



THE CITY OF SAN DIEGO
Redevelopment Agency's Report

DATE ISSUED: June 15, 2005

REPORT NO. RA-05-22

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of June 21, 2005

SUBJECT: Owner Participation Agreement with Constellation Property Group
Hancock, LP - North Bay Redevelopment Project Area

SUMMARY:

Issue:

- 1) Should the Redevelopment Agency authorize the Executive Director or designee to enter into an Owner Participation Agreement (OPA) with Constellation Property Group Hancock LP, for the development of for-sale housing on Hancock Street?

Executive Director's Recommendation:

- 1) Authorize the Executive Director or designee to execute the Owner Participation Agreement (OPA) with Constellation Property Group Hancock, LP for the development of "Stella at Five Points" Hancock Street Condominiums in the North Bay Project Area.
- 2) Authorize the expenditure of an amount not to exceed \$1,690,000 from the North Bay Low- and Moderate- Income Housing Fund (Fund 98072).

Other Recommendations:

The North Bay Project Area Committee (PAC) discussed the project on June 1, 2005, and voted to approve the proposed OPA.

This project requires a Community Plan Amendment. The Midway Planning Board discussed this project on April 13, 2005, and voted 11-0-0 to recommend the initiation of the Community Plan Amendment. A hearing is scheduled for the Planning Commission on June 16, 2005.

Fiscal Impact: Total Redevelopment Financial contribution to the project, as outlined in the OPA, would not exceed \$1,690,000. The total project cost is approximately \$32.0

million. Funds in the amount of \$1,690,000 are available within budgeted levels in the North Bay Low- and Moderate-Income Housing Fund.

Housing Impact: This development will create 86 new construction for-sale condominiums units, including 13 units affordable to families earning 100% Area Median Income (Families earning less than \$57,050). Nine (9) of these units will be built to meet the Inclusionary Housing Ordinance. This project will provide an additional 13 for-sale affordable housing units in the Midway Pacific Highway Corridor Community.

Environmental Impact – The action is exempt under 15060(c) (3) "not a project" as per 15378(b) (4). This action is not a "project" and is therefore exempt from the California Environmental Quality Act (CEQA) pursuant to the State CEQA Guidelines, Section 15060 (c) (3).

BACKGROUND:

The proposed project is located within an eight-block stretch of Hancock Street that has potential to become an active mixed-use neighborhood. At one end of the district is the Washington Street Trolley Station; at the other end are the administrative offices for the Navy's SPAWAR facility. In between, there are eight blocks of commercial, residential, and light industrial uses. The area has a central location – adjacent to Mission Hills, Old Town, Midway, and India Street – and it is served by a mix of popular restaurants (e.g., Shakespeare Pub, El Indio, Saffron). Besides the proposed project, two other housing projects are being planned on Hancock, and the Veteran's Village project is now under construction four blocks away, on Pacific Highway.

The proposed project would consist of 86 for-sale housing units. The project would include 15% affordable units, offered to residents earning up to 100% of Area Median Income (AMI). The housing units would have an open, loft-style design, oriented around a courtyard. The design calls for steel frame construction and high-quality finishes. The design will also use environmentally sustainable practices; and it will comply with the principles of Universal Design. The project would be located on a 38,900 square foot lot at 2015 Hancock Street (see Attachment 1). The project would include underground parking, to allow the project to fit within the 30-foot height limit. In a reference to the neighborhood's historic name, the project is named "Stella at Five Points."

The developer for the project is Constellation Property Group. Constellation is based in Sydney, Australia, and has built 8,000 condominiums worldwide. "Stella at Five Points" will be Constellation's first entry into the San Diego market, and they have indicated a desire to ensure the project is successful and highly regarded. They also wish to establish a long-term relationship with the City and Agency, to improve the surrounding Hancock neighborhood and to build more housing in San Diego.

Constellation Property Group is seeking an Owner Participation Agreement (OPA) with the Agency. They have already obtained control of the site and do not need the Agency's assistance in acquiring any real estate. However, in order to partially offset the cost of providing 15% affordable units, they are requesting a subsidy from the Agency of \$130,000 per unit. The financial and legal terms of the proposed OPA are presented in Attachment 3.

DISCUSSION:

The proposed OPA would allow the construction of 13 affordable housing units, which equates to 15% of the total units in the project. This exceeds the City's minimum inclusionary housing requirement of 10%.

The affordable units would be offered for sale at a price that is affordable to families earning less than 100% AMI. The sale price would be set by the San Diego Housing Commission at the time of sale. Currently, a family would qualify for 100% AMI if they make a combined salary of less than \$57,050 per year, assuming a household of three people.

The units would be price-restricted for at least 55 years, and they would comply with all applicable City and the Housing Commission policies and restrictions. The units would be two-bedroom condominiums, and would match the size, quality, and appearance of the market-rate units.

The proposed OPA would offer a subsidy of \$1,690,000 in exchange for the construction of 13 affordable units at 100% AMI. This equates to an average subsidy of \$130,000 per affordable housing unit.

The developer estimates their total project cost will be \$32.6 million. For the market rate units, the average sale price is currently estimated at about \$432,800 per unit. Thus, the developer would normally expect to earn a total of \$37,220,000 in revenues from the sale of the 86 units. This would yield a developer profit of 15% on the project. As a general industry standard, developers (and their lenders) would expect a 16-18% return-on-cost for projects that have not yet received entitlements. Thus, the financial return for "Stella" is reasonable, although slightly below the average return that developers typically seek in the San Diego market.

Since the affordable units would be sold at a price below market value, as set by the Housing Commission, the project would lose significant revenue. On the other hand, by complying with the Inclusionary Housing Ordinance, the developer would avoid paying an in-lieu housing fee. The net loss in revenue, resulting from the 13 affordable units, is estimated to be \$2,700,000.

The proposed OPA would offset a portion of this \$2,700,000 revenue loss, because it would provide a subsidy of \$1,690,000 in exchange for the affordable units. The remaining \$1,010,000 in lost revenue would be absorbed by the developer and would come directly out of their profit. On the other hand, by providing affordable housing, the project would qualify for the City's affordable in-fill housing expedite program.

Tax Increment funds in the amount of \$1,690,000 are available within budgeted levels of the North Bay Low- and Moderate-Income Housing Fund. No bond funds would be used.

CONCLUSION

The proposed OPA would provide 13 affordable for-sale housing units, located in a central, coastal location with direct access to the Trolley. The two-bedroom units would have a high quality design and would be ideal for small working families. The developer has a demonstrated track record of building high quality projects; and they have committed to an aggressive timeline for construction of this project. The Agency subsidy would be \$130,000 per unit.

Respectfully submitted,

Debra Fischle-Faulk
Deputy Executive Director

Approved: Hank Cunningham
Assistant Executive Director,
Redevelopment Agency

Attachments: 1) Site Plan
2) Project Renderings
3) Constellation Property OPA