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OAKLAND
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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator
FROM: Maraskeshia Smith
Assistant City Administrator
SUBJECT: Purchase of 2327 San Pablo Avenue
SRO for Transitional Housing
DATE: June 12, 2019

City Administrator Approval

Date:

6/13/19

RECOMMENDATION

Staff Recommends That The City Council Adopt An Ordinance Authorizing The Purchase Of A 24-Unit Single Room Occupancy Residential Hotel Located At 2327 San Pablo Avenue For A Maximum Of \$3,100,000 For Use As Transitional Housing, And Allocating An Additional Amount Not To Exceed \$50,000 For Associated Closing Costs And Fees, And Making California Environmental Quality Act Findings.

EXECUTIVE SUMMARY

City staff recommends that the City Council adopt an ordinance authorizing the purchase of a 24-unit single room occupancy residential hotel (SRO) located at 2327 San Pablo Avenue, Oakland, CA 94621 (the "Property"), formerly known as the Silver Dollar Hotel, for \$3.1 million, plus up to \$50,000 in associated closing costs and fees. Measure KK housing bond funds will be used for this purchase, which is an eligible use of the funds. The Property consists of 24 units and could house up to 30 homeless individuals as transitional housing. The Property is currently being renovated and will be sold to the City of Oakland (the "City") in **turnkey** condition. Community Housing Services Division, under the City's Human Services Department (HSD), will oversee the Property as an additional transitional housing center with services for homeless individuals, alleviating pressure on the recently acquired SRO located at 641 West Grand Avenue, commonly known as The Holland, and the Henry J. Robinson Multi-Service Center (the "Henry") which is always at capacity. This purchase will greatly expand the City's capacity to serve homeless individuals.

BACKGROUND/LEGISLATIVE HISTORY

In 2015, a report from the City's Department of Housing and Community Development (HCD) indicated that between 1985 and 2015, the City lost approximately 799 SRO units. By late 2016, an additional 712 SRO units in downtown were deemed to be at risk of loss, or already lost. In response to the threat to SRO units, in December 2016, the City Council adopted Resolution No. 13410 C.M.S., instituting a temporary moratorium on SRO conversions to tourist hotels or luxury housing. On January 5, 2017, the City Council adopted Ordinance No. 13415 C.M.S., which extended the moratorium through December 11, 2018, or the date when

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permanent regulations on SRO conversions were adopted. On December 4, 2018, the City Council adopted Ordinance No. 13509 C.M.S., which provided permanent regulations relating to the demolition, conversion, rehabilitation, and sale of SROs.

On July 19, 2016, the City Council adopted Resolution No. 86335 C.M.S., which placed Measure KK, an infrastructure and affordable housing bond, on the November 2016 ballot. Along with that action, the City Council approved a general framework for prioritizing and appropriating the affordable housing portion of the bond funds in the event the measure passed.

On November 29, 2016, the City Council adopted Ordinance No. 13403 C.M.S., which enacted the City's Affordable Housing and Infrastructure Bond Law, and allows for the purchase and/or rehabilitation of properties with the housing bond funds.

On June 19, 2017, the City Council adopted Resolution No. 86774 C.M.S., which authorized issuance of the first tranche of the housing bond funds under Measure KK in an amount not to exceed \$50 million (subsequently amended on June 29, 2017 per City Council Resolution No. 86814 C.M.S. to increase the amount to \$55 million), including funds for the purchase of a transitional housing facility or facilities in an amount up to \$14 million.

Since summer 2017, City staff has been diligently searching for appropriate facilities for this use within the designated budget.

In May 2018, the City Council approved Ordinance No. 13484 C.M.S., authorizing the purchase of a 70-unit SRO located at 641 West Grand Avenue to expand the model and services provided at the Henry.

ANALYSIS AND POLICY ALTERNATIVES

Property Description

The Property is a 24-unit, three-story building of wood frame construction. The Property is currently owned by 2327 San Pablo LLC ("Seller") which purchased the Property on June 6, 2018 for a sales price of \$675,000. The Property sold for such a low price because of the extensive renovations required. Seller stripped the Property down to the studs. The gross building floor area is 7,250 square feet with some non-rentable floor area due to communal bathrooms and common areas. The building is fully equipped with a fire sprinkler system.

This building is being extensively renovated, with new interior finishes in the units that include dual pane windows, laminate floors, lighting, doors (with keyless entry, peepholes, and numbers), and newly-painted walls and ceilings. There are no kitchen facilities or plumbing fixtures within each of the units. All the residential units are located on the second and third levels, which have similar floor plans. There are nine bathrooms (five on the second floor, four on the third floor). All bathrooms are communal except for the bathroom in the manager's room on the second floor. The building does not have parking; however, a small patio area in back can be used for bicycle parking and outdoor uses. The unit mix/type is set forth in Table 1.

Table 1: 2327 San Pablo Avenue Unit Mix

Unit Mix/Type	Units	% of Total
Small room (66-85 sq ft)	10	41.7%
Medium room (90-110 sq ft)	10	41.7%
Large room (149-178 sq ft)	4	16.6%
Total	24	100.0%

Seller initially offered the Property to the City for a purchase price of \$3.15 million, and through subsequent negotiations, the City and Seller agreed upon a maximum purchase price of \$3.1 million, or \$428 per square foot. Currently, 0 of the 24 units are occupied.

Terms of Sale (from Real Estate Asset Management Division)

- **Timing:** This ordinance requires two readings. Should the City Council approve purchase of the Property at its meetings on July 9, 2019 and July 16, 2019, City staff expects to execute a Purchase and Sale Agreement (the "PSA") on or about July 17, 2019, subject to final adoption of the ordinance, with a 60-day due diligence period and a 60-day closing period. Thus, City staff expects to close on the Property in November 2019.
- **Purchase Price:** Maximum of \$3,100,000 (City will obtain an appraisal.)
- **Deposit:** \$30,000 earnest money deposit is due within 10 business days of full execution of the PSA, and an additional \$60,000 deposit is due within 10 business days of the City removing its inspection contingency (for a total deposit not to exceed \$90,000). All deposit money is refundable until the release of contingencies.
- **Other Key Conditions to Close**
 - Units will have central heat. New interior finishes include dual pane windows, laminate floors, lighting, doors (with keyless entry, peepholes, numbers), and newly-painted walls and ceilings.
 - Amenities include four communal bathrooms per floor (2nd and 3rd floors).
 - Financing: all cash, no loan contingency.
 - Seller Work: The City's obligation to close escrow is subject to Seller's completion of all remaining budgeted work. This includes, but is not limited to: upgrades to all the rooms, hallway upgrades (new lighting, doors, numbering), and ground level renovations authorized under building permits and may require additional permits. The City and Seller are to agree, prior to City Council authorization of the proposed transaction, upon the specific scope of work and Seller's timeline for completion of said work, as described in Seller's Work Letter. Seller's Work Letter shall be included as an exhibit in the PSA.
 - Due Diligence Period: 60 days from full execution of the PSA.
 - Closing Date: 90 days after completion of work, as evidenced by a notice of completion.
 - Closing Costs: Closing costs shall be negotiated and specifically detailed in the PSA.

Homeless Crisis

Homelessness in Oakland is growing exponentially. In 2015, Alameda County's Everyone Home point in time homeless count indicated that there were 4,040 homeless individuals in Alameda County, with 2,191 living in Oakland. In 2017, that count increased to 5,629 in Alameda County, with 2,761 of those living in Oakland (with 1,902 of the Oakland homeless unsheltered). While the 2019 Oakland homeless count numbers are not available at the time of this report, City staff expects the total number of people experiencing homelessness to have increased to approximately 4,000, with approximately 3,000 people unsheltered each night.

The City's crisis response beds (transitional housing, shelters, community cabins) are at maximum capacity, and homeless encampments have sprouted throughout the City. The homeless encampments have significant health and safety concerns for residents, as well as neighbors of the encampments.

The City has been experimenting with alternative, service-oriented interventions such as the Community Cabins program, but these are considered temporary solutions. A more permanent source of transitional housing would enable the City to have a more stable base to assist homeless individuals with services necessary to succeed in finding permanent affordable housing over a defined period. Transitional housing programs are designed to help homeless individuals who may be experiencing episodes of homelessness to become self-sufficient and transition to permanent, independent living. In fiscal year 2017-18, the Henry served 276 single adults; 86 percent of exits were to permanent housing. Purchasing the Property will significantly expand the City's capacity to provide transitional housing services.

SRO History in Oakland

SROs were constructed during the late 19th and early 20th century to house transient workers. They are composed of a single room for residents, and are distinguished from studio or efficiency units in that they typically do not include a private bathroom or kitchen in the room. Historically, SROs have also differed from other dwelling units in the type of population that they house. Traditionally, SRO tenants have been primarily itinerant male workers, rather than women, couples, or families.

SROs do not typically require a security deposit, credit references, proof of income, or long-term lease agreement. For these reasons, SROs can provide housing for vulnerable populations with unstable finances or little access to credit. In recent decades, SROs have gained a reputation for entrenched poverty, crime, and prostitution. The tenants of today's SROs are not necessarily transient.

In recent years, SRO housing declined due to redevelopment. The City recognized the important role SROs play in housing people with limited and fixed incomes, and has established policies to preserve Oakland's SROs. Oakland's rent adjustment ordinance limits rent increases for permanent residents of SROs to the cost of inflation. Depending on when a resident has moved in, market rents may have increased faster than inflation, and the resident may thus be paying below-market rent.

Alternate Policy Action

The City has been continually exploring various SRO properties for possible purchase since summer 2017, and this is the second property that is feasible to purchase. City staff believes

that the Property represents a unique opportunity to purchase and preserve a vacant SRO property in excellent condition to immediately serve homeless individuals in Oakland; therefore, no alternate policy action is recommended.

FISCAL IMPACT

The fiscal impact of the purchase of the Property is approximately \$3,150,000 (including closing costs and fees). The funds for the acquisition of the Property are budgeted and available from the Measure KK Housing and Infrastructure Bond Affordable Housing Fund (Fund 5331).

In the November 2016 election, voters of Oakland approved Bond Measure KK, which provides funding for affordable housing for Oakland residents, with a heavy focus on acquisition and rehabilitation of existing market rate properties. The approval of Measure KK authorized the City to issue up to \$600 million in general obligation bonds to finance City infrastructure projects and provide \$100 million in bond proceeds to develop, construct, and acquire up to 2,000 housing units for low-income households. Measure KK promotes investing in neighborhoods throughout Oakland, protects low-income families from being displaced, and improves City infrastructure.

More specifically, Measure KK funding allocated \$14 million for the acquisition of transitional housing facilities such as the Property.

Funds for operations of the Property are not an allowable bond expenditure, and will come from a source to be identified by HSD in a future staff report regarding operation of the SRO as transitional housing. HSD will outline the expected operating budget for the Property, will identify an operator (or a process for identifying an operator), and will identify funding sources for operations. For reference, the operating budget for the Henry is just under \$2.3 million for fiscal year 2017-18.

PUBLIC OUTREACH/INTEREST

The City has participated in a working group convened by Enterprise Community Partners that has included developers, land trust representatives, advocates, and community development financial institutions. On March 9, 2017, the City presented the proposed guidelines and sought feedback for the Bond Measure KK Site Acquisition Program and the residential rehabilitation programs.

Alameda County and the City are committed to ending or reducing homelessness by providing permanent homes, but there is a shortage of affordable housing stock. Alameda County and Oakland voters recently passed bond measures to create affordable housing, including units for very low-income residents, but it is a long-term solution.

COORDINATION

Several City departments, including the Office of the City Administrator, City Attorney, Planning and Building Department, Human Services Department (HSD), and Housing Development Services Division (under HCD), are working together to coordinate the purchase of the Property. Real Estate Asset Management Division (under Economic & Workforce Development Department) is providing expertise regarding the valuation process and purchase contracts. HCD is providing due diligence regarding the purchase of the Property. HSD will be managing the Property through a contractor, to be chosen at a later date.

SUSTAINABLE OPPORTUNITIES

Economic: The Property will generate professional services and ongoing property management jobs in Oakland, and preserve an at-risk SRO building in downtown from conversion to market-rate housing. Providing individuals and families with affordable transitional housing helps provide financial stability for very-low and extremely-low income households.

Environmental: By developing in already built-up areas, infill projects reduce the pressure to build on agricultural and other undeveloped land. The Property is located near public transit which will enable residents to further reduce any adverse environmental impacts of development.

Social Equity: Affordable housing is a means of achieving greater social equity, and the Property will allow the City to move some of its most vulnerable residents, homeless individuals and families, into service-enriched temporary housing while seeking to match them with permanent affordable housing. Oakland's neighborhood-level environment will be improved by moving homeless individuals from temporary encampments to safe and affordable housing. Social services are a component of each property and further build social equity.

CALIFORNIA ENVIRONMENTAL QUALITY ACT


Planning has determined that the purchase of the Property is exempt from review under the California Environmental Quality Act (CEQA) under Sections 15301 and 15326 of CEQA guidelines, which exempt the operation and minor alteration of existing facilities, and the acquisition of housing units by public agencies for the use of housing assistance, respectively.

ACTION REQUESTED OF CITY COUNCIL

Staff Recommends That The City Council Adopt An Ordinance Authorizing The Purchase Of A 24-Unit Single Room Occupancy Residential Hotel Located At 2327 San Pablo Avenue For A Maximum Of \$3,100,000 For Use As Transitional Housing, And Allocating An Additional Amount Not To Exceed \$50,000 For Associated Closing Costs And Fees, And Making California Environmental Quality Act Findings.

For questions regarding this report, please contact Loyd Ware, Manager, Residential Lending and Rehabilitation, at 510-238-6197.

Respectfully submitted,



MARASKESHIA SMITH
Assistant City Administrator

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APPROVED AS TO FORM AND LEGALITY

DRAFT

CITY ATTORNEY'S OFFICE

OAKLAND CITY COUNCIL

Ordinance No. _____ C.M.S.

ORDINANCE AUTHORIZING THE PURCHASE OF A 24-UNIT SINGLE ROOM OCCUPANCY RESIDENTIAL HOTEL LOCATED AT 2327 SAN PABLO AVENUE FOR A MAXIMUM OF \$3,100,000 FOR USE AS TRANSITIONAL HOUSING, AND ALLOCATING AN ADDITIONAL AMOUNT NOT TO EXCEED \$50,000 FOR ASSOCIATED CLOSING COSTS AND FEES, AND MAKING CALIFORNIA ENVIRONMENTAL QUALITY ACT FINDINGS

WHEREAS, at the November 2016 general election, Oakland voters passed Measure KK, an infrastructure and affordable housing bond; and

WHEREAS, on November 29, 2016, the City Council adopted Ordinance No. 13403 C.M.S., which enacted the City's Affordable Housing and Infrastructure Bond Law, and which allows for the purchase and/or rehabilitation of properties with the housing bond funds; and

WHEREAS, on June 19, 2017, the City Council adopted Resolution No. 86774 C.M.S. which authorized issuance of the first tranche of the housing bond funds under Measure KK in an amount not to exceed \$50 million (subsequently amended on June 29, 2017 per City Council Resolution No. 86814 C.M.S. to increase the amount to \$55 million), including funds for the purchase of a transitional housing facility or facilities in an amount up to \$14 million; and

WHEREAS, since summer 2017, and following the acquisition of the single room occupancy residential hotel ("SRO") located at 641 West Grand Avenue, commonly known as The Holland, City staff has been diligently pursuing SRO properties for purchase to serve as transitional housing facilities; and

WHEREAS, the property located at 2327 San Pablo Avenue, Oakland, California 94612 (the "Property"), has 24 SRO units that could serve up to 30 residents at a time, and is currently available for sale by 2327 San Pablo LLC ("Seller"); and

WHEREAS, the City of Oakland (the "City") and Seller have negotiated a maximum sales price of \$3,100,000; and

WHEREAS, the Property is currently being renovated and will be conveyed to the City in turnkey condition; and

WHEREAS, closing costs and fees associated with the purchase transaction are estimated at an amount not to exceed \$50,000; and

WHEREAS, Section 2.41.020, *et seq.*, of the Oakland Municipal Code authorizes the City to purchase real property by ordinance; and

WHEREAS, in 2019, pursuant to Resolution 87538, the City Council declared a local emergency with regard to the City's homelessness crisis; and

WHEREAS, the actions authorized by this ordinance are categorically exempt from the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Sections 15301(d), which exempts the operation and minor alteration of existing facilities and 15326, which exempts the acquisition of housing units by public agencies for the use of housing assistance; and statutorily exempt pursuant to CEQA Guidelines Section 15269, which exempts actions necessary to mitigate an emergency; each of the foregoing provides a separate and independent basis for CEQA compliance and when viewed collectively provides an overall basis for CEQA compliance; and

NOW, THEREFORE, THE COUNCIL OF THE CITY OF OAKLAND DOES ORDAIN AS FOLLOWS:

SECTION 1. The City Council hereby authorizes the City to acquire the Property from Seller, once property renovations are completed, for a maximum purchase price of \$3,100,000. The Property shall be conveyed to the City in turnkey state, ready to occupy.

SECTION 2. The City Council hereby finds that the transaction authorized by this Ordinance is not subject to the restrictions set forth in Ordinance No. 13509 C.M.S., which regulates the demolition, conversion, rehabilitation, and sale of SROs, as the Property may be converted to a Transitional Housing Activity as defined in Oakland Municipal Code 17.10.116 and per State of California Government Code 65582, or may become an Affordable Housing Project as defined in Oakland Municipal Code 17.153.020.

SECTION 3. The City Council hereby allocates a maximum of \$3,100,000 from the Measure KK Housing and Infrastructure Bond Affordable Housing Fund (Fund 5331) to cover the purchase price, plus an additional amount not to exceed \$50,000 to cover associated closing costs and fees.

SECTION 4. The City Council hereby authorizes the City Administrator, or her designee, to negotiate and execute agreements and grant deeds with Seller for the purchase of the Property, and to take any other action with respect to the purchase of the Property consistent with this Ordinance and its basic purposes.

SECTION 5. The City Council hereby finds and determines, on the basis of substantial evidence in the record, that this transaction is exempt from CEQA pursuant to CEQA Guidelines Sections 15301(d), which exempts the operation and minor alteration of existing facilities and 15326, which exempts the acquisition of housing units by public agencies for the use of housing assistance; and statutorily exempt pursuant to CEQA Guidelines Section 15269, which exempts actions necessary to mitigate an emergency; and each of the foregoing provides a separate and independent basis for CEQA compliance and when viewed collectively provides an overall basis for CEQA compliance. The City Administrator, or her designee, is hereby authorized to file a notice of determination with the Alameda County Clerk-Recorder's Office and the State Office of Planning and Research.

SECTION 6. This Ordinance shall be in full force and effect immediately upon its passage as provided by Section 216 of the City Charter if adopted by at least six members of Council, or upon the seventh day after final adoption if adopted by fewer votes.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES – FORTUNATO BAS, GALLO, GIBSON MCELHANEY, KALB, REID, TAYLOR, THAO, AND
PRESIDENT KAPLAN

NOES –

ABSENT –

ABSTENTION –

ATTEST: _____

LATONDA SIMMONS
City Clerk and Clerk of the Council of the
City of Oakland, California

Date of Attestation: _____

NOTICE AND DIGEST

ORDINANCE AUTHORIZING THE PURCHASE OF A 24-UNIT SINGLE ROOM OCCUPANCY RESIDENTIAL HOTEL LOCATED AT 2327 SAN PABLO AVENUE FOR A MAXIMUM OF \$3,100,000 FOR USE AS TRANSITIONAL HOUSING, AND ALLOCATING AN ADDITIONAL AMOUNT NOT TO EXCEED \$50,000 FOR ASSOCIATED CLOSING COSTS AND FEES, AND MAKING CALIFORNIA ENVIRONMENTAL QUALITY ACT FINDINGS

This Ordinance authorizes the purchase of a 24-unit single room occupancy residential hotel located at 2327 San Pablo Avenue for a maximum purchase price of \$3,100,000, with an additional amount not to exceed \$50,000 for closing costs and fees, for use as transitional housing. This Ordinance also authorizes the City Administrator or her designee to negotiate and enter into a purchase and sale agreement for this transaction, and makes associated findings with respect to the California Environmental Quality Act and other matters.
