



THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: October 16, 2008

REPORT NO.: RA-08-25

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of October 21, 2008

SUBJECT: Amended and Restated Purchase and Sale Agreement for purchase of retail space within the Renaissance at North Park Project, Partial Reconveyance of Trust Deed securing a \$1.2 million residual receipts loan, Partial Release of a Method of Financing Agreement related to the \$1.2M Trust Deed, and a Partial Release of the Agreement Affecting Real Property

REQUESTED ACTIONS:

That the Redevelopment Agency:

- 1) Authorize the Executive Director or designee to amend a Purchase and Sale Agreement with North Park Retail Partners, L.P. for a 3,157 square-foot retail condominium in the Renaissance at North Park, including reducing the purchase price from \$1,159,350 to \$885,000, and to execute such further instruments as may be necessary to effectuate the Amended Purchase and Sale Agreement.
- 2) Authorize the Executive Director or designee to partially reconvey a Trust Deed securing a \$1.2 million residual receipts loan and accompanying Method of Financing Agreement with the San Diego Housing Commission from the commercial portion of the project and to execute such further instruments as may be necessary to effectuate the partial reconveyance/release.
- 3) Authorize the Executive Director or designee to partially release the existing Agreement Affecting Real Property from the commercial portion of the site and record the new Agreement Affecting Real Property against the commercial portion of the site and to execute such further instruments as may be necessary to effectuate the release and recording.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

On August 5, 2002, the Redevelopment Agency of the City of San Diego (Agency) approved a Disposition and Development Agreement (DDA) with Carter Reese and Associates to develop the Renaissance at North Park project. The project includes a four-story, mixed-use structure

fronting on El Cajon Boulevard and 14 three-story townhomes on Kansas Street. The mixed-use component of the project provides 94 senior citizen apartments affordable to households with incomes up to 50% of Area Median Income (AMI), two caretaker apartments, and 11,500 square feet of commercial and/or community-use space. As a matter separate from the redevelopment transaction and proposed DDA, Carter Reese and Associates constructed 24 market-rate townhomes immediately north of the project on the west side of 30th Street.

On June 29, 2004, the Redevelopment Agency approved the First Implementation Agreement to the DDA for the project. The First Implementation Agreement committed an additional \$1,200,000 for the senior apartment component of the project to close a funding gap of \$1,665,000 resulting from increases in material costs. The additional assistance was in the form of a residual receipts loan that was secured by a trust deed encumbering the entire project (senior housing portion and commercial portion). At the time of recording of the Agency trust deed, the senior housing portion and commercial portion of the site had not been subdivided. They have since been subdivided into separate legal parcels.

Subject to the terms of the DDA, which anticipated efforts by the City and Agency to occupy up to 6,000 square feet of commercial space along 30th Street within the Renaissance Project to accommodate community-serving uses, the Agency entered into a lease with Carter Reese & Associates on November 16, 2004.

Since execution of the lease, Agency's staff determined that the Agency's anticipated purposes could be achieved with approximately half the space. In June, 2006, staff submitted a proposal to release the Agency from its lease obligations and enter into a Purchase and Sale Agreement (Purchase Agreement) with North Park Retail Partners, L.P. for purchase of an approximately 3,000-square-foot retail condominium on the ground floor of the project. A purchase price of \$1,159,350 was negotiated based on an appraisal prepared by the firm Lipman, Stevens & Carpenter indicating a market value of approximately \$1,310,000. The purchase price of \$1,159,350 represents an 11.5% discount over the appraised value. The Purchase Agreement was entered into on November 29, 2006.

The Agency never completed the purchase because there are mechanic liens on the property. Starbucks and H&R Block are currently the only commercial tenants at the project and Starbucks recently announced plans to close their store. Due to the inability to lease or sell the remaining spaces, Carter Reese and Associates became significantly past due on a loan from Citibank and on payments to the contractors.

Citibank planned to foreclose on the entire commercial property, including the parcel the Agency has under contract, but met with Agency staff first to get their feedback. Staff expressed concern regarding the property remaining vacant for an extended time and the likelihood that the eventual buyer would be from outside the city and not connected to the local community. Sharing the concern for the community, Citibank instead negotiated with a local development team consisting of David Malcolm, chair of Suncoast Financial, and Duhs Commercial, a commercial development firm located in North Park, to purchase the note at a discount.

Along with the purchase of the note, the development team also reached a settlement with the contractor and subcontractors that removes the mechanic's liens, clearing title for the Agency purchase. With the deterioration in market conditions since the purchase was originally negotiated, the Agency first engaged Lipman, Stevens & Carpenter for a new opinion of market value. Taking into account more recent transactions, the space is now appraised at \$885,000. This reflects a larger final build out size of 3,157 sq. ft and the seller assuming responsibility for all Common Area Maintenance Expenses for five years as negotiated in the original Purchase Agreement. An Amended and Restated Purchase and Sale Agreement was drafted with the new price.

The development team's purchase of the remaining space is anticipated to close concurrent with the Agency purchase. Duhs Commercial plans to invest in tenant improvements to attract new tenants for the commercial spaces. They also hope to negotiate with Starbucks in hopes of convincing them to stay.

The Agency's trust deed to secure a \$1.2 million residual receipts loan made in 2004 to assist with construction of the affordable senior units is still recorded against both the commercial portion and the senior housing portion of the site. In addition, at the time the trust deed was recorded, the Agency and the San Diego Housing Commission entered into a Method of Financing Agreement which provides that the Agency loan and a Housing Commission loan for the senior project are equal parity liens. There is a Memorandum of this Agreement recorded against both the commercial portion and the senior housing portion of the site. Financing for the project was subsequently divided between the senior housing portion and commercial portion of the site and the site itself was subsequently divided, but the Agency trust deed was never removed from the commercial portion. A partial reconveyance/termination to release the commercial portion of the site from the trust deed and the Method of Financing Agreement will allow the development team to move forward with their plans to develop and lease the commercial properties. The trust deed and Method of Financing Agreement will still remain on the much larger senior housing portion of the project as security for the loan.

In connection with the DDA, an Agreement Affecting Real Property was recorded against both the senior portion and the commercial portion of the site. That Agreement provides that when the Citibank loan is divided between the two portions of the site, the existing Agreement Affecting Real Property would be released and a new Agreement Affecting Real Property would be recorded against the senior portion and the commercial portion of the site. The forms of the new Agreements Affecting Real Property were attached to the existing Agreement Affecting Real Property. The recording of the new Agreement Affecting Real Property on the senior portion of the site will require obtaining subordination agreements from certain lienholders in order to provide that the new Agreement Affecting Real Property has the same or substantially equivalent lien priority as the existing Agreement Affecting Real Property. There is no similar problem with the commercial portion of the site as liens recorded after the existing Agreement Affecting Real Property will be removed from title as part of the purchase of the Citibank note. In order to expedite the sale of the note and the development and leasing of the commercial portion of the site and still retain the same or substantially equivalent lien priority, staff requests that at this time the existing Agreement Affecting Real Property be released from only the

commercial portion and the new Agreement Affecting Real Property be recorded against that portion. The existing Agreement Affecting Real Property would remain on the senior portion of the site until such time as the various subordination agreements can be worked out. At that time, the existing Agreement Affecting Real Property would be released from the senior portion of the site and the new Agreement Affecting Real Property recorded against that portion.

The Agency anticipates leasing its space at a reduced rate to a non-profit that serves seniors, as was envisioned under the original Purchase Agreement. Staff has elicited the support of San Diego Interfaith Housing Foundation, manager of the senior rental, for their assistance in soliciting an appropriate tenant.

FISCAL CONSIDERATIONS:

Funds in the amount of \$1,410,000 have been previously authorized for the purchase and for \$300,000 for tenant improvements. The new purchase price of \$885,000 is a reduction of \$425,000 (32%) from the original appraised value of \$1,310,000 and \$274,350 (24%) from the original purchase price of \$1,159,350. AC2700358 for the purchase amount of \$1,159,350 will be reduced by \$274,350. There is no fiscal impact to the City or the City's General Fund by this action.

Assuming that the space is leased to a provider of services to the Redevelopment Project Area at \$0.50 per square foot (substantially below market), the Agency will generate \$1,578.50 a month (\$18,942 annually) to help cover operating costs. Assuming that market conditions improve, the Agency anticipates selling the property after full lease up of the other spaces and expiration of the lease agreement with the service provider.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On August 5, 2002, the Redevelopment Agency of the City of San Diego approved a Disposition and Development Agreement (DDA) with Carter Reese and Associates to develop the Renaissance at North Park project. On June 29, 2004, the Redevelopment Agency approved the 1st Implementation Agreement to the DDA. On May 23, 2006, the Redevelopment Agency approved the 2nd Implementation Agreement to the DDA. On November 29, 2006 the Redevelopment Agency entered into a Purchase and Sale Agreement with North Park Retail Partners, L.P. for purchase of an approximately 2,915-square-foot retail condominium.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS:

At its regular meeting on September 12, 2006, the North Park Project Area Committee voted 8-0-0 recommending the Agency purchase the approximately 2,915 square feet space for \$1,158,500 and recommending that the Agency issue a Request for Proposals for a tenant that would be complementary to the use of the facility as a community meeting facility and possible Police Storefront.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

ROLE	FIRM	OWNERSHIP
Seller	North Park Retail Partners, L.P., a California limited partnership	E. Smith & Company, Inc., a California corporation Reese A. Jarrett, President

Respectfully submitted,

Janice Weinrick
Deputy Executive Director,
Redevelopment Agency

Approved: William Anderson
Assistant Executive Director,
Redevelopment Agency

Attachments: Amended and Restated Purchase Agreement
Site Plan