



THE CITY OF SAN DIEGO
Redevelopment Agency's Report

DATE ISSUED: November 22, 2006

REPORT NO.: RA-06-50

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of November 28, 2006

SUBJECT: Purchase of retail condominium within the Renaissance at North Park Project

REQUESTED ACTIONS:

That the Redevelopment Agency:

1. Authorize the Executive Director to execute a Purchase and Sale Agreement with North Park Retail Partners, L.P. for a 2,915-square-foot retail condominium in the Renaissance at North Park project for \$1,159,350.
2. Authorize the Executive Director to cancel the existing lease with North Park Retail Partners, L.P. for 6,000 square feet of retail space in the Renaissance at North Park project.
3. Amend the Fiscal Year 2007 Redevelopment Agency Budget for the North Park Redevelopment Project Area to increase appropriations and authorize expenditures in the amount of \$1,159,350.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

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 includes 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 provides 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 and DDA, Carter Reese and Associates has constructed 24 market-rate townhomes immediately north of the project on the west side of 30th Street.

Subject to the terms of the DDA, which anticipated efforts by the City and Redevelopment Agency to occupy up to 6,000 square feet of commercial space along 30th Street within the

Renaissance Project to accommodate community-serving uses, the Redevelopment Agency entered into a lease with Carter Reese & Associates on November 16, 2004. The community uses contemplated include 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 public and/or not-for-profit organizations. 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. Rent payments commence 60 days following delivery of the premises to the Redevelopment Agency (projected to occur on December 1, 2006). Additional lease expenses, constituting a pro rata share of common area maintenance expenses, apply. These additional lease expenses are to be estimated annually, subject to tenant review and approval, and be payable on a monthly basis. Additional lease expenses may not exceed \$6.00 per square foot per year (\$36,000 total) during the first full year of the lease term. The total annual cost in the first year of the lease was estimated to be \$180,000. 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. At the approval of the lease, the Redevelopment Agency authorized a tenant improvement budget of \$300,000. Finally, the lease provided the Agency with an option to purchase its leasehold at a time of its choosing at the appraised fair market value.

Since execution of the lease for 6,000 square feet, Agency staff has worked with the Park and Recreation Department, the Community Service Center program and the Police Department to refine the Agency's space requirements. It has been determined that the Agency's current purposes could be achieved within a space of approximately 3,000 square feet. Simultaneously, Carter Reese and Associates have found greater private sector demand for retail space at this facility than previously anticipated. Consequently, Carter Reese and Associates in June, 2006, submitted a proposal to amend the lease to release the Agency from its obligations with respect to the southern 3,000 square feet subject to the existing lease in the context of a purchase and sale agreement for the northern 3,000-square-foot space.

An appraisal prepared collaboratively by the firms Lipman, Stevens & Carpenter, retained by the Redevelopment Agency, and Jones, Roach & Caringella, retained by Carter Reese & Associates, concluded that comparable sales and projected income indicate a current market value for the northern space of \$1,310,000. The offer of sale submitted by Carter Reese and Associates provides for a purchase price of \$1,159,350, representing a discount of 11.5% below the appraised value. Carter Reese and Associates further offer to pay all common area maintenance expenses otherwise attributable to the purchased space for a period of five years.

A comparison of the projected costs of leasing the 2,915-square foot northern space over a five-year period (\$690,000 in current dollars, including tenant improvements) with the costs of ownership during the same period (assuming resale of the space at the conclusion of the term) indicate that the Agency's costs could be reduced by exercising its option to purchase the northern space. Even allowing for a 20% drop in the value of the 2,915-square-foot subject space over a five-year period, the cost of ownership (\$512,000) is projected to fall below the cost of leasing. By including the cost of leasing the southern space as well as the northern space (for a total of 6,000 square feet under the terms of the existing lease), the apparent advantage of an agreement to purchase the northern space while returning the southern space to the property

owner is substantially increased.

Based on the comparison of projected costs, staff recommends that the Redevelopment Agency exercise its purchase option subject to the following terms:

- The existing lease obligation for 6,000 square feet of retail space at the Renaissance in North Park project would be cancelled by the mutual consent of lessor (Carter Reese & Associates) and the lessee (Redevelopment Agency).
- The Redevelopment Agency would purchase the northern retail space (approximately 2,915 square feet in size) for \$1,159,350 (a discount of 11.5% below the probable market value of \$1,310,000 established by third-party appraisal).
- For a period of five years following close of escrow, Carter Reese & Associates would assume responsibility for Common Area Maintenance expenses applicable to the northern retail space (an estimated savings of \$87,450).

FISCAL CONSIDERATIONS:

Initial costs associated with the proposed actions, including acquisition, tenant improvements and utilities charges during construction, total \$1,401,000. Funds in the amount of \$382,000 have been previously authorized, resulting in additional costs of \$1,019,000. Annual costs during subsequent years are estimated to be \$48,000, a reduction of \$153,000. First-year costs associated with maintaining the existing lease, which would not be incurred if the proposed actions are taken, are estimated to total \$382,500. The annual cost of maintaining the existing lease is projected to begin at \$201,000 in the second year of occupancy and increase by 3% per year thereafter.

An estimate of the net present fiscal impact of the proposed action can be computed based on conservative assumptions regarding the ability of the Agency to recoup costs through subleases and the re-sale of the property at a specified date in the future. Assuming that 50% of the space under the control of the Agency is sublet to a provider of services to the Redevelopment Project area at \$0.50 per square foot (substantially below market), and that the property is resold at the end of the fifth year of ownership at a price 20% below the current market value (allowing for steady depreciation in local real estate values), an average annual savings of \$126,000 is estimated.

As illustrated in the following table, funding for the proposed purchase would come from the remaining proceeds from the Series 2000 and 2003 North Park non-housing bonds, with the balance provided by the Redevelopment Agency Line of Credit and Tax Allocation Bonds for the North Park Project Area. There is no fiscal impact to the City or the City's General Fund by this action.

STATUS OF NORTH PARK BONDS AND LINE OF CREDIT				
	General Uses	Housing Uses	Line of Credit	Total
Beginning Balance (inc. interest)	\$14,322,000	\$4,680,000	\$10,000,000	\$29,002,000
Less Approved Projects:				
North Park Miscellaneous Projects	\$93,000			
North Park Theatre	\$2,628,000		\$3,435,000	
North Park Public Parking Lot	\$1,840,000			
North Park Parking Structure	\$8,338,000		\$4,725,000	
Renaissance at North Park		\$4,529,500		
North Park -Main Street	\$250,000			
30 th Street Lighting	\$90,000			
Tenant Improvements - Renaissance	\$300,000			
North Park -Main Street	\$180,000			
Proposed Project:				
Purchase of Retail Condominium	\$603,000		\$556,350	
Subtotal Approved & Proposed Projects	\$14,322,000	\$4,529,500	\$8,716,350	\$27,567,850
Remaining Balance	\$0	\$150,500	\$1,283,650	\$1,434,150

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

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. On June 29, 2004, the Redevelopment Agency approved the 1st Implementation Agreement to the DDA. On November 16, 2004, the Redevelopment Agency entered into a lease with Carter Reese & Associates for 6,000 square feet of retail space within the Renaissance at North Park project. On May 23, 2006, the Redevelopment Agency approved the 2nd Implementation Agreement to the DDA.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS:

At its regular meeting on September 12, 2006, the North Park Project Area Committee (NPPAC) adopted the following motion by a vote of 8 in favor, 0 opposed and 0 abstaining.

The NPPAC supports exercising the Redevelopment Agency's option to purchase the northern portion (approximately 2,915 square feet) of the 6,000 square feet subject to the Agency's lease from Carter Reese & Associates for \$1,158,500. As a condition of the purchase, the lease will be cancelled and the remainder of the leased space returned to Carter Reese & Associates. The NPPAC recommends that the Redevelopment Agency issue a Request for Proposals for a tenant that would be complementary to the use of the facility at a community meeting facility and possible Police Storefront.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

ROLE	FIRM	OWNERSHIP
Seller	North Park Retail Partners, L.P., a California limited partnership	E. Smith & Company, Inc., a California corporation Reese A. Jarrett, President

Respectfully submitted,

Maureen Ostrye
Deputy Executive Director

Approved: James T. Waring
Assistant Executive Director

Attachments

1. Site Plan
2. Purchase and Sale Agreement*

* Limited distribution. Copies available for public review at the Office of the City Clerk and Redevelopment Agency.

Attachment 1