Centre City Development Corporation

DATE ISSUED:	September 20, 2006	REPORT NO: CCDC-06-23

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of September 26, 2006

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Studio 15 (southwest corner of 15th Street and Imperial Avenue) – Owner Participation Agreement with Studio 15 Housing Partners, LLC -- East Village Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project

COUNCIL DISTRICT: 2

REFERENCE: Site Map
KMA Financial Analysis
Owner Participation Agreement

STAFF CONTACT: Dale Royal, Senior Project Manager (619) 533-7108

REQUESTED ACTION:
Approval of a proposed Owner Participation Agreement between the Redevelopment Agency of the City of San Diego ("Agency") and Studio 15 Housing Partners, LLC.

STAFF RECOMMENDATION:
That the Agency approve the Owner Participation Agreement ("OPA") with Studio 15 Housing Partners, LLC ("Developer") which will provide for an Agency loan in an amount not exceed $16,498,000 from the Centre City Redevelopment Low and Moderate Income Housing Fund for the Studio 15 project.

SUMMARY:
The Developer is proposing a 275-unit affordable housing project on the southwest corner of 15th Street and Imperial Avenue in the East Village Redevelopment District. A total of 273 units would be restricted for 55 years to provide affordable rents to low- and very-low-income persons. The project represents an opportunity to expand the supply of single room occupancy ("SRO") units in downtown, which is an affordable housing priority in the Downtown Community Plan. The Developer is requesting Agency assistance in financing the acquisition and construction of the affordable housing project.

FISCAL CONSIDERATIONS:
Funds are available for the proposed Agency loan from the Fiscal Year 2006-2007 Centre City Redevelopment Low and Moderate Income Housing Fund.

CENTRE CITY DEVELOPMENT CORPORATION ("CCDC") RECOMMENDATION:
On May 24, 2006, the CCDC Board of Directors voted to support the staff recommendation.

OTHER RECOMMENDATIONS
On June 20, 2006, at a joint San Diego Housing Authority ("Housing Authority") and Agency meeting, the Housing Authority voted 7 to 0 to issue and sell up to $20,500,000 in multifamily housing revenue bonds to finance the Studio 15 project, and the Agency voted 7 to 0 in favor of the project design and Development Permit No. 2005-61.

In July 2006, the California Debt Limit Allocation Committee allocated $20,500,000 in private-activity bonds.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
On May 3, 2006, the CCDC Real Estate and Budget/Finance Joint Committees voted in favor of the staff recommendation with the condition that staff explore converting about 5,000 square feet on the ground floor into commercial space for potential use as a medical clinic to be operated by Family Health Centers of San Diego ("FHC").

On May 4, 2006, the East Village Association voted to support the proposed affordable housing project, but was not supportive of the idea to locate a Family Health Center Facility in the ground floor if duplicative of the St. Vincent de Paul Health Clinic programs operated next door.

On May 5, 2006, Fran Butler-Cohen, Chief Executive Officer of FHC, notified CCDC staff that they did not feel that this project would be an appropriate location for their downtown health clinic.

BACKGROUND

This proposed project advances the Visions and Goals of the Centre City Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Adding to the range of downtown housing opportunities;
- Providing high-density housing adjacent to public transit;
- Expanding and improving the supply of affordable-rental housing; and
- Removal of blight through the redevelopment of underutilized properties.

The project site includes a building located at 70 15th Street that is over 45 years old, and as such, required review by the Historic Resources Board ("HRB"). On May 17, 2006, staff received an electronic communication from Cathy Winterrowd of HRB stating that staff concurs with the conclusions of the historical resources research report prepared by Wendy Tinsley of Urbana Preservation & Planning that the building does not meet any of the City's historical resources designation criteria. There are no other historical resources issues related to demolition of this building.

DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Developer: Studio 15 Housing Partners, LLC **Managing Member:** Affirmed Housing Group	**VP of Development:** Ginger Hitzke	James Silverwood (Privately Owned)
Co-Manager: Housing Development Partners of San Diego	**Executive Director:** Wendy DeWitt	Non-profit public benefit corporation established by San Diego Housing Commission
Architect: Carrier Johnson	**Project Manager:** Steven Schrader	Gordon Carrier and Michael Johnson (Publicly Owned)

Affirmed Housing Group is a for-profit real estate development firm located in Escondido, California specializing in affordable rental housing. Since 1994, Affirmed has developed over 1,100 units in Southern California and the mid-Atlantic states of West Virginia, Virginia and North Carolina. Affirmed has successfully secured over $200 million of tax credit, conventional and other financing for new construction, acquisition and substantial rehabilitation of affordable housing. Recent local projects include the 106-unit Tesoro Grove Apartments, the 94-unit Hollywood Palms Apartments, the 50-unit Creekside Trails Apartments, and the 69-unit Auburn Park Apartments.

Housing Development Partners of San Diego ("HDP") is a nonprofit public benefit corporation established by the San Diego Housing Commission in 1990 to acquire and develop publicly financed low and moderate-income housing and to provide facilities and services related to housing. HDP developed and operates two affordable housing projects in San Diego: the 75-unit Casa Colina del Sol senior housing project in City Heights and the 54-unit Knox Glen family housing development in Lincoln Park. In addition, HDP acquired the 27-unit Mason Hotel (temporarily closed due to a fire) in downtown and is a general partner in the Island Village Apartments, a 280-unit rental project in downtown that is very similar in design to the proposed Studio 15 project.

DISCUSSION

Scope of the Project – The proposed project is a 275-unit affordable housing development consisting of 274 SRO units and 1 one-bedroom units on a 27,272 square-foot site at the southwest corner of 15th Street and Imperial Avenue in the East Village District (Exhibit A – Site Map). A total of 273 units would be restricted to provide affordable rents to low- and very-low-income persons at or below 40%, 50%, and 60% of area-median income ("AMI"). Two unrestricted units (one SRO unit and one one-bedroom unit) will serve as manager's units.

This application was submitted and deemed complete prior to the City Council's recent approval of the new Downtown Community Plan and Planned District Ordinance ("PDO") and is therefore being evaluated and processed under the provisions of the previous documents and regulations.

Project Budget & Financing – The Developer's estimated total cost for development and construction of the project is approximately $41 million (including land, direct and indirect costs). The Developer proposes to finance the project with a combination of tax-exempt bonds, tax credits, Federal Home Loan Bank Affordable Housing Program ("AHP") funds, San Diego Housing Commission funds (Inclusionary Housing in-lieu fees), deferred developer fee, and an Agency loan.

Although approximately $20,500,000 in bonds will be issued for the project, approximately $12,100,000 of the bond amount will be paid off at conversion to permanent financing, resulting in a permanent bond debt of approximately $8,400,000. Permanent financing sources are summarized in the following table:

PERMANENT FINANCING SOURCES	ORIGINAL	REVISED
Tax Exempt Bonds	$ 8,426,000	$8,400,000
Tax Credit Equity	$15,313,000	$16,000,000
Deferred Developer Fee	$ 675,000	$802,000
Redevelopment Agency Loan	$16,498,000	$16,498,000
TOTAL	**$40,912,000**	**$41,700,000**

Keyser Marston Associates ("KMA"), economic consultant to the Agency, reviewed the project budget and provided an analysis (Exhibit B – KMA Financial Analysis). Part of the analysis included a peer review of the construction cost estimates by Hunter Pacific Group, professional construction cost estimators.

KMA concluded that the project's development costs, net-operating income, and financing costs fall within industry standards for a project of this type. KMA noted that the project's land cost at $154 per square foot makes this one of downtown's least expensive development sites. The Developer team was very helpful in providing supporting information on development costs and adjusting their numbers when appropriate. The attached pro forma represents a consensus reached after extensive discussions between staff, KMA, and the Developer team.

Disposition of Property – The Site includes one parcel and the Developer has site control through a Purchase and Sale Agreement. Originally, site control was held solely by Barone Galasso Associates ("BGA"), who was to remain involved in the project as a development consultant and property manager. Based on advice from the City Attorney's office, staff encouraged the Developer to implement an exit strategy for BGA to limit its involvement in the project because BGA is the subject of ongoing, unresolved legal and financial actions that could affect the Agency relating to the Armed Services YMCA building at 500 West Broadway. The Developer successfully negotiated with BGA to become a co-purchaser of the site and to have BGA end its involvement with the project upon close of escrow. The Developer plans to compensate BGA with private funds for their predevelopment work. Those costs are not included in the project budget or subsidy request.

Participation by Agency – The Developer is seeking Agency gap financing in the form of a Residual Receipts Loan in the amount of $16,498,000. The project would result in an Agency subsidy of $60,430 per affordable unit.

The Agency loan could be reduced if the Developer is successful in receiving $688,000 anticipated in AHP funds or $1,000,000 in San Diego Housing Commission funds. That would reduce the Agency loan amount to $14,810,000 or a subsidy of $54,250 per affordable unit.

Site Remediation Costs – The Developer conducted a Phase I and Phase II environmental investigation which revealed that the site has several previous and adjacent uses that are highly likely to have contaminated the soil and groundwater. In addition, the existing building on the Site contains asbestos and lead paint. Opper & Varco LLP, environmental consultants to the Agency, helped develop the project's remediation cost estimate and outline acceptable purchase contract terms to limit the Agency's financial exposure. Based on a worst-case scenario, the project budget includes $2,000,000 for remediation. The Agency would review all bids for remediation work and retain any cost savings. The property owner ("Seller") has agreed to purchase an insurance policy to cover any remediation costs in excess of the $2,000,000 budgeted amount.

Proposed Schedule of Performance

Action	**Completion Date**
Submit CDLAC Bond Application	May 2006
Awarded CDLAC bonds	June 2006
Approval of Project Design and Development Permit No. 2005-61 by Agency	June 2006
Approval of OPA by Agency	September 2006
Close on Construction Financing	October 2006
Start Construction	March 2007

Complete Construction	September 2008

Project Benefits – The project would benefit the Centre City Redevelopment Project by providing:

- New SRO units to ease the impact of SRO closures and conversions;
- Affordable rental housing for very-low and low-income persons;
- Monthly rents starting in the mid-$400 range with utilities included;
- Housing aimed at low-wage workers earning $18,000 to $28,000 per year;
- Affordability that meets and exceeds the City's Inclusionary Housing Ordinance;
- Redevelopment of a highly-visible blighted area adjacent to PETCO Park;
- Quality, compatible development to be located next to a homeless facility;
- High-density housing adjacent to public transit at the Imperial trolley and bus station;
- Development that maximizes allowable floor-area ratio within a low-rise zone; and
- Clean-up of a Brownsfield site that has contaminated soils and underground tanks.

PROJECT DESCRIPTION

Residential Project – The following is a summary of the project:

Type of housing	Single Room Occupancy Units
Total number of units/total square feet	275 units/98,087 sq.ft.
Number of bedrooms/unit	274 studios (265 sq.ft. average) 1 one-bedroom unit (750 sq.ft.)
Parking	59 spaces (0.2 spaces per unit)
Land Area	27,272 sq.ft.
Project density	435 units/acre
Number of units demolished	0
Rent/unit price of demolished units	Not applicable
Housing cost	Approximately $400 - $600 per month Target: downtown low-wage workers such as hotel desk clerks, retail-sales persons, receptionists, bookkeepers

The project proposes 275 units and includes 5,200 square feet of common-indoor area, including kitchen, TV, and computer/living areas, as well as a 4,500 square-foot, landscaped, common courtyard at grade level for the private use of tenants/residents. One level of underground parking will be accessed from 15th Street and will provide stalls for 59 vehicles, meeting the PDO requirements of 0.2 spaces per SRO unit (55 spaces).

The proposed project is located in the East Village neighborhood on a site zoned Commercial Services, which is intended to accommodate business, commercial and industrial uses that support other downtown uses. A base Floor Area Ratio ("FAR") of 3.0 applies to the site, and the applicant is requesting an increase of 0.6 FAR under State Density Bonus Law provisions for affordable housing projects, for a maximum FAR of 3.6, which the project is eligible to receive. The recently-adopted Community Plan documents establish a base FAR of 3.0 for this site, with an ability to earn an additional 3.0 FAR, for a maximum of 6.0 FAR. The project requires approval of a FAR increase from 3.0 to 3.6 under State Density Bonus Law provisions for affordable housing projects (ministerial action).

The site is currently occupied by a two-story commercial building, with a one-story commercial building sharing the property line to the west, three-story buildings for Father Joe's Village (transitional housing) to the south and east, and the Metropolitan Transit System bus yard to the north. The surrounding neighborhood is characterized by a variety of older and newer commercial and residential buildings and is the focus of increased redevelopment interest with the recently approved Triangle market-rate condominium project and Tailgate parking lot located one block to the west, a recently submitted development permit application for market-rate condominiums at 17th Street and Imperial Avenue located two blocks to the east, and discussions regarding the redevelopment of the "Wonderbread" site just to the north. The site is adjacent to a mid-block alley, which is characteristic of the eastern portion of super blocks in the East Village; 15th Street is a dead-end street (does not provide either vehicular or pedestrian-through access to Commercial Street); and, Imperial Avenue provides north-south access between downtown and Sherman Heights.

<u>Owner Participation Agreement</u> – The essential terms and conditions of the proposed OPA are as follows:

- The Agency will make a subordinate loan to the Developer in an amount not to exceed $16,498,000 (includes $14,810,000 Agency gap financing + $1,000,000 for potential shortfall in San Diego Housing Commission funds + $688,000 for potential shortfall in Federal Home Loan Bank Affordable Housing Program funds). The Agency loan shall have a 55-year term and simple interest rate of 3% with repayment from the project's cash flow. The residual receipts shall be divided between the two parties as 50% to the Agency and 50% to the Developer in Years One to Thirty. The Agency share will increase to 80% in Years Thirty-one and thereafter.

- The Developer shall construct all on-site improvements, design, install, and maintain all surface off-site improvements.

- Developer shall defer $675,000 of the Developer Fee during the construction period. The Deferred Developer Fee shall be repaid from the project's cash flow prior to calculation of cash flow for distribution.

- The Agency shall have the right to review all bids for site remediation costs and retain all cost savings if the total is less than $2,000,000.

- Two-hundred seventy-three (273) of the units shall be restricted to provide affordable rents as follows:

Number of Units	Maximum Income	Maximum Rent (HCD 2006)
27 units (10%)	40% AMI ($18,160 for 1 person)	30% of 40% AMI = $454/mo
146 units (54%)	50% AMI ($22,700 for 1 person)	30% of 50% AMI = $568/mo
100 units (36%)	60% AMI ($27,240 for 1 person)	30% of 60% AMI = $681/mo

- The Developer shall submit an application to the San Diego Housing Commission to request funds to assist in financing the project. The Agency loan shall be reduced dollar-for-dollar by the amount received in funds.

- The Developer shall submit an application to the Federal Home Loan Bank to request funds to assist in financing the project. The Agency loan shall be reduced dollar-for-dollar by the amount received in AHP funds.

- Developer shall maximize net bond proceeds and tax credit equity. The Agency shall have the opportunity for a look-back prior to closing to decrease the Agency loan amount, if warranted.

- Payments to a Replacement Reserves Account shall be equal to $250 per unit.

- Property Management fees shall not exceed 6% of Effective Gross Income.

- Asset Management fees paid to the Developer included in the calculation of Operating Expenses shall not exceed $16,000, subject to annual increases of up to 2.75%.

- The Developer or subsequent owners shall not allow sales of liquor or alcoholic beverages in the building due to the project's proximity to a drug and alcohol treatment program located across the street at Father Joe's Village.

PROJECT ANALYSIS AND IMPACT ASSESSMENT

Housing Impact – The project addresses priorities established in the Downtown Community Plan, adopted by the City Council in February 2006, for affordable housing production in downtown. One of the priorities is to expand the supply of SRO hotel rooms which serve a unique and important component of the rental housing market by providing furnished studios affordable to very-low-income persons with utilities included in the rent. Downtown's supply of SRO rooms has suffered a net loss of about 500 units since 2001 due to closures to facilitate the development of the Federal Courthouse and other redevelopment projects.

Consistency with Plans – Both the Community and East Village Focus plans encourage a diversity of housing types and price ranges. The proposed project complies with the goals of the Community Plan by adding to the availability of affordable housing in Centre City, which will add to the diversity of affordable, and market-rate apartments and condominiums being constructed downtown. The project is also consistent with the PDO in terms of land use and development standards including street-level design. The proposed increase in FAR from 3.0 to 3.6 is consistent with the objectives of the State Density Bonus Law.

Environmental Impact – Under the 2006 Final Environmental Impact Report (FEIR), an Environmental Secondary Study was prepared for all developments in the Centre City area in order to evaluate the project's compliance with the Plan and PDO and, therefore, the findings and conclusions of the FEIR. Unless the project is found to be out of compliance with those planning documents, no further environmental review is required.

CONCLUSION

The Studio 15 project would expand downtown's supply of affordable housing with 275 new rental units with affordability restrictions for very-low and low-income persons. Staff recommends that the Agency approve the proposed Owner Participation Agreement with Studio 15 Housing Partners, LLC.

Respectfully submitted,

Dale Royal
Senior Project Manager

Concurred by:

Nancy C. Graham
President

Attachment(s):
- A – Site Map
- B – KMA Financial Analysis
- C – Owner Participation Agreement