



THE DANCO GROUP OF COMPANIES

Danco Communities

March 23, 2023

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5251 Ericson Way
Arcata, CA 95521

City of San Pablo
1000 Gateway Avenue
San Pablo, CA 94070
Attention: Assistant City Manager

Dear Mr. Ching,

Danco Communities (“Sponsor”) has entered into an Amendment and Restated Disposition and Development Agreement with the City of San Pablo (“DDA”) pursuant to which Sponsor is committed to developing 100 units of affordable housing in the City (the “Project”) through certain affiliated limited partnerships. The first phase of Project is in the process of closing its construction financing (“Closing”) and the Project’s senior lender, Pacific Western Bank, recently informed the Sponsor that they would not close on the construction financing if the rent and affordability restrictions set forth in the Affordable Housing Regulatory Agreement to be entered into with the City at Closing are not subordinated to its construction loan.

The Project has a Closing deadline of March 27, which we expect the applicable agencies to extend by approximately 60 days. Without subordinating the rent restrictions, the Sponsor would need to find a new lender who can close on an expedited schedule. Sponsor has reached out to a lender who would agree to leave the City’s restrictions unsubordinated and the fastest that lender could complete its underwriting and close the loan would be 90 days, but that lender cannot commit to the same interest rate as the Pacific Western Bank loan. Further complicating matters is that we are currently experiencing a banking crisis that is causing lenders to become more conservative and tighten underwriting standards so Sponsor has no confidence that it could find another loan on the same terms as the Pacific Western Bank from any lender in this environment.

Since unsubordinated rent and occupancy restrictions would require the Sponsor to obtain a new lender who could close on the same terms within 60 days during a banking crisis, the Sponsor does not believe that an economically feasible alternative method of financing on substantially comparable terms and conditions is reasonably available to the Project.

Best Regards,

Christopher Dart
Authorized Representative