



**Centre City
Development
Corporation**

REPORT NO. CCDC-08-06
CCDC-08-08

DATE ISSUED: May 7, 2008

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of May 13, 2008

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Cedar Gateway Affordable Housing Project and Rehabilitation of
Bradley-Woolman Saint Cecelia Chapel (North side of Cedar
Street, between Fifth and Sixth avenue) – Design Review and
Approval of Disposition and Development Agreement and Ground
Lease-- Cortez Redevelopment District of the Expansion Sub Area
of the Centre City Redevelopment Project – **JOINT PUBLIC
HEARING**

COUNCIL DISTRICT(S): Two

REFERENCE: None

STAFF CONTACT: Eri Kameyama, Associate Project Manager, (619) 533-7177

REQUESTED ACTION: Approval of the Disposition and Development Agreement (“DDA”), Ground Lease, design and budget amendment for the proposed Cedar Gateway project, a 65-unit affordable housing project (“Project”) located on the north side of Cedar Street between Fifth and Sixth avenue in the Cortez Redevelopment District.

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

- Approve the proposed DDA between the Agency and Cedar Gateway, L.P. (“Developer”) as outlined in this report;
- Approve the proposed Ground Lease between the Agency and Developer, as outlined in this report;
- Approve an amendment to the FY 2008 Centre City Redevelopment Project Area budget by decreasing the Areawide Land Acquisition line item in the amount of \$2,000,000, decreasing the Areawide Community Plan line item in the amount of \$1,200,000, and increasing the Cortez Neighborhood line item by \$3,200,000;

- 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.

That the City Council ("Council"):

- Approve the proposed DDA between the Agency and Cedar Gateway, L.P. ("Developer") as outlined in this report;
- Approve the proposed Ground Lease between the Agency and Developer, as outlined in this report; and
- Certify that the Council 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: Squier Properties, LLC and ROEM Corporation have joined to propose a 65-unit affordable rental housing development on the north side of Cedar Street between Fifth and Sixth Avenues in the Cortez Redevelopment District ("Project"). All of the 65 units would be restricted to provide affordable rents to very low- and extremely low-income households. Twenty three (23) of the 65 affordable units will be set aside as supportive housing units for the special needs population. The Developer is requesting Agency assistance in financing the acquisition and construction of the affordable housing project.

The Developer currently holds an option to purchase the 23,850 square-foot site by May 31, 2008. The project site contains a vacant historic chapel that was constructed in 1928. The Developer plans to preserve the historic building and construct an affordable housing project on the vacant lot adjacent to the chapel. The Agency would acquire the entire project site from the Developer, rehabilitate the historic structure and lease or sell it to a commercial tenant to recover the Agency's investment. On the housing portion of the land, the Agency would enter into a ground lease with the Developer for a minimum of 65 years. A DDA will be executed between the Agency and Developer for the development of the affordable housing project. An Agency subsidy in the amount not to exceed \$8,926,000 will be provided for the affordable housing project from its Low and Moderate Income Housing Funds. The costs associated with the acquisition and rehabilitation of the historic structure (\$3,803,000) would be financed by the Agency's Tax Increment funds (80% funds) and potential revenues from the Transfer of Development Rights.

FISCAL CONSIDERATIONS: Authorize the expenditure of funds in the total amount not to exceed \$12,729,000 for the new construction of the Cedar Gateway affordable housing project and acquisition and rehabilitation of the historic Bradley-Woolman Saint Cecelia Chapel and its related parking. Of the total amount, \$8,926,000 is available in the FY 2008 Low and Moderate Income Housing Fund to be used for the acquisition and development of the new affordable housing project, and \$3,803,000 is available in the Cortez Neighborhood line item of the FY 2008 Centre City Redevelopment Project Area budget to be used for the acquisition and rehabilitation of the historic chapel and its parking with the following budget amendments.

1. Decreasing the Areawide Land Acquisition line item in the amount of \$2,000,000
2. Decreasing the Areawide Community Plan line item in the amount of \$1,200,000, and
3. Increasing the Cortez Neighborhood line item by \$3,200,000.

The Agency would seek to recover all or a portion of its investment on the chapel from annual lease payments or sales revenue by leasing or selling the rehabilitated space to a third party.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:

The Centre City Development Corporation ("Corporation") is scheduled to review the item on April 30, 2008. Staff will orally present the Corporation's recommendation.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On April 16, the Centre City Advisory Committee ("CCAC") voted 19 in favor, 3 opposed; and the Project Area Committee (PAC) voted 17 in favor, 3 opposed, approving the staff recommendation.

The project was presented to the community on January 29, 2008 at the Mills @ Cortez Hill, a condominium project located across from the proposed project site. HOA members and other Cortez Hill community members attended the meeting and expressed strong opposition against inclusion of the 23 supportive housing units. Since the community meeting, staff has been in communication with the representatives of the Mills @ Cortez Hill HOA board, and considered their comments/suggestions on the proposed project. On April 8, 2008, staff and Developer presented the revisions to the original proposal at the Cortez Hill community meeting hosted at Mills @ Cortez Hill. At the meeting, the Developer explained revisions incorporated into the proposal based on the community's input, and Corporation for Supportive Housing ("CSH"), Community Research Foundation ("CRF") and Heritage Clinic presented details of the supportive housing and services to be provided to the tenants. The community response was more positive due to the project changes that addressed community concerns.

As part of the public education, the Corporation invited Jonathan Hunter, Managing Director of the Western Region at CSH, to present on supportive housing at the Corporation's Real Estate Committee meeting on March 12, 2008. Subsequently, the Corporation hosted a supportive

housing tour for the public on March 25, 2008 at The Leah Residence, an Agency assisted affordable housing project with 23 supportive housing units. Over 20 people attended the event and participated in the discussion on supportive housing and tour of the property. Nancy Graham, Jonathan Hunter (Managing Director, Western Region, CSH), Dene Oliver (CEO, OliverMcMillan), Sister RayMonda Duvall (Executive Director, Catholic Charities) and a tenant at The Leah Residence spoke at the event.

DEVELOPMENT TEAM:

ROLE	FIRM/CONTACT	OWNERSHIP
Developer	Squier Properties LLC and ROEM Corporation: Gary Squier, President, Squier Properties Marcus Griffin, Director of Finance, ROEM Corporation	Squier Properties LLC - Privately owned by Gary Squier and Anita Landecker ROEM Corporation – Privately owned by Robert Emami with family members holding minority stakes
Architect	Silber Architects: John Silber, Principal	John Silber (Privately Owned)

BACKGROUND:

This 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;
- Increasing the supply of affordable housing for families with children;
- Developing affordable, permanent supportive housing units for special needs population;
- Protecting and rehabilitating a designated historic property; and
- Removing blight by restoring a vacant building and vacant lot.

On April 5, 2007, the Corporation Board reviewed and provided direction on affordable housing funding priorities for the Fiscal Year 2008. As overall policy goals, the Corporation Board directed staff to pursue projects north of Broadway to achieve geographic distribution of affordable housing projects, encourage development of family housing (with two-three bedroom units) and create supportive housing to address the homeless issue.

The proposed project will achieve these policy goals addressed by the Board. The Project is located in the Cortez neighborhood which is one of the underserved areas of Downtown with fewer affordable units. The Project will provide 65 affordable units to very low- and extremely

low-income households earning 25- 50% of Area Median Income (“AMI”). In addition, 40% of the total number of units will be three bedroom units targeted for families with children. During the course of negotiations, the Developer also agreed to set aside 23 units (35% of the total units) as supportive housing units.

EQUAL OPPORTUNITY – Per the DDA, the Developer and its contractors, subcontractors, consultants, subconsultants, vendors and suppliers are required to comply with the City’s Equal Opportunity Contracting Requirements. Prior to commencement of construction and as a condition prior to execution of the Ground Lease, the Developer is required to submit its workforce report / EO Plan and Report to the Agency as provided in the City’s Equal Opportunity Contracting Requirements.

DISCUSSION:

Scope of the Project

The project site (23,850 square feet) consists of an entire block bounded by Highway 5, Cedar Street, Fifth and Sixth avenues (Cortez neighborhood), and is currently occupied by a surface parking lot and a vacant historic building (Attachment A - Site Map). The Developer proposes to build a 65-unit affordable housing project on the vacant portion of the lot currently being used as a surface parking lot adjacent to the historic building.

The project site will include two projects: new construction of multi-family affordable housing and rehabilitation of the existing historic chapel. The two projects will be financed separately. The affordable housing will be built by the Developer, and subsidized by the Agency’s Low- and Moderate-Income Housing Fund in addition to other resources. The historic chapel will be rehabilitated by the Agency and financed by its Tax Increment funds (80% funds) and potential revenues from Transfer of Development Rights (“TDR”) Program. Staff recommends that the Agency enter into a DDA to: (1) acquire the entire project site from the Developer at the close of escrow; (2) own and rehabilitate the chapel structure with appropriate parking spaces and lease or sell it to a commercial tenant; and (3) lease the housing portion of the land to the Developer for the development and operation of affordable housing after the Developer secures all Project financing.

Housing Impact – The proposed Project will provide 65 affordable rental housing units for very low- and extremely low-income households earning incomes below 50% of area median income. Of the 65 units, 23 units will be set aside as supportive housing units combined with on-site/off-site supportive services for special needs population who are at risk of being homeless. The project includes 26 three-bedroom units (40% of the total units), providing housing for families with children. The project location will ensure the geographic distribution of affordable housing projects in Downtown.

Project Budget and Financing

Cedar Gateway Affordable Housing Project

The summary of the permanent sources of funds is shown below:

SOURCES OF FUNDS	
Supportable Debt – Residential	\$1,756,000
Multi-Family Housing Program (Supportive Housing Component)	\$3,019,000
Tax Credits (9%)	\$14,267,000
Mental Health Services Act Program	\$2,944,000
Deferred Developer Fee	\$94,000
Affordable Housing Program	\$260,000
Sales Proceeds - Retail	\$1,374,000
Redevelopment Agency Assistance	\$8,926,000
TOTAL	\$32,640,000

Keyser Marston Associates, economic consultants to the Agency, concluded that the project's development costs, net-operating income, and financing costs fall within industry standards for a project of this type. A summary of affordable housing financing sources is attached (Attachment H).

Bradley-Woolman Chapel

Heritage Architecture and Planning estimated the rehabilitation costs of the historic chapel as follows (without tenant improvement costs):

Architectural & Engineering Fees/Design Contingency:	\$ 194,000
Exterior (including accessible entrance, roof and window repairs):	\$ 201,000
Interior (including accessible restroom, HVAC package and floor finishes):	\$ 389,000
General Requirements/Overhead/Profit/Bonds & Insurance:	\$ 179,000
Construction Contingency/Testing & Inspection:	\$ 147,000
TOTAL:	\$1,110,000

The total cost of the rehabilitation project is estimated as follows:

Allocated Acquisition Cost:	\$1,093,000
Rehabilitation Cost:	\$1,110,000
Tenant Improvements:	\$ 200,000*
<u>Additional Parking Level:</u>	<u>\$1,400,000</u>
TOTAL	\$3,803,000

* Could be as low as \$100,000 depending on the use

The prorated cost of acquisition and rehabilitation of the historic chapel will be financed by the Agency's Tax Increment funds (80% funds). The Agency's acquisition and rehabilitation costs may be partially offset by selling permitted excess FAR by the Transfer of Development Rights ("TDR") Program. The Agency would seek to recover all or a portion of its investment on the historic chapel from annual lease payments or sales revenue by leasing or selling the rehabilitated space to a third party.

Disposition of Property

The Developer has entered into a Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate ("Purchase Agreement") dated March 15, 2007 with the property owner to acquire the 23,850 square-foot site with improvements, including the chapel structure, for \$5.95 million or \$250 per square foot, as amended by the first amendment to the Purchase Agreement dated June 20, 2007. This is consistent with the appraised value included in the appraisal ordered by staff. Per the second amendment to the Purchase Agreement dated August 24, 2007, the Developer is required to make extension payments to the seller after September 28, 2007 at the rate of \$50,000 per month. The third amendment to the Purchase Agreement dated December 3, 2007 provides for a closing date on or before May 30, 2008. With the eight month extension fees, the purchase price will increase by \$404,334 to \$6.36 million or \$267 per square foot. Once the Project is approved by the Agency, the Developer plans to close the escrow by May 30, 2008. The Agency would purchase the property from the Developer in a concurrent escrow. The earlier acquisition allows the Agency to seek a developer to acquire or lease the property and complete rehabilitation work on the historic chapel.

Ground Lease

After the Developer receives approval of all financing resources, the Agency would enter into a 65-year ground lease, and a 25-year option to extend at the Developer's discretion, for the housing portion of the site. Upon expiration of the ground lease, the Agency would own the housing structure free and clear. The Agency would own, rehabilitate and lease or sell the historic chapel (with appropriate parking spaces) as a commercial space.

Participation by Agency

Terms and Conditions of Ground Lease and DDA

The essential terms and conditions of the Ground Lease and DDA are as follow:

Ground Lease

- Agency Land Ownership – The Developer shall transfer title of the property to the Agency.
- Lease Term – The Agency shall enter into a 65-year ground lease, and a 25-year option to extend at the Developer’s discretion, with the Developer upon transfer of title from the Developer to the Agency.
- Lease Payment
 - Housing - The Developer is required to make ground lease payments of \$1 per year for the initial 55 years. Starting in Year 56, when the affordability covenants expire, the Developer shall pay 10% of the effective gross income from the market-rate residential units annually until the end of the ground lease term.
 - Ground Floor Retail Space – Upon sale of these retail spaces, the Developer shall make an upfront lease payment in the amount of \$308,000 to the Agency, which equals the pro-rata share of the land cost. If the Developer does not sell the spaces, the Developer shall pay 12.5% of the effective gross income annually until the end of the ground lease term.
- Ownership of Improvements – Upon expiration of the lease term, the Developer shall transfer title of the Developer’s portion of the building to the Agency free and clear, and the Agency will receive 100% of the project cash flow from the housing project.
- Option to Acquire Leasehold Interest – Beginning in Year 56 of the ground lease, the Agency shall have the right to acquire the leasehold interest in the project at the greater of: (a) the Fair Market Value (“FMV”) of the leasehold interest with the consideration of the underlying affordability restrictions and the release thereof beginning in Year 56, or (b) the sum of the remaining non-Agency debt balances, including accrued but unpaid interest, and property taxes. The FMV of the leasehold interest in Years 56 is estimated to equal \$38,094,000 based on the discounted cash flow of the remaining value of the market-rate residential leasehold interest. The FMV in Year 56 will be dependent upon many variables including market rents, operating costs, capitalization rate, building

condition and economic conditions in place at that time. The estimated balance of the MHP loan and MHSA loan, including accrued but unpaid interest, is estimated to be \$7,131,000 and \$6,954,000 respectively, at the end of Year 55.

- Agency Right of First Refusal to Acquire Residential Leasehold Interest and Retail Leasehold Interest – At any time after Year 55 of the ground lease, upon the Developer's receipt of a bona fide offer from a third party, the Agency shall have the right to acquire the residential improvements for a price equal to the outstanding amount of non-Agency debt plus the amount of income taxes that would be incurred by the Developer from the sale. The Agency shall also have the right to acquire the retail improvements upon the Developer's receipt of a bona fide offer from a third party.

Disposition and Development Agreement

- Agency Assistance - The Agency will provide financial assistance to the affordable housing Project in an amount not to exceed \$8,926,000. The Agency will pay the allocated cost of the residential portion of the land (\$5,265,000) to the Developer upon transfer of title. The remainder will be provided in the form of a loan in the amount of \$3,661,000 to be secured by a subordinate deed of trust.
- Agency Loan Term - The Agency loan shall have a 55-year term and a simple interest rate of 5% with repayment from the project's cash flow. The residual receipts shall be divided between the two parties as 60% to the Agency and 40% to the Developer from Year 1 to 30, and 80% to the Agency and 20% to the Developer from Year 31 to 55. The Agency will split its share with other public agencies that require residual receipt payments.

The Developer shall maximize tax credit equity and other sources of funds. The Agency subsidy is calculated based on the assumption of a tax credit pricing of \$0.85 and tax credit rate of 7.84%, reflecting the recent decline in tax credit pricing in the current tax credit market. The Agency shall have the opportunity for a look-back prior to the Agency loan closing to decrease the Agency loan amount, if the Developer secures additional sources, including a higher amount of tax credit equity with preferable pricing and percentage. There shall be a second look-back opportunity prior to conversion to permanent financing if the total sources exceed the actual acquisition and development costs. The excess amount shall be returned to the Agency as a repayment of the Agency loan.

- Retention – The Agency shall disburse up to 80% of the total loan amount during construction. Disbursements during construction shall be made pari passu with the

construction lender. Upon completion, the Agency shall release 10% of the retention. The remaining 10% shall be released at permanent loan closing.

- Developer Fee - For the housing portion, the developer fee shall be \$1,028,000, payable during the course of construction. Developer shall defer \$94,000 of the Developer Fee during the construction period. The Deferred Developer Fee shall be repaid from the project's cash flow prior to calculation of cash flow for distribution.
- LEED Certification – The building shall be built to the certification rating for Leadership in Energy and Environmental Design (LEED) based on criteria provided by the US Green Building Council (USGBC).
- Sixty five (65) units shall be restricted to households earning incomes at or below 50% AMI for 55 years. (Twenty three (23) units at 25% AMI, Forty two (42) units at 50% AMI)
- Developer shall include 23 supportive housing units.
- Developer shall construct all on-site improvements, design, install, and maintain all surface off-site improvements.
- Developer shall construct three levels of underground parking, of which the upper level shall be sold to the Agency for the historic chapel or public parking, for a cost not to exceed \$1,400,000. Design guidelines for the upper parking level will be provided to the Developer based on the standard public parking design requirements.

The terms of the DDA are consistent with the recently approved Affordable Housing Transaction Guidelines. The proposed DDA and Ground Lease are attached as Attachment I and J.

Proposed Schedule of Performance

Action	Completion Date
Agency/City Council review of design, DDA and Ground Lease	May 13, 2008
Developer to complete site acquisition	May 30, 2008
Start Construction	July 2009 (December 2008 if successful for July 08 tax credit round)
Complete Construction	January 2011 (June 2010 if successful for July 08 tax credit round)

Project Benefits

The proposed Project would provide:

- Affordable rental housing (65 units) for very low- and extremely low-income families and individuals;
- Twenty three supportive housing units combined with on-site/off-site supportive services for special needs population who are at risk of being homeless;
- Units reserved for households earning 25% to 50% of area median income. Monthly rents starting as low as \$344;
- A unit mix with 40% three-bedroom units;
- Geographic distribution of affordable housing projects in Downtown;
- Restoration and reuse of the dilapidated historically designated structure; and
- Elimination of blight by developing underutilized lot and vacant building.

Project Description

Affordable Housing Project Summary

Site Area	23,859 sq. ft.
Maximum Floor Area Ratio (FAR) Permitted	6.5
Minimum	4.0
Proposed	4.09
Stories / Height	5-7 stories /72 feet
Amount of Retail Space	4,434q. ft.
Total Number of Units / Total Residential Square Feet	65 units (total 57,990 residential sq. ft.): 23 One Bedroom/One Bath (606 sq.ft.) 16 Two Bedroom/One Bath (811 sq.ft.) 26 Three Bedroom/Two Bath (1,055 sq.ft.)
Projected rental rates	65 units to be restricted at 25-50% AMI \$344-\$912 per month (per 2008 income limits)
Number of Units Demolished	None
Inclusionary Housing Ordinance Compliance/ Number of Affordable Units	Provision of 65 Affordable Rental Apartments of which 23 would be supportive housing units
Parking Required Proposed	67 for residential 111 spaces (including 4 tandem stalls) -- 28 for commercial/public use ---83 for residential
Assessor's Parcel Nos.	533-334-05, 06

Cedar Gateway – Affordable Housing Component

The proposed affordable housing project will include 65 units for very low- and extremely low-income households, ranging from 25% to 50% of Area Median Income. Of the 65 units, 42 will be two- and three-bedroom units suitable for families with children. The building will be five to seven stories, with three levels of underground parking in a Type III structure over a concrete podium. A Project Fact Sheet is attached to this report as Attachment B.

- Supportive Housing

The Project will include 23 supportive housing units targeted for the special needs population. Supportive housing has been recognized as a successful model to end chronic homelessness by stabilizing lives of a vulnerable population in a number of cities nationwide. The Corporation for Supportive Housing (“CSH”) describes “supportive housing” as a successful, cost-effective combination of affordable housing with supportive services that helps people with multiple barriers to employment and housing stability, including mental illness, chemical dependency, and/or other disabling or chronic health conditions that could lead to homelessness. Incorporation of the 23 supportive housing units will help stabilize lives of families and individuals who are at risk of becoming homeless and meet the Downtown Community Plan’s goal to assist in the development of affordable, permanent supportive housing projects. Information on supportive housing provided by CSH is attached to this report as Attachment C.

The 23 supportive housing units are proposed to be partially subsidized by the State’s Mental Health Services Act (“MHSA”) program, approved by the voters in 2004 (Proposition 63). The program is funded by a 1% income tax on personal income over \$1 million and provides funding for the development of supportive housing units for the mentally disabled population. Detailed information on the MHSA program is provided as Attachment D. Under the MHSA program, the County of San Diego’s Mental Health Services (“SDMHS”) will be the administrator of the program at the local level. The MHSA program will provide: (1) Development subsidies to defray the cost of constructing supportive housing units; (2) Operating subsidies to support project cash flow for making supportive housing units affordable to very low- and extremely low-income tenants; and (3) Supportive services for the supportive housing tenants provided by the Full Service Partnerships (“FSP”) contracted by SDMHS.

Community members in the Cortez Hill neighborhood expressed strong concerns regarding the inclusion of the 23 supportive housing units for the mentally disabled population. The Developer incorporated the following changes to the proposal to respond to the Community’s concerns:

- Safety Issues: The Developer added secured gates to all three entrances. In addition, the manager's office will be centrally located in the courtyard, where he or she can monitor people entering the building.
- Target Population: The target population of the supportive housing units would be individuals who are homeless or at risk of homelessness and have a serious mental illness. After consultation with CSH, the Developer modified the target population from single adults only to a mix of single adults and seniors. It is expected that the 23 units will be occupied by 50% seniors (over 60 years old) and 50% adults (under 59 years old). The Developer will also accept small families with mentally disabled individuals.

To accommodate this change, the Developer proposes to work with two FSPs for the project: Community Research Foundation ("CRF") to provide supportive services to adult residents and Heritage Clinic to provide supportive services to senior residents. The two service providers will refer their clients to the management company based on the clinical judgment on their level of functioning and capacity to be in an independent living situation and to be responsible neighbors.

- Supportive Services: After visiting other local supportive housing projects, the Developer and staff determined that the service coordinator position would be a key to the success of a supportive housing project. The updated proposal includes one full-time service coordinator to work closely with the supportive housing tenants and coordinate services with service providers. The project will also have a resident manager, who will handle the day-to-day management tasks. The Developer and staff agreed that some service space is needed to be used as the office/counseling room for the service coordinator and case managers from CRF and Heritage Clinic to meet with the tenants. Therefore, it is proposed that the mid-block retail space be available as a social service space, instead of a commercial space as originally proposed. The Developer prepared a Management Plan and Supportive Services Plan, which provide details on the tenant selection process, target population, management policies and supportive services. Both plans are attached to this staff report as Attachment E and F.
- Ground Floor Retail

The Developer proposes to provide 4,434 square feet of ground floor retail space, which will activate the streets and revitalize the neighborhood. Two corner spaces at Fifth Ave. and Cedar St. and Sixth Ave. and Cedar St. are proposed to be used as neighborhood

serving retail space. The Developer conducted a market study to determine the marketability and value of these retail spaces. The Developer plans to condominiumize and sell the retail spaces upon completion. Construction of the ground floor commercial space will be financed by the sales proceeds.

Parking for Housing and Commercial

Under the Centre City PDO, the affordable housing project is required to provide 67 residential parking spaces. This could be accommodated by constructing two levels of underground parking. No parking is required for the ground floor retail space. However, there is no onsite parking for the historic chapel. Street parking in this area is very limited. The availability of parking would be critical to make the rehabilitated historic chapel marketable to commercial users.

As a solution, the Developer will construct three levels of parking below the housing project. The first level (approximately 28 stalls) would be sold to the Agency for commercial parking for the historic chapel or public parking to serve the historic chapel tenant and the neighborhood. The two lower levels (83 stalls) will be reserved for the residents. The development costs for the additional parking floor (\$1,400,000) will be financed by the Agency with its non-Low/Mod Tax Increment funds. The parking will enhance the marketability of the commercial space for a more rapid and consistent occupancy. In addition, it will provide public parking in an area currently short of parking.

Bradley-Woolman Chapel – Restoration of a historic building

A historic structure (3,800 square feet) is located on the northeast corner of the project site on Sixth Avenue. It was constructed in 1928 and was historically designated at the local level on July 24, 1991 as the “Bradley-Woolman Saint Cecelia Chapel.” The chapel is one story with a small mezzanine at the east side. Heritage Architecture and Planning prepared a letter summarizing the professional opinions related to the conditions of the chapel (Attachment G). According to their assessment, the building is an important historic structure in good condition and is an excellent candidate for restoration and adaptive reuse.

The chapel requires exterior and interior rehabilitation, tenant improvements and ADA compliance. Any changes to the chapel must be consistent with the Secretary of the Interior’s Standards for the Treatment of Historic Properties. Renovation and reuse of the chapel will not only preserve the historically significant building, but also revitalize the surrounding neighborhood by eliminating blight. Rehabilitation work will start concurrently with or prior to the construction of the housing structure.

A Request for Proposals will be issued to solicit proposals for rehabilitation and purchase/lease of the historic chapel once the Agency acquires the property. Sale or lease of the chapel structure to a third party is subject to a future approval by the Corporation and the Agency.

Design Review

Cedar Gateway is designed as a series of buildings ranging from 5 to 7 stories around an internal courtyard plaza serving the residents, as well as being accessible to the public. The facades have been articulated to meet the guidelines of the Neighborhood Center with distinct modulations and massing. The upper levels are demarcated from the lower level by the use of materials, with the base designed with a glass and metal framed system while the upper levels are clad in patina treated metal panels.

An important component of the project is the relationship of the new building to the Bradley-Woolman Chapel, located at the northeast corner of the site on Sixth Avenue. The project is designed to be intentionally distinct from the 1928 Spanish Colonial Revival chapel. The connection between new and old is expressed at the entryway to the apartments and courtyard at Sixth Avenue.

Retail spaces are emphasized at the corners of Cedar Street with plate heights over 21 feet, exceeding the PDO requirements. Along Cedar Street, the retail is broken up by garage access, residential laundry facility and a social service space. The social service space is designed as a two level live/work style loft with access from both the sidewalk and courtyard. The apartment entry and courtyard access occur on Fifth and Sixth avenues. Residents enter the apartment building onto a courtyard plaza that opens out from the space between the chapel and the new building. A secondary entry lobby is also planned on Cedar Street. On the courtyard plaza level there is a 1,370 square foot community space and a leasing office. All entry points into the courtyard are secured with entry gates and are engaged by the managers and office rooms. The 5th Avenue elevation has been designed to allow for direct views into the courtyard plaza area. A children's play feature has been included into the plaza design. Additional public space is located on the 5th floor 3,500 square foot landscaped "Eco-Roof" deck that will include seating, barbeques, tables and a view via Cedar Street up Cortez Hill.

The project will be designed to meet the Leadership in Energy Efficiency (LEED) certified rating. The project will be commissioned by a LEED certified professional and will be submitted to the United States Green Building Council (USGBC) for official certification. To reach certification, the project will be designed with recycled content, low-emitting carbon based products, and the apartment units will meet 75-percent daylight.

The project will utilize a patina based metal panel system for the cladding of the upper levels. A framed window system modulates the cladding and is punctuated with etch matte panels and

painted accent cement boards. The base of the building is designed with a storefront system and an asymmetric assemblage of etch matte panels that serve as a backdrop to the K-Brace structural frames that are intended to add interest.

Consultant Gwynne Pugh and staff believe Cedar Gateway is a well designed building that meets the requirements and intent of a Neighborhood Center. The project was presented to the Pre-Design Subcommittee of the CCAC and Real Estate Committee in January and received design comments that have been incorporated into the design to the satisfaction of staff and Mr. Pugh. The following is a summary of the issues:

1. Can the narrow stairs to the courtyard on Fifth Avenue be made more gracious by widening the aperture and providing for views into the courtyard from the street?

The 5th Avenue elevation has been incorporated with the courtyard plaza design to allow for visual porosity into the courtyard and a more gracious aperture.

2. Can the exterior design better integrate the ground floor with upper floor elements?

The architect has revised the design to demonstrate the visual connectivity between the upper and lower levels with the alignment of various edges of the upper level apartment unit window systems with the storefront mullions along the ground floor. In addition, the etch matte glazed panels at the ground level is integrated into the window system at the upper levels, with painted cement board panels organized to correspond to the asymmetric pattern of the etch-match glazing pattern.

The architect has also incorporated K-Brace frames along the base of the building of the building to meet structural load requirements as well as to provide visual interest and demonstrate the concept of the building base holding up the upper levels.

3. Are there opportunities for providing cross ventilation with operable clerestory windows to the courtyard to allow for passive cooling (and meets UBC fire code requirements)?

The single loaded units have been designed with operable windows to the courtyard to ensure cross ventilation.

4. Can further articulation along the ground level storefronts be incorporated to add interest at the corners and accommodate signage?

K-brace frames have been incorporated within each ground level structural bay along Cedar Street and 6th Avenue that provides for visual interest. Metal awnings have been installed into the storefront mullion system over entry doors to add interest and enable signage.

5. Can security features be designed into the base of the building to ensure a safe and clean environment?

The entries into the building, courtyard, and Community Room have been secured with entry gates with Office and Manager Units designed to ensure security and visual control.

The applicant is requesting a deviation per the State Density Bonus regulations pursuant to California Government Code Sections 65915-65918 and San Diego Municipal Code Chapter 15, Article 6, Division 3. Under the State's Density Bonus Law for Affordable Housing and the City's regulations enacted pursuant thereto, the site is entitled to up to a 35-percent density bonus if affordable units are provided in the project. The State Density Bonus Law also provides that the project is entitled to an "Incentive" in the form of relief from one or more development standards, if necessary to make the project economically feasible. While the project is not requesting a density or FAR bonus, the applicant is seeking relief from the use regulations of the PDO.

The project site is located in a Neighborhood Mixed-Use Center (NC), under the Centre City PDO, the NC zoning ensures development of distinctive centers around plazas, parks and/or "main streets" that provide a focus to the neighborhoods by supporting mixed-use projects that contain active commercial uses in minimum of 40% of frontage. Cedar Gateway is designed to meet these objectives through mixing residential and retail uses and by preserving the historic Bradley Woolman Chapel. However, the project is also subject to two overlays. These include: (1) Main Street Overlay (6th Ave frontage): This overlay requires that a minimum of 80% of the ground floor street frontage contain active commercial uses; (2) Commercial Street Overlay (Cedar St. frontage): This overlay requires that a minimum of 60% of the ground floor street frontage contain active commercial uses. The Developer is requesting a deviation to the definition of "Active Commercial Uses" for a space along Cedar Street (345 square feet) to create a social service space available for counseling and other service uses for supportive services. Staff is supporting the request subject to the retail spaces at the two corners being used as active commercial uses.

Consistency with Plans – The project is requesting a deviation to the Active Commercial Use requirement on Cedar Street, based on the State Density Bonus law of allowing deviations to make the Affordable Housing component more financially feasible. The Project will provide Active Commercial Uses per the requirements, at the corners of Cedar Street. By providing 65 affordable units restricted at 25-50% AMI, the Project will add to the diversity of residential units being constructed in the area, as well as Active Commercial Uses at key corner locations, an objective of the Plan.

Streetscape Design - The project will be required to install CCDC brick paving, standard paving, and lights, and Jacaranda trees on Cedar Street and Fifth and Sixth avenues.

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. Since the project has been found to be in compliance with these planning documents, no further environmental review is required. The Secondary study for the proposed project is attached as Attachment M.

As part of the due diligence process, staff and its environmental attorney have reviewed a Phase I Environmental Site Assessment ("ESA") for the property and a Phase II subsurface report submitted by the Developer. The findings of these reports indicate that impacts from environmental contamination at the property are likely limited. However, in order to ensure that the Agency has followed the new "All Appropriate Inquiry" standards, staff requested that the Phase I ESA be updated so that a fully updated report has been prepared within one year of the acquisition of the property. Additionally, to minimize risk from a historical use of the property (a potential gas station), staff requested that the Developer advance additional borings to alleviate concern about potential releases from the past use of the property. The updated Phase I dated January 29, 2008 was submitted to staff. The additional subsurface assessment was also submitted, which shows no contamination from petroleum hydrocarbons. However, there are at least two areas of soil impacted with elevated levels of lead. This means that if/when the soil is excavated, the lead impacted soil will have to go to a landfill. The remediation cost of \$40,000 is included in the revised development budget.

The Agency will be responsible for remediation of the historic chapel. A study conducted in March 2008 did not find asbestos-containing materials, but found lead-based paint in the ceramic wall tile in restrooms. The tile must be properly removed and disposed of by an abatement contractor. The additional disposal cost is estimated at \$1,200.

CONCLUSION:

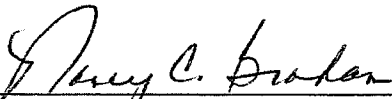
The proposed Cedar Gateway project meets the goals identified in the Community Plan and addresses the priorities discussed by the CCDC Board in May 2007. Staff's review concludes that the Project is well designed and has a viable financing plan. In addition, rehabilitation of the historic building would add a significant asset to the Cortez neighborhood and remove an existing blighted site. Staff requests that the Agency and City Council approves the project design, budget amendment, Ground Lease and DDA.

Respectfully submitted,


Concurred by:



Eri Kameyama, Associate Project Manager



Nancy C. Graham
President



Sachin Kalbag, Senior Planner

- Attachment(s):
- A – Site Map
 - B – Project Fact Sheet
 - C – Information on Supportive Housing (by Corporation for Supportive Housing)
 - D – Information on MHSA program
 - E – Draft Supportive Services Plan
 - F – Draft Management Plan
 - G – Letter from Heritage Architecture on Bradley-Woolman Chapel
 - H – Key Funding Parameters of Affordable Housing Financing Sources
 - I – Disposition and Development Agreement
 - J – Ground Lease
 - K- Reuse Analysis
 - L – Section 33433 Report
 - M – Secondary Study
 - N – Design Drawings