



THE CITY OF SAN DIEGO
Redevelopment Agency's Report

DATE ISSUED: November 10, 2004

REPORT NO. RA-04-40

ATTENTION: Chair and Members of the Redevelopment Agency
Docket of November 15, 2004

SUBJECT: Lease of Community Space Within the Renaissance at North Park
Project by the Redevelopment Agency

SUMMARY:

Issue:

- 1) Should the Redevelopment Agency Authorize the Executive Director to Execute a Lease for Community Space Within the Renaissance at North Park Project?
- 2) Should the Redevelopment Agency Amend the Fiscal Year 2005 Redevelopment Agency Budget to increase appropriations and authorize expenditures in the amount of \$300,000 in Series 2003 taxable bond proceeds for tenant improvements at the Renaissance at North Park project (Fund 98300).

Executive Director Recommendation –

- 3) Authorize the Executive Director to Execute a Lease for Community Space Within the Renaissance at North Park Project.
- 4) Amend the Fiscal Year 2005 Redevelopment Agency Budget to increase appropriations and authorize expenditures in the amount of \$300,000 in Series 2003 taxable bond proceeds for tenant improvements at the Renaissance at North Park project (Fund 98300).

Fiscal Impact – The lease is expected to commence in Fiscal Year 2006. Lease payments in the twelve months of the lease will total \$144,000 and will increase 3% annually. Insurance, house keeping and utilities costs are estimated at \$1,500 per month.

Additional lease expenses, including common area maintenance and real estate taxes will be projected by the owner for review by the Redevelopment Agency prior to occupancy. These additional lease expenses will be capped at \$3,000 per month for the first year of the lease, resulting in maximum total monthly costs of \$16,500. Fiscal Year 2006 estimated costs, based on lease commencement on February 1, 2006, total \$382,500, including one-time tenant improvement costs estimated at \$300,000. Fiscal Year 2007 costs are projected to be \$201,000. It is anticipated that these costs will be passed through to sub-tenants on a prorated basis.

Funds for tenant improvements estimated at \$300,000 are available from the North Park Series 2003 Taxable Bonds. Additional funds required for lease payments and related expenses will be included in the Fiscal Year 2006 Redevelopment Agency Budget for North Park. The principal source of funding for lease expenses is tax increment within the North Park Project Area.

Environmental Impact – The City of San Diego has completed an environmental review pursuant to both the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA), issuing a combined Mitigated Negative Declaration/Finding of No Significant Impact (LDR No. 42-0892).

Traffic Impacts

None with this action. The project is the subject of an approved Site Development Permit.

BACKGROUND:

On August 5, 2002, the Redevelopment Agency of the City of San Diego approved a Disposition and Development Agreement (DDA) with Carter Reese and Associates to develop the Renaissance at North Park project. The project, currently under construction, will include a four-story, mixed-use structure fronting on El Cajon Boulevard and 14 three-story townhomes on Kansas Street. The mixed-use component of the project will provide 94 senior citizen apartments affordable to households with incomes up to 50% of Area Median Income (AMI), two caretaker apartments, 6,000 square feet of commercial space and 6,000 square feet of community-use space. As a matter separate from the redevelopment transaction, Carter Reese and Associates is constructing 24 market-rate townhomes immediately north of the project on the west side of 30th Street.

Subject to the terms of the DDA, Carter Reese and Associates has acquired all property necessary to the project, obtained discretionary approvals and construction permits required by the City of San Diego, cleared the site of all structures, and obtained construction financing from conventional lenders. A not-for-profit partner, San Diego Interfaith Housing Foundation, has successfully sought an allocation of affordable housing tax credits in the amount of \$11,245,000. The Redevelopment Agency and City of San Diego Real Estate Assets Department have provided relocation assistance to all displaced tenants, both commercial and residential. To date, the Redevelopment Agency has authorized funding in the amount of \$5,200,000 for the project.

DISCUSSION:

Subject to the terms of the DDA, the Redevelopment Agency seeks to make available approximately 6,000 square feet of ground-floor commercial space along 30th Street within the Renaissance Project for community-serving uses. Toward this end, Agency staff has negotiated the terms of a draft lease with option to purchase 6,000 square feet of community space within the project (Attachment 1). It is anticipated that this space will provide assembly and recreational space for community groups, meeting space for the North Park Project Area Committee, and meeting and office space for community service providers including the Redevelopment Agency and other public and/or not-for-profit organizations. Elderhelp San Diego, a not-for-profit entity serving the senior population has expressed an interest in occupying a portion of this space. Based on the development program, the ground-level community/commercial space is expected to be available for occupancy in February of 2006. Upon authorization to enter into a lease, Agency staff will work with other potential City/community tenants to sublease a portion of the community space.

The lease provides for a rent of \$2.00 per square foot per month on a triple net basis with an annual increase of 3%. No tenant improvement allowance is provided. The initial lease term is 10 years, subject to an annual allocation of tax increment funds. Three optional extensions of five years each are provided. Rent payments commence 60 days following delivery of the premises to the Redevelopment Agency. Additional lease expenses, constituting a pro rata share of common area maintenance expenses, will apply. These additional lease expense will be estimated annually, subject to tenant review and approval, and be payable on a monthly basis. Additional lease expenses will not exceed \$6.00 per square foot per year (\$36,000 total) during the first full year of the lease term. The Redevelopment Agency is provided an option to purchase the leasehold space at a time of the Agency's choosing at the appraised fair market value. The landlord is North Park Retail Partners, L.P., an entity owned by Carter Reese Associates. No broker's fees will apply.

As shown in the chart below, funds are available from the North Park Series 2003 taxable bond proceeds for completion of tenant improvements, estimated to cost \$300,000.

STATUS OF NORTH PARK BOND PROCEEDS			
	General Uses	Housing Uses	Total
Beginning Balance (inc. interest)	\$13,882,840	\$4,606,739	\$18,489,579
Less Approved Projects:			
North Park Theatre	\$2,080,000		
North Park Public Parking Lot	\$1,840,000		
North Park Parking Structure	\$8,338,000		
Renaissance at North Park		\$3,954,500	
North Park -Main Street	\$250,000		
30th Street Lighting	\$90,000		
North Park Theatre Cost Increase	\$40,000		
Tenant Improvements - Renaissance	\$300,000		
Subtotal Approved Projects	\$12,938,000	\$3,954,500	\$16,892,500
Remaining Balance	\$944,840	\$652,239	\$1,597,079

It is anticipated that requests to allocate the remaining balance of North Park Bond Proceeds will be coming forward for review and approval by the Redevelopment Agency over the course of the next few months.

ALTERNATIVE:

Do not approve the lease of community space within the Renaissance at North Park Project.

Respectfully submitted,

 Debra Fischle-Faulk
 Deputy Executive Director

 Approved: Hank Cunningham
 Assistant Executive Director

CUNNINGHAM/FISCHLE-FAULK/TCR

Attachments:

1. Renaissance at North Park Lease Agreement

ATTACHMENT NO. 1
RENAISSANCE AT NORTH PARK LEASE AGREEMENT