

**Mayor's Office of Housing and Community Development**  
City and County of San Francisco



**London N. Breed**  
Mayor

**Kate Hartley**  
Director

**Midtown Overview: September 2018**

**Background**

- Midtown Park Apartments is a 6-building, 139-unit residential development located at 1415 Scott Street (bordered by Geary/Scott/O'Farrell/Divisadero). Built in 1962, the apartments are "walk-ups", with no elevator service and no internal or external accessibility features for disabled residents.
- Midtown's builder financed the development with a HUD mortgage guarantee; in return, the builder committed to renting Midtown apartments to low- and moderate-income households. When the builder went bankrupt in 1962 and the construction lender moved to foreclose on the property, it triggered HUD's guarantee.
- As part of the effort to keep the units affordable and prevent a conversion to market-rate rents, HUD required that the City acquire Midtown.
- Midtown residents, HUD and the City cooperated over several years to create a "work-out" plan. In 1968, the City took ownership of Midtown and immediately leased the development back to Midtown Park Corporation, a resident-led nonprofit company formed to manage the property under a long-term ground lease with the City.
- The ground lease between Midtown Park Apartments and the City included these terms:
  - Apartments would continue to be rented to low- and moderate-income households.
  - The lease terminated when the first mortgage terminated.
  - At the end of the lease term, Midtown returned to full City ownership and control.
  - At the City's option, it could lease back the property to Midtown Park Apartments on a month-to-month basis.
- Midtown Park Corporation operated the property as a rental development under the lease from 1968 to 2014.
- Though public ownership of Midtown and its governmentally-controlled rent limits exempted Midtown from the City's Rent Control Ordinance, former management companies applied rent-control rules, did not properly income certify residents and insufficiently and inconsistently raised rents.
- In 2005, the City, under the direction of the Mayor's Office of Housing and Community Development (MOHCD), began actively working with Midtown residents to develop a building rehabilitation plan. By this time, Midtown suffered from decades of deferred maintenance.
- In 2011, Midtown residents selected Mercy Housing California, an affordable housing developer, to explore rehabilitation options.

- In 2014, the existing property management company couldn't obtain property insurance because physical conditions at the property had deteriorated so badly; the City terminated Midtown Park Corporation's ground lease.
  - Based upon Mercy's strong property management experience and because the residents picked Mercy as their affordable housing developer, the City transferred property management to Mercy.
  - Since 2014, MOHCD has provided \$12.5 million in emergency capital funds to address Midtown's immediate repair needs.
  - MOHCD also began providing operating subsidies to Midtown in 2014 to shore up ongoing operating deficits. MOHCD's operating expense payments to date exceed \$2.5 million.
- Mercy is currently completing health and safety improvements, including replacement of unit heaters, abatement of mold, repair of water-damaged units and common areas, lighting improvements, replacement of flooring to improve accessibility, pavement replacement to mitigate trip and hazards, fire door replacement, installation of additional fire prevention equipment, replacement of sprinkler system in corridors and installation of smoke and carbon detectors in units. The development still needs a comprehensive rehabilitation or reconstruction.

### **Rent Modification Program**

Prior to Mercy's management, an analysis of the households revealed the following:

- Extremely and very low-income households were subsidizing higher-income households by paying well over 30% of their incomes in rent;
- Higher-income households were paying less than 20% of their incomes for rent;
- Unsustainably low rents and no repair reinvestments caused the extreme physical disrepair; and
- Preserving Midtown required that affordable rents be set fairly and consistently.

In 2014, MOHCD created the Rent Modification Program (RMP), which included these terms:

- All residents' rents are set at 30% of household income **for as long as the resident resides at Midtown**, even if the resident's income goes down over time.
- Any rent increases were to be phased in over 5 years; in response to the first increase of 2015, the second increase was delayed another year until 2017, **making the full phase-in 6 years**.
  - Over 30 households received an immediate rent decrease to get to 30% of income; since 2015, additional households' rents have decreased due to loss of income.
  - 2018 update:
    - 102 households are current with rent.
    - Mercy is helping 2 households that are reporting zero income to secure government assistance.
    - 17 households are on rent strike and have not paid rent in 2 years. (MOHCD is not taking further action on this nonpayment until the tenants' litigation is resolved; see below).
    - No Midtown households have been evicted since MOHCD initiated its work to preserve the property in 2005, despite rent non-payments.

### **Resident Litigation and Rent Ordinance Claims**

- Residents appealed to the Rent Board for a determination that Midtown is subject to the Rent Ordinance.
- On April 1, 2014, a Residential Rent Stabilization and Arbitration Board Administrative Law Judge ruled that the property is exempt from the Rent Ordinance.

- The tenants appealed the first ruling; on June 17, 2014, the Rent Board Commissioners denied the appeal.
- Midtown residents unsuccessfully sued the City (the court ruled in favor of the City on 10/14/16).
- Midtown residents appealed the decision in December 2016.
- The court affirmed the earlier judgement in favor of the City in May 2018.

### **Midtown's Current Occupancy**

- 121 out of 130 units are occupied (March 2018).
- **73 of 121 Midtown households, or over 60%, are seniors** (age 62 and older).
- Of the 118 households who income-certified, **78% have incomes lower than 60% of AMI:**
  - 40 households at 30% AMI or less (income less than \$27,660 for a single-person household)
  - 39 households between 31% AMI and 50% AMI (\$27,660 - \$46,100)
  - 13 households are between 51-60% AMI (\$46,100 – \$55,320)
  - 18 households are between 61-100% AMI (\$55,320 - \$92,200)

### **Summary**

- Midtown is and has always been a rental development, with no resident purchases of co-op shares.
- Midtown Park Corporation's lease called for permanent ownership of the property by the City.
- The City has not evicted any Midtown resident.
- Setting rents at the national standard for affordability – 30% of income – is equitable and necessary to stabilize Midtown.
- MOHCD has established a benefit for Midtown households that goes beyond typical affordable housing practices by guaranteeing that their rents will remain 30% of household income, even if income decreases over time.
- Midtown's deteriorated physical condition, including the hardship that disabled and senior residents face due to the absence of accessible features, requires rehab and reconstruction.
- MOHCD intends to reinvest in Midtown without displacement for the sole purpose of providing safe, decent, accessible housing for existing Midtown residents and future low- and moderate-income households.

### **Midtown's Preservation Principles**

The Mayor's Office of Housing and Community Development (MOHCD) is committed to working with Midtown residents to protect and preserve Midtown, guided by four principles established by the San Francisco Board of Supervisors in 2007:

- 1) Prevent Displacement
- 2) Involve Tenants in Revitalization Plans
- 3) Protect Long-Term Affordability
- 4) Ensure Safe, Sanitary and Decent Housing

Creating "Safe, Sanitary and Decent Housing" requires accessibility features and major repairs. MOHCD proposes to achieve this by substantially rehabilitating all six Midtown buildings.

### **MOHCD's Further Commitments for Midtown's Preservation**

- Midtown will be 100%, permanently affordable housing.
  - Existing residents will pay no more than 30% of household income in rent, even if income decreases over time.
- Construction work will be phased to maximize on-site temporary relocation.
- Some temporary, off-site relocation may be necessary and will be short-term, with costs covered by the project.
- Any resident desiring to move off-site temporarily due to dust and noise may do so, with costs covered by the project.
- MOHCD will provide residents temporarily moving off site a contractual right to return.
- MOHCD will work with interested, higher-income residents on creating a buyers' club to explore affordable homeownership options.
- MOHCD retains responsibility for completing all necessary health and safety repairs until full repair work can begin.
- MOHCD will create a minimum number of fully accessible units for residents who are currently struggling with mobility challenges.
- MOHCD and Mercy will continue their ongoing resident engagement: staff held three resident meetings in February 2018, three meetings in April 2018, three in May 2018 and three in June 2018. Additional meetings will be scheduled as needed.