

DATE ISSUED: March 4, 2009

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of March 10, 2009

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Ninth and Broadway Affordable Housing Project (southeast corner
of Broadway & Ninth Avenue) – Developer Selection and
Exclusive Negotiation Agreement -- East Village Redevelopment
District of the Expansion Sub Area of the Centre City
Redevelopment Project

COUNCIL DISTRICT: 2

REFERENCE: None

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

REQUESTED ACTIONS:

1. Approve the Exclusive Negotiation Agreement (ENA) between the Redevelopment Agency (“Agency”) and BRIDGE Housing Corporation (“BRIDGE”) for the Ninth and Broadway Affordable Housing Project.
2. Authorize the Executive Director or designee to execute the ENA and administer the Agency’s obligations, responsibilities, and duties to be performed thereunder.
3. Authorize the Centre City Development Corporation (“Corporation”), on behalf of the Agency, to conduct negotiations with BRIDGE pursuant to the ENA.

STAFF RECOMMENDATION: That the Agency:

1. Approve the ENA between the Agency and BRIDGE for the Ninth and Broadway Affordable Housing Project;
2. Authorize the Executive Director or designee to execute the ENA and administer the Agency’s obligations, responsibilities, and duties to be performed thereunder; and
3. Authorize the Corporation to conduct negotiations with BRIDGE pursuant to the ENA on behalf of the Agency.

SUMMARY: In June 2007, the Corporation issued a Request for Letters of Interest seeking a qualified development team to develop an affordable housing project on the Agency-owned site located on the southeast corner of Ninth Avenue and Broadway in downtown’s East Village neighborhood. Seven letters of interest were received and three development teams were short-listed based on their qualifications. The three short-listed teams were: BRIDGE; Barone Galasso and Associates (“Barone Galasso”); and Chelsea Investment Corporation with The Related Companies of California (“Chelsea/Related”). Subsequently, a Request for Proposals (RFP) was

issued and the three short-listed teams submitted full development proposals in October 2007. On January 21, 2009, the Corporation selected BRIDGE and recommends the attached ENA (Attachment E) for approval.

FISCAL CONSIDERATIONS: None with this action.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On January 21, 2009, the Corporation Board of Directors voted 4-0 to approve the selection of BRIDGE Housing and the proposed ENA.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

DEVELOPMENT TEAM

ROLE	FIRM/CONTACT	OWNERSHIP
Developer	BRIDGE Housing Corporation Contact: Brad Wiblin, Director of BRIDGE Southern California	Non-profit Board of Directors - 501(c)3
Architect	Studio E Architects Contact: Eric Naslund, Principal	Eric Naslund and John Sheehan (Privately Owned)

BRIDGE has produced large volumes of high quality affordable homes throughout California. BRIDGE was formed in 1983 to spearhead new solutions to the worsening shortage of affordable housing. BRIDGE's diverse portfolio includes over 11,000 housing units in service, 2,140 units under construction, and over 2,500 units scheduled for construction.

BACKGROUND

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

- Increasing the supply of rental housing affordable to very low- and low-income persons;
- Expanding the supply of living units affordable to very low-income persons;
- Assisting in the development of affordable, permanent supportive housing projects; and
- Eliminating blight and utilizing a vacant parcel on a major commercial corridor.

The Site

The proposed site is a 25,000 square-foot parcel located at the southeast corner of Ninth Avenue and Broadway, across from the Senior Community Center. The parcel consists of a vacant lot, currently utilized as a surface parking lot, and an old vacant structure. The Agency owns 100%

of the site. A site map (Attachment A) and information sheet on the site (Attachment B) are included with this report.

Original Developer and Acquisition

On March 28, 2003, the Agency entered into an Owner Participation Agreement (OPA) with Lee Goldberg and SJS, Inc., which was later assigned to Broadway and 9th, LP (“Original Developer”), to construct a 12-story, 393-unit affordable rental-housing project on the site. Due to price escalations in construction costs, the Original Developer determined that the project was no longer economically viable and requested that the Agency terminate the OPA. The Agency agreed to terminate the OPA and negotiated to obtain an option to purchase the site from the Original Developer.

The Agency acquired the property from the Original Owner per the Repurchase Agreement (“Agreement”) dated July 17, 2006, which included rights to the design plans for the project that had already been reviewed by the City. The Agreement requires the Agency to develop an affordable housing project containing approximately 250 units on the property. It also requires that at least 75% of the total number of housing units be restricted to very low-, low- or moderate-income occupants at affordable rents for a minimum of 55 years if it is rental housing, or 45 years if it is ownership housing. Per the Agreement, the Original Owner retains the right to repurchase the property unless the Agency enters into a development agreement with a developer prior to July 17, 2011.

Request for Qualifications/Proposals (RFQ/P)

On May 23, 2007, the Corporation authorized staff to issue a RFQ/P with the following scope:

- Target population - Rental housing for entry level workforce and students;
- Total number of units - A minimum of 250 units;
- Include a minimum of 140 living units;
- Include a total of 25 supportive housing units (later revised as a minimum of 25 supportive housing units);
- Affordability – At least 75% of the total units to be affordable at 80% AMI or below. Of these units, 25 supportive units must be set aside to individuals earning no more than 50% AMI. A minimum of 140 living units to be affordable to individuals earning no more than 40% AMI;
- Include ground floor commercial space in accordance with the Centre City Planned District Ordinance (PDO);
- Incorporate public art;
- Provide amenities and services for the tenants; and
- Inclusion of student housing, Leadership in Energy & Environmental Design (LEED) certification and eco-roof to be strongly encouraged.

The Corporation issued a Request for Letters of Interest on June 1, 2007 and received submittals from seven development teams. Based on the published criteria of qualifications, three teams were short-listed to proceed with an RFP. An RFP was issued on August 10, 2007 and the three short-listed teams: Barone Galasso; BRIDGE; and Chelsea/Related, responded to the RFP.

RFP Submittal Review

A 10-member selection committee was convened to review and evaluate the proposals with representatives from staff and key outside stakeholders, as follows:

1. Peter Armstrong, Supervising Project Manager, San Diego Housing Commission (Cissy Fisher, Director of Housing Finance, replaced Peter Armstrong after his departure from the San Diego Housing Commission);
2. Jeff Graham, Assistant Vice President-Redevelopment, Corporation staff;
3. Jonathan Hunter, California Program Director, Corporation for Supportive Housing (advisory member);
4. Barbara Kaiser, Vice President-Real Estate Operations, Corporation staff (advisory member);
5. Sachin Kalbag, Senior Planner, Corporation staff;
6. Eri Kameyama, Associate Project Manager, Corporation staff;
7. A.J. Magana, Financial Analyst, Corporation staff;
8. Paul Marra, Senior Principal, Keyser Marston Associates (advisory member);
9. Michael Nagy, Policy Coordinator, San Diego Regional Chamber of Commerce; and
10. Bill Sauls, Centre City Advisory Committee.

The selection committee reviewed the submittals and interviewed the three development teams. Additional information and updated proformas were requested from the three teams and the best and final submittals were received in October 2008.

EQUAL OPPORTUNITY

This Project will utilize the Subcontracting Outreach Program (SCOPE). The mandatory subcontracting outreach percentage for this Project will be determined by the City's Engineering and Capital Improvement Projects Department.

This agreement is subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2702) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

DISCUSSION

A summary of the final submittals is shown in the table below. Details of the final proposals are attached to this report as Attachment C.

Summary of Final Proposals (October 2008)

	Barone Galasso	BRIDGE	Chelsea/Related
Total Units	376	250	250
Supp. Hsg	87	88	50-79
Total Dev. Costs	\$97M	\$65.5M	\$72.5M
Subsidy w/MHP	\$26.8M	\$21.3M	\$16.7M-\$24.1M
Subsidy w/o MHP	\$35.6M	\$30.0M	\$26M-\$30.9M
Tax Credit Pricing	\$0.86	\$0.90	\$0.88 (9%) \$0.90 (4%)

After a thorough discussion, the selection committee agreed to recommend BRIDGE as the developer for the following reasons:

1. Quality of Proposal: The selection committee believed that BRIDGE proposed a well-designed building that is modern and efficient with a sufficient amount of community space. The selection committee also valued BRIDGE’s consistency and solid financing plan.
2. Qualification of Development Team: BRIDGE has a strong background in the development and management of affordable housing and supportive housing units in urban neighborhoods. It has built more than 11,000 units to date and is a leading affordable housing developer in the state. The selection committee believed that BRIDGE would be able to assemble the required financing and develop quality housing utilizing its knowledge and experience in building complex affordable housing projects in urban infill sites.
3. Maximum Subsidy Guarantee: Each development team was asked to stand behind their estimates on costs and financing and commit to no subsidy increases.

BRIDGE agrees to guarantee the maximum Agency subsidy at \$21.3 million with MHP. If there are any increases in the project’s funding gap due to the lower tax credit pricing or development cost increases, the additional gap would be funded by BRIDGE through its developer fees, equity or other non-Agency sources. Barone Galasso has not provided such a guarantee. The Chelsea/Related team submitted a letter stating that the team would not be able to guarantee the subsidy amount due to the instability of the tax credit market. The selection committee understands that BRIDGE will stand behind their numbers and assumptions. Even if the Chelsea/Related team is able to achieve a lower subsidy than BRIDGE as indicated in the subsidy range, the team is not able to guarantee the maximum subsidy amount. Therefore, the numbers should not be evaluated on the same basis as the BRIDGE proposal.

It should be noted that such a guarantee is based on the specific design, programs and financing mechanism that the team proposed. If the Agency or Corporation requires the

team to add features that are not included in the original proposal or revise the design, it is understood that the amount of the requested Agency subsidy may be adjusted.

Conditions of Approval

BRIDGE accepted the following conditions of approval:

1. BRIDGE must develop the property in accordance with its final proposal submitted on October 3, 2008, as described in detail under the "Project Description" section of this report.
2. BRIDGE must guarantee the maximum Agency subsidy at \$21.3 million with MHP. If there are any increases in the project's funding gap due to the lower tax credit pricing or development cost increases, the additional gap would be funded by BRIDGE through its developer fees, equity or other non-Agency sources. If BRIDGE is required to redesign the original proposal or add features, the maximum Agency subsidy would be examined and adjusted to incorporate the changes.
3. BRIDGE shall use its best efforts to pursue other viable funding sources which may reduce the Agency's subsidy including Prop 1C Infill or Transit Oriented Development (TOD) funds.
4. To facilitate the timely advancement of the project and mitigate BRIDGE's risk while funding sources are being secured, the Agency may provide funding for up to 75% of pre-construction costs (excluding developer administrative costs), based on an agreed upon not-to-exceed pre-development budget, but in no event to exceed \$1 million, which shall be considered draws from the Agency's loan balance. If BRIDGE fails to proceed with construction of the project, the Agency would own 100% of the drawings, reports and other documents produced by third parties during the predevelopment phase. This provision will be incorporated into the DDA.
5. Prior to the execution of a DDA, BRIDGE must deliver to the Agency a deposit of \$100,000 as a performance guarantee. The deposit is refundable upon construction loan closing.

Exclusive Negotiation Agreement

The essential terms of the ENA are as follows:

1. The Agency and Developer shall negotiate for 180 days in order to enter into a DDA. At the option of the Agency's Executive Director, the negotiation period may be extended for an additional 90 days.
2. Developer shall develop a program of financing within 90 days.

3. Developer shall prepare and submit Conceptual/Schematic drawings, a project budget and other information during the negotiation period.
4. The Agency, City and CCDC shall not be liable for any costs associated with the preparation of any reports, studies, analysis and architectural plans, planning or development of the project, costs of negotiations or legal fees expended by Developer, unless mutually agreed to in writing in the ENA and/or DDA.
5. The Agency, City and CCDC shall not be obligated to approve or execute a DDA.

Housing Impact – The proposed Project will provide 250 affordable rental housing units for low-, very low- and extremely low-income households earning incomes below 60% of area median income. Of the 250 units, 88 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 140 living units, 36 studios and 74 one-bedroom units. (Note: Living unit is a housing type defined in the Centre City Planned Districts Ordinance. It is a small studio that does not exceed 400 square feet in size, but must include a kitchen and a private toilet.).

Project Description

BRIDGE proposes to construct affordable rental housing with 250 units targeted for extremely low, very low- and low-income households. Of the 250 units, 88 units (35% of the total units) will be available for special needs populations. To integrate the various resident populations, all unit types will be spread throughout the building. The proposed development will include 151 living units, 99 small apartments, 20,000 square feet of community space and 4,500 square feet of ground floor retail. The building will be 16 stories high, which will consist of a large four-story base and a 12-story tower atop. The project will be managed by BRIDGE Property Management Company, which is a subsidiary of BRIDGE Housing Corporation and manages more than 60 developments with over 7,200 rental and condominium units in California.

Supportive Housing

A total of 88 units will be set aside as supportive housing units for people with special needs who are at risk of becoming homeless (including young adults from foster homes). This equals 35% of the total units. The project will qualify for funding from the MHP - Supportive Housing component. BRIDGE plans to provide a variety of services on-site, including nutrition and financial management classes and job training, and hire part-time staff to coordinate services for the supportive housing tenants. In addition, BRIDGE will partner with local service providers to provide a variety of services. Of these supportive housing units, 25 will be financed by the Mental Health Services Act (MHSA) program, which targets formerly homeless mentally disabled population. BRIDGE will partner with the Community Research Foundation (CRF), a non-profit mental health provider based in San Diego and a recognized Full Service Partnership under the Mental Health Services Act, to provide case management services to the clients.

BRIDGE will work closely with CRF on these 25 units, including qualifying tenants, leasing and coordinating services. The MHSA units will be restricted at 20% AMI. The remainder of the supportive housing units (63 units) will be restricted at 30% AMI.

Ground Floor Commercial Space

The ground floor will have approximately 4,500 square feet of commercial space along Broadway. The commercial tenant could utilize the interior courtyard behind the commercial space for outdoor seating. BRIDGE plans to attract a restaurant/café that would provide employment opportunities for the residents, especially the supportive housing tenants who are trying to re-enter the workforce. BRIDGE will look at other successful examples including Pierre’s Place created by the Toussaint Academy, Ben & Jerry’s PartnerShops and Workforce partnerships (where a traditional retailer commits to hire employees from a disadvantaged population).

Green Building

The project will achieve Silver LEED certification as required by the RFP. The project team includes a LEED consultant to advise on the project’s green building features and LEED strategy. The project will incorporate a green eco-roof and photovoltaic panels. Costs for the proposed green building features and LEED certification process are incorporated into the development budget (approximately \$1 million).

Amenities

The project will include 20,000 square feet of community space. The ground floor will include an outdoor courtyard, a movie theater and a kitchen. There will be an outdoor terrace on the fourth floor and a large outdoor open space, a workout room and a community room on the 15th floor. Because the project includes more than 12 living units, balconies are not required. However, if requested by the Corporation, BRIDGE can add balconies on units facing Broadway and additional common area on each floor, which will increase the gap amount by \$750,000. In addition, BRIDGE will explore the possibility of space for a “one-stop-shop” of community service providers for the homeless population.

Parking

The building will include two levels of underground parking with 120 spaces (0.48 space/unit). This meets the Centre City PDO requirement of 107 spaces (99 spaces for residents and 8 spaces for guests).

The following is a summary of the BRIDGE proposal:

Site Area	25,000 sq. ft.
Maximum Floor Area Ratio (FAR) Permitted	10.0 – 14.0
Minimum FAR Required	6.0
Proposed FAR	6.26
FAR Bonuses Proposed	None

Stories	16 stories
Amount of Commercial Space	4,500 sq. ft.
Type of Housing	Affordable Rental Apartments
Total Number of Units / Total Residential Square Feet	250/ 149,000 sq. ft.
Types of Units (sizes)	151 Living Units (300 sq.ft.) 25 Studios (390 sq.ft.) 74 1-br (630 sq.ft.)
Projected Rental Rates	\$260-844 (based on 2008 AMI)
Number of Units Demolished	0
Inclusionary Housing Ordinance Compliance/ Number of Affordable Units	Provision of 248 affordable apartments
Parking Required Proposed	107 spaces for residential 120 spaces for residential
Assessor's Parcel Nos.	534-331-01 and 534-331-15

Project Financing

The estimated total development cost is approximately \$65,500,000. BRIDGE proposes to finance the project with a combination of 4% tax credits, State's MHP - Supportive Housing Component, MHSA, developer's cash equity and Affordable Housing Program (AHP) resources. BRIDGE will obtain construction and permanent loans from the California Housing Finance Agency (CalHFA), which will provide a portion of the loan at below market interest rate based on its Special Needs Financing Program. Key funding parameters of these affordable housing financing sources are summarized in Attachment D. The summary of permanent financing sources is shown below:

SOURCES OF FUNDS	
Multi-Family Housing Program	\$10,000,000
Tax Credits (4%)	\$23,944,000
Mental Health Services Act Program	\$2,000,000
Cash Equity	\$500,000
Deferred City Interest	\$698,000
Affordable Housing Program	\$1,000,000
CalHFA (permanent loan)	\$6,022,000
Redevelopment Agency Assistance (excluding land)	\$21,301,000 (\$85,900 per aff. unit)
TOTAL	\$65,500,000

Keyser Marston Associates (KMA), economic consultants to the Agency, analyzed the proforma submitted by the development team and found that the developer' estimates of development costs are reasonable relative to current industry standards.

Participation by Agency – The Agency currently owns 100% of the project site. A DDA and a ground lease will be executed between the Agency and BRIDGE for the development of the affordable housing project. The Agency subsidy will be provided from the Low and Moderate-Income Housing Fund for gap financing.

The current Agency subsidy request from BRIDGE is \$21.3 million. If the land acquisition cost of \$8,800,000 from the Original Developer (including purchasing of old plans) is added, the total Agency investment on this project would be \$30.1 million, which equals \$121,375 per affordable unit. The exact amount of the subsidy will be determined after making modifications and adjustments to the design and programs. Staff will work with the development team to assess the possibility of Prop 1C funding and 9% tax credits which may significantly reduce the Agency subsidy, as well as the availability of MHP funding.

Proposed Schedule of Performance

Action	Completion Date
Agency approval of ENA	February 2009
Corporation approval of ground lease and DDA	April 2009
Agency approval of ground lease and DDA	June 2009
Complete Financing Commitments	By December 2009
Start Construction	Spring 2010
Complete Construction	Fall-Winter 2011

Project Benefits - The proposed project would provide:

- Affordable rental housing for extremely-low, very-low and low-income households;
- Supportive housing units for special needs population who are at risk of being homeless;
- Living units for very low-income individuals; and
- Elimination of blight by developing an underutilized lot on a major commercial corridor.

Environmental Impact – This activity is not a “project” for purposes of the California Environmental Quality Act (CEQA) because it does not meet the criteria set forth in CEQA Guidelines Section 15378. Therefore, pursuant to CEQA Guidelines Section 15060(c)(3), this activity is not subject to CEQA. However, activities related to the future development of the Site will require additional review under the provisions of CEQA.

Prior to the Agency approval of any negotiated DDA, all required environmental analysis under CEQA will be completed for a project, which will at least include an Environmental Secondary Study. For informational purposes, a Phase I Environmental Site Assessment, dated February 22, 2007, was prepared by Advantage Environmental Consultants, LLC. The findings of these reports indicate that impacts from environmental contamination at the property are likely limited. However, the report suggests that if a UST tank is found during excavation of the site, regulatory reporting and soil sampling/analysis would be required.

CONCLUSION

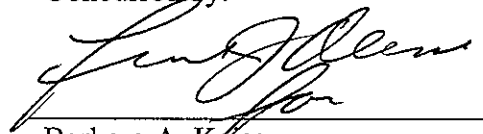
Staff recommends approval of ENA for the Ninth and Broadway Affordable Housing Project.

Respectfully submitted,

Concurred by:



Eri Kameyama
Associate Project Manager



Barbara A. Kaiser
Vice President – Real Estate Operations

- Attachments:
- A – Site Map
 - B – Project Site Summary Sheet
 - C – Summary of Best and Final Proposals, October 3, 2008
 - D – Key Funding Parameters of Affordable Housing Funding Sources
 - E – Exclusive Negotiation Agreement signed by BRIDGE Housing