? Is it likely that these units as they are configured would be attractive to individuals at 40% AMI as permanent housing?

In regards to cost, does it make sense to spend $75,000 per unit to serve less people but to serve them better? Would a $250,000 per unit new construction project be considered a good investment when compared to the costs of not building it?

Scenario #1 – Repair both buildings and continue to operate in the current configuration

Advantages: Keep tenants in place by moving them around on site, least costly in the short term, could retain number of units.

Disadvantages: Poor unit configuration, stays as transitional housing, marginal service space, might not address larger construction/system defects, difficult to estimate scope and cost prior to opening the walls, not taking advantage of development potential of site, limited funding options.

Scenario #2 – Reconfigure and rehabilitate both buildings

Advantages: Private baths, better configuration, could do it with some tenants in place on different floors, improved community and office space, could address larger construction/system defects, less costly than new construction, more funding options than above.

Disadvantages: Need to recapture units as tenants move out to use for relocation, complexity and cost of working with tenants in place, loss of units, not taking advantage of development potential of site, high cost and units still not ideal.

Scenario #3 – Demolish one building and rebuild as supportive housing and repair the other and continue to operate it in the current configuration

Advantages: Some of the advantages of both scenarios above; more community, service, and office space, maintain or increase the unit count, less costly than new construction on both sites, one new building with less maintenance issues.

Disadvantages: Some of the disadvantages of both scenarios above, creates two very unequal projects across the street from each other, need to recapture units as tenants move out to use for relocation on a large scale, complexity and cost of relocation, finance and development complexity associated with having essentially two projects, higher cost than above.

Scenario #4 – Demolish both buildings and rebuild as supportive housing

Advantages: Programmatically ideal design with 1-BR and studio units, more community, service, and office space, build out to highest density and increase the unit count, new buildings with less repair issues.

Disadvantages: Highest cost, relocation, complexity.

Scenario #5 – Relocate tenants, remove rent restrictions, and sell to market rate developer to operate or demolish

Advantages: Generate some revenue, although could be offset by relocation and loss of SRO unit costs.

Disadvantages: Loss of city owned land, cost of eliminating SRO housing units as per the City's SRO Hotel Regulations, impact on tenants, bad press, political impact, and community response, counteracts city's efforts to provide more affordable housing, contributes to homelessness.

There are many "variations on a theme" that represent excellence in supportive housing. Each project is unique and based on a variety of individual factors. The Metro Hotel has its own unique qualities as well, and as a result, while this report presents some recommendations and options, it also leaves several policy issues open for key decision makers to discuss in order to determine the best course of action.

Potential Development Scenarios for the Metro Hotel

Development Scenario	# of Units	Ideal Configuration for Supportive Housing	Addresses Larger Construction and System Issues	Net or Gain in the # of Units	Relocate Tenants In Place	Ease	Green	Estimated Hard Costs	Time Frame	Potential Funding Sources
#1 – Repair both buildings and continue to operate in the current configuration	193			X	X	X	X	2,000,000	1 year	Limited - Housing Commission and CCDC
#2 – Reconfigure and rehabilitate both buildings	134	X	X		X	X	X	10,050,000	2-3 years	The above plus 4% tax credits and bonds, CalHFA Special Needs Lending Program, State of California Multifamily Housing Program (MHP) or Governor's Homeless Initiative (GHI), Mental Health Services Act (MHSA), Federal Home Loan Bank Affordable Housing Program (AHP), federal McKinney - S+C, SHP (although not likely based on competition).
#3 – Demolish one building and rebuild as supportive housing and repair the other and continue to operate it in the current configuration	up to 224	X	X	X	X		X	23,500,000	3-4 years	
#4 – Demolish both buildings and rebuild as supportive housing	up to 229	X	X	X				57,250,000	3-4 years	
#5 – Relocate tenants, remove rent restrictions, and sell to market rate developer to operate or demolish	0							0	1-2 years	Potential revenue source although offset by relocation and/or SRO loss of units costs

Notes: In Scenario #1, rehabilitation costs are estimated at $2,000,000 based on prior cost estimates; for Scenario #2, rehabilitation costs are estimated at $75,000/unit; for Scenario #3 and #4, costs are estimated at a combination of $75,000/unit for reconfigured units and $250,000/unit for new construction. As noted, these numbers are for hard costs only and do not include refinancing existing debt, soft costs for development, or operating or social service reserves.

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Consultant's Experience

Nina Marinkovich has over 14 years of experience in the development and finance of affordable and supportive housing as well as residential design and construction. She has a BA in Architecture from UC Berkeley and a MS in City and Regional Planning from the Pratt Institute in Brooklyn, New York. Most recently, Nina founded MAK Design+Build, a residential design/build remodeling company, which grew from $85,000 in annual revenues with a staff of three in 2003 to $1.3 million in sales for 2007 with a staff of nine. In her capacity at MAK, Nina was responsible for design and sales, marketing, business planning and development, and operations. During that same time, Nina also continued to take on supportive housing consulting projects which included financial modeling, the development of local housing plans, and loan underwriting. From 1999 to 2004, Nina worked at the Corporation for Supportive Housing (CSH), a national non-profit organization, whose business is to end homelessness by providing non-profit developers with financial and technical assistance to build more housing connected to support services. She worked in the national Project Development and Finance Department, serving as the lead underwriter for CSH's predevelopment and acquisition loans and providing technical assistance internally to CSH staff around the country and also to CSH's external partners. Previous to CSH, Nina worked at the East New York Urban Youth Corps – a comprehensive housing and social service agency – where she assisted in the development of nearly 400 units of affordable housing for low income and special needs families and individuals which brought over $45 million of capital investment into the East New York neighborhood in Brooklyn.

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