



Memorandum

DATE ISSUED: November 21, 2006 Report No. 06-009

ATTENTION: Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of November 28, 2006

SUBJECT: Approval of a Disposition and Development Agreement with Pacific
Development Partners, LLC, for Development of Lots 2-7 in the Valencia
Business Park

Reference: None

REQUESTED ACTION:

Should the City Council adopt:

1. A resolution approving the sale of real property and the Disposition and Development Agreement (the "DDA") with Pacific Development Partners, LLC, (the "Developer") for the development of Lots 2-7 in the Valencia Business Park in the Central Imperial Redevelopment Project Area;
2. A resolution certifying the Environmental Secondary Study for the proposed sale of property within Central Imperial and the development by Pacific Development Partners, LLC.

Should the Redevelopment Agency adopt:

1. A resolution approving the sale of real property and the Disposition and Development Agreement with Pacific Development Partners, LLC, for the development of Lots 2-7 in the Valencia Business Park in the Central Imperial Redevelopment Project Area;
2. A resolution certifying the Environmental Secondary Study for the proposed sale of property within Central Imperial and the development by Pacific Development Partners, LLC.
3. A resolution approving the basic concept drawings for the development of the Valencia Business Park.

STAFF'S RECOMMENDATION TO THE CITY COUNCIL/REDEVELOPMENT AGENCY:

Approve the resolutions noted above and authorize the Executive Director or his/her designee to execute the DDA between the Redevelopment Agency and Pacific Development Partners for the development of Lots 2-7 in the Valencia Business Park.

SUMMARY

Background

In 1996, SEDC on behalf of the Redevelopment Agency of the City of San Diego acquired the Valencia Business Park (formally known as the Potter Tract). The Valencia Business Park is located within the Central Imperial Redevelopment Project Area in the Valencia Park Neighborhood of the southeastern San Diego community. Specifically, the site is located south of the Metropolitan Transit System's East Trolley Line, and north of Imperial Avenue. The property's western boundary is 54th Street, and the eastern boundary is Pitta Street. Las Chollas Creek is aligned along the southern boundary of the site and the majority of the site is within the 100-year floodplain of the creek system.

The Valencia Business Park Project consisted of subdividing the 14.7 gross acre site into seven industrial lots (Lots 1 – 7). In December 2004, the United States Postal Service completed construction of the Earl B. Gilliam/Imperial Avenue Post Office and opened for business in January 2005. The balance of the site (Lots 2-7) will be developed with three development components. Building A consisting of approximately a 10,000 square feet of light-industrial facility; Building B consisting of an approximately 55,000 industrial/flex office building.

Discussion

In early 2005, the DDA with Roseau Development Company No 2, LLC, was voluntarily terminated by the Developer. Subsequent to the termination, SEDC distributed a Request Proposals/Qualifications to secure a new developer. Following the review of the initial submittals received from interested developers and responses to the request for additional information, SEDC selected Pacific Development Partners as the Developer with both the experience and the financial capacity to complete this development.

The Developer will pay the Agency a basic purchase price of \$1,540,976. Attached for your review is the Summary Report that has been prepared in accordance with Section 33433 of the California Redevelopment Law. The report includes:

- Estimated cost to be incurred by the Agency under the proposed development;
- Estimated value of the site at the highest and best use permitted;
- Estimated fair re-use value of the interest to be conveyed;
- Fair market price;
- Purchase price the developer will be required to pay; and an
- Explanation of why sale of the property will assist in elimination of blight

The report analyzes the maximum compensation that the Agency could achieve if it were to offer the subject property or development on the open market. The fair market value is based upon the highest and best use which is physically possible, financially feasible and legally permitted. It has been determined that the fair market value of the site is \$1.5 million.

The report also analyzes the fair re-use value being conveyed to the Developer subject to the various condition, covenants and restrictions contained in the DDA. The fair re-use value of the site is \$1.5 million or \$8.00 sq. ft.

Environmental Secondary Study

On April 27, 2000, the San Diego City Council certified an Environmental Impact Report for the Valencia Business Park Final Map. In September 2003, an addendum to the EIR was prepared in anticipation of the original development proposal of approximately 65,000 square feet.

Based on the environmental analysis contained in the Environmental Secondary Study the proposed development will not have any significant effect on the environment other than as identified in the previous EIR. Therefore no additional environmental documentation will be prepared.

The Developers

Pacific Development Partners, LLC, are based in Beverly Hills and have over 25 years experience developing commercial, industrial and residential projects throughout California and portions of Arizona. The founding partners Mark T. Burger and Ronald A. Recht are commitment to quality development in both the urban and suburban setting. With developments in excess of \$500 million some of PDP's recent projects include: Imperial Marketplace Retail Center (285,000 square feet) anchored by Home Depot in Lincoln Park, San Diego; Kaleidoscope a 215,000 square foot retail center in Mission Viejo, California; Del Cerro Shopping Plaza, San Diego; the Whole Food in Hillcrest, San Diego; and the 120,000 square foot Scottsdale Business Park, Scottsdale, Arizona to name a few.

BUSINESS TRANSACTION

Developer Obligations

- The Developer shall finance and construct approximately 55,000 square feet of light-industrial or office facilities or the maximum square footage permitted relative to the three development components under the current zoning.
- The Developer agrees to pay an Additional Purchase Price to the Agency upon any sale of the site that removes any portion of the site from the San Diego County tax roll as set forth in Attachment No. 2 of the DDA.
- The Developer shall be required to participate in an assessment district created to maintain the common area landscaping including the area around Las Chollas Creek.
- The Developer shall be responsible for securing all necessary building permits.
- The Developer shall pay a \$50,000 good faith deposit within five days following written notice from the Agency indicating that it has approved the Agreement.

Agency Obligations

- The Agency shall assist the Developer with the city of San Diego permit process.
- The Agency shall review and have the right to approve or disapprove the proposed owners/tenants for the development.
- The Agency shall review and approve the appropriate financing documents.

Additional Inquiries

SEDC has received additional inquiries regarding various aspects of a previous transaction with Pacific Development Partners (PDP). The following is a summary of the inquiries and SEDC's responses.

Inquiry – PDP is the developer of Imperial Marketplace (a 30-acre retail center) located in the Central Imperial Redevelopment Project Area: (a) Did they receive the land for \$1.00; and (b) did they sue the Redevelopment Agency of the city of San Diego in a lawsuit that was settled for \$5 million?

Response – (a) In accordance with the applicable provisions of the Community Redevelopment Law (CRL) the land was sold to PDP for \$1.00 pursuant to a joint public hearing held by the Agency and the City Council. This price was verified pursuant to an analysis required by Section 33433 of the CRL which provides for an estimated fair re-use value of the interest (land) to be conveyed. SEDC's investment in the on/off-site infrastructure improvements was \$15 million. PDP invested approximately \$30 million in the actual build-out of the center. It was reported to the Agency that based on an analyses of the residual land value and comparable sales, the fair reuse value of the interest (land) to be conveyed was a negative \$3,580,000.

(b) The Redevelopment Agency joined the developer's lawsuit against various contractors for certain construction defects and malpractice activities committed by those consultants. A settlement/judgment was obtained against these contractors, subcontractors and consultants. The exposure of the city, Agency and SEDC was limited to \$180,000. All defective work was corrected by the developer with the use of settlement proceeds and the project completed successfully by the developer.

Inquiry – Home Depot does not have to pay rent for 5 years.

Response – This is true because Home Depot following the purchase of its site from the developer, now owns it.

Inquiry – What benefit has Imperial Marketplace been to the city of San Diego?

Response – The residents of the Lincoln Park neighborhood, the community of southeastern San Diego and the city as a whole have benefited greatly from the Imperial Marketplace Retail center. Major benefits include redevelopment of a blighted, under-utilized site, new employment opportunities, and new retail/commercial services for an under-served community. In addition, several low-moderate income families located on San Pasqual were removed from the 100-year flood plain thus eliminating the need for these residents to carry flood insurance on their homes. Lastly, the city of San Diego is now the recipient of sales tax revenue which is "net new" to the city.

Attached is a brief report prepared by Keyser Marston & Associates which outlines the economic benefits of the Imperial Marketplace development.

ALTERNATIVE

Do not approve the DDA and the Environmental Secondary Study. This alternative would severely impact SEDC's ability to complete the project as contemplated in the Central Imperial Redevelopment Plan.

FISCAL CONSIDERATIONS:

The Developer is required to pay a \$50,000 good faith deposit upon execution of the DDA by the Agency.

PREVIOUS COUNCIL/AGENCY ACTIONS:

None with this Developer regarding this site.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS:

On January 18, 2006, the Central Imperial Project Area Committee (PAC) voted to recommend approval of the DDA with Pacific Development Partners for Lots 2-7 in the Valencia Business Park.

Submitted/Approved by
Carolyn Y. Smith
President

CYS:kk

Attachments: Disposition and Development Agreement
 Environmental Secondary Study
 Summary Report for Development of the Valencia Business Park
 Keyser Marston Associates Memorandum – *Economic Benefits of Imperial Marketplace
 Development*