



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Nanci Klein

SUBJECT: SEE BELOW

DATE: September 16, 2022

Approved

Date

9/16/2022

COUNCIL DISTRICT: 3

SUBJECT: SURPLUS AND PROPERTY SALE AND PROPERTY MANAGEMENT AGREEMENT FOR THE SURESTAY HOTEL BY BEST WESTERN LOCATED AT 1488 NORTH FIRST STREET

RECOMMENDATION

Adopt a resolution:

- (a) Declaring the subject property “exempt surplus land” to the needs of the City pursuant to Cal. Gov. Code §54221(f)(1)(D), San José Municipal Code Section 4.20.080 and in accordance with Council Policy 7-13(D)(3); and
- (b) Approving the sale of the City-owned property SureStay Hotel by Best Western located at 1488 North First Street, identified as Assessor’s Parcel Number 235-02-034, to the Santa Clara County Housing Authority for \$1; and
- (c) Authorizing the City Manager, or her designee, to negotiate and execute the Purchase and Sale Agreement, the deed, and all other documents necessary to complete the transaction; and
- (d) Authorizing the Director of Housing, or her designee, to negotiate and execute an agreement with LifeMoves, a nonprofit public benefit corporation, not to exceed \$1,700,000 of Measure E funds from October 1, 2022 to June 30, 2023 for property management and supportive services at the SureStay Hotel by Best Western.

OUTCOME

Adoption of this resolution will allow the SureStay Hotel by Best Western (SureStay Hotel) located at 1488 N. First Street, identified as Assessor's Parcel Number 235-02-034, as described in Attachment A and depicted in Attachment B to be declared as "exempt surplus land" and sold to the Santa Clara County Housing Authority (Housing Authority) in conformance with California's Surplus Land Act and the San José Municipal Code. The sale of the SureStay Hotel will shift the responsibility of managing the property to a more experienced housing provider and will position the Housing Authority to assemble adjacent properties in order to ultimately redevelop the site. Authorization of an agreement with LifeMoves to provide property management and supportive services will ensure a smooth transition to the Jamboree team over the coming months. These actions are expected to increase the quality of life for the residents living at the SureStay Hotel.

BACKGROUND

History of the SureStay Hotel

In June 2020, the California Department of Housing and Community Development (HCD) announced the availability of \$600 million in first round of Homekey grant funding. Homekey was designed to quickly expand housing opportunities for individuals and families experiencing homelessness. The City of San José (City) submitted a grant application for the purchase of the SureStay Hotel on August 10, 2020. In September 2020, HCD announced the first round of Homekey awards, which included \$12,230,477 in funding for the City to acquire the SureStay Hotel. This award was approved by the City Council on October 20, 2020.

The City purchased the SureStay Hotel on October 30, 2020. Homekey provided two years of funding for both the acquisition of the hotel and \$1.3 million in operating subsidies. The terms of the Homekey grant agreement require that extremely-low-income households be housed for at least five years. While the income restriction allows individuals earning up to \$35,370 a year to live at the SureStay Hotel, most of the current residents are on fixed incomes and earn less than \$12,000 a year.

The City entered into an initial agreement with the hotel owner to operate the SureStay Hotel for a three-month term. During that time, the City issued a Request for Proposals and Abode Services was selected as the onsite property manager and resident service provider.

Typically, the City does not own and operate affordable housing. The SureStay Hotel provided a unique opportunity for the City to respond to a critical need, leverage state funds, and house individuals and couples experiencing homelessness. However, throughout this process, it became evident that the City was not equipped to address property management needs in a timely manner

and does not have the appropriate staffing levels to effectively manage the property. Given these limitations, staff determined that the best solution for the SureStay Hotel was to identify an experienced development partner to transfer the property to improve the quality of life for the SureStay Hotel residents.

Over the past year, staff have attended resident meetings arranged by Abode Services. Residents have expressed concerns regarding the responsiveness to general property management issues at the site such as broken microwaves, unreliable cable and internet connections, and inoperable door locks. Staff is committed to holding regular meetings with the residents throughout the transition between the property management and the service provider to ensure ongoing concerns are heard and addressed.

Building Details

The SureStay Hotel is a 76-unit, two-story hotel located at 1488 North First Street. The property is approximately 65,981 square feet in size and includes three buildings consisting of 76 hotel rooms, a community room, and a detached two-bedroom manager's apartment. Each hotel room is fully furnished with a bed, table, chair, microwave, and compact refrigerator.

Process to Identify New Developer

The Housing Department published a Request for Proposals in December 2021 for housing developers to submit development proposals for six City-owned sites; one of which was the SureStay Hotel. One proposal was submitted by a local public agency, the Housing Authority, in partnership with Jamboree Housing Corporation (Jamboree), to serve as a developer for the SureStay Hotel.

ANALYSIS

The Housing Authority is a key partner with the City in delivering affordable housing in San José for people who have experienced homelessness. The recommended actions in this memorandum propose a \$1 transfer of the SureStay Hotel property to the Housing Authority. This will facilitate the Housing Authority's ability to assemble additional properties on the block and lead the redevelopment of the property to provide affordable housing. The Housing Authority will ground lease the property to Jamboree, who will manage the property consistent with Homekey requirements.

Surplus Land Exemption

The California Surplus Land Act (Cal. Gov. Code §54221 (f)(1) (D)) allows a local agency to transfer property to another local, state, or federal agency for the agency's use as exempt surplus

land. In this case, the Housing Authority meets the definition of a local agency. The City will transfer the property to the Housing Authority for the provision of affordable housing, therefore qualifying for an exemption under the Surplus Land Act. Prior to the City's transfer, staff will seek an approval letter from HCD consistent with this determination. HCD's approval may require that an affordable housing restriction be recorded against the title prior to transfer, which would be consistent with the Housing Authority's use of the property.

Vision for the SureStay Site

The Housing Authority and Jamboree will continue to operate the SureStay Hotel as a shelter providing housing for formerly homeless individuals and couples and will continue to provide supportive services to the residents. In the future, the Housing Authority and Jamboree will try to acquire adjacent sites in order to develop a new affordable housing project that will replace the original 76 units funded through the Homekey program. HCD must approve this plan because of the Homekey funding.

December 2021 Request for Proposals Evaluation

The staff recommendation to transfer the SureStay Hotel to the Housing Authority is based on the following considerations:

- **Experience Owning and Managing Affordable Housing** – The Housing Authority has owned and managed affordable housing for over 40 years including the development of over 2,400 apartments across 31 residential properties. This experience is an advantage over the City, which has served as a funder of affordable housing but has limited experience owning and managing affordable housing properties.
- **Developer Partnership** – The Housing Authority selected Jamboree as a development partner for this site. Jamboree is a nonprofit community developer with over 30 years of experience in the affordable housing industry. Since 2021, Jamboree has converted over 550 motel and hotel rooms into supportive housing. Jamboree has been awarded four Homekey grants, which has added to its experience working with HCD and the program's regulations. An additional 425 Homekey funded units, located across California, are in the process of being renovated and converted into supportive housing units. Jamboree has extensive experience providing supportive services specializing in serving formerly homeless individuals and families. Jamboree and the Housing Authority will jointly select an experienced and competent property management team with expertise in Homekey and permanent supportive housing. The two organizations are evaluating providers for this role and will oversee the onsite third-party property management team.
- **Redevelopment Potential** - The Housing Authority has entered into a letter of intent agreement to acquire 1490 North First Street, located next door to the SureStay Hotel. If the Housing Authority's acquisition is successful, the two properties may be assembled for a future redevelopment opportunity if HCD approves the overall redevelopment plan.

- **Sole Response** – The Housing Authority and Jamboree proposal was the only response submitted for the SureStay Hotel site.

After considering each of these factors, staff recommends the transfer of the SureStay Hotel to the Housing Authority. The Housing Authority operates both the City and County Housing Authorities and has committed to listing the SureStay as an asset under the City Housing Authority to ensure that the City Housing Authority will retain the asset in the future. After the site is transferred, the Housing Authority will enter into a ground lease with Jamboree to operate the property. This will allow the property to be redeveloped, maintained, and managed by an experienced developer. It will also ensure that the residents of the site receive high-quality programs and support from an experienced service provider.

Next Steps

Adoption of this recommendation to transfer the SureStay Hotel site to the Housing Authority is one of many critical milestones required to complete this transaction. Steps that must be completed in order to transfer the property include:

1. **Property Management and Service Provider Interim Transition** – The current property manager and service provider, Abode Services, will transition out as the onsite service provider at the end of September 2022. The Housing Department issued a Request for Qualifications (RFQ) to identify an interim property manager and service provider. Three agencies responded to the RFQ, Abode Services, LifeMoves, and WeHOPE. The responses were evaluated by staff from the Homeless Response Team, Affordable Housing Production Team, and the Property Management and Inspection team. Proposals were scored based on the project description, organizational capacity and experience, budget, small and local business, and past performance. All three were deemed qualified to serve in a pool of agencies to support the City in providing these services to hotel/motel sites owned by the City. With the highest ranking, LifeMoves was asked and accepted the opportunity to serve as the interim property manager and service provider during the transition to the Housing Authority/Jamboree team.
2. **Housing Authority Board** – The Housing Authority’s Board of Commissioners will need to approve this transaction. The tentative date for this action to be considered for approval is November 3, 2022.
3. **Closing Date** –The Housing Authority, with assistance from City staff, is currently engaged in pre-transfer due diligence activities. The timing of the close will be dependent on the Housing Authority completion of due diligence items, funding commitments, and approval by the HCD. It is anticipated that this will occur in early 2023.
4. **Property Management and Service Provide Transition** – Upon transfer to the Housing Authority and completion of the ground lease from the Housing Authority to Jamboree,

Jamboree will work with LifeMoves for 90 days, and shortly thereafter will assume full responsibility for the site.

Agreement with LifeMoves

The Housing Department requests contract authority for the Housing Director to negotiate and execute an agreement with LifeMoves not to exceed \$1,700,000 to serve individuals and couples residing at the SureStay Hotel. LifeMoves will be responsible for basic property management services by ensuring the building is a safe and secure non-congregate shelter. The term of the agreement will span the transition in ownership from October 1, 2022 to June 30, 2023.

LifeMoves will remain on site as Jamboree begins its work at the SureStay Hotel. This overlap will allow for a smooth transition between service providers for the individuals and couples currently staying at the SureStay.

CONCLUSION

Staff recommends City Council designate the SureStay Hotel as exempt surplus land, approve the sale of the site to the Housing Authority for the amount of \$1, and authorize an agreement with LifeMoves to provide property management and supportive services at the SureStay Hotel during the transition of ownership. This will allow the transfer of the site to an experienced developer and service provider ensuring that 76 extremely-low-income housing units will be maintained and that high-quality services will be provided to the residents. It will facilitate the Housing Authority's future redevelopment of the site for affordable housing consistent with Homekey regulations.

EVALUATION AND FOLLOW-UP

The transfer of the property is anticipated to be completed in early 2023, within 30 days after the execution of the Purchase and Sale Agreement by the City and the Housing Authority. No further actions will be required by staff after the close of escrow.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum aligns with one or more of Climate Smart San José's energy goals by facilitating the creation of low-income housing close to jobs and transit, which will reduce greenhouse gas emissions and vehicle miles traveled. The site is located within walking distance of a light rail station.

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PUBLIC OUTREACH

On July 26, 2022, Housing Department staff attended a SureStay Hotel resident meeting to inform them of the proposed transfer of the site to the Housing Authority. Residents responded positively to the announcement. Staff will continue to participate in the monthly meetings help onsite with the residents of the SureStay Hotel to monitor the transition of ownership as well as the transition of onsite property management and resident services.

This memorandum will be posted on the City's Council Agenda website for the September 27, 2022 City Council meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of real estate transfers do not fall under the functions, power, and duties of the Commission delineated in Section 2.08.2840 of the San José Municipal Code.

FISCAL/POLICY ALIGNMENT

A surplus sale of the subject property is in alignment with the City Council-approved Budget Strategy Expenditure Control section by eliminating a City maintenance obligation and liability.

COST SUMMARY/IMPLICATIONS

Proceeds of the sale in the amount of \$1 will be deposited into the City's Multi-Source Housing Fund. Abode Services, who had been operating the SureStay, will be transitioning off the site in the coming weeks as LifeMoves takes over operations in October. As a part of the RFQ response, LifeMoves indicated that the cost for services would be \$2.0 million on an annual basis, prorated to \$1.7 million for a nine-month period remaining in 2022-2023. The contract will be funded from Measure E resources (\$1.3 million) and from the Homeless Housing, Assistance, and Prevention (HHAP) Fund (\$423,000).

The existing Abode Services agreement for 2022-2023 is currently funded by a combination of sources for a total annual budget of \$1.7 million. Of this amount \$423,000 is new funding provided in 2022-2023 from the HHAP Fund that will be repurposed for the new LifeMoves

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contract, and approximately \$1.3 million was previously encumbered to Abode in prior fiscal years. Staff estimates that approximately \$800,000 of this encumbrance will remain after the end of September when Abode's contract ends. However, because it will take time to complete the closeout of the contract and complete final invoice payments, the remaining encumbrance for Abode cannot be immediately re-assigned to LifeMoves. Instead, the estimated remaining amount of \$800,000 will be liquidated after final contract closeout and reallocated as part of a future budget action to fund operations at an interim housing community.

The Administration will bring forward a recommendation in the 2021-2022 Annual Report, scheduled for City Council review on October 18, to recommend the allocation of \$1.3 million in Measure E resources in the General Fund that will be used for the LifeMoves contract as part of a broader set of actions to appropriate Measure E funds within each expenditure category that aligns with past City Council direction.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/
JACKY MORALES-FERRAND
Director of Housing

/s/
NANCI KLEIN
Director of Economic Development

For questions, please contact Rachel VanderVeen, Deputy Director of Housing, at (408) 535-8231, or Kevin Ice, Real Estate Manager, at (408) 535-8197.

Attachments:

Attachment A: Legal Description of the Property

Attachment B: Parcel Map of the Property

ATTACHMENT A

LEGAL DESCRIPTION OF THE PROPERTY

Real property in the City of San Jose, County of Santa Clara, State of California, described as follows:

AMENDED PARCEL 1 AS SHOWN ON LOT LINE ADJUSTMENT FILE NO. AT06-014, AS EVIDENCED BY LOT LINE ADJUSTMENT PERMIT RECORDED APRIL 03, 2007 AS INSTRUMENT NO. 19366222 OF OFFICIAL RECORDS, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL OF PARCELS ONE AND TWO AS SAID PARCELS ARE DESCRIBED IN THE GRANT DEED TO THE SAN JOSE HOSPITALITY, INC., RECORDED JANUARY 28, 2005 AS INSTRUMENT NO. 18210377, OFFICIAL RECORDS OF SANTA CLARA COUNTY:

EXCEPTING THEREFROM, THE FOLLOWING DESCRIBED PARCEL:

BEGINNING AT THE MOST WESTERLY CORNER OF THE ABOVE MENTIONED PARCEL ONE OF DOCUMENT NO. 18210377; SAID POINT BEING ON THE NORTHEASTERLY LINE OF NORTH FIRST STREET AS IT EXISTED BEFORE WIDENING; THENCE, LEAVING SAID POINT OF BEGINNING AND RUNNING ALONG THE NORTHWESTERLY LINE OF SAID PARCEL ONE, NORTH 59°12'54" EAST 195.09 FEET;

THENCE, LEAVING SAID NORTHWESTERLY LINE THE FOLLOWING COURSES AND DISTANCES:

SOUTH 30°47'06" EAST, 62.82 FEET;
SOUTH 59°11'29" WEST, 49.22 FEET; AND
SOUTH 30°46'41" EAST, 37.77 FEET TO THE COMMON BOUNDARY LINE BETWEEN SAID PARCELS ONE AND TWO OF SAID GRANT DEED TO THE SAN JOSE HOSPITALITY, INC.

THENCE, LEAVING SAID COMMON BOUNDARY, THE FOLLOWING TWO (2) COURSES AND DISTANCES; (1) SOUTH 30°46'41" EAST, 29.10 FEET AND (2) SOUTH 59°17'10" WEST, 145.86 FEET TO THE NORTHEASTERLY LINE OF NORTH FIRST STREET AS IT EXISTED BEFORE WIDENING; THENCE ALONG SAID NORTHEASTERLY LINE OF NORTH FIRST NORTH 56°18'54" WEST, 129.54 FEET TO THE POINT OF BEGINNING.

APN: 235-02-034

ATTACHMENT B

PARCEL MAP OF THE PROPERTY

