



THE CITY OF SAN DIEGO
Redevelopment Agency's Report

DATE ISSUED: February 21, 2007

REPORT NO.: RA-07-09

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of February 27, 2007

SUBJECT: Purchase and Sale Agreement and Loan Agreement for the property located at
4102-4122 University Avenue

REQUESTED ACTIONS:

Should the Redevelopment Agency:

1. Authorize the Executive Director or designee to execute a Purchase and Sale Agreement with the property owners, ThanTrang and Mui Linh Tiet Trang, Cheng Ly and Candy Ly, De Thai and Hoa Lam, Trustees, or Successors in Trust, under the De Thai and Hoa Lam Family Revocable Trust, and Mui Thien Miu, Trustee of the Tho Quan Truong and Mui Thien Miu Revocable Trust ("Owners"), for acquisition of the property located at 4102-4122 University Avenue?
2. Authorize the Executive Director or designee to execute a Loan Agreement with Price Charities for acquisition of the property located at 4102-4122 University Avenue and to accept the proceeds from the Loan Agreement of \$2,000,000?
3. Amend the Fiscal Year 2007 Redevelopment Agency budget to appropriate and expend \$2,300,000 for the acquisition of the property located at 4102-4122 University Avenue in the City Heights Redevelopment Project Area?

STAFF RECOMMENDATION TO THE REDEVELOPMENT AGENCY:

Approve the Requested Actions.

SUMMARY:

The City Heights Redevelopment Plan ("Plan") was adopted in May, 1992. The primary objective of the Plan is to improve the quality of life in the Project Area. The City Heights Redevelopment Project Third Implementation Plan ("Implementaion Plan") adopted by the Redevelopment Agency June 15, 2004, lists in its goals and Projects List for FY 2005-2009: "Central School Remainder Parcel (41st St. and University Ave.) - Create and support quality mixed-use facilities, which can include residential, commercial, office, education and public facilities."

This overall site is part of Council District 3, Priority 3-5: "Acquiring I-15 Caltrans Parcels at El Cajon Boulevard and University Avenue, which calls for the transfer and planned use of seven excess parcels from the State to the City." Priority 3-5 identifies the Redevelopment Agency as

responsible for developing the parcels. The proposed property is adjacent to the University Avenue Mid-City Transit Gateways Bridge Decks Project on the west, Central Elementary School to the north and Teralta Park, which spans State Route 15 (“SR-15”) to the northwest. The Metro Career Center, home of San Diego Workforce Partnership, and Metro Villas, a 120-unit low-income housing project are located on the west side of SR-15 along University Avenue.

The proposed purchase is for the real property located 4102-4122 University Avenue (“Site”) on the north side of University Avenue east of the SR-15 and includes Assessor Parcel Numbers (“APN”) 454-763-14, 454-763-15 and 454-763-16 (see Attachment 3). It is anticipated the acquired Site will be combined with a vacant City owned parcel, APN 454-762-13, for a proposed development by City Heights Paseo, LLC, which is composed of Robert Ito (Ito, Girard & Associates) and Jay Wentz (Hampstead Partners). The proposed development will consist of a high quality mixed-use project with office condominiums, residential condominiums, retail development and possible school improvements.

BACKGROUND:

The following provides a brief synopsis of the activities for this project to date:

- In July, 2005, City Heights Paseo, LLC requested that the Redevelopment Agency (“Agency”) enter into an Exclusive Negotiating Agreement (“ENA”) with them for the development of a vacant City owned parcel and 4102-22 University Avenue (see Attachment 3).
- After receiving the development proposal the Agency notified the City Heights Project Area Committee (“PAC”) and initiated the required Owner Participation process by sending letters to the Owners.
- The Owners responded to the Owner Participation letter with a request to submit a competing proposal to remodel their existing building.
- On February 10, 2006, a committee made up of City and Agency staff members as well as a member of the City Heights PAC evaluated the two submitted proposals and recommended that the Agency enter into two (2) agreements:
 1. An ENA with City Heights Paseo, LLC to develop only the City owned parcel (see Attachment 3);
 2. An Owner Participation Agreement (“OPA”) with the Owners to remodel and complete a “face-lift” on their property, subject to the Owners obtaining a structural inspection of the property.
- On March 13, 2006, the City Heights PAC voted (10/3/1) to support the recommendation of the evaluation committee.
- On July 12, 2006, the Agency and City Heights Paseo, LLC executed an ENA for the vacant City owned parcel.
- Shortly after the ENA was approved, the Site owners completed the full inspection of their property and determined the cost to remodel was excessive. They then decided to sell their property. Upon receiving this information, City Heights Paseo, LLC, at Agency staff’s request, put their ENA on hold in order for the Agency to negotiate a fair market price for the Site and include it in the proposed City Heights Paseo project.

Agency staff and the Owners agreed to an acquisition price of \$2,150,000 for the Site. With the acquisition of the Site the Agency will be able to include this property into an expanded

development footprint. Staff established and negotiated the \$2,150,000 as fair market value for the Site based on two appraisals completed for the Agency:

- Samppala Group appraised the 21,000 square foot property, including an 11,202 square foot building, for a value between \$2,415,000 and \$2,625,000; and
- Lipman, Stevens & Carpenter, Inc. appraised the land value at \$1,890,000.

Both Samppala Group and Lipman, Stevens & Carpenter, Inc. are on the Redevelopment Agency's "As Needed" list and Real Estate Assets Department's approved appraiser list.

The Redevelopment Agency is currently in the process of obtaining a \$20,000,000 Line of Credit ("LOC") for the City Heights Redevelopment Project Area and the funds for this purchase are included in the LOC application. Due to the delay in the LOC application process and the Owners anxiety to complete the transaction, Agency staff thought it prudent to seek a source for interim financing to avoid the possibility of the Owners withdrawing from the Purchase and Sale Agreement (see Attachment 1).

Price Charities offered to loan the Agency \$2,000,000 to facilitate the purchase of the Site (Attachment 2). The Agency has previously entered into similar loan agreements with Price Charities for several projects in the City Heights that have allowed projects to proceed until Agency financing could be obtained. Those projects are:

- Metro Villas Affordable Housing (Developer, City Heights Community Development Corporation ("CHCDC") and Interfaith Housing Corporation);
- City Heights Square Senior Housing (Developer, City Heights Square, L.P. -Senior Community Centers and Chelsea Investment Corporation);
- City Heights Square Park site purchase (Developers, La Maestra Medical Clinic, City Heights Square, LP for the Senior Housing Project and Price Charities for the Retail and Office Project); and
- University Avenue Office and Townhomes to construct 34 housing units restricted to residents earning 60% or less of Area Median Income ("AMI") (Developer, Price Charities).

FISCAL CONSIDERATIONS:

The estimated total budget for the purchase of the Site is approximately \$2,300,000. The agreed purchase price for the Site is \$2,150,000 with closing and escrow costs estimated to be \$150,000.

The funding source for the purchase will be provided by:

- A \$2,000,000 loan from Price Charities with the following terms:
 - 7% interest, (The 7% interest rate included in the Loan Agreement compares favorably with the 6.42%-6.68% interest, plus fees included in the financing terms offered by the responders to the LOC Request for Proposal);
 - Five (5) year repayment term;
 - Security for the Loan Agreement will be the Site only (Previous Price Charities loans have been at 8% interest and secured by Project Area tax increment); and
 - No loan fees or prepayment penalty are included in the Loan Agreement.
- The remaining funds, approximately \$300,000, will be provided by City Heights Redevelopment Project's discretionary tax increment;

- Proceeds from the \$20,000,000 LOC, scheduled for consideration by the Redevelopment Agency in March or April, 2007, will be used to repay the Price Charities loan. In the event the LOC is not approved, the City Heights Redevelopment Project will generate ample tax increment funds to repay the note over the term of the loan.

It is anticipated this Site will be included in a future redevelopment project that will require analysis of the project financing and the justification of any Agency contribution will require a Re-Use Appraisal and 33433 Report in accordance with California Community Redevelopment Law.

PREVIOUS AGENCY and/or COUNCIL ACTION:

The Redevelopment Agency authorized the Executive Director or designee to enter into an ENA that included this Site with City Heights Paseo, LLC at their November 28, 2006 meeting for the City Heights Paseo Project. The ENA was executed December 12, 2006.

The Redevelopment Agency authorized the Executive Director or designee to enter into an ENA with City Heights Paseo, LLC at their June 20, 2006 meeting for the City owned parcel. The ENA was executed on July 12, 2006.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS:

On March 13, 2006, the City Heights PAC voted (10/3/1) to recommend approval of an ENA with City Heights Paseo, LLC for a proposed development on the City owned parcel and an OPA with the owners of this Site to remodel and complete a “face-lift” on their property, subject to the owners obtaining a structural inspection of the property.

On October 9, 2006, the City Heights PAC voted (11/0/2) to recommend approval of a new ENA with City Heights Paseo, LLC for a proposed development on the expanded project site including this Site.

On October 9, 2006, the City Heights PAC voted (12/0/1) to recommend approval to acquire the real property located at 4102-4122 University Avenue for \$2,150,000 plus closing and escrow costs.

Respectfully submitted,

Janice L. Weinrick
Deputy Executive Director
Redevelopment Agency

Approved: William Anderson
Assistant Executive Director
Redevelopment Agency

Attachments: 1) Purchase and Sale Agreement
2) Loan Agreement
3) Site Map