Centre City Development Corporation

REPORT NO. CCDC-10-03

DATE ISSUED:	January 6, 2010
ATTENTION:	Honorable Chair and Members of the Redevelopment Agency Docket of January 12, 2010
ORIGINATING DEPT.:	Centre City Development Corporation
SUBJECT:	Smart Corner (C Street, Park Boulevard, Broadway, and Eleventh Avenue) – Proposed Agreement Affecting Real Property – East Village Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project
COUNCIL DISTRICT:	2
REFERENCE:	None
STAFF CONTACT:	Eli Sanchez, Senior Project Manager, 619-533-7121

REQUESTED ACTION: That the Redevelopment Agency of the City of San Diego ("Agency") approves the proposed Agreement Affecting Real Property (AARP) between the Agency and San Diego Housing Commission (SDHC) to modify use restrictions for the SDHC Office Tower (Attachment A).

STAFF RECOMMENDATION: That the Agency approves the proposed AARP between the Agency and San Diego Housing Commission (SDHC) to modify use restrictions for the SDHC Office Tower (Attachment A).

SUMMARY: The Agency and CJUF Smart Corner, LLC ("Developer") have entered into a certain Disposition and Development Agreement (DDA) dated July 31, 2003, as amended by a First Implementation Agreement dated August 19, 2004; a Second Implementation Agreement dated June 14, 2007; and a Third Implementation Agreement dated June 23, 2008.

Under the DDA, the Agency agreed to convey the certain property as defined in the DDA ("Property") to the Developer, and the Developer agreed to develop and construct certain improvements, including but not limited to a mid-rise, five-story office building ("Office Tower") on the Property to be sold to the SDHC. The Agency executed a Grant Deed conveying the property to the Developer, recorded on October 8, 2004 ("Grant Deed").

The recorded Grant Deed requires that SDHC lease the approximately 20,000-square-foot second floor of the Office Tower to nonprofit organizations or government entities. To the detriment of SDHC's operating budget, SDHC has been challenged to find qualified tenants to lease this space. SDHC requests that the restriction be modified to provide that SDHC continues to lease a minimum of 20,000 square feet of the Office Tower to nonprofit organizations or government entities; however, that these leases may be dispersed on either the first or second floor of the Office Tower.

The proposed AARP provides for the requested modification of the restricted use of the Office Tower Parcel. Staff recommends approval of the AARP.

FISCAL CONSIDERATIONS: None.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On November 18, 2009, the Centre City Development Corporation Board voted unanimously to recommend that the Agency approve the AARP.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Owner: San Diego Housing Commission	D. Lawrence Clemens Senior Vice President Real Estate Department	Public Agency

BACKGROUND:

The Agency acquired the 60,000-square-foot Smart Corner site for the purpose of creating a development that provides an anchor on the Park-to-Bay Link, the eastern C Street transit corridor and east Broadway, as well as to implement the Park-to-Bay Link by realigning and redeveloping the City College Trolley Station. The Agency entered into a DDA with the Developer on July 31, 2003, for the development and construction of the Smart Corner project. Smart Corner is complete and includes a five-story, approximately 111,000-gross-square-foot Office Tower for the SDHC and a 19-story, mixed-use residential tower with 301 for-sale condominium units and 9,000 square feet of retail ("Residential Tower"). The two towers share a four-level, approximately 634-space subterranean parking garage. In addition, the Metropolitan Transit Development Board has constructed and operates a light-rail transit station running diagonally through the site.

The recorded Grant Deed requires that the SDHC leases the approximately 20,000-square-foot second floor of the Office Tower to nonprofit organizations or government entities. To the detriment of SDHC's operating budget, SDHC has been challenged to find qualified tenants to lease this space.

DISCUSSION

Due to the negative condition of the local, state and national economy and its adverse affect on the local real estate market and business in general, the SDHC has been unable to lease the second floor to the narrowly prescribed tenants. As a result, the SDHC suffers from lost revenue

and the resultant impact on funds that should be used to further its mission. There is also concern that the vacant space may have a negative impact on the SDHC's scheduled refinance of its building loan.

SDHC requests that the use restrictions in the Grant Deed be modified to provide that the SDHC continue to lease a minimum of 20,000 square feet of the Office Tower to nonprofit organizations or government entities; however, that these leases may be dispersed on either the first or second floor of the Office Tower. The AARP is for a mixed use of office and retail on the ground floor and allows for a portion of the second floor to be leased to proprietary users.

The AARP maintains the spirit and intent of existing restrictions requiring the lease of the approximately 20,000-square-foot second floor to nonprofit organizations or government entities. However, the AARP provides for the flexibility to distribute the equivalent 20,000 square feet between the first and second floors. The SDHC agrees that the AARP is a workable solution which will benefit the SDHC while meeting the intent of the original lease conditions.

Environmental Impact – Under the 1992 Master Environmental Impact Report (MEIR), an Environmental Secondary Study was prepared in March 2003 and certified by Resolution No. 298269 of the City Council and Resolution No. R-03667 of the Agency, certifying that the City Council and Agency had reviewed and considered information contained in the MEIR and the Secondary Study with respect to the DDA for the Smart Corner project, and making certain findings and determinations regarding environmental impacts of the development pursuant thereto. As these previous documents contemplated the uses covered by the AARP in the Office Tower, no further environmental review is necessary.

CONCLUSION

The proposed modification under the AARP maintains the spirit and intent of the restrictions requiring the lease of 20,000 square feet within the Office Tower to nonprofit organizations or government entities. The Corporation Board unanimously recommends approval of the AARP.

Respectfully submitted,

Eli Sanchez
Senior Project Manager

Concurred by:

Frank J. Alessi
Executive Vice President & Chief Financial Officer

Attachment: A – Agreement Affecting Real Property