Centre City Development Corporation

DATE ISSUED: October 3, 2007 REPORT NO. CCDC-07-38

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of October 9, 2007

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Ten Fifty B Affordable Housing Project (North side of B Street between 10th and 11th Avenues) – Owner Participation Agreement and Design Review -- Core Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project

COUNCIL DISTRICT: Two

REFERENCE: None

STAFF CONTACT: Jeff Graham, Assistant Vice President–Redevelopment
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REQUESTED ACTION: Approval of the Owner Participation Agreement and design for the proposed Ten Fifty B, a 23-story, 229-unit affordable housing project ("Project") on a 19,999 square-foot site located on the north side of B Street between 10th and 11th Avenues in the Core Redevelopment District.

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

- Approve the proposed Owner Participation Agreement ("OPA") between the Agency and Affirmed Housing Group as outlined in this report;

- Grant design review approval of the Project; and

- Certify that the Agency has reviewed and considered information contained in the Environmental Impact Report and Secondary Study for the Project, and make certain findings and determinations regarding environmental impacts of the development.

SUMMARY: Affirmed Housing Group ("Developer"), a San Diego-based for-profit real estate development firm specializing in affordable rental housing, is proposing a 23-story, 229-unit affordable rental housing development on the north side of B Street between 10th and 11th avenues in the Core Redevelopment District. A total of 226 units would be restricted for 60 years to provide affordable rents to low- and very-low-income persons. The Developer is requesting Agency assistance in financing the acquisition and construction of the Project.

FISCAL CONSIDERATIONS: Funds are available in the amount of $33,975,000 in the Redevelopment Agency FY 2008 Low and Moderate Income Housing Fund.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On September 19, 2007, the Centre City Development Corporation Board voted unanimously in favor (5-0) of staff's recommendation.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: On September 13, 2007, the Centre City Advisory Committee voted unanimously in favor of staff's recommendation.

On September 6, 2007, the East Village Association voted unanimously to support the project, with the caveat that the site is a highly-visible downtown gateway and therefore the project's design is very important and should be reviewed closely.

DEVELOPMENT TEAM

ROLE	FIRM/CONTACT	OWNERSHIP
Developer/General Partner	Affirmed Housing Group/ James Silverwood, President	James Silverwood (Privately Owned)
Tax Credit Investor/ Limited Partner	Boston Capital Finance LLC or MMA Financial / Not yet determined	Jack Manning – Boston Capital (Privately Owned) Munimae – MMA Financial (Publicly Owned)
Property Manager	Solari Enterprises/ Bruce Solari, President	Bruce Solari (Privately Owned)
Architect	Martinez + Cutri Architects/ Tony Cutri, Project Architect	Joseph Martinez and Tony Cutri (Privately Owned)

Since inception in 1994, the Developer has developed over 1,500 units in Southern California and the mid-Atlantic states of West Virginia, Virginia and North Carolina and secured over $390 million of tax credit, conventional and other financing for affordable housing. Recent developments include new construction as well as acquisition and substantial rehabilitation projects in San Diego County, Riverside County and Ventura County. Recent projects in San Diego include the 106-unit Tesoro Grove Apartments, the 94-unit Hollywood Palms Apartments, the 50-unit Creekside Trails Apartments, the 69-unit Auburn Park Apartments, and the 275-unit Studio 15 development in downtown.

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

- Expanding the supply of affordable rental housing;
- Adding to the range of downtown housing opportunities; and
- Increasing the supply of affordable housing suitable for families with children.

The FY 08 budget appropriated $103 million in Centre City and Horton Plaza for the Low and Moderate Income Housing Fund. To date, approximately $80 million is available. The FY 08 budget assumed a $50 million bond issuance to be completed in FY 08. On April 5, 2007, the CCDC Board reviewed and provided direction on affordable housing funding priorities.

Development of the subject 229-unit high-rise rental housing development at 10th Avenue and B Street was one of the potential projects identified as a priority for FY 08.

DISCUSSION

Project Description – The Developer proposes to construct and operate a 23-story, 229-unit affordable rental housing development on a 19,994 square-foot site located on the north side of B Street between Tenth and Eleventh Avenues ("Site") in downtown's Core district. The project would consist of 68 studios, 57 one bedroom, 34 two bedroom, and 70 three-bedroom units. A total of 226 apartments would be affordable to very low and low-income households earning 25% to 60% of area median income. A site map and fact sheet are attached (Attachments A and B).

The Project Site is currently occupied by a one-story fast food restaurant (Burger King), with a two-story residential building sharing the north property line and a gas station occupying the northern one-third of the block. A variety of low- to mid-rise commercial and residential buildings are to the south, east, and north of the Project site. The 41-story Vantage Pointe project (420 feet) is currently under construction immediately to the west and the recently approved 26-story (282 feet) 11th and B project is located directly east.

Housing Impact – The proposed Project would provide:

- Affordable high-rise rental housing for very- low to low-income families;
- Housing aimed at low-wage working families with children;
- Units reserved for families earning 25% to 60% of area median income;
- Monthly rents starting as low as $373;
- Amenities designed for families with children;
- A combination of studio, one, two, and three-bedroom units;
- A unit mix with 30% three-bedroom units; and
- High-density housing adjacent to bus transit lines and the City College trolley station.

The proposed Project could commence construction in FY 08 and be completed by FY 2010. The addition of 226 completed affordable units in FY 2010 would help reverse CCDC's declining percentage of affordable units from 25% to 18% of total residential units in the last five years. Achieving this great of a number of affordable units in a single project is indeed a rare opportunity.

As with the recently approved 16th & Market high-rise low-income family housing project proposed by Father Joe's Villages, staff asked the Developer to prepare a report on how it would maximize livability for residents in a high density development. The Developer prepared a report (Attachment F) entitled "Best Management Practices for Urban High Density Affordable Housing Properties" to provide direction to the Project Architect and property management firm.
Project Budget and Financing – The Developer's estimated total cost for development and construction of the apartment project is approximately $88,682,000[1] (including land, direct and indirect costs). The Developer proposes to finance the affordable housing project with a

[1] Includes $2,157,000 in costs which are incurred after completion of construction.

combination of housing revenue bonds, tax credits, deferred developer fee, private investment funds, State Multi-family Housing Program ("MHP") funds and a Redevelopment Agency loan as follows:

SOURCES OF FUNDS	CONSTRUCTION	PERMANENT
Housing Revenue Bonds	$45,000,000	$8,318,000
Multi-Family Housing Program	—	$10,000,000
Tax Credits	$4,900,000	$33,739,000
Private Investment Funds (to be replaced by State Prop 1C, Federal Home Loan Bank AHP, and other funds)	$2,400,000	$2,400,000
Deferred Developer Fee	$250,000	$250,000
Redevelopment Agency Assistance	$33,975,000	$33,975,000
TOTAL	**$86,525,000**	**$88,682,000**

The construction period budget is lower because the operating reserves and a portion of the developer fee are funded only at conversion to permanent financing.

Keyser Martson Associates ("KMA"), economic consultants to the Agency, concluded that the project's development costs (excluding shell construction of the retail space), net operating income, and financing costs fall within industry standards for a project of this type. The Developer team was helpful in providing supporting information on development costs and adjusting their numbers when appropriate. The attached pro forma (Attachment C) represents a consensus reached after extensive discussions between staff, KMA, and the Developer team. KMA has also provided an explanation of their analysis of the construction costs for the retail component of the project (Attachment D). The developer is confident in the cost estimates for the retail component and has provided supporting documentation from the General Contractor, Turner Construction.

Disposition of Property – The Developer has entered into a Purchase and Sale Agreement ("purchase option") with the property owner to acquire the 19,994 square-foot site for $4.4 million or $202 per square foot with the condition that the Developer construct ground-floor retail space in the building and allow the Seller to retain ownership of that portion of the building. The purchase option provides for a closing date on or before February 28, 2008, with rights for the Seller to operate a Burger King restaurant on the Site until 60 days prior to the issuance of a notice of proposed demolition.

The Agency shall have the option to take title to the land, free and clear of all encumbrances, upon completion of construction. Concurrently, the Agency would then lease the land to the Developer. The lease will require annual payments from the Developer (set forth below) and will require ownership of the building to be conveyed to the Agency after 60 years.

Accordingly, upon expiration of the affordability restrictions in Year 61 and thereafter, the Agency will own the Developer's portion of the building free and clear. The Seller will retain ownership of the commercial space. The Agency would have first right of refusal to acquire the retail space should the Seller decide to sell the retail component.

Site control is shared between parties as follows:

Site Control	Land	Retail Space	Apartments
Prior to Escrow Close	Seller	Seller	Seller
During Construction	Developer	Seller	Developer
After Completion, During 60-year Ground Lease	Agency	Seller	Developer
After Ground Lease Year 61 and After	Agency	Seller	Agency

Participation by Agency – Total Agency financial participation would be $33,975,000, which equates to an Agency subsidy of approximately $150,000 per affordable unit or $84,000 per bedroom. This compares favorably to recent pipeline and proposed projects with subsidies in the range of $60,000 to $120,000 per bedroom. During the course of the 60-year lease, the Agency subsidy would be effectively reduced by $5,375,000 from required annual lease payments by the Developer. Factoring in the lease revenue, the Agency subsidy would be $28,600,000 or approximately $126,000 per affordable unit or $70,000 per bedroom.

Proposed Schedule of Performance

Action	Completion Date
Redevelopment Agency approval of OPA	October 9, 2007
Developer to submit State Multifamily Housing Program application	October 11, 2007
Redevelopment Agency approval of Ground Lease	November 2007
Developer to close on construction financing and site acquisition	February 2008
Start Construction	May 2008
Complete Construction	May 2010

Project Benefits - Although the proposed project would require a sizeable commitment of Agency funds (roughly $34 million), the development has numerous significant benefits for downtown and regional affordable housing needs. First, the project represents an opportunity to utilize the design from a cancelled condominium project to have a significantly shortened time frame to start construction in April 2008, and be completed by early 2010. Perhaps even more significant, the project expands the supply of family housing, one of the CCDC's Board's highest priorities, and addresses other housing needs with a unit mix that includes studio, one, two and three bedroom units (over 30% three bedroom units) and affordability restrictions targeted to very low and low-income households earning 25% to 60% of area median income.

PROJECT DESCRIPTION

The following is a summary of the Project:

Site Area	19,994 square feet
Maximum Floor Area Ratio (FAR) Permitted (1992 Planned District Ordinance) Minimum FAR Required Proposed FAR	10.0 Base + 2.0 Residential Incentive + Exempt Street-Level Retail N/A 11.4
FAR Bonuses Proposed	N/A
Stories / Height	23 stories / 236 feet
Amount of Retail Space	13,450 sq. ft.
Amount of Office Space	N/A
Type of Housing	Apartments
Total Number of Units / Total Residential Square Feet	229 / 182,209 sq. ft.
Types of Units (sizes)	68 studios (465 sq. ft. avg.) 57 1-br (648 sq. ft. avg.) 34 2-br (887 sq. ft. avg.) 70 3-br (1,068 sq. ft. avg.) 229 apartments
Projected Rental Rates	$373 – $1,059 per month (226 affordable income-restricted units reserved for families with income 25% to 60% of area-median income and 3 units will be unrestricted managers units)
Number of Units Demolished	0
Inclusionary Housing Ordinance Compliance/ Number of Affordable Units	Provision of 226 affordable apartments
Parking Required Proposed	 115 spaces (0.5/unit) 132 spaces (0.55/unit)
Assessor's Parcel No.	533-064-004

Ground Lease – The essential terms and conditions of the Ground Lease (Attachment G):

- Agency Land Ownership – The Agency has the option to take title, free of encumbrances, to the land portion of the project from the Developer at completion of project construction, upon a certificate of occupancy.

- Lease Term – Upon taking title, the Agency shall enter into a 60-year ground lease with the Developer after completion of project construction.

- Lease Payment – The Developer shall pay twenty-five thousand dollars ($25,000) annually in Year 1-5, then fifty thousand dollars ($50,000) annually in Year 6-10 and one hundred thousand dollars ($100,000) annually in Year 11-60. Lease payments have priority to residual receipts payment.

- Ownership of Improvements – Upon expiration of the lease term, the Developer shall transfer title to the Developer's portion of the building (residential and parking) to the Agency free of encumbrances, and the Agency will begin to receive 100% of the residential cash flow.

Owner Participation Agreement – The essential terms and conditions of the OPA (Attachment H):

- Agency Assistance – The Agency will provide financial assistance to the Developer in an amount not to exceed $33,975,000. The Agency will pay the purchase price of $4,400,000 for the land, to be disbursed at acquisition closing. The remainder will be provided in the form of a loan in the amount of $29,575,000 ($33,975,000 total assistance - $4,400,000 acquisition funds = $29,575,000 loan amount) to be secured by a subordinate deed of trust. The Agency loan shall have a 60-year term and simple interest rate 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 Sixty, subordinate to MHP's negotiable share of residual receipts. MHP requires a share of residual receipts as payment against their loan and shall be negotiated between the Developer and MHP, when MHP funds are awarded.

- Developer Fee shall be $3,750,000, of which $3,500,000 is payable during the course of construction. The balance, $250,000 (7%), shall be deferred by the developer. The Deferred Developer Fee shall be repaid from the project's cash flow after ground lease payments and prior to calculation of cash flow for distribution.

- Developer shall contribute $2,400,000 in private funds towards project cost. The source of the funds shall be a loan to the Developer from Boston Capital Finance LLC or MMA Financial with terms outlined in a Commitment Letter dated May 31, 2007 (Attachment E). The Developer intends to repay the loan with funds secured from various affordable housing programs including, but not limited to, Proposition 1C Transit Oriented Development Program, Proposition 1C Infill Housing Incentive Program, and the Federal Home Loan Bank Affordable Housing Program ("AHP"). If the Developer is successful in securing more than $2,400,000 for the project, the additional funds will be divided between the two parties as 25% to the Developer and 75% to the Agency to reduce the principal amount of the Agency loan.

- Developer shall maximize net bond proceeds, tax credit equity, and other sources of funds. The Agency shall have the opportunity for a look-back prior to conversion to permanent financing to decrease the Agency loan amount, if warranted.

- Two hundred twenty-six of the units shall be restricted for 60 years to provide affordable rents, as follows:

Type of Units	Maximum Income	Maximum Rent (HCD 2007)
33 Studio	@ 35% AMI ($17,010 for 1 person)	$412/mo
11 Studio	@50% AMI ($24,300 for 1 person)	$598/mo

24 Studio	@60% AMI ($29,160 for 1 person)	$719/mo
7 One Bedroom	@30% AMI ($16,650 for 2 persons)	$373/mo
15 One Bedroom	@50% AMI ($27,750 for 2 persons)	$643/mo
34 One Bedroom	@60% AMI ($33,300 for 2 persons)	$774/mo
17 Two Bedroom	@30% AMI ($18,750 for 3 persons)	$445/mo
3 Two Bedroom	@50% AMI ($31,250 for 3 persons)	$761/mo
13 Two Bedroom	@60% AMI ($37,500 for 3 persons)	$918/mo
10 Three Bedroom	@25% AMI ($17,350 for 4 persons)	$424/mo
7 Three Bedroom	@30% AMI ($20,820 for 4 persons)	$514/mo
10 Three Bedroom	@35% AMI ($24,290 for 4 persons)	$603/mo
4 Three Bedroom	@40% AMI ($27,760 for 4 persons)	$693/mo
9 Three Bedroom	@50% AMI ($34,700 for 4 persons)	$879/mo
29 Three Bedroom	@60% AMI ($41,640 for 4 persons)	$1,059/mo

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

- Developer shall dedicate at least one parking space to a shared parking program (e.g. Flex Car) to provide residents alternative methods of transportation.

- Developer shall incorporate environmentally-sensitive design features and submit documentation to achieve a Leadership in Energy and Environmental Design ("LEED") certification, Silver rating, based on criteria provided by the U.S. Green Building Council.

- Payments to a Replacement Reserves Account shall be equal to $600 per unit per year for the residential units funded with MHP funds, $300 per unit per year for all others.

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

- Asset Management fees paid to the Developer shall not exceed $40,000 per year, subject to annual increases of up to 2.75%.

Design Analysis - The design exhibits a contemporary architecture compatible with this gateway location and this part of the redeveloping neighborhood. The project is oriented to B Street with tall commercial storefronts clad in a warm limestone veneer and wrapping the corners from B Street to Tenth and Eleventh avenues, providing maximum activation and transparency at this key location. The podium is broken into two volumes marked by a deep reveal at the residential lobby. In keeping with the surrounding redevelopment, the podium steps down from nine stories at the west near Vantage Pointe (under construction) to seven stories adjacent to the 11th and B project (pending construction) and City College.

Above the base, the tower steps back 25 feet from each streetwall, consistent with the PDO requirements for buildings over 125 feet. East and west sides of the tower exhibit slightly different amounts of mass wall, as well as different use of color to balance the compositions of the west and east sides of the building, as well as the podium and the tower. The tower is largely comprised of curtain wall systems and solid wall areas with punched window openings. On the south elevation, the west side is taller in honey brown stucco and the lower, east side is in light slate blue stucco. The north elevation is similarly treated, and the east and west elevations of the tower continue the color of that side of the building.

Environmental Impact – Under the 2006 Final Environment Impact Report ("FEIR"), an Environmental Secondary Study is prepared for all developments in the Centre City area in order to evaluate the project's compliance with the Downtown Community Plan and Planned District Ordinance and, therefore, the findings and conclusions of the FEIR. The project has been found to be in compliance with those planning documents; therefore, no further environmental review is required.

CONCLUSION

Staff recommends approval of the OPA and design review to allow this 229-unit affordable rental housing development to proceed.

Respectfully submitted,

Jeff Graham
Assistant Vice President, Redevelopment

Concurred by:

for Nancy C. Graham
President

Attachments: A – Site Map
B – Ten Fifty B - Fact Sheet
C – Pro Forma Analysis
D – Keyser Marston Retail Component Construction Cost Letter
E – Private Funds Commitment Letter
F – Property Management Plan
G – Ground Lease
H – Owner Participation Agreement
I – Secondary Study
Basic Concept and Schematic Drawings