

RESOLUTION NUMBER R- 296217

ADOPTED ON MAR 19 2002

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO APPROVING THE SALE OF CERTAIN PROPERTY IN THE CENTRAL IMPERIAL REDEVELOPMENT PROJECT AREA TO ROSEAU DEVELOPMENT COMPANY, LLC; APPROVING THE DISPOSITION AND DEVELOPMENT AGREEMENT BETWEEN THE AGENCY AND ROSEAU DEVELOPMENT COMPANY; AND MAKING CERTAIN FINDINGS WITH RESPECT TO THE SALE OF PROPERTY AND THE DISPOSITION AND DEVELOPMENT AGREEMENT.

WHEREAS, the Redevelopment Agency of the City of San Diego [the Agency] is engaged in activities necessary to carry out and implement the Redevelopment Plan for the Central Imperial Redevelopment Project [the Project]; and

WHEREAS, in order to carry out and implement such Redevelopment Plan, the Agency proposes to sell property located along Stevens Way and bounded by Imperial Avenue and the San Diego Trolley, in the Project area [the Site] to Roseau Development Company, LLC [the Developer], pursuant to the terms and provisions of a Disposition and Development Agreement [the Agreement], which Agreement contains a description of the Site and provides for the construction on the Site; and

WHEREAS, the Developer has submitted to the Agency and the Council of the City of San Diego copies of the proposed Agreement in a form desired by the Developer; and

WHEREAS, the Board of Directors for the Southeastern Economic Development Corporation, Inc., has reviewed and discussed the proposed Agreement and has recommended that the Agency approve and enter into the Agreement; and

WHEREAS, pursuant to the California Community Redevelopment Law (Cal. Health & Safety Code § 33000 et seq.), the Agency and the City Council held a joint public hearing on the proposed sale of such real property pursuant to the Agreement, having duly published notice of such public hearing and made copies of the proposed Agreement, and other reports and documents available for public inspection and comment; and

WHEREAS, the Council has duly considered all terms and conditions of the proposed sale of real property and believes that the redevelopment of the real property pursuant to the proposed Agreement is in the best interests of the City and the health, safety, morals and welfare of its residents, and in accord with the public purposes and provisions of applicable State and local law and requirements; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, as follows:

1. The Council recognizes that it has received and heard all oral and written objections to the proposed Agreement, to the proposed sale of the real property pursuant to the proposed Agreement, and to other matters pertaining to this transaction, and that all such oral and written objections are overruled.

2. The Council finds and determines that the sale of the real property pursuant to the proposed Agreement will assist in the elimination of blight within the Project area, and is consistent with the Implementation Plan for the Project adopted pursuant to Section 33490 of the California Community Redevelopment Law.

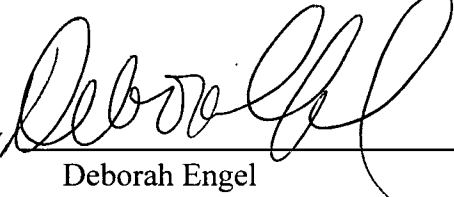
3. The Council finds and determines that the consideration to be paid by the Developer for the purchase of the real property as described in the Agreement is not less than fair market value at its highest and best use in accordance with the Redevelopment Plan for the Project, and is not less than the fair reuse value at the use and with the covenants and conditions and development costs authorized by the sale. The factual basis for findings 2 and 3 is discussed more thoroughly in Attachment 1.

4. The sale of the real property and the Agreement which establishes the terms and conditions for the sale and development of the real property are approved.

5. The Council authorizes the City Clerk to deliver a copy of this Resolution to the Executive Director and members of the Agency. A copy of the Agreement, when executed by the Agency, shall be placed on file in the Office of the City Clerk as Document No.

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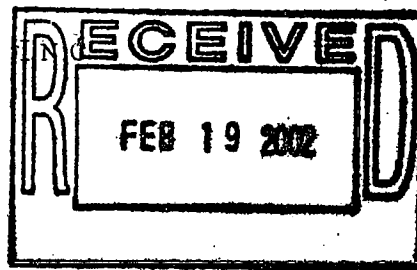
APPROVED: CASEY GWINN, City Attorney

By 
Deborah Engel
Deputy City Attorney

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MEMORANDUM

To: Carolyn Y. Smith, President
 Southeastern Economic Development Corporation

From: Gerald M. Trimble
 Keyser Marston Associates, Inc.

Date: February 11, 2002

Subject: Roseau Development – Reuse Analysis

INTRODUCTION

Keyser Marston Associates, Inc. (KMA) has been requested to review the proposed development transaction between the Redevelopment Agency of the City of San Diego (Agency) and Roseau Development Company No.2, LLC, a California Limited Liability Company (Developer) with respect to the sale of the vacant parcels in the Central Imperial Redevelopment Project. The proposed development transaction is described in the draft Disposition and Development Agreement (DDA) dated January 18, 2002.

The Developer intends to purchase approximately 4.3-acres from the Agency, to construct and develop, over three phases, a light industrial/flex office complex of approximately 56,000 square feet (SF) consisting of three newly constructed buildings. The Site shall also be improved with appropriate parking and landscaping.

SUMMARY OF FINDINGS

KMA's principal conclusions are summarized below:

1. The estimated fair reuse value of the interest to be conveyed is \$1,226,000.
2. The estimated value of the interest to be conveyed at the highest and best use of the property is equal to the fair reuse value, or \$1,226,000.

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3. Fair reuse value constitutes the fair market price.
4. The estimated value of the compensation to be received by the Agency is \$1,226,000.

BACKGROUND

Southeastern San Diego Overview

In the 1960's, southeastern San Diego entered a period of economic decline and stagnation as a result of demographic changes, extensive freeway construction, and, in some sections, permissive zoning that attracted marginal land uses.

To reverse trends of physical deterioration and functional obsolescence, the Agency established a plan for the area's redevelopment and in the 1970's formed a Redevelopment Project Area (the Dells, since renamed Gateway Center West). In the 1980's, the Agency formed two more redevelopment areas, Mount Hope and Southcrest. The Site is located in the most recently adopted Project Area, Central Imperial, which was adopted in 1992.

As described in the Redevelopment Plan for the Central Imperial Redevelopment Project, dated December 18, 1991, (adopted September 14, 1992) the plan was adopted in order to accomplish four principal goals:

- Promote revitalization of the Central Imperial community.
- Provide incentives for new development and rehabilitation of commercial buildings to serve the community.
- Provide incentives for development of under-utilized parcels in the Project Area.
- Maintain the existing residential character along the East Trolley corridor.

Recent and proposed development activity in the immediate area include the following:

- The development of Market Creek Plaza, a community shopping center anchored by a Food 4 Less supermarket on the former Langley site.
- The development of Valencia Business Park, which will consist of approximately 56,000SF of light industrial space and a postal facility.
- The San Diego Unified School District's Cesar Chavez Elementary School on an 8.95-acre portion of the Highway 252 corridor.
- The 95 unit single-family development along the former 252 corridor.

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- The development of Imperial Marketplace, a community shopping center anchored by a Home Depot.
- The development of Evergreen Village, which consists of 56 homes on 49th St.
- The 23-unit Village at Euclid single-family development on Euclid Avenue.

Proposed Development Site

As regional context, it is noted that the Site is located in southeastern San Diego, generally described as the area bounded by the Martin Luther King Highway (Hwy. 94) on the north, Interstate 5 to the west, and the cities of National City to the south and Lemon Grove to the east.

The subject properties comprising the Site are located along Stevens Way, a recently developed street. The Site is bounded by Imperial Avenue to the south, and the San Diego Trolley to the north. Access to the Site is provided from Imperial Avenue running east and west, and extends directly into the downtown area to the west. In addition, Radio Drive runs north and south directly east of the Site.

PROPOSED TRANSACTION TERMS

The transaction terms between the Agency and the Developer are included in the proposed DDA that is under consideration by the Agency. This summarizes the salient aspects of the proposed business terms.

- The Developer will pay the Agency the Basic Purchase Price of \$1,266,000. The Basic Purchase Price is payable as follows:
 - Phase 1 - \$317,110
 - Phase 2 - \$419,050
 - Phase 3 - \$489,840
- The Developer agrees to pay an Additional Purchase Price to the Agency upon any sale of the Site that removes any portion of the Site from the San Diego County tax roll in an amount equal to that as set forth in Exhibit C of the Grant Deed.
- The Developer plans to construct three light industrial tilt-up buildings totaling approximately 56,000 SF, over three development phases. All these buildings will be placed on the San Diego County tax rolls.
- Any off- site improvements required in conjunction with the development of the Site is the sole responsibility of the Developer.

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- The Developer is responsible for the payment of all fees required for development of the Site.
- The Developer is responsible for preparing any supplemental environmental documents required to carry out this Agreement.
- Under the terms of the DDA, it is the Agency's obligation to raise the Site out of the One Hundred-Year Flood Plain.
- The Agency is responsible for the complete demolition to, and removal of, the surface elevation of the adjoining ground of all existing structures and improvements including the removal of all lumber, pipes, equipment, and other material resulting from such demolition. Certain rough grading of the Site is also the responsibility of the Agency.

ESTIMATE OF REUSE VALUE

Re-use value is defined as the highest price in terms of cash or its equivalent which a property or development right is expected to bring for a specified use in a competitive open market, subject to the covenants, conditions, and restrictions imposed by the DDA.

There are two fundamental approaches to establish re-use value:

- The first method is an analysis based on the anticipated income characteristics for a specific project. Often the income approach, also termed the residual value approach, proves more useful than the comparable sales approach due to the unique market setting, project characteristics, and specific requirements of the Commission which make the approach based on comparable transactions difficult or unfeasible to implement.

With this approach, the residual value is established as the amount that a developer can feasibly afford to pay for a property or development right, after taking into account the development costs funded by the developer, the quantity and quality of the income stream from the project, and the market-based return on invested capital.

Essentially, the formula for the residual approach is that the amount available for payment for the Site is equal to the capitalized value of the income stream less the costs funded by the developer. In this approach the capitalization rate must accommodate both the market value of the project at completion and the profit requirements of the development entity.

- The second is analysis based on the sale of comparable properties or development rights. When comparable transactions exist and when relatively few adjustments are required to adjust the comparables to the subject property, the approach based on comparable transactions can yield the most reliable indicator of value.

Residual Value Approach

In order to estimate the residual land value supported by the project, KMA reviews the pro forma submitted by the developer, and conducts an analysis of the construction costs, projected income, and desired profit. In this instance, KMA relied on its knowledge of the industry and the local industrial market in order to analyze the project. Tables 1 and 2 illustrate KMA's assumptions regarding development costs, income, and residual land value.

Table 1 describes the development costs for the proposed project. Direct costs consisting of on- and off-sites, parking, and building shell are estimated to be approximately \$2.7 million, or \$47 per SF of gross building area (GBA). Indirect costs consisting of architecture and engineering, permits and fees, taxes and insurance, and developer fee are estimated to be \$476,000, or about 18% of direct costs. Total financing costs, loan fees and interest during construction, are approximately \$80,000, or 3% of direct costs. Total development costs as estimated by KMA are \$3.2 million, or \$57 per SF GBA.

Table 2 presents the KMA opinion of net operating income and residual land value. KMA projects rent at 70 cents per SF NNN for the light industrial office building, which calculates to a gross scheduled income of about \$474,000. After a vacancy allowance of 5%, the effective gross income (EGI) of the project is estimated to be \$450,000. When operating expenses of 4% of EGI are subtracted out, the estimated net operating income of the development opportunity is \$432,000.

Based on a projected 10% target return on investment, the total warranted investment is estimated to be \$4.3 million. After removing the development costs of \$3.2 million, the residual land value is approximately \$1.1 million, or about \$6 per SF (rounded).

Comparable Sales Approach

In estimating the re-use value, KMA surveyed industrial land comparables in San Diego County from January 2001 to present. Table 3 represents the results of that inquiry. The price per SF ranged from a low of \$2.79 to a high of \$30.97. The median land price per SF was found to be \$7.35, and the average price per SF was \$8.44.

The factors concerning these transactions that are worth noting include the following:

- Some of these transactions are a year old;
- There have been no industrial land transactions in southeastern San Diego over the past year;

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- The sites representing the highest price per SF are located in the new industrial areas in the County, i.e. Poway and Carlsbad.
- Many of the sites are superior to the subject property due to direct freeway access and the higher density trade area in which they are situated.

Taking these factors into consideration, as well as, the subject Site's lack of good freeway access, its irregular physical configuration, and its location in the one hundred-year flood plain, KMA estimates that the Site is approximately 10% to 12% inferior to the comparables listed in Table 1. Based on these variables, KMA estimates the fair re-use value for the Site to be \$6.50 per SF, or \$1,266,000.

After analyzing both the income approach and the comparable sales approach, KMA finds that both methods adequately justify the land price being paid by the Developer. KMA places more emphasis on the comparables approach and concludes that the fair reuse value of the Site is \$6.50 per SF, or \$1,266,000.

ESTIMATED FAIR MARKET VALUE AT HIGHEST AND BEST USE

Section 33433 of California Redevelopment Law requires that prior to selling or leasing real property, redevelopment agencies estimate the fair market value of the interest to be conveyed at its highest and best (most profitable) use.

Typically the analysis of the fair market value at highest and best use does not consider the specific Agency/Developer transaction or development concept, but rather the most profitable use that is consistent with the Redevelopment Plan or governing land use regulations. The purpose of this analysis is to estimate the maximum compensation that the Agency could achieve if it were to offer the subject property or development right on the open market.

The highest and best use of the Site is the use that generates the highest property value. By definition, the highest and best use is that use which is physically possible, financially feasible, and legally permitted. According to the City of San Diego Planning Department, the Site is zoned I-1. This classification permits the development of light industrial facilities, as well as many retail and office-oriented uses.

There have been no credible proposals for market rate office development even though a shortage of office space exists. Retail development is also allowed under the zoning designation. However, the topography, visibility, and location discourages this type of development. KMA has prepared financial analyses for retail and office uses in the Southeastern Economic Development Corporation (SEDC) area of influence. These analyses indicated that both uses would require public assistance in order to be financially feasible. Alternatively stated, these uses do not support a positive land value in the current market.

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Finally, the zoning allows for light industrial development. This type of use does support a positive land value, hence it is the most feasible development option at this location in the near future.

KMA therefore concludes that the fair market value of the Site at its highest and best use is the same as the fair re-use value, or \$1,266,000.

LIMITING CONDITIONS

The conduct of any estimate of value is necessarily guided, and its results influenced, by the terms of the assignment and the assumptions which together form the basis of the study. The following conditions and assumptions, together with lesser assumptions embodied in this report, constitute the framework of our analysis and conclusions.

1. There are no soil or subsoil problems, including toxic or hazardous conditions on the Site that need to be remediated in order to develop the Site.
2. The ultimate development will not vary significantly from that indicated in the Disposition and Development Agreement (DDA), including stipulated architectural quality provisions.
3. The title of the property is good and marketable; no title search has been made, nor have we attempted to determine the ownership of the property. The value estimates are given without regard to any questions of title, boundaries, encumbrances, liens, or encroachments. It is assumed that all assessments, if any are paid.
4. The Site will be in conformance with the applicable zoning and building ordinances.
5. Information provided by such local sources as governmental agencies, financial institutions, realtors, buyers, sellers, and others was considered in light of its source, and checked by secondary means. However, no responsibility is assumed for possible misinformation.
6. Neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
7. The Developer shall adhere to the schedule of performance as described in the DDA.
8. Both parties are well informed and well advised and each is acting prudently in what he/she considers his/her own best interest.
9. Financing, if any, is on terms generally available in the community for the use proposed at the date the property is ready for construction. No tax-exempt financing is assumed.

TABLE 1

**PROJECT DESCRIPTION AND DEVELOPMENT COSTS
ROSEAU DEVELOPMENT
SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**

Project Description

Site Area	4.33 Acres
	188,615 SF
Gross Building Area	
Light Industrial/Flex Office	56,440 SF
Floor Area Ratio (FAR)	0.30

<u>Development Costs</u>	<u>Totals</u>	<u>Comments</u>
Direct Costs		
Off-Site Costs	\$0	\$0 Per SF Land
On-Site Costs/Landscaping	\$377,000	\$2 Per SF Land
Parking	\$0	\$0 Included in On-Sites
Shell Construction	\$1,975,000	\$35 Per SF GBA
Tenant Improvements	\$113,000	\$20 Per SF GBA
General Conditions/Contractor Fee	\$71,000	3.0% Per SF GBA
Contingency	<u>\$127,000</u>	5.0% of Above Directs
Subtotal Direct Costs	\$2,663,000	\$47 Per SF GBA
Indirect Costs		
Architecture & Engineering	\$80,000	3.0% of Directs
Permits & Fees	\$133,000	5.0% of Directs
Legal & Accounting	\$27,000	1.0% of Directs
Taxes & Insurance	\$27,000	1.0% of Directs
Developer Fee/Overhead	\$133,000	5.0% of Directs
Marketing/Lease-Up	\$53,000	2.0% of Directs
Contingency	<u>\$23,000</u>	5.0% of Above Directs
Subtotal Indirect Costs	\$476,000	17.9% of Directs
Financing Costs		
Loan Fees	\$53,000	2.0% of Directs
Interest During Construction	<u>\$27,000</u>	1.0% of Directs
Subtotal Financing Costs	\$80,000	3.0% of Directs
Total Development Costs	\$3,219,000	\$57 Per SF GBA

TABLE 2

**NET OPERATING INCOME AND RESIDUAL LAND VALUE
ROSEAU DEVELOPMENT
SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**

<u>Net Operating Income</u>	<u>SF</u>	<u>Rent/SF</u>	<u>NNN/FSG</u>	<u>Monthly Rent</u>	<u>Annual Rent</u>
Light Industrial/Flex Office	56,440	\$0.70	NNN	\$39,508	\$474,096
(Less) Vacancy			5.0% of Income		<u>(\$24,000)</u>
Effective Gross Income (EGI)					\$450,096
(Less) Operating Expenses			4.0% of EGI		<u>(\$18,000)</u>
Net Operating Income (NOI) Or Say (Rounded)					\$432,096 \$432,000

Residual Land Value

Net Operating Income	\$432,000
Target Return on Investment	10.0%
Total Warranted Investment	\$4,320,000
(Less) Development Costs	<u>(\$3,219,000)</u>
Residual Land Value	\$1,101,000
Per SF Site Area	\$5.84

TABLE 3

**INDUSTRIAL LAND COMPARABLES, SAN DIEGO COUNTY, 2001 - PRESENT
ROSEAU DEVELOPMENT
SOUTHEASTERN ECONOMIC DEVELOPMENT COMMISSION**

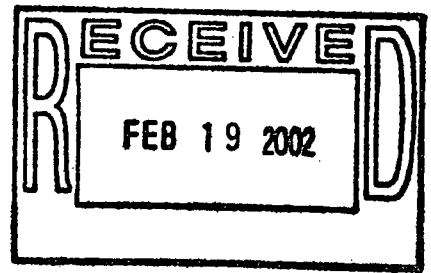
<u>Sale Date</u>	<u>Address</u>	<u>City</u>	<u>Sale Price</u>	<u>Acres</u>	<u>\$/Acre</u>	<u>Land SF</u>	<u>\$/SF Land</u>	<u>Lot Status</u>	<u>Zoning</u>	<u>Property Description</u>
1/5/2001	14315 Olde Hwy 80	El Cajon	\$340,000	1.54	\$221,285	66,929	\$5.08	Rough Graded	C	Industrial Building Site
1/24/2001	2609 Industry St	Oceanside	\$400,000	1.28	\$312,499	55,757	\$7.17	N/A	M2	M2 Zoned Acreage
1/31/2001	1120 W Mission Avenue	Escondido	\$683,460	1.50	\$454,250	65,540	\$10.43	Rough Graded	Mi	Trailer Sales Lot
1/31/2001	Carmel Mountain R, E of Hwy 5	San Diego	\$8,500,000	6.30	\$1,349,206	274,428	\$30.97	N/A	M-1A	M-1A Zoned Acreage
2/2/2001	2982 S Santa Fe Avenue	San Marcos	\$950,000	7.29	\$130,316	317,552	\$2.99	Raw Land	M	M Zoned Acreage
2/16/2001	327-349 Discovery St	San Marcos	\$2,875,000	20.47	\$140,449	891,673	\$3.22	Raw Land	M	Industrial Park Site
2/23/2001	Corte de la Pina, E Yarrow	Carlsbad	\$3,500,000	7.83	\$446,831	341,203	\$10.26	Finished	M	Multi-Tenant Industrial Building Site
2/23/2001	SE Scripps Pkwy & Tech Ct	Poway	\$17,102,750	31.66	\$540,200	1,379,110	\$12.40	Rough Graded	M	M Zoned Acreage
3/20/2001	SEC Kirkham & Tech Center	Poway	\$1,025,000	4.83	\$212,215	210,395	\$4.87	Rough Graded	PC	Single Tenant Industrial Building Site
3/30/2001	13250 Kirkham Way	Poway	\$1,427,025	2.52	\$566,281	109,771	\$13.00	Rough Graded	M	M Zoned Acreage
5/1/2001	Palomar Airport Rd at Melrose	Carlsbad	\$10,800,000	62.26	\$173,466	2,712,046	\$3.98	Raw Land	PC	Office/Business Park Site
5/2/2001	16945 Camino San Bernardo	San Diego	\$499,000	1.99	\$250,353	86,823	\$5.75	Rough Graded	OM-IC	OM-IC Zoned Acreage
5/17/2001	Pointsettia, S of La Mirada	Vista	\$1,215,500	3.09	\$393,367	134,600	\$9.03	Finished	M	M Zoned Acreage
6/5/2001	NEC Ruffin Rd & Waxie Way	San Diego	\$3,144,160	9.84	\$319,529	428,630	\$7.34	Raw Land	M-1B	5 Story Office Building Site
6/14/2001	NWC Dryden & Palomar Oaks	Carlsbad	\$1,284,000	10.57	\$121,476	460,429	\$2.79	Finished	PM	PM Zoned Acreage
6/19/2001	Eterprise SW/S of Vineyard	Escondido	\$1,055,000	2.94	\$358,845	128,066	\$8.24	Rough Graded	M	30,000 SF Power Plant Site
9/28/2001	Grand, NW of Dogwood	Vista	\$690,000	3.17	\$217,532	138,170	\$4.99	Finished	M2	Multi-Tenant Industrial Building Site
6/29/2001	Kirkham Drive	Poway	\$7,620,402	15.85	\$480,782	690,426	\$11.04	N/A	M	Industrial Park Site
7/3/2001	Hwy 78/Jones & Via Del Norte	Oceanside	\$804,000	2.05	\$392,195	89,298	\$9.00	Rough Graded	IL	Auto Repair Building Site
7/13/2001	12147 Kirkham Rd	Poway	\$375,000	1.17	\$320,514	50,965	\$7.36	Rough Graded	M	Single Tenant Industrial Building Site
7/30/2001	E Cades St/Birch St	Vista	\$525,000	1.64	\$320,124	71,438	\$7.35	Finished	C-1S	Industrial Zoned Acreage
9/5/2001	Wineridge Place/W of Vinewood	Escondido	\$811,000	2.20	\$368,636	95,832	\$8.46	Rough Graded	IP	Industrial Zoned Acreage
		Minimum	\$340,000	1.17	\$121,476	50,965	\$2.79			
		Maximum	\$17,102,750	62.26	\$1,349,206	2,712,046	\$30.97			
		Median	\$1,040,000	3.13	\$320,319	136,385	\$7.35			
		Average	\$2,983,014	9.18	\$367,743	399,958	\$8.44			

296217

Source: CoStar Comps, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename i:\SEDC\Roseau Comps Table;2/19/2002;wcl



**SUMMARY REPORT
PERTAINING TO THE SALE OF REAL PROPERTY**

ROSEAU DEVELOPMENT

(California Community Redevelopment Law Section 33433)

PURSUANT TO A PROPOSED DISPOSITION AND DEVELOPMENT AGREEMENT

Between:

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO

And:

ROSEAU DEVELOPMENT

Prepared by:

KEYSER MARSTON ASSOCIATES, INC.

For:

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO

Date:

February 19, 2002

SUMMARY REPORT

PERTAINING TO THE PROPOSED SALE OF REAL PROPERTY

ROSEAU DEVELOPMENT

INTRODUCTION

The Redevelopment Agency of the City of San Diego, California (Agency) is considering the conveyance of real property to Roseau Development (Developer) pursuant to a Disposition and Development Agreement (DDA) between the Agency and the Developer. The total subject site (Site) consists of 4.33-acres.

In sum, the property to be conveyed by the Agency consists of approximately 189,000 square feet (SF).

This Summary Report is prepared in accordance with Section 33433 of the California Community Redevelopment Law. It consists of six additional sections, as follows:

- Section II: Description of the Proposed Project
- Section III: Estimated Cost to be Incurred by the Agency under the Proposed Agreement
- Section IV: Estimated Value of the Site at the Highest and Best Use Permitted
- Section V: Estimated Fair Re-Use Value of the Interest to be Conveyed
- Section VI: Fair Market Price
- Section VII: Purchase Price the Developer will be Required to Pay
- Section VIII: Explanation of Why Sale of the Property will Assist in Elimination of Blight

II. DESCRIPTION OF THE PROPOSED PROJECT

A. Proposed Transaction

The Developer intends to purchase approximately 4.3-acres from the Agency, to construct and develop, over three phases, a light industrial/flex office complex of approximately 56,000 square feet (SF) consisting of three newly constructed buildings. The Site shall also be improved with appropriate parking and landscaping.

The Site is located along Stevens Way. The Site is bounded by Imperial Avenue to the north, and the San Diego Trolley to the south. Access to the Site is provided from Imperial Avenue running east and west, and extends directly into the downtown area to the west. In addition, Radio Drive runs north and south directly east of the Site.

The transaction terms between the Agency and the Developer are included in the proposed DDA that is under consideration by the Agency. This summarizes the salient aspects of the proposed business terms.

B. Agency Responsibilities

- Under the terms of the DDA, it is the Agency's obligation to raise the Site out of the One Hundred-Year Flood Plain.
- The Agency is responsible for the complete demolition to, and removal of, the surface elevation of the adjoining ground of all existing structures and improvements including the removal of all lumber, pipes, equipment, and other material resulting from such demolition. Certain rough grading of the Site is also the responsibility of the Agency.

C. Developer Responsibilities

- The Developer will pay the Agency a Basic Purchase Price of \$1,266,000 payable as follows:
 - Phase 1 - \$317,110
 - Phase 2 - \$419,050
 - Phase 3 - \$489,840
- The Developer agrees to pay an Additional Purchase Price to the Agency upon any sale of the Site that removes any portion of the Site from the San Diego County tax roll in an amount equal to that as set forth in Exhibit C of the Grant Deed.

- The Developer plans to construct three light industrial tilt-up buildings totaling approximately 56,000 SF, over three development phases. All three buildings will be placed on the San Diego County tax rolls.
- Any off- site improvements required in constitution with the development of the Site that are to be constructed are the sole responsibility of the Developer.
- The Developer is responsible for the payment of all fees required for development of the Site.
- The Developer is responsible for preparing any supplemental environmental documents required to carry out this Agreement.

III. ESTIMATED COST TO BE INCURRED BY THE AGENCY UNDER THE PROPOSED AGREEMENT

A. Total Agency Costs

The estimated cost to the Agency of the proposed DDA includes acquisition and preparation of the Site; interest costs during the holding period; and administrative and consultant costs related to the transaction. These costs have been estimated as follows:

Acquisition Expenses (1)	\$135,924
Relocation	\$0
Public Improvements	\$2,354,462
Plans/Surveys	\$14,145
Program Management	\$84,343
Property Management	\$0
Legal/Financing	\$127,306
Engineering	\$239,904
Administration - SEDC	\$553,342
Interest	\$0
Transaction Costs	\$0
(less) Deposit (April 12, 2001)	<u>(\$10,000)</u>
Total Cost to Agency	\$3,499,426
(Or Say) Rounded	\$3,499,000

(1) Includes Transaction Costs

Source: Southeastern Economic Development Corporation

IV. ESTIMATED VALUE OF THE SITE AT THE HIGHEST AND BEST USE PERMITTED

Typically the analysis of the fair market value at highest and best use does not consider the specific Agency/Developer transaction or development concept, but rather the most profitable use that is consistent with the Redevelopment Plan or governing land use regulations. The purpose of this analysis is to estimate the maximum compensation that the Agency could achieve if it were to offer the subject property or development right on the open market.

The highest and best use of the Site is the use that generates the highest property value. By definition, the highest and best use is that use which is physically possible, financially feasible, and legally permitted. According to the City of San Diego Planning Department, the Site is zoned I-1. This classification permits the development of light industrial facilities, as well as many retail and office-oriented uses.

KMA therefore concludes that the fair market value of the Site at its highest and best use is the same as the fair re-use value, or \$1,266,000.

V. ESTIMATED FAIR RE-USE VALUE OF THE INTEREST TO BE CONVEYED

This section presents an analysis of the fair re-use value of the interest to be conveyed to the Developer subject to the conditions, covenants, and restrictions contained in the proposed DDA. In estimating the fair re-use value of the Site, KMA has reviewed these requirements, which set forth specific conditions with respect to the scope of development on the Site and the schedule of performance.

After analyzing both the income approach and the comparable sales approach, KMA finds that both methods adequately justify the land price being paid by the Developer. KMA places more emphasis on the comparables approach and concludes that the fair reuse value of the Site is \$6.50 per SF, or \$1,266,000.

VI. FAIR MARKET PRICE

The fair market value of the Site for \$1,266,000 also constitutes the fair market price of the Site.

VII. PURCHASE PRICE THE DEVELOPER WILL BE REQUIRED TO PAY

Under California Community Redevelopment Law, the Agency is obligated to publicly disclose information sufficient for a comparison of the purchase price contained in the proposed DDA with the estimated fair re-use value. In order to facilitate such a comparison, KMA has separately evaluated the financial terms contained in the proposed DDA.

KMA considered the proposed purchase price and payment terms in order to prepare an estimate of the compensation expected to be received by the Agency. On this basis, KMA has conservatively estimated the present value of the Agency's compensation from the proposed DDA to be \$1,266,000 or \$6.50 per SF of land.

VIII. EXPLANATION OF WHY SALE OF THE PROPERTY WILL ASSIST IN THE ELIMINATION OF BLIGHT

The Central Imperial Redevelopment Project Area is characterized by an assortment of blighting factors, including:

- A high crime rate/lack of public safety,
- A substantial number of deteriorated and dilapidated structures,
- Inadequate public improvements, facilities, and utilities,
- Inferior traffic circulation,
- Under-utilized land,
- Incompatible land uses,
- A lack of convenient shopping facilities,
- Business migration out of Project Area, and
- A high unemployment rate.

Of course, all of these conditions are not present in all areas since the Agency's redevelopment efforts have successfully alleviated some blighting conditions in the Project Area. However, many of these conditions are still apparent in the area surrounding the Site. Implementation of the proposed development can be expected to assist in the alleviation of blighting conditions through the following:

- Development of under-utilized parcels of land in the Imperial Avenue corridor.
- Attraction of businesses that are beneficial to the community.
- Creation of new employment opportunities, both in terms of temporary construction jobs and permanent employment in the completed facility.
- Identification of the Site as a new commercial center in the community.
- Development of a new job center in the community.