

DATE ISSUED: November 30, 2005

REPORT NO. CCDC-05-43
CCDC-05-16

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Honorable Mayor and Members of the City Council
Docket of December 6, 2005

SUBJECT: **JOINT PUBLIC HEARING - CANDY FACTORY & SCHIEFFER BUILDINGS** (historic structures at East Village Square, located generally between Seventh and Tenth avenues south of J Street) – Proposed Disposition and Development Agreement with East Village Square LLC and Basic Concept/Schematic Drawings – East Village Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project

REFERENCE: Site Map
Map of Permanent Encroachment Area
Basic Concept/Schematic Drawings Dated September 30, 2005 for Candy Factory and Schieffer Building
Disposition and Development Agreement
Summary Provided Pursuant to Section 33433 of California Community Redevelopment Law
Estimate of Re-Use Value by Keyser Marston Associates

STAFF CONTACT: Pamela M. Hamilton, Senior Vice President
Brad Richter, Principal Planner

SUMMARY

Staff Recommendation - That the Redevelopment Agency:

1. Approve the sale of certain property located generally south of J Street between Seventh and Tenth avenues in the Centre City Redevelopment Project area (the Schieffer & Sons Warehouse and Showley Brothers Candy Factory) to East Village Square LLC; approve the Disposition and Development Agreement (“DDA”) pertaining thereto; and making certain findings with respect to such sale; and

2. Approve the Basic Concept/Schematic Drawings with respect to the rehabilitation and reuse of the Schieffer & Sons Warehouse and the Showley Brothers Candy Factory within the Centre City Redevelopment Project area, subject to the conditions of the Scope of Development in the DDA.

And that the City Council:

1. Approve the sale of certain property located generally south of J Street between Seventh and Tenth avenues in the Centre City Redevelopment Project area (the Schieffer & Sons Warehouse and Showley Brothers Candy Factory) to East Village Square LLC; approve the Disposition and Development Agreement pertaining thereto; and make certain findings with respect to such sale.

Centre City Development Corporation Recommendation - On October 26, 2005, the Corporation Board of Directors voted unanimously to approve the staff recommendation.

Centre City Advisory Committee (CCAC)/Project Area Committee (PAC) Recommendations - On October 19, 2005, the CCAC voted 20 in favor and 2 recused and the PAC voted 17 in favor and 2 recused to approve the staff recommendation.

Other Recommendations - None.

Fiscal Impact - The Disposition and Development Agreement provides for the disposition of the Candy Factory to East Village Square LLC for a sales price of \$-0- and the disposition of the Schieffer Building to East Village Square LLC for a Base Purchase Price of \$1.48 million, with a potential Additional Purchase Price as described below. The Developer will pay \$14,880 to the Agency as pro-rata reimbursement of costs incurred by the Agency when the Agency acquired certain underlying fee interests in the streets adjacent to the Site from the Heirs of Alonzo Horton and Others; approximately 4,000 square-feet of the underlying fee interests in J Street adjacent to the Site are part of the fee interests to be transferred by the Agency to the Developer. All costs of development are the responsibility of the Developer.

BACKGROUND

This proposed Disposition and Development Agreement advances the following Visions and Goals of the Centre City Community Plan and the Objectives of the Centre City Redevelopment Project:

- continued preservation of historically significant structures;
- encourage businesses to establish offices in the downtown area; and
- develop a neighborhood with year-round activities.

These two historic structures have been the subjects of several agreements between the Agency and Padres/JMI Realty, Inc. over the past seven years.

Pursuant to the Memorandum of Understanding (“MOU”) between the City of San Diego (“City”), Redevelopment Agency (“Agency”), Centre City Development Corporation (“CCDC”) and Padres, L.P. dated December 1, 1998, as implemented by subsequent agreements, including the Fourth Ballpark and Redevelopment Project Implementation Agreement dated August 13, 2003 (“Fourth Implementation Agreement”), these two structures were acquired by the Agency as part of the overall Ballpark Project and are to be conveyed to Padres, L.P. or its assignee.

In the Settlement Agreement by and between the City, Agency, CCDC, the Padres, JMI Realty, Burnham Real Estate Services, the National Trust for Historic Preservation, Save Our Heritage Organisation (“SOHO”) and certain individuals dated September 10, 1999, the parties agreed that the relocation of the Candy Factory and the rehabilitation of these historic structures and others would be governed by the Settlement Agreement and its Treatment Plan for Retained Buildings.

The Candy Factory was moved from the northeast corner of former K Street and former 8th Avenue to its current location at the northeast corner of former K Street and former 9th Avenue on September 22, 2003.

On December 2, 2003 the City Council and Agency approved the East Village Square Master Plan which incorporated the requirements of the Fourth Implementation Agreement with respect to the area identified for private development surrounding Outfield Park, the requirements of the Settlement Agreement for the rehabilitation of the Candy Factory and the Schieffer Building, and further provided detailed development regulations including maximum height, bulk and scale; design criteria for the buildings and adjacent public areas; required a minimum of 65,000 GSF of retail uses; and specified other development requirements for the build-out of the private development parcels of East Village Square.

The Fourth Implementation Agreement provided for the Agency's conveyance of the Candy Factory to Padres, L.P. at a sales price which would take into account all costs actually incurred by the Padres in connection with the relocation, renovation, seismic upgrade, development and use of the Candy Factory.

The Fourth Implementation Agreement provided for the Agency's conveyance of the Schieffer Building to Padres, L.P. with certain requirements to be incorporated into the DDA, such as not requiring the commencement of rehabilitation any earlier than December 2, 2005, permitting a nominally larger parcel than the footprint of the Schieffer Building to allow for flexibility in rehabilitating the building, and allowing the construction and maintenance of a rooftop sign on the building. The East Village Square Master Plan approved December 2, 2003 provides that the design of the rooftop sign and any signage on the walls of the Schieffer Building are to be approved as part of a comprehensive sign plan for East Village Square. The comprehensive sign plan has not yet been submitted. Only "tower" signage has been approved for DiamondView Tower.

DEVELOPMENT TEAM

FIRM/ROLE	CONTACT	OWNERSHIP
Property Owner: Redevelopment Agency	Pamela M. Hamilton, CCDC	Redevelopment Agency of the City of San Diego
Developer: East Village Square LLC of which Padres L.P. is the sole member and Padres, Inc. is the manager	Charles, Black, President, East Village Square LLC	Padres, Inc. [a Delaware corporation wholly owned by John J. Moores]; John J. Moores; Jennifer Ann Moores Trust; Warner Baseball, Inc. [a corporation owned by Tom Warner]; Glenn Doshay (Privately owned)
Architect: Studio E	Eric Naslund	Brad Burke Eric Naslund John Sheehan (Privately owned)

PROPOSED TERMS OF THE DDA

The terms of the proposed DDA are consistent with the requirements for the Candy Factory and Schieffer Building as outlined above in the Settlement Agreement, the Fourth Implementation Agreement, and the East Village Square Master Plan, and provide for these more specific terms:

1. The Candy Factory is a 30,000 GSF structure on a 10,000 SF site (Parcel 5 of Parcel Map 19494 recorded May 25, 2004). The disposition price for the Candy Factory shall be \$-0- as a result of the residual asset value analysis provided by Keyser Marston and Associates which, when accounting for all of the Developer's costs associated with the move and rehabilitation of the building and projected revenues, determined a negative value for the Candy Factory of a range of (\$1,603,000) if the reuse were for-sale office and retail uses to (\$4,165,000) if the reuse were for-lease office and retail uses. The grant deed will not permit residential uses on the Candy Factory site and will require no less than 6,500 GSF of restaurant or retail uses on the ground floor. The Candy Factory site provides no parking.
2. The Schieffer Building is a 15,000 GSF structure on a 5,000 SF site (Parcel 3 of Parcel Map 19494 recorded May 25, 2004). The disposition price for the Schieffer Building shall be a Base Purchase Price of \$1.48 million as a result of the residual asset value analysis provided by Keyser Marston and Associates, taking into account all of the Developer's costs and revenues, including projected revenue attributable to the Permanent Encroachment Area and the rooftop sign. The purpose of the Permanent Encroachment Area is to accommodate exiting and circulation for the building by providing balconies on the south side of the building, while also accommodating outdoor dining at ground level. The City's granting of the Permanent Encroachment is consistent with the East Village Square Master Plan approved by the City Council December 2, 2003. The KMA residual asset value for the Schieffer Building ranged from a low of \$565,000 if the reuse were for-lease office and restaurant/retail uses to a high of \$1.48 million if the reuse were for-sale office and restaurant/retail uses. The grant deed will not permit residential uses on the Schieffer Building site and will require no less than 4,000 GSF of restaurant use on the ground floor. The Schieffer Building site provides no parking.
3. The DDA will provide for a one-time "look-back" of the BASE PURCHASE PRICE for the Schieffer Building to determine if an ADDITIONAL PURCHASE PRICE is owed to the Agency. This "look back" will be triggered by the final Naming Rights transaction for Outfield Park which must be a bona fide arms length transaction and which may not be for a period of less than five (5) years. The Base Purchase Price was determined assuming direct design, construction and installation costs of the rooftop sign (not otherwise paid or reimbursed by the Naming Rights Sponsor) of

\$40,000 and equivalent Annual Revenue from the aggregate value of the Naming Rights transaction of \$250,000 with 50% of the revenue (\$125,000) attributable to the Schieffer Building's rooftop sign. This rooftop sign revenue stream (less unreimbursed annual operating expenses of \$8,400) were capitalized using a capitalization rate of 7.5, resulting in proforma revenue attributable to the rooftop sign of \$1,515,000. The Additional Purchase Price would be determined based on the equivalent criteria applied to the facts of the actual Naming Rights Transaction. For example (only), if the equivalent Annual Revenue for the aggregate value of the Naming Rights transaction were \$300,000 rather than \$250,000 (50% = \$150,000) and the unreimbursed operating expenses were \$10,000 rather than \$8,400, and the design, construction and installation costs remained \$40,000, the rooftop sign revenue stream capitalized using the 7.5 capitalization rate would result in revenue attributable to the rooftop sign of \$1,826,667. The Additional Purchase Price would be determined by subtracting the proforma net revenue attributable to the rooftop sign from the actual net revenue attributable to the rooftop sign. In this example (only), the Additional Purchase Price to be paid by the Developer to the Agency would be \$311,667.

4. The Fourth Implementation Agreement acknowledged that Padres L.P. paid no less than \$22,750,000 for Land Acquisition Costs for the Ballpark Project pursuant to the MOU and Implementation Agreements. The Fourth Implementation Agreement provides a "credit" to Padres L.P. or its assignees of up to \$22,750,000 toward the purchase price of the four East Village Square development sites (Parcels 2, 3, 4 and 5 of Parcel Map 19494 recorded May 25, 2004). To date Padres L.P. has applied all but \$2,036,911 of this credit toward the Agency's sale of Parcels 2 and 4 to the assignees of East Village Square LLC, Bosa Development California II, Inc. (Parcel 2, Legends residential condominium development) and Cisterra Partners, LLC (Parcel 4, DiamondView Tower office development). East Village Square LLC will apply \$1.48 million of the remaining credit to the BASE PURCHASE PRICE for the Schieffer Building and may sell the balance of the then-remaining credit to Bosa which is closing on its purchase of Parcel 2 in the next several weeks.
5. The Schedule of Performance included in the DDA provides for the submission of progressively more detailed construction drawings and specifications, issuance of building permits, evidence of financing, conveyance of the parcels and completion of construction. Conveyance of the parcels is required within 240 days of the Agency's execution of the DDA. Completion of all construction shall be within 10 months thereafter.

BASIC CONCEPT/SCHEMATIC DRAWINGS

The attached drawings illustrate the proposed rehabilitation and reuse of the two buildings. As provided in the Settlement Agreement between the various parties including the City, Padres, and the historic preservation groups, the review of these structures is governed by the Treatment Plan for Retained Buildings. The Preservation Advisory Group ("PAG") was established to review proposals for rehabilitation and modification of numerous buildings surrounding the Ballpark. The PAG has reviewed the proposed drawings and have found them to be consistent with the Treatment Plan and the Secretary of Interior Standards.

The Candy Factory will have the white paint removed and the natural brick appearance restored. The ground level will be modified to create a recessed covered open foyer at the northwest corner to accommodate access from the adjoining courtyard of the DiamondView Tower office project, and will have new storefront infill where former roll-up doors existed. The ground floor will be occupied by retail or restaurant uses, and the upper floors will be utilized for office uses. The proposed roof deck is set back from the historic facades and will provide an exciting amenity that will overlook the Outfield Park and Ballpark.

The Schieffer Building will remain essentially the same on the north and west frontages, but the rear will be significantly modified by removing the existing stair system and opening up this facade with large storefront windows for the ground floor restaurant and upper floor office spaces. A new exiting and stair system, including private balcony areas, will be constructed. Two new windows will be added to the east side to improve this former interior property wall condition. The drawings show a roof top sign, allowed by the East Village Square Master Plan, but the final design of this sign will be deferred as part of the review of the future Comprehensive Sign Plan for East Village Square that will come back to the City Council at a later date.

Because the proposed drawings comply with the Secretary of Interior Standards and the Treatment Plan for Retained Buildings from the Settlement Agreement, staff is recommending that the Agency grant Design Review approval of both buildings.

ENVIRONMENTAL REVIEW

Typically, the rehabilitation of historic structures is an exempt activity pursuant to the California Environmental Quality Act. In addition, the East Village Square Master Plan was the subject of a Final Addendum to the Final Subsequent Environmental Impact Report to the Final Master Environmental Impact Report for the Centre City Redevelopment Project and Addressing the Centre City Community Plan and Related Documents for the Proposed Ballpark and Ancillary Development Projects, and Associated Plan Amendments, certified by the City Council and Agency on December 2, 2003 at the time the Master Plan was approved. The proposed rehabilitation of the Schieffer & Sons Warehouse and Showley

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Brothers Candy Factory meets the Secretary of Interior Standards and the Settlement Agreement and its Treatment Plan for Retained Buildings as required by the Master Plan. The proposed Disposition and Development Agreement is consistent in all respects with the Master Plan. Therefore, no further environmental review or certification is required.

SUMMARY/CONCLUSION

Based on the above discussion, it is recommended that the Redevelopment Agency and City Council approve the Disposition and Development Agreement with East Village Square LLC for the Schieffer & Sons Warehouse and Showley Brothers Candy Factory and that the Agency approve the Basic Concept/Schematic Drawings, inasmuch as the proposed development meets the requirements of the East Village Square Master Plan.

Respectfully submitted, _____

Pamela M. Hamilton
Senior Vice President

Approved: Peter J. Hall
President

Brad Richter
Principal Planner

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