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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Michele Byrd
Director, HCD

SUBJECT: Purchase of 641 West Grand Avenue
SRO For Transitional Housing

DATE: March 19, 2018

City Administrator Approval

Date:

3/29/18

RECOMMENDATION

Staff Recommends That The City Council Adopt An Ordinance Authorizing The Purchase Of A 70 Unit Single Room Occupancy Residential Hotel Located At 641 West Grand Avenue For \$7,000,000 For Use As Transitional Housing, Allocating An Additional Amount Not To Exceed \$20,000 For Associated Closing Costs And Fees, And Making CEQA Findings.

EXECUTIVE SUMMARY

Staff recommends that the City Council adopt a Resolution that would authorize the purchase of a single room occupancy (SRO) residential hotel building located at 641 Grand Avenue, also known as the Grand Hotel, for a purchase price of \$7 million, plus up to \$20,000 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. This property consists of 70 units and will house up to 140 people as transitional housing for the homeless. The building is currently being rehabilitated, and will be purchased in turnkey condition. The Department of Human Services (DHS), Community Housing Services Division, will oversee the property as an additional transitional housing center for homeless residents with services, alleviating pressure on the Henry J. Robinson Multiservice Center, which has a lengthy waitlist. This purchase will greatly expand the City's capacity to serve homeless residents, with the goal of transitioning them into permanent housing.

BACKGROUND/LEGISLATIVE HISTORY

In 2015, a report from the City's Housing and Community Development Department 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 housing units, in December 2016, pursuant to City Council Resolution No. 13410 C.M.S., a temporary moratorium on SRO conversions to tourist hotels or luxury housing was instituted. On January 5, 2017, City Council adopted Ordinance No. 13415

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C.M.S., which extended the moratorium through December 11, 2018, or whenever permanent regulations on SRO conversions are adopted. The moratorium contains an express exemption for SROs that will be turned into affordable housing projects, as is proposed for this property.

On July 19, 2016, the City Council adopted Resolution No. 86335 C.M.S., which placed the Infrastructure and Housing Bond, Measure KK, 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, should the Measure pass.

On November 29, 2016, the City Council approved Ordinance No. 13403 C.M.S., which enacted the City of Oakland Affordable Housing and Infrastructure Bond Law. That ordinance identified, among other things, the purchase and/or rehabilitation of rental properties that are currently affordable as an eligible use for the City's affordable housing bond funds.

On June 19, 2017, the City Council approved Resolution No. 86774 C.M.S., which authorized issuance of the first tranche of Measure KK housing bond funds 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 last summer, City staff have been diligently searching for an appropriate facility for this use within the designated budget.

ANALYSIS AND POLICY ALTERNATIVES

Property Description

The property is a 70 unit, three story building of wood frame construction originally built in 1906. The property is currently owned by Uptown Residences, LLC, which purchased the property in December 2015 for a sales price of \$2,465,000.

Prior to December 2015, under the previous ownership, the building was the subject of numerous code enforcement and receivership actions by the City of Oakland including red-tagging the building. The building had been plagued by problems including drug nuisance, public nuisance, failure to abate building code violations, failure to pay rent program service fees and violation of hotel, motel and rooming house operating standards by the City. After acquisition by the current owner in 2015, these problems were resolved. The gross building floor area is 15,000 square feet, with non-rentable floor area of 9,530 square feet due to an unfinished basement level, communal bathrooms and commons areas. The building is fully sprinklered.

The current owner began renovating the property in 2017. Interior finishes for the renovated SRO units include wood laminate flooring, newly painted walls and ceiling, incandescent lighting and operable windows. The remaining units will be similarly renovated prior to closing. The second and third levels have similar floor plans with one communal kitchen and two common bathrooms on each level. However, the renovation includes installing private bathrooms in a number of units. The building does not have parking; however, a large paved area has been

added as part of the renovation and can be used for bicycle parking and outdoor uses. The unit mix/type is set forth in Table 1.

Table 1: 641 W. Grand Unit Mix

Unit Mix/Type	No. of Units	% of Total	Unit Size/Sq.Ft
Small room with shared bath	42	60%	120
Small room with private bath	6	8.6%	120
Medium room with shared bath	12	17.1%	160
Large room with shared bath	4	5.7%	185
Large room with private bath	6	8.6%	185
Total/Average	70	100%	136

The owner initially offered the property to the City for a purchase price of \$9.7 million, and through subsequent negotiations, the City and owner agreed upon a purchase price of \$7 million. Per an appraisal commissioned by the City's Real Estate Division dated February 16, 2018, by CBRE, the estimated value of the property upon completion of the planned rehabilitation is projected to be \$6,800,000. The agreed-upon purchase price of \$7 million is within 1.13% of the City's appraisal.

Currently, 10 of the 70 units are occupied. There are five to seven staff occupants on site to manage and expedite the renovations. Although the City has requested that the current owner not rent additional units until the sale is completed to ensure maximum flexibility for the new transitional housing use, the City intends to retain the current tenants.

Terms of Sale (from Real Estate)

- **Timing:** This ordinance requires two readings. Should the City Council approve purchase of the property at its meetings on April 17, 2018, and May 1, 2018,, City staff expects to execute a Purchase Agreement on May 2, 2018, with a 30 day due diligence period. Thus, staff expects to close on the property in June.
- **Purchase Price:** \$7,000,000
- **Deposit:** \$70,000 earnest money deposit due within five days of full execution of the Purchase Agreement, and an additional \$630,000 deposit once the City removes its Inspection Contingency (for a total deposit not to exceed \$700,000). All deposit money is refundable until the release of contingencies.
- **Other Key Conditions to Close**
 - Prior to purchase, each SRO unit will be equipped with a radiant heater. Interior finishes for non-renovated SRO units include wood or carpet, a standalone sink, a small countertop, painted plaster walls and ceilings, incandescent lighting and

operable windows. Interior finishes for renovated SRO units include wood laminate tile flooring, newly painted walls and ceiling, incandescent lighting and operable windows.

- The SRO amenities include four communal bathrooms per floor.
- Financing and Exchange Cooperation: All Cash, no Loan or Appraisal Contingency
- Seller Work: Buyer'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 remaining unrenovated rooms, hallway upgrades (new lighting, doors, numbering), lobby renovations. This includes completion of all work authorized under pending building permits and may require additional permits. Buyer and Seller to agree, prior to City Council Authorization of the proposed transaction, upon the specific scope of work and Buyer's timeline for completion of said work (work letter). Said agreed upon work letter shall be included in the purchase and sale agreement.
- Due Diligence Period: Buyer shall have 30 days, from full execution of a Purchase Agreement.
- Closing Date: Close of escrow shall occur within 30 days upon satisfaction of all closing conditions.
- Closing Costs: Closing costs shall be allocated per custom in Alameda County, California, and shall be defined specifically in the Purchase Agreement. Title and Escrow shall be paid by Buyer. Seller shall pay for County Transfer Tax. Buyer and Seller shall split the City Transfer Tax 50/50. Buyer to pay for City of Oakland Sewer Lateral and Gas Shut-Off Valve Ordinance Fee.

Homeless Crisis

In 2015, Alameda County's Everyone Home point in time homeless count indicated that there were 4,040 homeless persons 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).

The City's available shelters, including the Henry J. Robinson Multiservice Center, 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 encampments such as the tuff shed program located at 6th and Castro Streets, 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 residents with services necessary to succeed in finding permanent affordable housing over a defined time period. Transitional housing programs are designed to help homeless residents experiencing episodes of homelessness to become self-sufficient and transition to permanent, independent living. In Fiscal Year (FY) 2016-17 (grant year ended Feb 29, 2018) the Henry J. Robinson served 275 clients, 176 clients exited the program and 143 (81.25%) of those exits successfully transitioned to permanent housing. Purchasing the 641 West Grand property will significantly expand the City's capacity to provide transitional housing services.

SRO History In Oakland

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

Residential hotels do not typically require a security deposit, credit references, proof of income, or long-term lease agreement. For these reasons, residential hotels can provide housing for vulnerable populations with unstable finances or little access to credit. In recent decades, residential hotels have gained a reputation for entrenched poverty, crime, and prostitution. The tenants of today's residential hotels 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. After the City's purchase of the property, individuals will pay no more than 30% of the gross income in rent.

Alternate Policy Action

The City has explored other SRO properties for possible purchase over the last year, but this was the first property that was feasible to purchase. Staff believes that this property represents an excellent opportunity to purchase and preserve an SRO property in excellent condition, for a reasonable price, to serve homeless residents in Oakland; therefore, no alternate policy action is recommended.

FISCAL IMPACT

The fiscal impact of the purchase of the property is approximately \$7,020,000 (including closing costs and fees). The affordable housing development loan funds for the acquisition of the property are budgeted and available from the Measure KK Housing and Infrastructure Bond Affordable Housing (Fund 5331).

In the November 2016 election, voters of Oakland approved the ballot 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 funds 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 a transitional housing facility such as the property at 641 West Grand Avenue.

Funds for operations of the property are not an allowable bond expenditure, and will come from a source to be identified by DHS in a follow-up staff report in its future staff report regarding operation of the SRO as transitional housing, DHS staff will outline the expected operating budget for the Property, an operator (or process for identifying an operator) and funding sources for operations. For reference, the current operating budget for the Henry J. Robinson is just under \$2.3 million for FY 17-18.

PUBLIC OUTREACH/INTEREST

The City has participated in a working group convened by Enterprise 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.

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

COORDINATION

Several City departments including the Office of the City Administrator, City Attorney, Planning, Department of Human Services and Housing Development Services are working together to coordinate the purchase of the property. Real estate is providing expertise regarding the appraisal process, and purchase contracts. Housing and Community Development staff is providing due diligence regarding the purchase of the property, and the Department of Human Services 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 extremely and very-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 this transitional housing 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 residents from temporary encampments to safe and affordable housing. Social services are a component of each rental development and further build social equity.

CEQA

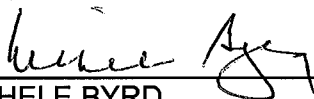
Planning staff has determined that the purchase of the Property is exempt from review under the California Environmental Quality Act ("CEQA") under Sections 15301 and 15326 of the CEQA guidelines, which, respectively, exempt the operation and minor alteration of existing facilities, and the acquisition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

ACTION REQUESTED OF CITY COUNCIL

Staff recommends that the City Council Adopt An Ordinance Authorizing The Purchase Of A 70 Unit Single Room Occupancy Residential Hotel Located At 641 West Grand Avenue For \$7,000,000 For Use As Transitional Housing, Allocating An Additional Amount Not To Exceed \$20,000 For Associated Closing Costs And Fees, And Making CEQA Findings

For questions regarding this report, please contact Michele Byrd, Director of Housing and Community Development, at 510-238-3714.

Respectfully submitted,



MICHELE BYRD
Director, Housing and Community Development

Reviewed by:
Christia Katz Mulvey
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Housing Development Services

2018 MAR 29 PM 5: 05



DEPUTY CITY ATTORNEY

OAKLAND CITY COUNCIL

ORDINANCE NO. _____ C.M.S.

ORDINANCE AUTHORIZING THE PURCHASE OF A 70 UNIT SINGLE ROOM OCCUPANCY RESIDENTIAL HOTEL LOCATED AT 641 WEST GRAND AVENUE FOR \$7,000,000 FOR USE AS TRANSITIONAL HOUSING, ALLOCATING AN ADDITIONAL AMOUNT NOT TO EXCEED \$20,000 FOR ASSOCIATED CLOSING COSTS AND FEES, AND MAKING CEQA FINDINGS

WHEREAS, at the November 2016 general election, Oakland voters passed Measure KK, the Infrastructure and Housing Bond; and

WHEREAS, on November 29, 2016, the City Council approved Ordinance No. 13403 C.M.S., which enacted the City of Oakland Affordable Housing and Infrastructure Bond Law, and which identified, among other things, the purchase and/or rehabilitation of rental properties that are currently affordable as an eligible use for the City's affordable housing bond funds; and

WHEREAS, on June 19, 2017, City Council approved Resolution No. 86774 C.M.S., which authorized issuance of the first tranche of Measure KK housing bond funds in an amount not to exceed \$50 million (subsequently amended on June 29, 2017 per 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 last summer, City staff have diligently been pursuing possible SRO properties to purchase to serve as transitional housing facilities; and

WHEREAS, the property located at 641 West Grand Avenue (the "Property"), which has 70 units that could serve up to 140 residents at a time, is currently available for sale by owner Uptown Residences, LLC; and

WHEREAS, the City and the Property owner have negotiated a sales price of \$7,000,000, which is supported by an independent City appraisal by CBRE; and

WHEREAS, the Property is currently being renovated, and will be sold 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 \$20,000; and

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

WHEREAS, Planning staff 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 the CEQA guidelines, which, respectively, exempt the operation and minor alteration of existing facilities, and the acquisition of housing units by public agencies for the use of housing assistance; 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 641 West Grand Avenue Property from Uptown Residences, LLC, once property renovations are completed, for a purchase price not to exceed \$7,000,000. The Property shall be sold to the City in turnkey state, ready to occupy.

SECTION 2. The City Council hereby finds that the transaction authorized by this Ordinance is exempt from the moratorium on the conversion, demolition, reconfiguration and rehabilitation of Residential Hotels adopted under Oakland Ordinance No. 13415 C.M.S., as the property will be turned into an Affordable Housing Project, as determined by the City of Oakland Housing and Community Development Department.

SECTION 3. The City Council hereby allocates \$7,000,000 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 \$20,000 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 Uptown Residences, LLC, 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 under Sections 15301 and 15326 of the CEQA guidelines, which, respectively, exempt the operation and minor alteration of existing facilities and the acquisition of housing units by public agencies for the use of housing assistance. The City Administrator or her designee is hereby authorized to file a notice of determination with the Office of the Alameda County Recorder 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, _____, 2018

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, CAMPBELL WASHINGTON, GALLO, GIBSON MCELHANEY, GUILLEN,
 KALB, KAPLAN AND PRESIDENT REID

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____
 LATONDA SIMMONS
 City Clerk and Clerk of the Council
 of the City of Oakland, California

ORDINANCE AUTHORIZING THE PURCHASE OF A 70 UNIT SINGLE ROOM OCCUPANCY RESIDENTIAL HOTEL LOCATED AT 641 WEST GRAND AVENUE FOR \$7,000,000 FOR USE AS TRANSITIONAL HOUSING, ALLOCATING AN ADDITIONAL AMOUNT NOT TO EXCEED \$20,000 FOR ASSOCIATED CLOSING COSTS AND FEES, AND MAKING CEQA FINDINGS

NOTICE AND DIGEST

This Ordinance authorizes the purchase of a 70 unit Single Room Occupancy Residential Hotel located at 641 W. Grand Avenue, for a purchase price of \$7,000,000, with an additional \$20,000 allowance for closing costs and fees, for use as transitional housing. This Ordinance also authorizes the City Administrator 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 (CEQA) and other matters.