



THE CITY OF SAN DIEGO
Redevelopment Agency's Report

DATE ISSUED: March 29, 2006

REPORT NO. RA-06-08
RTC-06-019

ATTENTION: Honorable Chair and Members of the Redevelopment Agency,
Council President and City Council,
Docket of April 4, 2006

SUBJECT: Disposition and Development Agreement for the CentrePoint Project
within the Crossroads Redevelopment Project Area

REFERENCE: Executive Director's Report No. RA-05-33, Replacement Housing Plan
for CentrePoint Project; Executive Director's Report No. RA-05-23,
Exclusive Negotiating Agreement with CentrePoint, LLC.

REQUESTED ACTION:

Agency –

Authorize the Executive Director to Execute the Disposition and Development Agreement (DDA) with CentrePoint, LLC and Approve Associated Actions for the Proposed CentrePoint Mixed-Use Project.

Council –

Consent to the Redevelopment Agency Entering into the Disposition and Development Agreement (DDA) with CentrePoint, LLC and Approve Associated Actions for the Proposed CentrePoint Mixed-Use Project.

STAFF RECOMMENDATION:

Agency –

- Approve the Basic Design Concept for the CentrePoint Mixed-Use Project.
- Authorize the Executive Director or designee to Execute the Disposition and Development Agreement (DDA) with Centrepoint, LLC for the CentrePoint Mixed-Use Project and the disposition of leasehold interests as set forth in the DDA.
- Accept a Good Faith Deposit of \$100,000 from CentrePoint LLC.
- Certify Mitigated Negative Declaration, Number 74816.

Council –

- Consent to the Redevelopment Agency Entering into the Disposition and Development Agreement for the CentrePoint Mixed-Use Project.
- Certify Mitigated Negative Declaration, Number 74816.

SUMMARY:

The Report to City Council prepared for the adoption of the Crossroads Redevelopment Project Area acknowledged that the existing commercial development located at 6363 El Cajon Boulevard was physically and economically blighted. “The College Center at 63rd Street is struggling with crippling vacancies of over 50% (July 2002) – having lost a primary anchor”. CentrePoint, LLC (Developer) is proposing to develop a mixed-use project on the former College Center site in the Crossroads Redevelopment Project Area (see Attachment 1). The Douglas Wilson Companies, the lead partner of CentrePoint, LLC is currently developing two infill housing projects, Parkloft in the East Village area and The Mark in the Ballpark area of Downtown San Diego. On June 21, 2005, the Agency approved entering into an Exclusive Negotiating Agreement (ENA) with CentrePoint, LLC as the first step towards potentially entering into a Disposition and Development Agreement (DDA). A proposed DDA (see Attachment 2) has been prepared and is submitted for Redevelopment Agency/City Council consideration.

The project will occupy an 8.93-acre site bounded by El Cajon Boulevard (6300 block) to the north, Art Street to the east, Seminole Drive and Stanley Avenue to the south, and 63rd Street to the west (see Attachment 3). The site is currently occupied by 131,000 square feet of commercial space, 10,000 square feet of office space, a stand alone restaurant and a nine unit apartment building. CentrePoint, LLC is proposing to demolish the existing buildings and develop a pedestrian-oriented mixed-use project that incorporates 312 for-sale residential dwelling units consisting of 97 townhouses, 204 residential flats (47 affordable) and 11 live/work units, and approximately 4,000 square feet of retail space. Off-street parking spaces (610) will be contained in surface lots, tuck under garages and in an above grade parking structure (see Attachment 4). Open space and recreational facilities will be provided on-site for residents. The project is being designed with 18 different floor plans ranging in size from 739 to 1,704 net square feet. The estimated total project cost (land/buildings) is approximately \$110 million.

Fifteen percent of the proposed 312 units, or 47 units, will be affordable in perpetuity. All of the affordable units will be available to families earning 100% of Area Median Income (AMI). The 15% affordability level exceeds the City’s inclusionary housing requirement of 10% and complies with the Redevelopment Agency’s project area-wide inclusionary requirement of 15%. There will be 27 one-bedroom (788 sq. ft.) affordable units and 20 two-bedroom (957 and 1,043 sq. ft.) affordable units. The number of one- and two-bedroom affordable units is proportionate to the number of one- and two-bedroom units within the project.

The proposed DDA states that the Agency will subsidize the affordable units in the maximum aggregate amount of \$5,245,000. This subsidy amount is based upon an independent third party analysis (prepared by the Agency’s economic consultant, Keyser Marston Associates) of CentrePoint, LLC financial pro forma (see Attachment 5). The unit subsidy for the 47 affordable units is approximately \$111,595 per unit or \$78,283 per bedroom. This amount is considered reasonable given the land and construction costs, and compared with other affordable for-sale housing projects. This project is within the Mid-City Communities Plan, Eastern Planning Area and will result in a gain of both market rate and affordable for-sale housing product.

The DDA includes a provision for Agency assistance regarding leasehold acquisitions, if necessary. However, it is anticipated that Agency assistance in acquiring any leasehold interests will not be necessary, since CentrePoint, LLC has successfully negotiated leasehold amendments with all of the commercial tenants. In the event CentrePoint, LLC is unable to complete the purchase of the leasehold interests the Agency may employ its reasonable efforts, but is not obligated, to purchase leasehold interests.

In addition CentrePoint, LLC has entered into relocation agreements with all of the tenants of the nine-unit apartment building. In accordance with California Community Redevelopment Law, the Agency is required to replace very low-, low- or moderate income housing units that are removed or destroyed as part of a redevelopment project. On November 29, 2005, the Agency approved the Replacement Housing Plan which provides for the Agency to replace two moderate income household units with two moderate income units within the project. The Agency will replace the remaining seven very-low and low income units within the Auburn Park Project, located south of University Avenue and west of 52nd Street.

The estimated cost for replacing these units is \$910,000. The Agency's subsidy has been adjusted to reflect CentrePoint, LLC's commitment to pay half (\$455,000) of the replacement housing cost. Since the income mix of the project exceeds the requirements of the City's inclusionary housing ordinance, the Developer will not be required to pay an in-lieu fee. The Agency subsidy reflects the Developer's willingness to absorb a portion of the housing affordability gap that the Developer would otherwise have paid in the form of the inclusionary housing in-lieu fee. The Developer has agreed to provide the Agency with a Good Faith deposit of \$100,000 as a security for the performance of their obligations under the DDA.

CentrePoint, LLC has done extensive outreach with the neighborhoods and communities on the development and design of the proposed mixed-use project. On December 8, 2005, the Crossroads Project Area Committee reviewed the terms of the proposed DDA and voted 10-0-1 to recommend that the Redevelopment Agency enter into a DDA with CentrePoint, LLC.

The project complies with (see Attachment 6) the current California Building Code, which includes Universal Design features, for new multi-family development. The proposed project will be reviewed and inspected for compliance by the Development Services Department of the City of San Diego.

The approval and development of this major mixed-use project will be the first key accomplishment in the implementation of the recently approved Crossroads Redevelopment Project Area (May 2003). This project will serve as a catalyst project in attracting additional public and private investments to the Project Area. If the Redevelopment Agency does not enter into the DDA with CentrePoint, LLC the project will not include 15%, or 47, affordable units. The number of affordable units the Developer would have to provide would be 10% or 30 units, and the affordability restriction would be fifteen years rather than in perpetuity. The project and Project Area would not comply with the inclusionary housing requirements of California Community Redevelopment Law.

FISCAL CONSIDERATIONS:

The proposed DDA provides for CentrePoint, LLC to finance the project with a combination of conventional financing and developer equity. CentrePoint, LLC has requested Agency involvement with gap financing for a portion of the units to be affordable and possible assistance with acquiring leasehold interests. The total project cost is approximately \$110 million (see Attachment 7), and the project is projected to generate approximately \$900,000 in new gross tax increment per year, after the completion of the project in 2010 (see Attachment 8). Total Redevelopment Agency financial contributions to the project will not exceed \$5,245,000, plus interest for the affordable units.

The Agency's contribution will be in the form of a Developer advance/loan which will be repaid from the Crossroads Redevelopment Project Area's Low and Moderate Income Housing Fund to subsidize 47 affordable units. This requirement will be subordinate to any future Agency bond payment obligation. The Agency will have the option to make additional payments or repay the outstanding balance in full without a prepayment penalty. The Agency will also use reasonable efforts to issue and sell bonds for the Crossroads Redevelopment Project to repay the obligation.

Simple interest on the outstanding balance of the total Agency obligation will accrue at a rate of 7% per year. Interest on the loan will begin at the issuance of the certificate of occupancy for all the affordable units, expected to occur in July 2009. If the affordable units are sold for more than projected in the financial pro-forma, the Agency will receive a credit against its obligation. The Developer has agreed to provide the Agency with a Good Faith deposit of \$100,000 as a security for the performance of their obligations under the DDA.

PREVIOUS AGENCY and/or COMMITTEE ACTION:

- On June 21, 2005 the Redevelopment Agency approved an Exclusive Negotiating Agreement with CentrePoint, LLC to develop a mixed-use project on an 8.93 site along El Cajon Blvd.
- On November 29, 2005 the Redevelopment Agency approved the Replacement Housing Plan for the CentrePoint Project. The Plan states that 2 of the existing 9 units will be replaced on-site and the remaining 7 units will be replaced at the Auburn Park project.
- On December 12, 2005, the Affordable Housing Collaborative Review Team reviewed the proposal and recommended that the Affordable Housing Collaborative Executive Loan Committee approve the allocation of \$5,245,000 from the Crossroads Redevelopment Project Area Low and Moderate Housing Set-Aside Funds for gap financing for the project.
- On December 16, 2005, the Affordable Housing Collaborative Executive Loan Committee reviewed the proposal and voted to approve the allocation of \$5,245,000 from the Crossroads Redevelopment Project Area Low and Moderate Housing Set-Aside Funds for gap financing for the project.
- On January 26, 2006, the City of San Diego Planning Commission, as Lead Agency, Certified the Mitigated Negative Declaration, Number 74816 (see Attachment 9) in compliance with the CEQA for the project's discretionary permit.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS:

- On March 24, 2005, pursuant to California Community Redevelopment Law, an owner participation letter was sent by certified mail to the business and residential tenants of all affected residential units and business establishments within the proposed project. The letter solicited input from the existing business and residential tenants regarding their interest and desire to re-enter at the same location or re-enter at a different location within the Crossroads Redevelopment Project Area. Two written responses to the letter were received by the Agency from residential tenants who indicated a desire to re-enter at the same location or re-enter at a different location within the Crossroads Redevelopment Project Area. After learning of the project's schedule, these residential tenants reached financial agreements with CentrePoint, LLC.
- On September 13, 2005 the Eastern Area Planning Committee voted 11-0 to recommend approval of the project's entitlements and related actions.
- On December 8, 2005, the Crossroads Project Area Committee (PAC) reviewed the terms of the proposed DDA and voted 10-0-1 to recommend that the Agency enter into a DDA.
- On January 26, 2006 the Planning Commission approved the entitlements for the proposed project on consent 4-1.

KEY STAKEHOLDERS and PROJECT IMPACTS:

Development Team -

<u>ROLE</u>	<u>FIRM/CONTACT</u>	<u>OWNERSHIP</u>
Developer	CentrePoint, LLC Contact: Terry Plowden	The two managing members of CentrePoint, LLC are Douglas Wilson Development (Douglas P. Wilson, President and CEO) and LB El Cajon, a Lehman Brothers Entity (Harry Bruni, Managing Director)
Architect	KTGY Group Contact: Jirair Garabedian	James Thomas, CEO Tricia Esser, CFO
Civil Engineer	Project Design Consultants Contact: Armando Urquidez	Managing Principals: Greg Shields, Bill Dick and Rex Plummer
Landscape Architect	Wallace, Roberts & Todd Contact: Rick Barratt	Twenty-Two Principals: See attached Statement of Ownership (see Attachment 10)
Planning & Community Consultant	MetroPlan LLC Contact: Rich Miller	Rich Miller

City Resident and Business Impact -

The proposed Centrepont project will add new affordable and market rate for-sale units to the Mid City Communities housing stock and generate approximately \$1 million per year in new gross tax increment to the Crossroads Redevelopment Project Area.

Respectfully submitted,

Maureen Ostrye
Redevelopment Acting Deputy Director

James T. Waring, Deputy Chief
Land Use and Economic Development

OSTRYE/TWR

- Attachments:
1. Redevelopment Project Area Map
 2. Disposition and Development Agreement between the Redevelopment Agency of the City of San Diego and CentrePoint, LLC
 3. Vicinity Map
 4. Site Plan, Elevations and Sections
 5. Financial pro forma for CentrePoint by Keyser Marston Associates
 6. Universal Design Checklist
 7. Project Budget
 8. Tax Increment Revenue for CentrePoint
 9. Mitigated Negative Declaration, Number 74816
 10. Wallace, Roberts & Todd, LLC; Statement of Ownership