



**Centre City  
Development  
Corporation**

DATE ISSUED: April 4, 2007 REPORT NO. CCDC-07-07

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Docket of April 10, 2007

ORIGINATING DEPT: Centre City Development Corporation

SUBJECT: Smart Corner (Block bounded by Broadway, Park Boulevard,  
Eleventh Avenue and "C" Street) – Proposed Second Implementation  
Agreement to Disposition and Development Agreement with CJUF  
Smart Corner, LLC -- East Village Redevelopment District of the  
Expansion Sub Area of the Centre City Redevelopment Project

COUNCIL DISTRICT(S): 2

REFERENCE: None

STAFF CONTACT: Eli Sanchez, Senior Project Manager (619)533-7121

REQUESTED ACTION:

Redevelopment Agency approval of the Second Implementation Agreement to the Disposition and Development Agreement with CJUF Smart Corner, LLC for the Smart Corner project.

STAFF RECOMMENDATION:

That the Redevelopment Agency of the City of San Diego ("Agency"):

- Adopt a resolution approving the proposed Second Implementation Agreement to the Disposition and Development Agreement between the Agency and CJUF Smart Corner, LLC (as amended by the First Implementation Agreement) for the Smart Corner project located on the block bounded by Broadway, Park Boulevard, Eleventh Avenue and "C" Street (Attachment A – Site Map); and
- Authorize the Executive Director, or designee, to sign all documents necessary and appropriate to carry out and implement the Disposition and Development Agreement, as amended by the Second Implementation Agreement, and to administer the Agency's obligations, responsibilities and duties to be performed under said Disposition and Development Agreement ("DDA").

SUMMARY:

In July 2003, the Agency entered into a DDA with Lankford & Associates, Inc. ("Developer") for development and construction of the Smart Corner project. The Agency approved the First Implementation Agreement in September 2004 to make changes to the Schedule of Performance, Method of Financing, and Project Budget. Under the current terms of the DDA, the Developer is obligated to designate 25 residential units to be sold at a price not to exceed \$250,000 of which 17 are to be sold to Moderate Income households (at or below 120% Average Median Income ("AMI")) at an affordable sales price. In addition, the Developer will designate 25 units for households who qualify for the Downtown First Time Homebuyer Program, which may be the same 25 units. There are no long-term affordability restrictions on any of these designated price-restricted residential units. The Developer's obligation to sell these price-restricted residential units will end in April 2007. The proposed Second Implementation Agreement would clarify certain affordability restrictions in the Grant Deed. The modification would result in the Developer designating 17 residential units to be sold at or below \$168,000 and eight residential units at or below \$224,900 to Moderate Income households. A 30-year promissory note, payable to the Agency and secured by a deed of trust, would be required to document owner occupancy and re-sale restrictions on the 17 residential units sold at or below \$168,000. The Developer's obligation to sell these price-restricted units will be extended until one year after Completion of the Project.

The proposed Second Implementation Agreement would also revise the DDA to re-define "gross sales price," for purposes of calculating the Contingent Portion of the Purchase Price whereby the Agency will receive 50% of the amount by which the gross sales price of each condominium unit exceeds the respective Threshold Sales Price for each condominium unit. The proposed Second Implementation Agreement would allow the deduction of price discounts, financial incentives, and/or other concessions to buyers from the gross sales price before computing the participation payment due to the Agency.

FISCAL CONSIDERATIONS:

None.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:

On February 28, 2007, the Centre City Development Corporation Board voted in favor of the staff recommendation.

OTHER RECOMMENDATIONS:

None.

BACKGROUND

The Agency acquired the 60,000 square-foot Smart Corner site for the purpose of creating a development that would provide an anchor on the Park-to-Bay Link, the eastern "C" Street transit corridor, and eastern Broadway, as well as implement the Park-to-Bay Link by realigning and redeveloping the City College Trolley Station. The Agency entered into a DDA with the Developer on July 31, 2003 for the Smart Corner project located on the block bounded by Broadway, Park Boulevard, Eleventh Avenue and C Street ("Site").

The project includes the development and construction of a five-story, approximately 111,000 gross-square-foot office tower (“Office Tower”) for the San Diego Housing Commission (“SDHC”) and a 19-story, mixed-use residential tower with approximately 301 for-sale condominium units and 9,000 square feet of retail (“Residential Tower”). The two towers will share a four-level, 634-space subterranean parking garage. In addition, the Metropolitan Transit Development Board is to build and operate a light rail transit station running diagonally through the Site.

The Agency conveyed the Site to the Developer on October 4, 2004 and construction commenced shortly thereafter. The SDHC recently relocated their offices to the Office Tower site and construction of the Residential Tower is expected to be complete by May 2007. The light rail transit station is scheduled to become operational concurrent with occupancy of the Residential Tower.

DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
<b>Developer:</b> CJUF SMART CORNER, LLC, a Delaware limited liability Company	Jerry Trammer	Privately Owned Lankford and Associates, Inc Canyon Johnson Urban Fund, LP
Urban Housing Partners, Inc	Sherman D. Harmer	Privately Owned
<b>General Contractor:</b> Hensel Phelps Construction Co.	Bill Welch	Privately Owned
<b>Architect:</b> Austin Veum Robbins Partners	Doug Austin	Privately Owned

DISCUSSION

Grant Deed Modifications

There are no long-term affordability restrictions on any residential units under the Smart Corner DDA. However, the Developer is obligated to set aside and reserve 25 residential units to be sold at a price not to exceed \$250,000 (“Price Restricted Units”) of which 17 residential units will be set aside and reserved for sale to Moderate Income households. Under the current terms of the DDA, this obligation shall exist until the earliest to occur of the following: (1) the date of sale of all 25 Price Restricted Units; or (2) three years after receipt of the preliminary public report relating to the sale of the residential units (April 2007).

The Developer, per the current terms of the DDA, has also agreed to set aside and reserve 25 residential units at an affordable housing cost to Moderate Income first time homebuyers eligible for the second mortgage assistance under the Downtown First Time Homebuyer Program. These units may be the same Price Restricted Units referenced above. This obligation shall exist until the earliest to occur of the following: (1) the Agency discontinues the mortgage assistance program; (2) the sale of all 25 units to qualified Moderate Income households; or (3) three years after receipt of the preliminary public report relating to the sale of the residential units (April 2007).

The proposed Second Implementation Agreement would amend the Grant Deed as it pertains to the 25 Price Restricted Units to allow the Developer to sell the 17 residential units at or below \$168,000 and eight units at or below \$224,900. The Second Implementation Agreement would provide that eligible buyers of all 25 Price Restricted Units meet the following criteria:

- 1) No primary residence owned in the past three years.
- 2) Buyer(s) must be a first time home buyer. A first time home buyer shall mean one who does not own or hold any interest in any other real estate, and has not held an interest in any primary residence in the last three years with two exceptions for displaced homemakers and single parents who previously owned a home with a spouse.
- 3) Buyer(s) must occupy the property as their primary residence.
- 4) Buyer(s) income must not exceed 120% of Area Median Income as established by California Department of Housing and Community Development.
- 5) Buyer(s) may utilize the Downtown First Time Homebuyer Program funds to bridge the gap between the first trust deed loan, down payment, and sales price.
- 6) Moderate Income shall have the meaning defined by Health and Safety Code §50093 and Affordable Housing Costs §50052.5(b)(4), except that "family size appropriate for the unit" shall mean two persons.

Additional Terms for the 17 restricted residential units sold at or below \$168,000:

- 1) A purchaser of a residential unit shall execute a promissory note payable to the Agency in the amount of the Fair Market Value for the unit being purchased at less the affordable sale price ("Affordable Note").
- 2) The Affordable Note shall become due and payable to the Agency in no more than 30 years.
- 3) The Affordable Note shall become due on sale or when rented.
- 4) A purchaser of a residential unit shall execute a deed of trust to secure the Agency's interest in the Affordable Note.
- 5) Each purchaser shall execute a Performance Trust Deed that will include affordability conditions expressed as covenants ("Affordability Covenants") on the unit. Affordability Covenants shall not be released if the Affordable Note is prepaid from refinancing by the original purchaser within thirty years of the existence of the Affordable Note.

Additional Term for the eight restricted units sold at \$224,900:

- 1) If the Buyer(s) utilizes the First Time Homebuyer Program ("Program") funds, the Buyer(s) is to comply with all of the terms of the Program.

In addition to clarifying the criteria for eligible buyers and providing the above-noted requirement for an Affordable Note and deeds of trust on each of the 17 units sold at or below \$168,000, the proposed modification to the Grant Deed (under the Second Implementation Agreement) provides the added benefit of extending the period that the Developer is obligated to set and reserve the 25 residential units at an affordable housing cost from the current expiration in April 2007 to one year after the completion of construction.

Sales Incentive Program

The DDA provides that under the Contingent Portion of the Purchase Price that the Agency will receive 50% of the amount by which the sales price of each residential unit exceeds the respective Threshold Sales Price for that condominium unit as set forth in the Schedule of Threshold Amounts attached to the Purchase Money Note as Exhibit B.

The Developer requests approval of a program of buyer incentives that will help the Developer overcome the current market conditions and allow them to effectively compete in the San Diego Downtown Marketplace. The Developer indicates that the proposed program will assist buyers interested in the Smart Corner product without unduly penalizing the Developer as a result of the discounts and incentives now being offered by other competitors.

The proposed Second Implementation Agreement would revise the DDA to clarify certain terms in the Purchase Money Note for purposes of calculating the Contingent Portion of the Purchase Price. The proposed Second Implementation Agreement would allow the deduction of price discounts, financial incentives, and/or other concessions to buyers from the gross sales price before computing the participation payment due to the Agency. The practice of offering such incentives by Developers is the trend in the residential market in light of current and anticipated market conditions.

The Second Implementation Agreement would provide for the program of buyer incentives to assist the Developer to: (1) increase buyer interest in the condominium units; (2) enable the Developer to sell more condominium units than otherwise would be sold without such incentives; and (3), thereby permit the Developer to adequately discharge its obligations with respect to paying the Contingent Portion Payment to the Agency in accordance with the DDA.

Project Budget and Financing – The Agency cost of the agreement, in accordance with Community Redevelopment Law section 33433, is estimated to be \$8.4 million. Compensation for the land to the Agency is in the form of:

- 1) Purchase Price consisting of two components:
  - a) Cash Component; and
  - b) Release Payments.
- 2) Contingent Portion of the Purchase Price; and
- 3) Deferred Purchase Price.

The Agency has received the Cash Component land payment in the amount of \$1,000,000 and will receive additional Release Payments totaling \$1,000,000 at the time of sale of each condominium unit. Based on a conservative estimate that the actual sales price of each condominium unit would not increase above the Threshold Sales Price, it was estimated that the Agency would not receive any compensation from the Contingent Portion of the Purchase Price. The Agency is expected to receive a net present value amount of \$1,157,000 from the Deferred Purchase Price. The Deferred Purchase Price is equal to one percent (1%) of each resale of each condominium unit (not including the initial sale of the units by the Developer) for a period of 30 years after the initial sale of each unit by the Developer.

Participation by Agency – The Agency assembled the Site and caused the improvements on the Site to be demolished and removed. The Agency caused the removal and/or remediation of soil and water contamination and other hazardous materials from the Site. The Agency received a no further action letter from the County of San Diego Department of Health Services, dated November 29, 2005. The Agency conveyed the Site to the Developer on October 4, 2004.

Project Benefits – The redevelopment of Smart Corner is a realization of the goals set forth in the Centre City Community Plan, Centre City Redevelopment Plan, East Village Focus Plan, and the East Village Implementation Strategy. Common goals and objectives found in each of these plans are to eliminate blight, create amenities, improve transportation, eliminate nuisance uses, build housing, and create a link to Balboa Park.

#### PROJECT ANALYSIS AND IMPACT ASSESSMENT

Housing Impact – The Community Plan encourages a diversity of housing types and price ranges. The Smart Corner project provides a high-rise design of for-sale residential units at both an affordable rate and market rate which will add to the diversity of the housing in the East Village District. The proposed Second Implementation Agreement would clarify certain affordability terms and modify certain affordability restrictions in the Grant Deed. The modifications would result in the Developer designating 17 units to be sold at or below \$168,000 and eight units at or below \$224,900. A 30-year promissory note secured by a Deed of Trust would be required to document owner occupancy and re-sale restrictions on the 17 units to be sold at or below \$168,000.

Environmental Impact – The Agency certified, on July 29, 2003, by Resolution No. 03667 that the Agency had reviewed and considered information in the Master Environmental Impact Report (MEIR) for the Centre City Redevelopment Project, the Subsequent Environmental Impact Report (SEIR) for the Proposed Ballpark and Ancillary Development Projects and the Environmental Secondary Study with respect to the proposed Disposition and Development Agreement between the Agency and Lankford and Associates, Inc. relating to the “Smart Corner” project. No further environmental review is required.

CONCLUSION

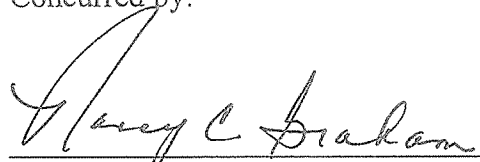
The proposed Second Implementation Agreement provides for needed clarification of certain affordability terms and modifies certain affordability restrictions in the Grant Deed to identify eligibility criteria for buyers of the 25 Price Restricted Units and provides for a 30-year Promissory Note and Deed of Trust to document owner occupancy and re-sale restrictions. In addition, the proposed Second Implementation Agreement allows the Developer to effectively compete in the Downtown marketplace by offering a program of buyer incentives to assist with the market success of the project and thereby permit the Developer to adequately discharge its obligations with respect to paying the Contingent Portion Payment to the Agency in accordance with the DDA. Staff recommends approval of the proposed Second Implementation Agreement.

Respectfully Submitted,

Concurred by:



Eli Sanchez  
Senior Project Manager



Nancy C. Graham  
President

Attachments:

- A – Site Map
- B – Second Implementation Agreement

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