



THE CITY OF SAN DIEGO

DATE ISSUED: July 21, 2009

REPORT NO.: RA-09-25

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of July 28, 2009

SUBJECT: Rehabilitation Loan Agreement and Associated Actions for the Lafayette
Hotel Rehabilitation Project in the North Park Redevelopment Project Area

REQUESTED ACTIONS:

That the Redevelopment Agency:

1. Approve the Rehabilitation Loan Agreement and authorize the Executive Director or designee to execute the Rehabilitation Loan Agreement between the Redevelopment Agency of the City of San Diego and Hampstead Lafayette Hotel, LLC for the Lafayette Hotel Rehabilitation Project and to execute such further instruments and enter into such additional agreements as may be necessary to effectuate the Rehabilitation Loan Agreement.
2. Authorize the Chief Financial Officer as delegated to Financial Management to establish an appropriation in the amount of \$3,250,000 designated "Lafayette Hotel Rehabilitation Project" through the transfer of \$3,250,000 from "North Park Unallocated Funds".
3. Authorize the Chief Financial Officer as delegated to the City Comptroller to encumber and expend North Park non-housing tax increment funds of up to \$3,250,000 "Lafayette Hotel Rehabilitation Project" as a forgivable loan to the Owner for the Lafayette Hotel Rehabilitation Project.

STAFF RECOMMENDATIONS:

That the Redevelopment Agency approve the requested actions.

SUMMARY:

The North Park Redevelopment Plan (the "Plan") was adopted on March 4, 1997. The Plan identifies various redevelopment priorities including the rehabilitation of any building or structure in the Project Area. North Park's Third Five-Year Implementation Plan, adopted on July 17, 2007, identifies one of its specific goals and objectives as the following: "Encourage conservation, rehabilitation and redevelopment in order to eliminate and prevent the spread of deterioration and blight in the Project Area."

Hampstead Lafayette Hotel, LLC has submitted a request to the Redevelopment Agency (the "Agency") for funding assistance for the Lafayette Hotel Rehabilitation Project (the "Project").



Redevelopment Agency

1200 Third Avenue, Suite 1400, MS 56D • San Diego, CA 92101-4110

Tel (619) 236-6700 Fax (619) 533-3219

City Planning & Community Investment



The proposed project will renovate and enhance the historic main building, poolside rooms and swimming pool of the Lafayette Hotel in North Park. The requested actions will allow for the execution of a Rehabilitation Loan Agreement (the "Agreement") with Hampstead Lafayette, LLC (Attachment 5 – Agreement) for the implementation of the Project.

Originally built in 1946, the historic Lafayette Hotel is located at 2223 El Cajon Boulevard within the North Park Redevelopment Project Area (Attachment 1– Site Map). The hotel sits on a super block 2.36 acre site and contains approximately 143,000 square feet of building area consisting of wood frame, stucco and block construction (Attachment 2– Site Photo). It includes 103 interior rooms, 28 pool-side rooms, two restaurants, two bars, a gym, a spa, a business center, ballroom/meeting space and an Olympic size swimming pool. The Lafayette Hotel site is across the street and within walking distance of public transportation, restaurants and retail services on El Cajon Boulevard. Although the existing historic structure and amenities have been maintained; the hotel is suffering the effects of age and is in need of renovations. If not rehabilitated, over time the hotel could become a detriment to the neighborhood.

The Lafayette Hotel is currently owned by Hampstead Lafayette Hotel, LLC (the "Owner"). The Owner planned to develop condominiums on the non-historic rear portion of the property and use the sale proceeds to rehabilitate the hotel, however, due to rising construction costs and the recent downturn in the housing market they have opted to postpone the development of the condominiums and move forward with the rehabilitation of the hotel. Planned improvements for the Lafayette Hotel will include interior and exterior painting, guest room upgrades, kitchen and bathroom remodeling, plumbing repairs, new roofing, window and flooring replacements, ADA compliance modifications, ballroom/meeting space renovations, landscaping and new HVAC systems (Attachment 3–Before and After Rehabilitation Unit Concept Photos).

Upon completion of the rehabilitation, the Lafayette Hotel would continue to function as a full service boutique hotel providing 131 guest rooms and hotel amenities. The hotel has been designated historical by the City of San Diego. The rehabilitation of the hotel will serve to enhance the historic features and the hotel will retain the historic designation.

A seven-year deed restriction will be imposed as a condition of the loan. The deed restriction will require that there is no change in ownership of the property for at least seven years after completion of construction. Commencing with the first year after construction is completed; fifteen percent (15%) of the loan will be forgiven each year to the fifth year and twelve and one-half percent (12.5%) will be forgiven in years six and seven. After seven years the loan will be forgiven.

EQUAL OPPORTUNITY CONTRACTING:

The rehabilitation loan agreement between the Agency and the Owner 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). To support its Equal Opportunity Contracting commitment, the City has established voluntary participation levels. The goals for this contract are 20% Voluntary Subcontractor Participation Goal, 15% Voluntary Subconsultant Participation goal. Goals are achieved by contracting with any combination of Minority Business Enterprise (MBE),

Women Business Enterprise (WBE), Disadvantaged Business Enterprise (DBE), Disabled Veteran Business Enterprise (DVBE), or Other Business Enterprise (OBE) level. Attainment of the participation level is strongly encouraged but strictly voluntary.

Prior to award, a workforce report or an Equal Opportunity (EEO) Plan will be submitted to the Program Manager of the City of San Diego Equal Opportunity Contracting Program (EOCP) for approval. Staff will monitor the plan and adherence to the Nondiscrimination Ordinance.

ENVIRONMENTAL REVIEW:

The City of San Diego prepared an Environmental Impact Report (EIR) in accordance with the California Environmental Quality Act (CEQA) for the Lafayette Hotel & Residences (SCH No. 2004081201, dated June 9, 2005, Project No. 40351). The project was approved and the EIR certified by the City Planning Commission on June 23, 2005 with adoption of a Mitigation Monitoring and Reporting Program for Paleontological Resources, Traffic/Circulation and Solid Waste. The approved project included demolition, new construction and the restoration and rehabilitation of the historic Lafayette Hotel in accordance with the Secretary for the Interior Standards for the Treatment of Historic Properties (1995). The current activity to authorize the Executive Director of the Redevelopment Agency to execute a loan agreement, expend and appropriate funds for the rehabilitation of the hotel is not a separate project for purposes of CEQA review pursuant to State CEQA Guidelines Section §15060(c)(3). The activity for which the funds will be used is adequately addressed in the environmental document noted above and there is no change in circumstance, additional information, or project changes to warrant additional environmental review.

FISCAL CONSIDERATIONS:

The Project's construction budget has been analyzed by Agency staff and the Agency's estimating and cost management consultant, Hunter Pacific. Estimated costs, financing assumptions, and deal terms have been negotiated and are proposed in the Rehabilitation Loan Agreement. Total project costs are \$4,031,620 (Attachment 4 – Project Budget). Since 2004 the Owner has invested approximately \$6,535,000 in hotel upgrades, repairs and maintenance and proposes to finance the Project with an additional financial contribution of approximately \$781,620 and an Agency subsidy in the form of a seven-year forgivable loan of \$3,250,000. The Owner has pledged to fund any remaining gap of the project costs and to cover any cost over runs.

The Owner is required to have the property appraised by a certified real estate appraiser between the fourth anniversary and the seventh anniversary of the date of the promissory note. If the new appraised value of the property adjusted for inflation is more than \$25,000,000, then the amount of the Agency loan that is forgiven is reduced by 25% of the difference between the adjusted appraised value and \$25,000,000. The unforgiven portion of the Agency note will be due and payable the later of one year from the date of the appraisal or the seventh anniversary of the promissory note date. Alternatively, at the developer's discretion, on the seventh anniversary of the promissory note date and for four consecutive years thereafter, the developer may make annual payments of 1/5 of the unforgiven portion of the Agency note together with interest at the annual rate of 3% on the unpaid principal balance until paid in full.

It is proposed that Agency funding be paid from non-housing tax increment generated from the North Park Redevelopment Project Area. Conditions precedent to the loan closing include, but are not limited to: evidence of all permits and requirements of the Historical Resources Board have been received and approved by the Agency Executive Director or designee, the construction contract has been executed and evidence of insurance has been provided.

Draw-down on Agency funds is proposed as follows:

First Draw: \$1,950,000 at loan closing

Second Draw: \$975,000 at 50% completion of rehabilitation

Third Draw: \$325,000 at completion of rehabilitation

The hotel is currently assessed at \$12,400,000. The following table summarizes the current loans that are secured by deeds of trust that would be senior to the Agency loan:

| Senior Debt | Loan Amount Outstanding | Maturity | Terms |
|-------------------------------|-------------------------|-----------|---------------------------------|
| Dunham Mortgage | \$8,250,000 | 12/1/2013 | No payment due until 5/2010 |
| Dunham Mortgage | \$3,500,000 | 12/1/2013 | No payment due until 5/2010 |
| Grady & Wentz | \$1,650,000 | 12/1/2013 | Only paid if there is cash flow |
| Total Senior Debt | \$13,400,000 | | |
| Current Appraised Hotel Value | \$12,412,215 | | |
| Loan to Value | 1.08:1 | | |

There is a risk that the Agency could lose some or all loan funds should the Owner have a foreclosure or surrender a deed of title in lieu of foreclosure to a senior lender. In anticipation of potential Agency financing, the senior lender has extended the maturities on its notes to December 31, 2013 with no principal or interest due until May 2010. The \$781,620 contribution from the Owner may be obtained through Historic Tax Credit or New Markets Tax Credit financing, which may also require a trust deed senior to the Agency. Based on a preliminary evaluation analysis done by HVS Consulting and Valuation Services, the Owner expects the estimated value of the hotel will be in excess of \$20 million upon completion of construction, which greatly increases the security position of the Agency loan.

In anticipation of the notes that are retiring in 2013, the Agency loan terms include a provision for the Owner to refinance the existing loans into more favorable terms, which may include increasing the loan amounts so they can retire more expensive debt to free up more capital to devote to hotel operations. Total senior debt including the outstanding principal on the Agency loan shall not exceed ninety-five percent (95%) of the appraised value of the hotel, of which the Owner shall be required to obtain Agency approval of such appraisal prior to refinancing.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None for this project.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS:

On October 14, 2008, the North Park Redevelopment Project Area Committee voted 11-1-0 to recommend approval of the \$3,250,000 expenditure from the non-housing tax increment generated in the North Park Redevelopment Project Area for the Lafayette Hotel Rehabilitation Project.

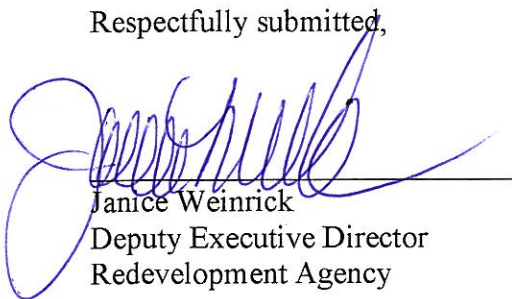
KEY STAKEHOLDERS AND PROJECTED IMPACTS:

| ROLE | FIRM/CONTACT | OWNERSHIP |
|--------------------------|--|---|
| Managing General Partner | More Than Dreams, LLC 2223 El Cajon Blvd. San Diego, CA 92104 Jay Wentz, Managing Partner jay@jcgdev.com | Hampstead Lafayette Hotel, LLC 2223 El Cajon Boulevard San Diego, CA 92104 |
| General Contractor | Michael W. Grady 619-276-6271 Ext. 12 | Monfrie, Inc. 1915 Morena Boulevard San Diego, CA 92110 |
| Architect | Arthur Balourdas 619-543-4209 | Arcadia Group 4250 Louisiana Street San Diego, CA 92104 |

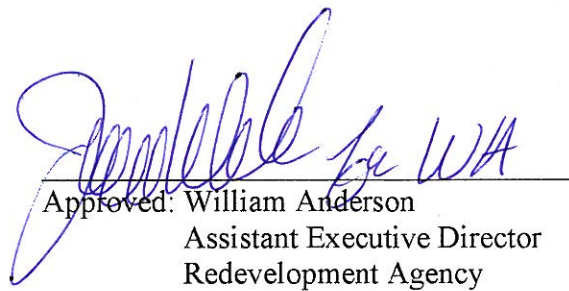
The Project fulfills the goals and objectives of the Redevelopment Plan by providing part of the financing for the rehabilitation of a building in the Project Area. The Project will help preserve and maintain a valuable historic community asset and is expected to provide significant community enhancement as well as act as a catalyst for further improvements in the area.

The improvements to the hotel will generate increased tax increment revenue for the North Park community and increased transit occupancy taxes (TOT) for the City of San Diego General Fund. In 2008, the Lafayette Hotel generated \$269,629 in TOT. After the rehabilitation is completed the hotel anticipates doubling the amount of TOT within five years through higher rates and increased occupancy, generating \$4,756,224 in TOT over a ten year period. Without Agency funding and the completion of needed renovations, the hotel may continue to fall into a state of disrepair resulting in its closing. The continued viability of the hotel will retain more than 50 jobs and the expected increase in room nights from out of town visitors will be of significant benefit to local restaurants and other businesses in the Project Area. The Agency and Project Area currently have the funding that is necessary for this proposed project.

Respectfully submitted,



Janice Weinrick
Deputy Executive Director
Redevelopment Agency



Approved: William Anderson
Assistant Executive Director
Redevelopment Agency

- Attachments:
1. Site Map
 2. Site Photo
 3. Before and After Rehabilitation Unit Concept Photos
 4. Rehabilitation Budget
 5. Rehabilitation Loan Agreement