The City of San Diego

Staff Report

DATE ISSUED:	July 10, 2025	
TO:	City Council	
FROM:	Economic Development Department	
SUBJECT:	Request approval of the Ground Lease Disposition Agreement between the City of San Diego and 101 ASH VENTURE LP, a Limited Partnership to be controlled by MRK Partners, Inc. and MKAFF Housing, LLC for the City-owned property located at 101 Ash Street, San Diego.	
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Council District(s): 3

OVERVIEW:

Request to approve the Ground Lease Disposition Agreement (Disposition Agreement), which includes a Ground Lease Agreement (Ground Lease) and other transactional agreements, between the City of San Diego (City) and a Limited Partnership to be formed and controlled by MRK Partners, Inc. and MKAFF Housing, LLC. (Developer) for development of a mixed-use project (Project), including affordable housing units, on the City-owned property at 101 Ash Street, San Diego, CA (Property) (**Attachment A: Property Location**) and making related findings regarding the Project's fulfillment of economic opportunity objectives consistent with Government Code section 52201.

PROPOSED ACTIONS:

1. Approve the Disposition Agreement between the City and the Developer for development of the Project on the Property and authorize the Mayor or his designee to sign the Disposition Agreement and related agreements.

2. Make related findings regarding the Project's fulfillment of economic opportunity objectives and regarding the value of the proposed transaction to the City, consistent with Government Code section 52201.

3. Adopt a resolution declaring that the approval of the Ground Lease Disposition Agreement and Ground Lease Agreement between the City of San Diego and a Limited Partnership to be formed and controlled by MRK Partners, Inc. and MKAFF Housing, LLC. for the City-owned property located at 101 Ash Street is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15332 (In-Fill Development Projects) which exempts projects characterized as in-fill development that are: 1) consistent with the applicable general plan designation and all applicable general plan policies as well as with applicable zoning designations and regulations; 2) occur within city limits on a project site of no more than five acres substantially surrounded by urban uses; 3) have no value as habitat for endangered, rare or threatened species; 4) would not result in any significant effects relating to traffic, noise, air quality, or water quality; and 5) can be adequately served by all required utilities and public services; and declare that an exception to the exemption as set forth in CEQA Guidelines Section 15300.2 does not apply; and,

4. Authorize the Chief Financial Officer to accept and deposit the residual receipt payments into General Fund number 100000.

DISCUSSION OF ITEM:

Background

In April 2023, the City Council adopted a resolution to declare that five City-owned blocks within the Civic Center Core properties are surplus land, consistent with the State's Surplus Land Act (SLA). This declaration included the four blocks that make up the Civic Center core (C Street to A Street and 1st Avenue to 3rd Avenue), as well as the 101 Ash Building block (i.e., the Property). As part of that action, the City Council approved a Notice of Availability (NOA) seeking interest from affordable housing developers. The responses to the NOA for Civic Center Properties did not result in a project that would deliver a multi-block, multi-use opportunity. The City received one conforming proposal from Reven Capital, which proposed to develop the Property by converting the office building into 100% affordable housing units. The good faith negotiations between the City and Reven Capital began in August 2023 and concluded without substantial commonality in April 2024. All five City-owned blocks then were confirmed by the California Department of Housing and Community Development (HCD) to have fulfilled the SLA process and are still available to redevelop.

In summer 2024, the City received three separate, unsolicited proposals via email to redevelop the Property into residential use. On September 23, 2024, staff was directed to proceed with two proposals to redevelop the Property into a 100% affordable housing from its current office use. Those proposers were in negotiation concurrently with the City from September through December 2024 and presented to City Council in Closed Session on January 27, 2025, with the express purpose of directing staff to a preferred proposal. The direction given to staff was to negotiate with the Developer to try obtaining more favorable terms for the City's consideration.

After extensive negotiations and evaluations, the City is seeking to move forward with the Project - a proposal from the Developer that promises a transformative, adaptive reuse and full redevelopment of the Property from office to mixed-use, primarily residential. The Project not only aims to address the need for affordable housing but also seeks to provide significant commercial and public benefits, thereby revitalizing the area and enhancing the quality of life for its residents.

Description of Project

The Developer is proposing to develop a 21-story mixed-use high-rise on the approximately 1.33-acre site, as an adaptive reuse project, including both affordable residential units and commercial (retail/childcare) uses.

The Project includes the conversion of the existing office building into approximately 250 residential rental units (including 247 income- and rent-restricted units and 3 unrestricted manager's units). The residential component will offer a mix of studio, one-, two-, and three-bedroom apartments for families earning between 30% and 80% of the Area Median Income (AMI), with an average affordability level not exceeding 60% AMI. All affordable units will be subject to a recorded affordability covenant for a minimum of 55 years.

The Project will include at least 25,000 square feet of retail space and 4,000 square feet of commercial space intended for a childcare center serving children ages 0 to 5, or a comparable public-serving use subject to the City's written consent if a childcare operator cannot be secured despite the Developer's commercially reasonable efforts. The Developer has provided the City with a Letter of Intent from a childcare provider, Social Advocates for Youth or SAY San Diego, to operate the childcare facility.

The Developer anticipates financing the Project with a mix of funding sources, including and primarily seeking Low-Income Housing Tax Credits (LIHTC), tax-exempt bonds, historic tax credits, subordinate B bond, deferred developer fee, and other public and private funding sources, including a $45.6 million Seller Note from the City. The final financing structure will be determined during the Developer's preliminary due diligence period, with regular updates provided by the Developer to the City on the status of funding commitments.

Ground Lease Disposition Agreement

The City and the Developer negotiated a Disposition Agreement (**Attachment B: Disposition Agreement**), which provides for the construction of the Project and includes low-income affordability covenants in compliance with the SLA's affordable housing requirements.

Subject to Council approval, the City will sign the Disposition Agreement, and the parties will open escrow in accordance with the terms and conditions of the Disposition Agreement. The purpose of escrow is to ensure that all conditions precedent such as completion of due diligence, design, permitting and financing are completed prior to commencement of the terms of the Ground Lease, the Seller Note, and other transaction agreements attached to the Disposition Agreement. Once escrow is closed and the Ground Lease in effect, the Developer will have its permits and financing in place and will be ready to move forward with breaking ground on the Project. The Disposition Agreement outlines the Project's "Performance Schedule" on various financing, construction, and operational milestones. The Developer intends to apply for tax credit award in September, and if successful, construction of the Project is anticipated to commence in Spring 2026.

The essential terms of the Disposition Agreement are as follows:

Parties:	City of San Diego and a Limited Partnership controlled by MRK Partners, Inc. & MKAFF Housing, LLC.
Project Scope:	Approximately 250 residential units, all affordable except for three manager’s units, with rent and income restrictions in place for not less than 55 years
Escrow Closing	24 months from the Effective Date of the Disposition Agreement. If Developer is unable to line up Project financing within the 24-month timeframe, either party may terminate the agreement without penalty.
Deposit (Non-Refundable)	$100,000 Non-refundable deposit will be paid to the City for costs and expenses incurred to negotiate the transaction upon execution of the Disposition Agreement.
Property Condition	Developer accepts the Property AS IS (“without warranty or offset from City, including with regard to environmental conditions”). The Developer will complete all renovation work and construct all improvements on the Property constituting the Project in accordance with the agreement terms. Developer will indemnify the City upon close of escrow.
Construction	Developer will accept the Property AS-IS and complete all renovation work and construct all improvements on the Property constituting the Project in accordance with the development documents, all applicable development, applicable laws, insurance requirements, and the development guidelines established by the City.
Prevailing Wage	Developer and all approved assignees of Developer will pay prevailing wage rates under the San Diego Municipal Code, California law, and if applicable Federal law, with respect to the Project, subject to specific requirements to be included in the Disposition Agreement.
Project Labor Agreement	Developer will enter into and comply with the terms of a project labor agreement under the MOU negotiated by Developer and Building and Construction Trades Council, Dated July 1, 2025.

Once the Developer meets milestones in the Disposition Agreement and secures financing, escrow will close and the terms of the Ground Lease will be in effect. The essential terms of the Ground Lease are outlined below:

Ground Lease Agreement

The City and the Developer will enter a 60-year Ground Lease (**Attachment 2 to the Disposition Agreement (Attachment B))**, which will include long-term, 55-year affordability covenants with respect to the affordable housing component of the Project as well as covenants related to the operation, management and programming of the other elements of the Project. The affordable rental units will be income- and rent-restricted by recorded covenants for a period of at least 55 years.

The essential terms and conditions of the proposed Ground Lease are as follows:

Use and Project Description	Development and operation of 247 affordable housing units plus three (3) unrestricted Manager units; 25,000 square feet of commercial/retail and 4,000 square foot childcare center
Ground Lease Term	60 Years
Residual Receipts Rent	Greater of $15,000 or 50% of residual receipts to be paid annually based on pro-rata share of cash flow (includes residential, retail and childcare components)
Capital Event Fee	2% of gross proceeds on qualified refinancing or sale events
Maintenance / Repairs and Care	All maintenance and repair of the Property and any and all improvements constructed on the Property will be the sole responsibility of Developer, and Developer will keep and maintain the Property and such improvements in good and tenantable condition, consistent with prevailing industry standards for other developments, buildings and improvements in San Diego, California

Seller Note

As part of the financial structure for the Project, the City will provide a Seller Note (**Attachment 4 to the Disposition Agreement (Attachment B))** to the Developer in the form of a residual receipts loan in the amount of $45.6 million. The Seller Note will be equal to the building's value, excluding the land. This financing structure allows the Developer to defer a portion of the leasehold acquisition costs, with repayment subject to available residual cash flow from the Project and is memorialized through a Promissory Note secured by a Leasehold Deed of Trust, which will be recorded upon execution of the Ground Lease.

The purpose of the Seller Note is to establish the terms and conditions of the City's financial participation in the Project, as negotiated by City staff and the City Attorney in coordination with the Developer. The financial terms were evaluated by the City's economic consultant, Keyser Marston Associates (KMA), who reviewed the Developer's pro forma and supports the proposed residual receipts financing structure.

The essential terms and conditions of the proposed loan are as follows:

Loan Amount	$45.6 million
Loan Term	55 Years
Amortization	55 Years
Interest Rate	4% Simple Interest
Payment Frequency	Annual
Payment Date	90 days after the end of the year
Residual Receipts Loan Payment	All residual receipt payments shall be due and payable ninety (90) days following the end of each applicable year. Annual payments shall be made from the project's surplus cash upon repayment of deferred developer fee. All payments shall be applied as follows: (1) current year interest and unpaid prior-year interest; (2) outstanding principal balance.
Residual Receipts	Project revenue less the sum of: (1) Operating expenses; (2) Debt service; (3) Reserve deposits; and (4) payment of any deferred developer fee.
Loan Priority	The City's loan will be subordinate to all third-party debt (banks and other financial institutions) and on par with all other public agency residual receipt debt.
Security	The City's loan will be secured by a promissory note and a recorded leasehold deed of trust.

Economic Opportunity

The Property in its current condition, represents an underutilized use of City-owned property. Redevelopment of the Property will provide significant and measurable public benefits to the City, consistent with definition of "economic opportunity" set forth in California Government Code section 52200.2. The proposed Project is a model of equitable and sustainable development. It delivers:

- **Employment Generation:** The Project will generate prevailing wage construction jobs during the rehabilitation process and create permanent commercial and property management positions upon completion. Ground-floor commercial will also serve Civic Center workers and surrounding businesses, while improving safety and impacting economic opportunities downtown.

- **Affordable Housing:** The Project will deliver affordable family housing for extremely low-, very low-, and low-income households.

- **Community Amenity:** The Project will incorporate a childcare facility.

- **Property Tax Revenues:** The ground floor commercial space will generate new assessed value and associated property tax revenues.

- **Sustainability:** Given its in-fill location, adaptive re-use nature, and proximity to transit routes, the Project will reduce construction and operation related carbon emissions and contribute to the City's climate action goals.

- **Long-Term Ownership:** The Project will be developed on a ground lease structure, with property interest reversion to the City at the end of the 60-year term.

Together these benefits demonstrate a strong alignment with the definition of an "economic opportunity" (a recognized type of public purpose) in Government Code section 52200.2 and reflect the City's commitment to inclusive growth and long-term community benefit.

Consistent with Government Code section 52201, the proposed Council resolution includes a finding, based on the economic analysis in the KMA Report, that the consideration to be received by the City under the Ground Lease is not less than the fair reuse value of the Property at the use and with the covenants and conditions and development costs authorized by the Ground Lease.

Recommendation

To maximize public benefit and consistent with Council Policy 700-10, which prioritizes long-term leasing over disposition of surplus City-owned property, the City engaged in extensive negotiations to secure terms that preserve City ownership, reduce operational impacts, and advance public-serving goals. As a result, the City pursued a standard development structure: a Disposition Agreement paired with a long-term Ground Lease. This structure ensures that, at the end of the lease term, the City will retain the fully improved residential building, recapture value through residual receipts, be repaid its Seller Note, and benefit from the broader economic and community impacts of the redevelopment.

Therefore, staff recommends that the City Council approve the proposed actions.

<u>CITY OF SAN DIEGO STRATEGIC PLAN:</u>

This action relates to the Strategic Plan's Priority Area: Create Homes for All of Us by converting an underutilized City asset into a mixed-use development that delivers 247 affordable units, on-site childcare and economic opportunity.

<u>FISCAL CONSIDERATIONS:</u>

The Property was appraised by a qualified MAI appraiser and the fair market value at is highest and best use was determined to be $3,940,000 using As-Is Market Value of the Property's fee simple interest **(Attachment C: City Appraisal).**

As the City was negotiating an affordable housing project with the intention to apply for tax credits a different approach to appraisal meets the California Tax Credit Allocation Committee (TCAC) guidelines, therefore, the Developer also had the Property appraised using the Cost Approach which is consistent with TCAC requirements, factoring in acquisition basis as well as land value of

$12,000,000 (as-if-Vacant and Available) for a total valuation conclusion of $60,900,000 **(Attachment D: Developer Appraisal)**

The City retained an independent third-party consultant, KMA, to analyze the proposed financial structure of the transaction and evaluate the economic opportunity objectives of the Project consistent with Government Code section 52202 (**Attachment E: KMA Report)**.

Residual receipts are projected to commence following payment of the Deferred Developer Fee, in approximately year 15 of the Ground Lease, and will be subordinate to third-party lenders but pari passu with other public agency debt. The structure of this transaction supports long-term value recovery while facilitating a mission-aligned affordable housing project.

Residual receipt payments from the Ground Lease will be deposited into the General Fund.

Tax-exempt bonds were used to finance a portion of tenant improvements associated with the original 101 Ash St. Building Capital Improvement Project. The Department of Finance consulted with external bond counsel and received confirmation that the change in use, from governmental to affordable housing, should not affect the tax-exempt status of the bonds.

The City will receive the reversion value of the Property upon expiration of the Ground Lease of a fully improved residential building with commercial uses on the ground level.

CHARTER SECTION 225 DISCLOSURE OF BUSINESS INTERESTS:

MRK Partners, Inc., a California Corporation, is 100% owned by shareholders, Sydne Garchik, Boca Raton Florida

MKAFF Housing, LLC, a California Limited Liability Company, is 100% owned by sole member Kelly Moden, San Diego, California

101 ASH VENTURE LP, a Limited Partnership is owned and operated by MRK Partners, Inc. And MKAFF Housing, LLC.

ENVIRONMENTAL IMPACT:

This activity is categorically exempt from CEQA pursuant to CEQA Guidelines Section 15332 (In-Fill Development Projects) which exempts projects characterized as in-fill development that are: 1) consistent with the applicable general plan designation and all applicable general plan policies as well as with applicable zoning designations and regulations; 2) occur within city limits on a project site of no more than five acres substantially surrounded by urban uses; 3) have no value as habitat for endangered, rare or threatened species; 4) would not result in any significant effects relating to traffic, noise, air quality, or water quality; and 5) can be adequately served by all required utilities and public services.

Approval of this action would facilitate the development of a mixed-use project which includes affordable housing units and commercial (retail/childcare) uses on a public agency-owned site. The project is seeking to maximize the density of the site through the use of affordable housing and childcare density bonuses. As such, the project would comply with the San Diego Municipal Code (SDMC) Section 156.0304(c) and would be exempt from needing a development permit. The project site is approximately 1.3 acres, is located within City limits, and is surrounded by urban uses. The project is located on developed land which has no value as habitat for endangered, rare or threatened species. The project is in a Vehicle Miles Traveled (VMT) efficient area for both VMT per Capita and VMT per Employee and therefore, would not result in a significant transportation impact. The building would be required to comply with the California Building Code and City regulations as it relates to interior noise and thus would not result in a significant noise impact. The proposed improvements are predominantly interior alterations to modify the building for residential and commercial uses and construction activities are not anticipated to exceed the emissions thresholds identified in the City's CEQA Significance Determination Thresholds. Additionally, the project would be required to comply with all applicable San Diego Air Pollution Control District rules and regulations as it relates to construction emissions including, but not limited to, rules related to fugitive dust and odors. The project does not include any components which would impact water quality and would be required to comply with the City's storm water regulations which provide minimum storm water requirements to protect water quality. Therefore, the project would not result in significant effects to air quality or water quality. There are existing utility connections to the site and the project would upgrade existing utility connections, as needed, to ensure they can accommodate the proposed uses. Additionally, there are emergency public services (i.e., police and fire-rescue services) available in the area that can provide service to the project site as needed. Therefore, the project can be adequately served by all required utilities and public services. Thus, this action meets the criteria for a Class 32 exemption.

The exceptions to the exemptions listed in CEQA Guidelines Section 15300.2 would not apply in that no cumulative impacts were identified, no significant effects on the environment were identified, the project is not adjacent to a scenic highway, no historical resources would be affected by the action, and the project was not identified on a list of hazardous waste sites pursuant to Section 65962.5 of the Government Code.

CLIMATE ACTION PLAN IMPLEMENTATION:

The Project supports Strategy 3 Mobility and Land Use. Located within a Transit Priority Area, it is served by public transit and provides opportunities for convenient access to alternative transportation options, nearby retail and amenities, and contributes to a reduction in vehicle miles traveled and reduced greenhouse gas emissions.

EQUAL OPPORTUNITY CONTRACTING INFORMATION:

The future agreements will comply with applicable Equal Opportunity Contracting requirements. The Developer will be required to submit all applicable disclosures and adhere to prevailing wage and project labor agreement terms.

PREVIOUS COUNCIL AND/OR COMMITTEE ACTIONS:

This item was heard at the July 2, 2025 Land Use and Housing Committee meeting and recommended to proceed to full City Council for consideration.

KEY STAKEHOLDERS AND COMMUNITY OUTREACH EFFORTS:

The key beneficiaries are the Developer, 101 ASH VENTURE LP, a Limited Partnership to be controlled by MRK Partners, Inc. and MKAFF Housing, LLC and the future extremely low- to low-income residents at 30% to 60% AMI or less.

Christina Bibler	Casey Smith
Director, Economic Development Department	Deputy Chief Operating Officer

Attachments:

Attachment A: Property Location

Attachment B: Ground Lease Disposition Agreement

Attachment C: City Appraisal

Attachment D: Developer Appraisal

Attachment E: KMA Report