

## REPORT OF THE PRESIDENT AND CEO

December 15, 2022

## RESOLUTION AUTHORIZING THE PRESIDENT AND CEO, OR THEIR DESIGNEE, TO ENTER INTO SEPARATE GROUND LEASE OPTIONS FOR A 48-UNIT ROSE HILL COURTS PHASE II-A AND A 48-UNIT ROSE HILL COURTS PHASE II-B PROJECT, AND TO RECOMMIT UP TO \$4,500,000 IN GAP FUNDING FOR ROSE HILL COURTS PHASE II-A



Douglas Guthrie  
President and CEO



Geoffrey Moen  
Director of Development Services

**Purpose:** The option to bifurcate the 96-unit Phase II project into two sub-phases will provide multiple financing pathways for the redevelopment of Rose Hill Courts Phase II and will ensure construction of this final phase can continue immediately upon completion of Phase I. Entering into these ground lease options allows Rose Hill Courts II Housing Partners, L.P. (the "Developer") to make placeholder tax exempt bond applications for Phase IIA and Phase IIB to the California Debt Limit Allocation Committee ("CDLAC") by December 16, 2022 in order to preserve the 30 percent basis boost under the Low Income Housing Tax Credit ("LIHTC") program that is set to expire in FY2023. These authorizations will terminate if the 96-unit Phase II project is successful in receiving competitive state funding in the FY2023 Affordable Housing and Sustainable Communities ("AHSC") NOFA.

**Regarding:** On November 20, 2014, by Resolution 9171, the Board of Commissioners ("BOC") authorized the President and CEO to award an Exclusive Right to Negotiate a Memorandum of Understanding ("MOU") between the Housing Authority of the City of Los Angeles ("HACLA") and The Related Companies of California, LLC ("Related"), for a period of 90 days in accordance with the Request for Qualifications for the Rose Hill Courts Redevelopment ("RFQ"), to define the terms and conditions under which Related would perform the RFQ's scope of work.

On November 26, 2019, by Resolution 9543, the BOC certified the Environmental Impact Report ("EIR") prepared in full compliance with the California Environmental Quality Act ("CEQA") and the State CEQA Guidelines for the teardown of the existing 100-unit Rose Hill Courts public housing site and its redevelopment into 185 units with supporting amenities (the "Rose Hill Courts Redevelopment"). Further, the BOC adopted a Mitigation Monitoring and Reporting Program (MMRP) and approved the Rose Hill Courts Redevelopment.

On January 23, 2020, by Resolution 9568, the BOC authorized the President and CEO to enter into separate Disposition and Development Agreements, long-term Ground Lease Agreements and Predevelopment Loan documents with Related-controlled entities Rose Hill Courts I Housing Partners, L.P. and the Developer for the development of an 89 unit affordable housing residential development in Phase I of the Rose Hill Courts Redevelopment ("Phase I") and a 96 unit affordable housing residential development in

Phase II of the Rose Hill Courts Redevelopment, respectively.

On March 19, 2020, HACLA and Developer entered the Disposition and Development Agreement for Rose Hill Courts – Phase II (“DDA”).

On September 15, 2021, by Resolution 9734, HACLA and Developer entered a First Amendment to the DDA to revise the land acreage for the property to provide flexibility for the long term use and maintenance of a central open space parcel.

On June 23, 2022, by Resolution 9840, HACLA and Developer entered a Second Amendment to the DDA that committed \$2,000,000 in additional gap funding for Phase II for a total of \$4,500,000 in funding commitment.

On September 3, 2021, La Cienega LOMOD-controlled entity LOMOD RHC II, LLC (“LOMOD RHC II”), Related-controlled entity Related/Rose Hill Courts II Development Co., LLC (“Related RHC II”), and The Nicholas Company, Inc. entered the First Amended and Restated Agreement of Limited Partnership of Rose Hill Courts II Housing Partners, L.P. (“First Amended LPA”). Under the First Amended LPA, LOMOD RHC II will serve as managing general partner, Related RHC II will serve as administrative general partner, and The Nicholas Company, Inc. will serve as initial limited partner until admission of an investor limited partner.

On June 23, 2022, LOMOD RHC II was authorized by the La Cienega LOMOD Board of Directors to receive up to \$2,000,000 of developer fee for Phase II and commit to recontributing such additional developer fee as a \$2,000,000 capital contribution to the Partnership for the development and construction of the Project.

**ISSUES:**

*Background*

Since 2015, HACLA and Developer have been working on the Rose Hill Courts Redevelopment project. After many years of planning and predevelopment, evolving from rehabilitation to new construction strategy, completion of a long drawn out environmental review process and with significant community outreach, the redevelopment plan was finalized and approved by the HACLA Board. The redevelopment includes 185 new multi-family units developed in two phases, approximately 5,500 square-foot Management Office/Community Building and a “Central park” green space. Ample open space and recreational amenities will be incorporated to promote continued community outdoor use such as outdoor communal space with shaded seating and BBQ grills, children’s play areas, paved surfaces, and several courtyards.

The 89-units Phase I project achieved financial closing in June 2021 and its construction is underway. Phase I is expected to be completed by May 2023 and all units will be made available to current residents of RHC and those who have been temporarily relocated.

Phase II, as originally proposed, is expected to be constructed on the remaining 3.45-acres of land located at the western and southern portion of the 5.24-acre Rose Hill Courts public housing site. Phase II includes a total of 96 residential housing units (95 affordable housing units plus one market-rate manager’s unit) along with the Management

Office/Community Building. Phase II will provide a total of 119 parking spaces onsite, with at-grade and tuck-under parking; upgraded lighting, fencing, signage, and security features; and storm drain and utility improvements. At full build-out, the common areas and recreational amenities improved in Phase I and Phase II will be seamless and available for the enjoyment of the residents of both phases.

Phase II has been planned to begin construction upon the completion of Phase I and after the residents living in the footprint of Phase II have been relocated and the buildings demolished. The Developer is working on the construction drawing set which is scheduled to be completed by December 2022 for submission to the City of Los Angeles for building permits. HACLA has awarded Section 8 Project Based Vouchers (“PBV”) to all 95 affordable units in Phase II. The initial financing plan included assumptions for State of California (“State”) funding from either the Department of Housing and Community Development (“HCD”) Multi-Family Housing Program (“MHP”) or the Strategic Growth Council (“SGC”) Affordable Housing & Sustainable Communities (“AHSC”) funding program, along with tax-exempt bond financing and 4% Low income Housing Tax Credits (“LIHTC”).

*Phase II  
Financing  
Challenges*

In response to HCD’s July 2021 Round 4 MHP Notice of Funding Availability (“NOFA”), the Developer submitted an application in September 2021 for the Phase II project. Even though Phase II received a perfect score, its “tiebreaker” score fell just short of the cut-off for funding. Developer submitted another MHP application in Summer 2022 in response to the FY2022 SuperNOFA. However, the FY2022 MHP round was oversubscribed tenfold and Phase II’s tiebreaker score was not competitive in relation to Permanent Supportive Housing project applications, which suggests that the probability of a future State of California award for Phase II is very slim.

Looking to another financing option, the Developer intends to apply for the Round 7 NOFA of the SGC’s AHSC program. Since the AHSC program has an offsite Sustainable Transportation Infrastructure (“STI”) component, the City of Los Angeles (the “City”) is required to be a party to the joint application. The City, through the Los Angeles Housing Department’s (“LAHD”), requires projects to compete for the City’s partnership knowing that the funding at the State is limited. HACLA and Related were invited to the City’s Developer Clinic and made a presentation regarding the Phase II project and the potential STIs that could be included in the application. The City will make a decision over the next two weeks on which Citywide projects to partner with for the FY2023 AHSC round. If Phase II is selected by the City, the AHSC application will be submitted in March 2023 with an anticipated award in June 2023.

However, with State funding being highly competitive, even if selected by the City for making an application, Phase II may or may not receive AHSC funds. In the case of MHP funding, the Super NOFA will continue to be highly competitive and there is no guarantee of receiving MHP award in Summer 2023. With no other funding opportunities available, including the City’s Managed Pipeline for 9% LIHTC, being completely reliant on AHSC or

MHP funding could mean that the Phase II site would sit dormant for the foreseeable future.

*Sub-phasing  
Strategy*

An alternative sub-phasing approach that maintains the overall Rose Hill Courts redevelopment schedule could be achieved by splitting the 96-unit Phase II project into two smaller phases, Phase IIA and Phase IIB, each comprising 48 units as depicted in the site plan Attachment 2. Phase IIA will include 47 affordable units with 1 manager unit while Phase IIB will include 48 affordable units and require a waiver from the California Tax Credit Allocation Committee (“CTCAC”) to allow for the manager of Phase IIA to administer Phase IIB.

Under this plan, Phase IIA can immediately proceed with an application for tax-exempt bonds and 4% LIHTC/State Tax Credits, without being reliant on HCD gap financing, thereby reducing the project timeline for the completion of half of the Phase II units. This approach will require the re-commitment of the \$4.5 million previously approved by the BOC for Phase II, to be deployed just towards Phase IIA.

if Phase II cannot apply and/or receive AHSC funding, HACLA will submit a bond application for Phase IIA as early as the first CDLAC Round in May 2023, and will recommit the \$4.5 million in gap funding the BOC previously authorized for Phase II to Phase IIA, subject to the BOC authorization sought herein. This recommitment will ensure the financial viability of Phase IIA even if no HCD or SGC gap financing is available. Prior to that, HACLA will seek Board approval to amend, modify and/or replace the current Phase II DDA to account for Phase IIA and Phase IIB. In addition, in the sub-phase approach, HACLA will seek Board approval to bifurcate the existing predevelopment loan between Phase IIA and Phase IIB. HACLA will also request HUD for an amendment to the Section 18 Disposition approval for bifurcating Phase II. Under this option, Phase IIA could be ready to achieve financing closing by February 2024 and complete construction by March 2026.

Phase IIB, with a smaller footprint and a smaller funding gap, will be more competitive for a future round of MHP or AHSC State funding and/or other local funding sources without requiring HACLA gap funding. Subject to receiving all necessary funding, development of Phase IIB can lag Phase IIA by six months and would be treated as two projects in order to receive developer fees for each phase. Construction of Phase IIB could commence by January 2025 and achieve completion by January 2027 which is fairly close to the overall schedule for Phase II. If HACLA receives \$1,500,000 in Community Project Funding commitment for the Rose Hill Courts Community Center from Congressional appropriations, the gap funding needs for Phase IIB will be further reduced and increase the competitiveness of Phase IIB for future State funding applications. The Rose Hill Courts Community Center project was among a few projects in Representative Jimmy Gomez’s district that was forwarded to the House Appropriations Committee for funding and has been included in the Transportation, House, and Urban Development Appropriations bill. Congress is still negotiating the government funding package and staff anticipates getting a substantive update from Representative Gomez’s office in the next few weeks.

The bifurcation of Phase II is only a fallback option and is contingent upon the 96-unit Phase II project not receiving competitive state funding in the FY2023 AHSC NOFA.

*Expiration of  
QCT status for*

*Rose Hill Courts* On October 25, 2022, the U.S. Department of Housing and Urban Development (HUD) published the 2023 Difficult Development Areas (“DDAs”) and Qualified Census Tracts (“QCT”) that are eligible for a 30 percent basis boost (“30% Boost”) under the LIHTC program. The 30% Boost increases the amount of LIHTC equity funding available to a qualifying project by up to thirty percent. Unfortunately, Rose Hill Courts is located in a census tract that will no longer be considered as a QCT starting on Jan 1, 2023 and, therefore, any new LIHTC applications made in FY2023 will no longer receive the 30% Boost. For Phase II, could will lead to a reduction of approximately \$4.0 million in LIHTC equity investment.

CDLAC released a memo informing prospective applicants that any bond project located in an area that was a QCT in 2022, but which will lose that status in 2023, is still eligible for the basis boost as long as CDLAC receives a complete application for the project by December 16, 2022. CDLAC will allow up to 18 months (June 30, 2024) for applicants and sponsors to secure bond allocation in a future CDLAC round.

In order to preserve the ability to receive the 30% Boost, the Developer is submitting complete placeholder bond application packages to CDLAC for Phase II, Phase IIA and Phase IIB, with HACLA functioning as the bond issuer. These applications require HACLA to enter into ground lease options for Phase IIA and IIB (“Options”) with the Developer to demonstrate site control. The Options will provide the Developer an option to ground lease the Phase IIA and Phase IIB property, respectively, in the event the Phase II project is not awarded competitive HCD funding. Each Option will be granted at a nominal price (\$100) with an outside expiration date of December 31, 2023. Further, each Option will terminate automatically if the 96-unit Phase II project is award competitive HCD funding or Phase IIA or Phase IIB, respectively, do not receive a tax exempt bond allocation from CDLAC. The Options provide site control with reference to substantially the same ground lease terms as required in the Phase II DDA, including a 66-year initial ground lease term with three 11-year extension options, a capitalized lease payment to HACLA at appraised Fair Market Value paid in the form of an acquisition loan, and affordability requirements.

In the event the 96-unit Phase II project receives AHSC funding in June 2023, HACLA will make a revised CDLAC submission for Phase II on behalf of the Developer for a bond allocation in the August 2023 “Round 2” funding cycle, and both Options would terminate.

**Vision Plan:** **PLACE Strategy #1: Stabilize the physical and financial viability of the conventional public housing portfolio.**

Phase IIA and IIB will allow for the construction of 96 new housing units, 95 of which will be deeply affordable units, with one designated manager’s unit. This development will further HACLA’s goals of improving its affordable housing stock and increasing its supply

of ADA-compliant, modern, sustainably designed, and amenitized units. This action will help HACLA avoid delays in providing critical, deeply affordable housing in the City of Los Angeles that will serve income-qualified households within the city.

**Funding:** The Chief Administrative Officer confirms the following:

*Source of Funds:* Approval of this action will re-commit the \$4.5 million previously approved for Phase II, to be deployed towards Phase IIA. \$4.5 million in funds are available from Harbor Village resyndication proceeds and uncommitted Rent Subsidy proceeds.

*Budget and Program Impact:* The recommitment of funding for Phase IIA will facilitate the securing of 4% LIHTC and Tax Exempt bonds for this sub-phase. Phase II will continue to be analyzed for cost savings and the amount recommended is intended to be an upper limit of financing required. These transactions will generate payments to HACLA amounting to 15% of the total developer fees for each sub-phase. HACLA will also receive reimbursement of 3rd party costs expended on the applicable phase to the extent supported by that phase. This action allows Phase IIA to move forward on its timeline to initiate construction in early 2024.

**Environmental Review:**

*CEQA* No further environmental review is required for HACLA's recommended actions because based on the project record there has been no change to the Rose Hill Courts Redevelopment or substantial changes in circumstances or new information that would warrant subsequent environmental analysis in accordance with CEQA, including but not limited to Public Resources Code section 21166 and State CEQA Guidelines sections 15162, 15163 and 15164.

*NEPA:* Pursuant to 24 CFR Part 58, the City of Los Angeles, through LAHD (formerly the Housing and Community Investment Department, or "HCIDLA"), serves as the environmentally responsible entity in preparation of the Final Environmental Impact Statement for the Rose Hill Courts Redevelopment. HCIDLA issued a Record of Decision on January 24, 2020 and submitted a Request for Release of Funds to the U.S. Department of Housing and Urban Development ("HUD") on February 8, 2020. On March 9, 2020, HUD's Los Angeles Office of Public Housing issued approval of the City of Los Angeles' Environmental Certification.

**SECTION 3:** The Developer will comply with and impose Section 3 hiring requirements and numerical goals consistent with the former Phase I Section 3 Construction Local Hiring and Contracting Plan negotiated pursuant to the Disposition and Development Agreement and in accordance with HACLA's Section 3 Guide and Compliance Plan (v2). These obligations include setting aside at least thirty percent (30%) of all new predevelopment, construction and post-construction jobs generated by the redevelopment first for current residents of Rose Hill Courts, second to qualified Section 3 residents of the North East Los Angeles neighborhood, third to participants in HUD's Youthbuild programs in the City of

Los Angeles, and fourth to residents of the City of Los Angeles who meet Section 3 eligibility requirements. Furthermore, the Developers will strive to provide at least ten percent (10%) of all construction work hours to Section 3 Residents according to the hiring priorities set forth above. The Developer shall include the Section 3 Hiring and Work Hour Requirements in all subcontracts and ensure compliance by its contractors, and subcontractors under its authority performing work related to the development. Section 3 Business contracting goals of 10% for construction and 3% for non-construction subcontracts shall also apply to all contracts awarded. A Construction and Post-Construction Section 3 Local Hiring and Contracting Plan will be submitted to HACLA prior to commencement of activities for review and approval. The Hiring Plan will discuss strategies and investments that will assist in enabling their contractors and consultants to hire and train Section 3 residents during the construction and post-construction stages to achieve the minimum numerical goals for hiring, work hours and subcontracting.

**Attachments:**

1. Resolution
2. Site map depiction of Phase IIA and Phase IIB
3. Draft of the Phase IIA and Phase IIB Ground Lease Options

# **ATTACHMENT 1**

## **Resolution**

**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION AUTHORIZING THE PRESIDENT AND CEO, OR THEIR DESIGNEE, TO ENTER INTO SEPARATE GROUND LEASE OPTIONS FOR A 48-UNIT ROSE HILL COURTS PHASE II-A AND A 48-UNIT ROSE HILL COURTS PHASE II-B PROJECT, AND TO RECOMMIT UP TO \$4,500,000 IN GAP FUNDING FOR ROSE HILL COURTS PHASE II-A**

**WHEREAS**, the Housing Authority of the City of Los Angeles ("HACLA") intends to transform the Rose Hill Courts public housing community into a mixed-income, environmentally friendly, vibrant urban village, conducive to healthy living and economically progressive conditions (the "Rose Hill Courts Redevelopment");

**WHEREAS**, on January 23, 2020, by Resolution 9568, HACLA's Board of Commissioners ("BOC") authorized the President & CEO to enter into separate Disposition and Development Agreements with Rose Hill Courts I Housing Partners, L.P. and Rose Hill Courts II Housing Partners, L.P. (the "Developer") for the development of an 89 unit affordable housing residential development in Phase I of the Rose Hill Courts Redevelopment ("Phase I") and a 96 unit affordable housing residential development in Phase II of the Rose Hill Courts Redevelopment ("Phase II" or the "Project"), respectively;

**WHEREAS**, on March 19, 2020, HACLA's President and CEO executed a Disposition and Development Agreement ("DDA") with the Developer for the Project;

**WHEREAS**, pursuant to BOC authorization under Resolution 9734, on September 15, 2021 HACLA and Developer entered a First Amendment to the DDA to revise the land acreage for the Phase II property to provide flexibility for the long-term use and maintenance of a central open space parcel;

**WHEREAS**, Phase I achieved financing closing in June 2021 and its construction is underway;

**WHEREAS**, the Developer is making progress on predevelopment activities for the Project, has completed the 100% design development drawings, and is finalizing the financing plan;

**WHEREAS**, the Project expects to utilize tax-exempt bond financing and 4% Low Income Housing Tax Credits ("LIHTC"), and pursuant to BOC authorization under Resolution 9840, HACLA increased the gap funding authorization by \$2,000,000 to a new maximum gap funding amount of \$4,500,000 in light of increased construction costs;

**WHEREAS**, due to the highly competitive nature of the Department of Housing and Community Development ("HCD") Multi-Family Housing Program ("MHP") applications, Phase II did not receive funding awards from the previous two rounds of HCD MHP applications (September 2021 and July 2022);

**WHEREAS**, the Developer intends to apply for the FY2023 Round 7 NOFA of the Strategic Growth Council ("SGC") Affordable Housing & Sustainable Communities ("AHSC") funding program that includes an offsite Sustainable Transportation Infrastructure ("STI") component which requires partnering with the City of Los Angeles (the "City") to make a joint application, and if Phase II is selected by the City, the AHSC application will be submitted in March 2023 with an anticipated award in June 2023;

**WHEREAS**, with State funding being highly competitive, even if selected by the City for submitting an AHSC application, Phase II may or may not receive funding in the FY2023 Round 7 NOFA, and with a lack of funding opportunities available for Phase II, including the City's Managed Pipeline for 9% LIHTC,

being completely reliant on AHSC or MHP funding could lead to the Phase II site remaining dormant for the next two to three years;

**WHEREAS**, in the event of not receiving AHSC funds in FY2023, expediting the construction of the overall Rose Hill Courts redevelopment could be achieved by splitting the 96-unit Phase II project into two smaller phases, Phase IIA and Phase IIB, each comprising 48 units; and Phase IIA could immediately proceed with an application for tax-exempt bonds and 4% LIHTC/State Tax Credits, without being reliant on HCD gap financing, thereby reducing the project timeline for completion of half of the Phase II units;

**WHEREAS**, if the Developer and HACLA elect to proceed with Phase IIA as a result of Phase II not receiving AHSC FY2023 funding, recommitting the up to \$4.5 million in HACLA gap funding that the BOC previously allocated for Phase II to Phase IIA will ensure the financial viability of Phase IIA even if no HCD or SGC gap funding is available;

**WHEREAS**, Phase IIB, with a smaller footprint and a smaller funding gap, will be more competitive for future rounds of State funding;

**WHEREAS**, an affordable housing project can receive a 30 percent basis boost (“30% Boost”) if the project is located in a Difficult Development Area (“DDA”) and/or a Qualified Census Tract (“QCT”), allowing such projects to receive a larger federal credit award and thus generating more equity for the project;

**WHEREAS**, under the 2023 map published by HUD on October 25, 2022, Rose Hill Courts will no longer be in a QCT and projects conducted there will not qualify for additional equity beginning January 2023, which could reduce LIHTC equity investment for Phase II by approximately \$4.0 million;

**WHEREAS**, on November 14, 2022, the California Debt Limit Allocation Committee (“CDLAC”) issued a memo regarding the 2022 expiring DDA and QCT map and is allowing projects losing their DDA/QCT status to submit Qualified Residential Rental Project (“QRRP”) applications by December 16, 2022 in order to preserve a project’s current DDA/QCT status;

**WHEREAS**, in order to preserve the ability to receive the 30% Boost, the Developer is submitting complete placeholder bond application packages to CDLAC for Phase II, Phase IIA and Phase IIB, with HACLA functioning as the bond issuer, and these applications will require HACLA to enter into ground lease options for Phase IIA and IIB (“Options”) with the Developer to demonstrate site control; and

**WHEREAS**, under the California Public Resources Code, Section 21166 and the California Environmental Quality Act (CEQA), including but not limited to Sections 15162, 15163 and 15164, on the basis of substantial evidence contained in the whole record, that since the adoption of the Rose Hill Courts Redevelopment Project (“RHC Project”) Environmental Impact Report (“EIR”) by HACLA on November 26, 2019, including the Phase I and Phase II redevelopment activities currently being proposed, there have been no changes to the RHC Project, changes with respect to the circumstances under which the RHC Project is being undertaken, or new information of substantial importance concerning the RHC Project, which cause new significant environmental effects or a substantial increase in the severity of previously identified effects in the EIR.

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Commissioners of the Housing Authority of the City of Los Angeles (“BOC”) does hereby authorize and approve as follows:

- a) The form and content of the Ground Lease Options for Phase IIA and IIB and any other documents, agreements and certificates necessary to undertake various actions contemplated by this Resolution, with such changes therein as approved with the advice of legal counsel;
- b) The recommitment of up to \$4,500,000 of gap funding to Phase IIA; and
- c) The President and Chief Executive Officer, or any Designated Officer, is hereby authorized and directed, for and on behalf of and in the name of the Authority, to execute and attest the Ground Lease Options for Phase IIA and IIB and any other documents, agreements and certificates necessary to accomplish the transaction contemplated by this Resolution, with such changes therein as approved by the Designated Officer with the advice of legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

**BE IT FURTHER RESOLVED** that the “Designated Officers” of HACLA referred to above are as follows:

Name	Title
Douglas Guthrie	President and Chief Executive Officer
Marlene Garza	Chief Administrative Officer
Jenny Scanlin	Chief Strategic Development Officer
Margarita Lares	Chief Programs Officer

**BE IT FURTHER RESOLVED** that this Resolution shall take effect immediately.

APPROVED AS TO FORM:

HOUSING AUTHORITY OF THE  
CITY OF LOS ANGELES

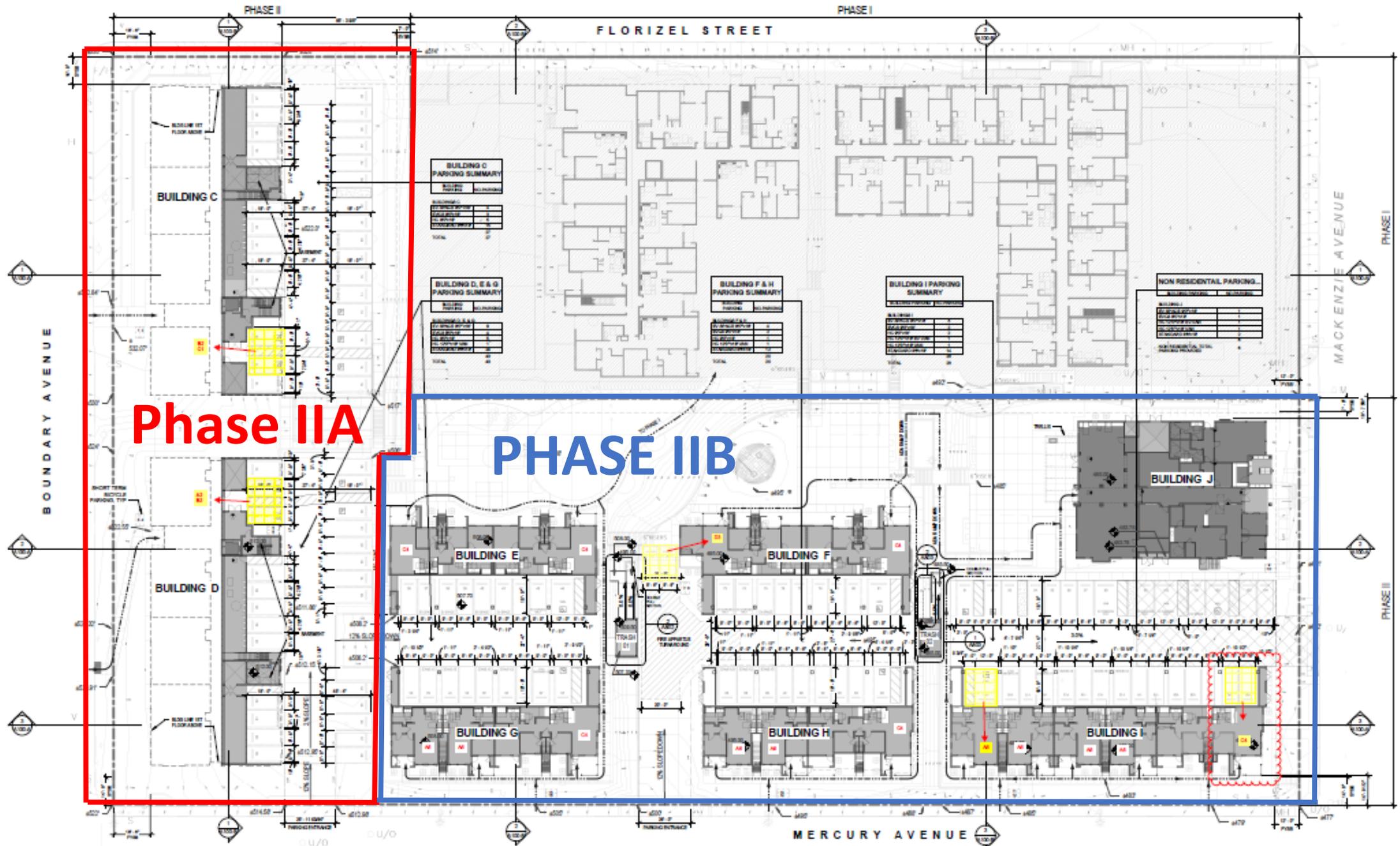
BY: \_\_\_\_\_  
General Counsel James Johnson

BY: \_\_\_\_\_  
Chairperson Cielo Castro

DATE ADOPTED: \_\_\_\_\_

## **ATTACHMENT 2**

**Site map depiction of Phase IIA and Phase IIB**



**Phase IIA**

**PHASE IIB**

**BUILDING C  
PARKING SUMMARY**

TYPE	NO.
RESIDENTIAL	10
COMMERCIAL	5
TOTAL	15

**BUILDING D, E & G  
PARKING SUMMARY**

TYPE	NO.
RESIDENTIAL	20
COMMERCIAL	10
TOTAL	30

**BUILDING F & H  
PARKING SUMMARY**

TYPE	NO.
RESIDENTIAL	15
COMMERCIAL	5
TOTAL	20

**BUILDING I PARKING  
SUMMARY**

TYPE	NO.
RESIDENTIAL	10
COMMERCIAL	5
TOTAL	15

**NON RESIDENTIAL PARKING**

TYPE	NO.
RESIDENTIAL	10
COMMERCIAL	5
TOTAL	15

**BUILDING E**

**BUILDING F**

**BUILDING G**

**BUILDING H**

**BUILDING I**

**BUILDING J**

FLORIZEL STREET

MERCURY AVENUE

BOUNDARY AVENUE

MACKENZIE AVENUE

MACKENZIE AVENUE

PHASE II

PHASE I

PHASE I

PHASE II

## **ATTACHMENT 3**

# **Draft of the Phase IIA and Phase IIB Ground Lease Options**

## OPTION TO LEASE

### ROSE HILL COURTS – PHASE IIA

This Option to Lease (the “**Agreement**”) is entered into as of December 1, 2022 (the “**Effective Date**”), by and between the HOUSING AUTHORITY OF THE CITY OF LOS ANGELES, CALIFORNIA, a public body, corporate and politic (the “**Owner**”), and ROSE HILL COURTS II HOUSING PARTNERS, L.P., a California limited partnership (the “**Lessee**” and together with Owner, the “**Parties**”).

#### RECITALS

A. The Owner owns that certain real property in the City of Los Angeles, California more particularly described in Exhibit A, attached hereto and incorporated herein by this reference (the “**Property**”).

B. Lessee proposes to develop an affordable housing project known a Rose Hill Courts Phase IIA comprising forty-eight (48) units (the “**Project**”) on the Property and desires, therefore, to lease the Property from the Owner under the terms of a Ground Lease Agreement (the “**Ground Lease**”).

C. The Owner desires to grant Lessee an option to lease the Property by this Agreement and the parties desire to enter into this Agreement to set forth the terms of the option from Owner to Lessee to lease the Property.

#### AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals, which are hereby incorporated into this Agreement by this reference, and the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, it is hereby declared, understood and agreed as follows:

Section 1. Grant of Option and Consideration. For consideration of One Hundred Dollars (\$100.00) Owner grants to Lessee an option to lease the Property on the terms and conditions set forth in this Agreement (the “**Option**”).

Section 2. Term of Option. The term of the Option shall commence on the Effective Date of this Agreement and shall expire upon the earlier of (a) 11:59 p.m. on June 30, 2024, or (b) the date on which the 96-unit project contemplated by that certain Disposition and Development Agreement for Rose Hill Courts – Phase II, by and between Owner and Lessee, dated March 19, 2020, as amended (the “**DDA**”), receives an award of Affordable Housing and Sustainable Communities funds or Multifamily Housing Program funds from the California Department of Housing and Community Development (“**HCD**”), unless such date is extended by a written amendment to this Agreement executed by Owner and Lessee (the “**Option Term**”).

Section 3. Exercise of Option. Lessee may exercise this Option by delivering to Owner, during the Option Term, as such term may be extended, written notice of the exercise (the “**Option Notice**”). The Option Notice shall state that the Option is exercised without condition or qualification.

Section 4. Conditions Precedent to Exercise of Option. Lessee’s right to exercise the Option is expressly subject to the satisfaction of the following conditions precedent (the “**Exercise Conditions**”):

(a) Financing Commitments. Lessee has provided Owner with (i) evidence that the Project is financially feasible, (ii) evidence of firm financing commitments from lenders and investors, and (iii) a disclosure of all fees and payments to be paid to Lessee or any affiliate of Lessee from any source;

(b) Plans and Specifications. Lessee has submitted the plans and specifications for the Project to be constructed to Owner and Owner has approved such plans and specifications;

(c) Disposition and Development Agreement. Lessee and Owner have entered into a Disposition and Development Agreement for the Project which contains terms substantially the same terms as the DDA, as modified by mutual agreement of the Parties for the Project, and the Lessee has satisfied the closing requirements therein;

(d) Evidence of Governmental Approvals. Lessee has provided Owner with satisfactory evidence that it has obtained all applicable government approvals for the Project, including but not limited to building permits and HUD approval of the Ground Lease to the Lessee;

(e) Ground Lease. Lessee and Owner have agreed upon a form of Ground Lease consistent with the terms of this Agreement, unless otherwise mutually agreed by the parties, and the Ground Lease has been approved by the Owner’s Board of Commissioners; and

(f) Litigation, Limited Denial of Participation, or Debarment. There is no action, suit or proceeding pending or threatened before any court or government or administrative body or agency which may reasonably be expected to (i) result in a material adverse change in the activities, operations, assets or properties or in the condition, financial or otherwise, of the Lessee or (ii) impair the ability of the Lessee to perform its obligations under this Agreement. The Lessee is not in default with respect to any judgment, writ, injunction, decree, rule or regulation of any court or any governmental or administrative body or agency. The Lessee, its members, and its affiliates, are not the subject of a limited denial of participation or debarment by HUD or any similar prohibition on conducting business with public agencies in the State of California or other jurisdictions.

If the Exercise Conditions have not occurred by the expiration of the Option Term, the Owner may terminate this Agreement, and neither party shall have any further rights or obligations hereunder, unless the failure of an Exercise Condition to occur is due to the action or inaction of the Owner.

Section 5. Lease of the Property. Upon receipt of the Option Notice, Owner shall prepare the Ground Lease. The Lease shall be substantially in accordance with the following:

(a) Term of Ground Lease. The Ground Lease shall provide for, without limitation, subject to final negotiations with lenders and the investor, a term of approximately sixty-six (66) years, with three (3) options to extend, each for an additional eleven (11) years, in the Owner's sole discretion (the "**Ground Lease Term**").

(b) Fair Market Value. The Ground Lease will include a capitalized ground lease payment ("**Capitalized Lease Payment**"). To establish the amount of the Capitalized Lease Payment, the Owner will commission an independent appraiser to arrive at the fair market value ("**FMV**") of the leasehold estate for the Property. Such appraisal shall be updated on an approximately annual basis until such time as the Property receives a tax-credit award from California Tax Credit Allocation Committee ("**TCAC**") or California Debt Limit Allocation Committee ("**CDLAC**"), but each event no earlier than three (3) months before a LIHTC application for the Property is submitted to TCAC. The independent appraiser shall be selected by the Owner and shall have at least five (5) years of experience appraising multifamily housing in Los Angeles County. Owner shall prepare instructions to the appraiser, which shall be subject to the reasonable approval of the Lessee whose approval shall not be unreasonably withheld. Lessee shall have fifteen (15) days to review and approve the FMV at the expiration of which, if Lessee has not responded, the FMV shall be deemed approved. If Lessee disapproves the FMV and Owner and the Lessee are unable to agree upon the FMV by the end of an additional fifteen (15) day period, Lessee shall have the right to retain a separate appraiser. If Lessee retains a separate appraiser in accordance with the foregoing, the Owner and Lessee shall share the appraisals prepared by their respective appraisers and, if the FMV determined by the two appraisers is within ten percent (10%) of each other, the FMV shall be deemed to be the average of the FMVs determined by the two appraisers. If the FMV as determined by the two appraisers deviates by more than ten percent (10%), the two appraisers shall select a third appraiser to determine the FMV, and the appraisal of such third appraiser shall be binding on Owner and the Lessee as the Capitalized Lease Payment.

(c) Capitalized Lease Payment. The Ground Lease shall require the Lessee to make the Capitalized Lease Payment. Any portion of the Capitalized Lease Payment not paid at the Close of Escrow (as hereinafter defined), shall be paid by delivery of a nonrecourse promissory note payable to the order of the Owner and other customary mortgage loan documents (the "**Acquisition Loan**"). The Acquisition Loan shall have a term of fifty-five (55) years and bear simple interest at three percent (3%). Principal and accrued interest on the Acquisition Loan shall be paid from a fifty percent (50%) ratable share of Net Cash Flow (as defined in the DDA), subject to applicable HCD requirements. At the Close of Escrow, the Lessee shall (i) execute and deliver the Acquisition Loan documents to evidence the Acquisition Loan, and (ii) cause the deed of trust securing the Acquisition Loan to be recorded against Lessee's leasehold estate governed by the Ground Lease. The Acquisition Loan shall be subordinate to (A) any loan funded with the proceeds of tax-exempt bonds and such other institutional financing as approved by the Owner and (B) any loan from HCD, if required in accordance with HCD requirements.

(d) Taxes, Assessments and Utilities. Lessee shall be responsible for the payment of any and all property taxes and assessments and other charges that may be assessed, levied or imposed against the leasehold estate and the Property during the entire Ground Lease Term, and shall pay all utilities used, rendered or supplied upon or in connection with the Property during the Ground Lease Term.

(e) Use. The Property shall be used during the Ground Lease Term only for the, development, operation, marketing for lease and leasing of the Project as affordable rental housing and such other uses as are reasonably and customarily attendant to such uses, in accordance with all applicable funding requirements, including TCAC, CDLAC, HUD, and Owner requirements.

(f) Development and Operation of the Project. Lessee shall be responsible for the development, operation, and maintenance of the Project during the Ground Lease Term.

(g) Conveyance. The conveyance of the ground leasehold interest shall be subject to a Declaration of Restrictive Covenants for the benefit of Owner and HUD and such other exceptions, easements or encumbrances as do not interfere with the use and enjoyment of the Property for the development and financing of the Project as approved by the Owner.

(h) Encumbrance of Leasehold Property. Lessee shall have the right during the Ground Lease Term to encumber, through a leasehold mortgage, pursuant to financing approved by the Owner, all of Lessee's right, title and interest in the leased Property, subject to the provisions of the Ground Lease (including mortgagee protection language to the extent required by Lessee's lenders); provided, however, that any such leasehold mortgage shall be, in all respects, subordinate and inferior to the Owner's right, title and interest as fee owner of the Property, as well as to the Declaration of Restrictive Covenants for the benefit of HUD. The Ground Lease shall contain such provisions as may be reasonably required by the Project's tax credit investor and any lender to protect its rights in the event of default.

(i) No Liens. Lessee shall not have any right, authority or power to bind the Owner, or its fee interest in the Property, for any claim for labor or material or for any other charge or expense, lien or security interest incurred in connection with the development, rehabilitation or operation of the Project or any change, alteration or addition thereto. The Lessee shall keep the Property free of mechanics', materialmen's' and other involuntary liens, stop notices and encumbrances caused by Lessee, its contractors, agents or employees and shall forthwith take all necessary and appropriate steps to release or bond around any such liens.

Section 6. Reserved.

Section 7. Closing.

(a) Close of Escrow. If all Exercise Conditions and written escrow conditions have been met and the Option is exercised, the transfer of the Property contemplated herein shall close within ten (10) business days after the Option is exercised (the "**Close of Escrow**"), which date may be extended by Lessee in its reasonable discretion for up to an additional ninety (90) days upon notice to Owner of such intent by Lessee.

(b) Closing Expenses. If the Option is exercised, Lessee shall pay any documentary transfer tax, revenue tax or excise tax (and any surtax thereon) due in connection with the consummation of this transaction, the premium for Lessee's title policy, Owner's title policy premium and all other escrow and closing costs. Each party shall bear the expense of its own counsel.

Section 8. Default and Termination. In the event: (a) of a breach or violation of any of the obligations of Lessee under this Agreement, which violation is not cured within thirty (30) days after delivery of written notice thereof by the Owner to Lessee; or (b) that Lessee is in default under any other agreement with the Owner pertaining to the Project, and such event of default remains uncured after passage of the applicable notice and cure period, the Owner may terminate this Agreement by delivering a termination notice in writing to Lessee after the expiration of the cure period described above. Upon the date of delivery of such termination notice to Lessee, this Agreement shall be terminated, and neither party shall have any further rights or obligations hereunder.

Section 9. Option Not to Be Recorded. This Agreement will not be recorded.

Section 10. Notice. Any notice or other communication given or made pursuant to this Agreement shall be in writing and shall be deemed given if (a) sent by overnight express delivery, or (b) mailed by registered or certified mail (return receipt requested), postage prepaid, to a party at its respective address set forth below (or at such other address as shall be specified by the party by like notice given to the other party):

If to Owner:                   Housing Authority of the City of Los Angeles  
2600 Wilshire Boulevard, 3rd Floor  
Los Angeles, CA 90057  
Attention: President and Chief Executive Officer

With a copy to:               Housing Authority of the City of Los Angeles  
2600 Wilshire Boulevard, 3rd Floor  
Los Angeles, CA 90057  
Attention: General Counsel

And a copy to:               Reno & Cavanaugh PLLC  
455 Massachusetts Avenue, NW Suite 400  
Washington, D.C. 20001  
Attn: Megan Glasheen, Esq.

To Tenant:                    Rose Hill Courts II Housing Partners, L.P.  
c/o The Related Companies of California, LLC  
18201 Von Karman Avenue, Suite 900  
Irvine, CA 92612  
Attn: Frank Cardone

with a copy to: Bocarsly Emden Cowan Esmail & Arndt LLP  
633 West Fifth Street, 64th Floor  
Los Angeles, CA 90071  
Attn: Nichole Deddens

Any notice provided in accordance with this Section 10 shall be deemed to have been given on the delivery date or the date that delivery is refused by the addressee, as shown on the return receipt.

Section 11. Miscellaneous.

(a) Commission. Each party hereby agrees that no real estate brokerage fees are due to any party due to this Option or the Ground Lease.

(b) Binding Effect. The rights and obligations of the Owner and Lessee under this Agreement shall inure to the benefit of, and bind, their respective successors and assigns, provided that Lessee shall not assign this Agreement without the prior written consent of the Owner.

(c) Captions. The captions used herein are for convenience of reference only and are not part of this Agreement and do not in any way limit or amplify the terms and provisions hereof.

(d) Severability. If any portion of this Agreement is declared by a court of competent jurisdiction to be invalid or unenforceable, such portion shall be deemed severed from this Agreement and the remaining parts shall continue in full force as though such invalid or unenforceable provision had not been part of this Agreement.

(e) Time. Time is of the essence of each and all of the obligations, covenants and conditions of this Agreement.

(f) Governing Law. This Agreement shall be interpreted in accordance with and governed by the laws of the State of California.

(g) Authorization, Binding Agreement, and Assignment. The execution, delivery and performance by the Lessee of this Agreement and any related documents and actions have been duly authorized by all requisite action of the Lessee and create legally binding obligations for the Lessee. The Lessee, with notice to and prior written consent of the Owner, may assign this Agreement and any related documents to a to-be-formed single purpose entity formed to develop the Project.

(h) Conflict of Interest. No member, official or employee of the Owner shall have any personal interest, direct or indirect, in this Agreement nor shall any such member, official or employee participate in any decision relating to the Agreement which affects his or her personal interests or the interests of any corporation, partnership or association in which he, or she is directly or indirectly, interested.

(i) Warranty against Payment of Consideration for Agreement. The Lessee warrants that it has not paid or given, and will not pay or give, any third party any money or other consideration for obtaining the Option; provided, however, the Owner acknowledges that the Lessee has retained legal counsel and consultants in connection with this Agreement.

(j) Non-liability of Officials, Officers, Members, and Employees. No member, official, officer, or employee of the Owner shall be personally liable to the Lessee, or any successor in interest, in the event of any default or breach by the Owner or for any amount which may become due to the Lessee or to his successor, or on any obligations under the terms of this Agreement.

(k) Entire Agreement. This Agreement constitutes the entire agreement between Owner and Lessee with respect to the subject matter hereof and supersedes all prior offers and negotiations, oral and written. This Agreement may not be amended or modified in any respect whatsoever except by an instrument in writing signed by Owner and Lessee.

(l) Attorneys' Fees. In the event of any action, arbitration, or proceeding at law or in equity between Owner and Lessee to enforce any provision of this Agreement or to protect or establish any right or remedy of either party hereunder, each party shall bear its own attorneys' fees.

(m) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will be deemed to be a single document.

[signature page(s) to follow]

IN WITNESS WHEREOF, Owner and Lessee have executed this Agreement as of the Effective Date.

**OWNER:**

**HOUSING AUTHORITY OF THE CITY OF LOS ANGELES,**  
a public body, corporate and politic,

By: \_\_\_\_\_  
Douglas Guthrie  
President and Chief Executive Officer

**LESSEE:**

**ROSE HILL COURTS II HOUSING PARTNERS, L.P.,**  
a California limited partnership

By: Related/Rose Hill Courts II Development Co., LLC,  
a California limited liability company  
its administrative general partner

By: \_\_\_\_\_  
Frank Cardone  
President

**EXHIBIT A**

**Legal description**

## OPTION TO LEASE

### ROSE HILL COURTS – PHASE IIB

This Option to Lease (the “**Agreement**”) is entered into as of December 1, 2022 (the “**Effective Date**”), by and between the HOUSING AUTHORITY OF THE CITY OF LOS ANGELES, CALIFORNIA, a public body, corporate and politic (the “**Owner**”), and ROSE HILL COURTS II HOUSING PARTNERS, L.P., a California limited partnership (the “**Lessee**” and together with Owner, the “**Parties**”).

#### RECITALS

A. The Owner owns that certain real property in the City of Los Angeles, California more particularly described in Exhibit A, attached hereto and incorporated herein by this reference (the “**Property**”).

B. Lessee proposes to develop an affordable housing project known a Rose Hill Courts Phase IIB comprising forty-eight (48) units (the “**Project**”) on the Property and desires, therefore, to lease the Property from the Owner under the terms of a Ground Lease Agreement (the “**Ground Lease**”).

C. The Owner desires to grant Lessee an option to lease the Property by this Agreement and the parties desire to enter into this Agreement to set forth the terms of the option from Owner to Lessee to lease the Property.

#### AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals, which are hereby incorporated into this Agreement by this reference, and the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, it is hereby declared, understood and agreed as follows:

Section 1. Grant of Option and Consideration. For consideration of One Hundred Dollars (\$100.00) Owner grants to Lessee an option to lease the Property on the terms and conditions set forth in this Agreement (the “**Option**”).

Section 2. Term of Option. The term of the Option shall commence on the Effective Date of this Agreement and shall expire upon the earlier of (a) 11:59 p.m. on June 30, 2024, or (b) the date on which the 96-unit project contemplated by that certain Disposition and Development Agreement for Rose Hill Courts – Phase II, by and between Owner and Lessee, dated March 19, 2020, as amended (the “**DDA**”), receives an award of Affordable Housing and Sustainable Communities funds or Multifamily Housing Program funds from the California Department of Housing and Community Development (“**HCD**”), unless such date is extended by a written amendment to this Agreement executed by Owner and Lessee (the “**Option Term**”).

Section 3. Exercise of Option. Lessee may exercise this Option by delivering to Owner, during the Option Term, as such term may be extended, written notice of the exercise (the “**Option Notice**”). The Option Notice shall state that the Option is exercised without condition or qualification.

Section 4. Conditions Precedent to Exercise of Option. Lessee’s right to exercise the Option is expressly subject to the satisfaction of the following conditions precedent (the “**Exercise Conditions**”):

(a) Financing Commitments. Lessee has provided Owner with (i) evidence that the Project is financially feasible, (ii) evidence of firm financing commitments from lenders and investors, and (iii) a disclosure of all fees and payments to be paid to Lessee or any affiliate of Lessee from any source;

(b) Plans and Specifications. Lessee has submitted the plans and specifications for the Project to be constructed to Owner and Owner has approved such plans and specifications;

(c) Disposition and Development Agreement. Lessee and Owner have entered into a Disposition and Development Agreement for the Project which contains terms substantially the same terms as the DDA, as modified by mutual agreement of the Parties for the Project, and the Lessee has satisfied the closing requirements therein;

(d) Evidence of Governmental Approvals. Lessee has provided Owner with satisfactory evidence that it has obtained all applicable government approvals for the Project, including but not limited to building permits and HUD approval of the Ground Lease to the Lessee;

(e) Ground Lease. Lessee and Owner have agreed upon a form of Ground Lease consistent with the terms of this Agreement, unless otherwise mutually agreed by the parties, and the Ground Lease has been approved by the Owner’s Board of Commissioners; and

(f) Litigation, Limited Denial of Participation, or Debarment. There is no action, suit or proceeding pending or threatened before any court or government or administrative body or agency which may reasonably be expected to (i) result in a material adverse change in the activities, operations, assets or properties or in the condition, financial or otherwise, of the Lessee or (ii) impair the ability of the Lessee to perform its obligations under this Agreement. The Lessee is not in default with respect to any judgment, writ, injunction, decree, rule or regulation of any court or any governmental or administrative body or agency. The Lessee, its members, and its affiliates, are not the subject of a limited denial of participation or debarment by HUD or any similar prohibition on conducting business with public agencies in the State of California or other jurisdictions.

If the Exercise Conditions have not occurred by the expiration of the Option Term, the Owner may terminate this Agreement, and neither party shall have any further rights or obligations hereunder, unless the failure of an Exercise Condition to occur is due to the action or inaction of the Owner.

Section 5. Lease of the Property. Upon receipt of the Option Notice, Owner shall prepare the Ground Lease. The Lease shall be substantially in accordance with the following:

(a) Term of Ground Lease. The Ground Lease shall provide for, without limitation, subject to final negotiations with lenders and the investor, a term of approximately sixty-six (66) years, with three (3) options to extend, each for an additional eleven (11) years, in the Owner's sole discretion (the "**Ground Lease Term**").

(b) Fair Market Value. The Ground Lease will include a capitalized ground lease payment ("**Capitalized Lease Payment**"). To establish the amount of the Capitalized Lease Payment, the Owner will commission an independent appraiser to arrive at the fair market value ("**FMV**") of the leasehold estate for the Property. Such appraisal shall be updated on an approximately annual basis until such time as the Property receives a tax-credit award from California Tax Credit Allocation Committee ("**TCAC**") or California Debt Limit Allocation Committee ("**CDLAC**"), but each event no earlier than three (3) months before a LIHTC application for the Property is submitted to TCAC. The independent appraiser shall be selected by the Owner and shall have at least five (5) years of experience appraising multifamily housing in Los Angeles County. Owner shall prepare instructions to the appraiser, which shall be subject to the reasonable approval of the Lessee whose approval shall not be unreasonably withheld. Lessee shall have fifteen (15) days to review and approve the FMV at the expiration of which, if Lessee has not responded, the FMV shall be deemed approved. If Lessee disapproves the FMV and Owner and the Lessee are unable to agree upon the FMV by the end of an additional fifteen (15) day period, Lessee shall have the right to retain a separate appraiser. If Lessee retains a separate appraiser in accordance with the foregoing, the Owner and Lessee shall share the appraisals prepared by their respective appraisers and, if the FMV determined by the two appraisers is within ten percent (10%) of each other, the FMV shall be deemed to be the average of the FMVs determined by the two appraisers. If the FMV as determined by the two appraisers deviates by more than ten percent (10%), the two appraisers shall select a third appraiser to determine the FMV, and the appraisal of such third appraiser shall be binding on Owner and the Lessee as the Capitalized Lease Payment.

(c) Capitalized Lease Payment. The Ground Lease shall require the Lessee to make the Capitalized Lease Payment. Any portion of the Capitalized Lease Payment not paid at the Close of Escrow (as hereinafter defined), shall be paid by delivery of a nonrecourse promissory note payable to the order of the Owner and other customary mortgage loan documents (the "**Acquisition Loan**"). The Acquisition Loan shall have a term of fifty-five (55) years and bear simple interest at three percent (3%). Principal and accrued interest on the Acquisition Loan shall be paid from a fifty percent (50%) ratable share of Net Cash Flow (as defined in the DDA), subject to applicable HCD requirements. At the Close of Escrow, the Lessee shall (i) execute and deliver the Acquisition Loan documents to evidence the Acquisition Loan, and (ii) cause the deed of trust securing the Acquisition Loan to be recorded against Lessee's leasehold estate governed by the Ground Lease. The Acquisition Loan shall be subordinate to (A) any loan funded with the proceeds of tax-exempt bonds and such other institutional financing as approved by the Owner and (B) any loan from HCD, if required in accordance with HCD requirements.

(d) Taxes, Assessments and Utilities. Lessee shall be responsible for the payment of any and all property taxes and assessments and other charges that may be assessed, levied or imposed against the leasehold estate and the Property during the entire Ground Lease Term, and shall pay all utilities used, rendered or supplied upon or in connection with the Property during the Ground Lease Term.

(e) Use. The Property shall be used during the Ground Lease Term only for the, development, operation, marketing for lease and leasing of the Project as affordable rental housing and such other uses as are reasonably and customarily attendant to such uses, in accordance with all applicable funding requirements, including TCAC, CDLAC, HUD, and Owner requirements.

(f) Development and Operation of the Project. Lessee shall be responsible for the development, operation, and maintenance of the Project during the Ground Lease Term.

(g) Conveyance. The conveyance of the ground leasehold interest shall be subject to a Declaration of Restrictive Covenants for the benefit of Owner and HUD and such other exceptions, easements or encumbrances as do not interfere with the use and enjoyment of the Property for the development and financing of the Project as approved by the Owner.

(h) Encumbrance of Leasehold Property. Lessee shall have the right during the Ground Lease Term to encumber, through a leasehold mortgage, pursuant to financing approved by the Owner, all of Lessee's right, title and interest in the leased Property, subject to the provisions of the Ground Lease (including mortgagee protection language to the extent required by Lessee's lenders); provided, however, that any such leasehold mortgage shall be, in all respects, subordinate and inferior to the Owner's right, title and interest as fee owner of the Property, as well as to the Declaration of Restrictive Covenants for the benefit of HUD. The Ground Lease shall contain such provisions as may be reasonably required by the Project's tax credit investor and any lender to protect its rights in the event of default.

(i) No Liens. Lessee shall not have any right, authority or power to bind the Owner, or its fee interest in the Property, for any claim for labor or material or for any other charge or expense, lien or security interest incurred in connection with the development, rehabilitation or operation of the Project or any change, alteration or addition thereto. The Lessee shall keep the Property free of mechanics', materialmen's' and other involuntary liens, stop notices and encumbrances caused by Lessee, its contractors, agents or employees and shall forthwith take all necessary and appropriate steps to release or bond around any such liens.

Section 6. Reserved.

Section 7. Closing.

(a) Close of Escrow. If all Exercise Conditions and written escrow conditions have been met and the Option is exercised, the transfer of the Property contemplated herein shall close within ten (10) business days after the Option is exercised (the "**Close of Escrow**"), which date may be extended by Lessee in its reasonable discretion for up to an additional ninety (90) days upon notice to Owner of such intent by Lessee.

(b) Closing Expenses. If the Option is exercised, Lessee shall pay any documentary transfer tax, revenue tax or excise tax (and any surtax thereon) due in connection with the consummation of this transaction, the premium for Lessee's title policy, Owner's title policy premium and all other escrow and closing costs. Each party shall bear the expense of its own counsel.

Section 8. Default and Termination. In the event: (a) of a breach or violation of any of the obligations of Lessee under this Agreement, which violation is not cured within thirty (30) days after delivery of written notice thereof by the Owner to Lessee; or (b) that Lessee is in default under any other agreement with the Owner pertaining to the Project, and such event of default remains uncured after passage of the applicable notice and cure period, the Owner may terminate this Agreement by delivering a termination notice in writing to Lessee after the expiration of the cure period described above. Upon the date of delivery of such termination notice to Lessee, this Agreement shall be terminated, and neither party shall have any further rights or obligations hereunder.

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Los Angeles, CA 90057  
Attention: President and Chief Executive Officer

With a copy to:               Housing Authority of the City of Los Angeles  
2600 Wilshire Boulevard, 3rd Floor  
Los Angeles, CA 90057  
Attention: General Counsel

And a copy to:               Reno & Cavanaugh PLLC  
455 Massachusetts Avenue, NW Suite 400  
Washington, D.C. 20001  
Attn: Megan Glasheen, Esq.

To Tenant:                    Rose Hill Courts II Housing Partners, L.P.  
c/o The Related Companies of California, LLC  
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Irvine, CA 92612  
Attn: Frank Cardone

with a copy to: Bocarsly Emden Cowan Esmail & Arndt LLP  
633 West Fifth Street, 64th Floor  
Los Angeles, CA 90071  
Attn: Nichole Deddens

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(f) Governing Law. This Agreement shall be interpreted in accordance with and governed by the laws of the State of California.

(g) Authorization, Binding Agreement, and Assignment. The execution, delivery and performance by the Lessee of this Agreement and any related documents and actions have been duly authorized by all requisite action of the Lessee and create legally binding obligations for the Lessee. The Lessee, with notice to and prior written consent of the Owner, may assign this Agreement and any related documents to a to-be-formed single purpose entity formed to develop the Project.

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(k) Entire Agreement. This Agreement constitutes the entire agreement between Owner and Lessee with respect to the subject matter hereof and supersedes all prior offers and negotiations, oral and written. This Agreement may not be amended or modified in any respect whatsoever except by an instrument in writing signed by Owner and Lessee.

(l) Attorneys' Fees. In the event of any action, arbitration, or proceeding at law or in equity between Owner and Lessee to enforce any provision of this Agreement or to protect or establish any right or remedy of either party hereunder, each party shall bear its own attorneys' fees.

(m) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will be deemed to be a single document.

[signature page(s) to follow]

IN WITNESS WHEREOF, Owner and Lessee have executed this Agreement as of the Effective Date.

**OWNER:**

**HOUSING AUTHORITY OF THE CITY OF LOS ANGELES,**  
a public body, corporate and politic,

By: \_\_\_\_\_  
Douglas Guthrie  
President and Chief Executive Officer

**LESSEE:**

**ROSE HILL COURTS II HOUSING PARTNERS, L.P.,**  
a California limited partnership

By: Related/Rose Hill Courts II Development Co., LLC,  
a California limited liability company  
its administrative general partner

By: \_\_\_\_\_  
Frank Cardone  
President

**EXHIBIT A**

**Legal description**