

**Centre City
Development
Corporation**

REPORT NO. CCDC-08-06

DATE ISSUED: March 19, 2008

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of March 25, 2008

ORIGINATING DEPT.: Centre City Development Corporation

COUNCIL DISTRICT: District 2

SUBJECT: Consent to Ground Lease Assignment relating to the "On Broadway"
project developed by CIM Broadway, L.P. (northwest side of 5th
Avenue and Broadway) – Core District of the Expansion Sub Area of
the Centre City Redevelopment Project

STAFF CONTACT: A.J. Magana, Accountant/Financial Analyst

REQUESTED ACTION: That the Redevelopment Agency of the City of San Diego ("Agency") consent to the Ground Lease Assignment relating to the sale of leasehold interest in the "On Broadway" ("Project") from CIM Broadway, L.P. ("CIM") to Interwest Capital Corporation.

STAFF RECOMMENDATION: That the Agency approve the sale of the leasehold interest in the Project from CIM to Interwest Capital Corporation.

SUMMARY: The Agency participated in the redevelopment of the historic Walker Scott building, located at Fifth and Broadway, in conjunction with the developer CIM, and the US Grant Jr. Trust. On December 20, 2007, CIM sent a request (Attachment B) to the Agency requesting consent to sell its interest in the Project to Interwest Capital Corporation. The sale date is pending approval by the Agency, owner of the historic Walker Scott building, and the US Grant Jr. Trust, owner of the historic Owl Drug building and 1026 Fifth Avenue. The Project is bound by Fourth and Fifth avenues and Broadway and includes Yard House, RA Sushi, public parking, and residential units, among other retail.

FISCAL CONSIDERATIONS: The Agreement between the Agency and the developer provides for the Agency to receive 22% of net sale proceeds after CIM has attained a 25% Internal Rate of Return ("IRR"). An analysis was prepared by the developer and reviewed by Keyser Marston Associates (financial consultants to the Corporation) and special counsel and it has been determined that no participation payment is due to the Agency. Attachment D is the calculation pursuant to the Agreement provided by CIM.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On February 27, 2008 the Corporation Board voted unanimously on consent for approval of staff recommendations.

OTHER RECOMMENDATIONS: None.

BACKGROUND: The Agency entered into a Disposition and Development Agreement in 1999 with CIM for the redevelopment of the historic Walker Scott building, the historic Owl Drug

building, and the property north of the Walker Scott building, 1026 Fifth Avenue. The Project provides approximately 230,000 square feet of gross building area, including approximately 84,200 square feet of retail, 33 residential lofts and 270 public parking spaces. The Project includes both a ground lease between the Agency ("Landlord") and CIM ("Tenant") for the Walker Scott building, and a sublease, in which the Agency ("Subtenant") leases 270 parking spaces from CIM ("Sublandlord") for public use. The historic Owl Drug building and 1026 Fifth Avenue were owned by US Grant Jr. Trust and leased to CIM by them.

The following is background information on the Project when originally developed in 2001:

▪ Financing:

- Total Agency contribution of \$6.6 million;
- \$4.9 million was paid during construction;
- An additional \$500,000 was paid at the completion of construction;
- Subsequent payments were made on an annual basis in the amount of \$220,000, with a final payment of \$100,000 to be made in Fiscal Year 2010.

▪ Ground Lease:

- Term of 55 years;
- Two options to renew for an additional 22 years each;
- Term not to exceed 99 years;
- At expiration of lease, all improvements on the Agency-owned site will become property of the Landlord;
- The Agency has the potential to participate in excess parking revenue, based on multiple factors, payable by Tenant as rent.

▪ Sublease:

- Term of 99 years;
- Provides public parking (270 spaces).

The Tenant has the option to purchase fee simple interest to the property, but is required to exercise the option at the earlier of:

- The date that is 20 years after Tenant is entitled to recordation of the Certificate of Completion, or
- The date the Tenant is required to purchase the US Grant Jr. Trust parcels pursuant to an exercise by US Grant Jr. Trust of its option to require Tenant to purchase, but at no time sooner than six years after the Tenant is entitled to record the Certification of Completion.

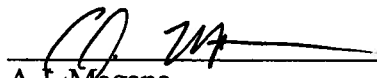
DISCUSSION: Interwest Capital Corporation is a private real estate investment firm located in San Diego, California. Founded in 2003, they specialize in the acquisition of performing and non-performing commercial real estate loans and loan portfolios and direct real estate investments. GE Capital is the intended lender for this acquisition, and has issued a term sheet at 76.8% loan to value. Interwest employs market specific and asset specific third party management to help ensure property performance and are selected on a case by case basis. Attachment C consists of a profile of the company.

Pursuant to the lease, the Agency is required to approve transfer of ownership provided that such transfer continues the public purpose originally contemplated in the redevelopment of these properties which currently exists. Based on the information provided, the transfer of ownership will not jeopardize the original public purpose. After consultation with special counsel since the last committee meeting, staff has determined that the Agency Participation Payment calculation is required at this time for the proposed transfer of leasehold interest.

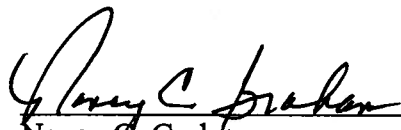
ENVIRONMENTAL IMPACT: This activity is not a project, and therefore not subject to CEQA per CEQA Guidelines Section 15060(c)(3).

CONCLUSION: The Agency participated in the redevelopment of the former Walker Scott building, located at Fifth and Broadway. The developer, CIM Broadway, L.P. is requesting approval of the sale of their leasehold interest in the Project to Interwest Capital Corporation. The Agency has the right to disapprove any transfer if it is reasonably determined that it is inconsistent with the public purposes of the Lease, Agency's investments in the surrounding area, and the requirements of the Redevelopment Plan. Staff believes that these requirements have been met and recommends that the Corporation recommend that the Agency approve the sale of leasehold interest in "On Broadway" from CIM Broadway, L.P. to Interwest Capital Corporation.


Respectfully submitted,



A.J. Magana
Accountant/Financial Analyst



Nancy G. Graham
President



Frank J. Alessi
Vice President and Chief Financial Officer

Attachments: A – Assignment and Assumption Agreement of Ground Lease
 B – CIM Request
 C – Interwest Company Profile
 D – Participation Payment Calculation
 E – Site
 F – Section 2.14 of Ground Lease
 G – Exhibit "T" – Calculation of Participation Payment