

Attachment 7
Summary (33433) Report and Re-use Analysis
[Behind this Page]

SAN YSIDRO REDEVELOPMENT PROJECT

SAN DIEGO, CALIFORNIA

**SUMMARY PERTAINING TO THE PROPOSED SALE OF CERTAIN PROPERTY
WITHIN THE
SAN YSIDRO PROJECT AREA**

**California Community Redevelopment Law
Section 33433**

**PURSUANT TO PROPOSED DISPOSITION AND DEVELOPMENT AGREEMENT
BETWEEN
THE REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO
AND
SYEP ASSOCIATES**

**Redevelopment Agency
of the
City of San Diego, California**

February 2008

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| I. Introduction | 1 |
| II. Costs of the DDA to the Agency | 3 |
| III. Estimated Value of the Interest to be Conveyed at the Highest and Best Use Permitted Under the Redevelopment Plan..... | 4 |
| IV. Estimated Value of the Interest to be Conveyed at the Use and with the Conditions, Covenants, and Development Costs Required by the Sale of the Property | 5 |
| V. Compensation which Developer will be Required to Pay..... | 7 |
| VI. Explanation of the Difference, if any, between the Compensation to be Paid to the Agency by the Proposed Transaction and the Fair Market Value of the Interest to be Conveyed at the Highest and Best Use Consistent with the Redevelopment Plan | 8 |
| VII. Explanation of why the Sale of the Property will Assist with the Elimination of Blight..... | 9 |

I. INTRODUCTION

A. Purpose of Report

This Summary Report was prepared in accordance with Section 33433 of the California Community Redevelopment Law in order to inform the Redevelopment Agency of the City of San Diego (Agency) and the public about the proposed transaction between the Agency and SYEP Associates (Developer). The Report describes and specifies:

1. The costs to be incurred by the Agency under the DDA;
2. The estimated value of the Interest to be conveyed at the proposed use and with the conditions, covenants, and development costs required by the sale of the Property;
3. The compensation to be paid to the Agency pursuant to the proposed transaction;
4. An explanation of the difference, if any, between the compensation to be paid to the Agency under the proposed transaction, and the fair market value at the highest and best use consistent with the San Ysidro Redevelopment Plan; and
5. An explanation of why the sale of the Property will assist with the elimination of blight.

B. Description of Area and Proposed Project

San Ysidro is a community of the City of San Diego (City) located in the southern portion of San Diego County adjacent to the international border with Mexico. San Ysidro is the southernmost neighborhood of the City. The area is the gateway between Mexico and the U.S. and the busiest international crossing in the world. Interstate 5 (I-5) and Interstate 805 (I-805) merge in this area and the San Diego Trolley carries people from the border to Downtown San Diego. The majority of commercial activity is along San Ysidro Boulevard and in the Las Americas shopping center.

The Property is an approximately 2.2-acre, privately-owned site located in the San Ysidro Redevelopment Project Area in the City of San Diego. Specifically, the Property is bounded by Averil Road on the west, San Ysidro Boulevard on the south, Sunset Lane on the north, and existing development on the east. The Property is currently vacant with the exception of foundations and driveways from previous improvements that will need to be removed. The Property is bisected in a north/south direction by a drainage swale, which limits the Property's usable area and results in irregularly shaped building footprints.

The Project is proposed to consist of two and three stories containing 45 apartments with recreational facilities, a multi-purpose room, pool/spa, and picnic area. The apartments will comprise one two bedroom unit, 20 three bedroom units, and 24 four bedroom units with an overall average size of 1,264 SF. The units will be affordable to very low- and low-income households earning between 30% and 60% of Area Median Income (AMI). Parking for the Project will be provided in a 90-space subterranean parking garage for residents and a 15-space surface lot for guests.

C. Proposed Transaction Terms

This section summarizes the salient aspects of the business terms contained in the draft DDA.

- The Developer will construct 44 residential units, affordable to very low- and low-income families, and one manager's unit.
- The Project will remain affordable for a term of 55 years.
- The Agency will contribute a maximum of \$3,606,000 toward the Project in the form of a 55-year Residual Receipts Loan.
- The Developer will apply for Affordable Housing Program (AHP) funds in the amount of \$113,000.
- The Developer agrees that in the event the Project experiences any development cost savings or additional proceeds, then the Agency Residual Receipts Loan will be reduced dollar-for-dollar.
- The Agency may in its sole discretion decide to voluntarily negotiate with the current property owner to acquire the Property, or to consider exercising its power of eminent domain.
- The Agency is not obligated to acquire, or attempt to acquire, the Property until such time the Developer has been awarded Low Income Housing Tax Credits (LIHTC) for development of the Property.
- The Developer will purchase the Property from the Agency for the greater of: (1) the value determined as the highest and best use of the Property under California Health and Safety Code Section 33433; or (2) the total costs and expenses incurred by the Agency for acquisition, relocation, condemnation, site clearance, and feasibility.
- The Developer will apply to the State of California for LIHTC credits.

- The Developer agrees to defer \$340,000 of their \$1,400,000 developer fee and apply it as a funding source for the Project.
- It is the responsibility of the Developer to ensure that applicable City zoning and land use requirements will permit development of the proposed Project.
- The Developer will be responsible for all development costs, including demolition of existing improvements, remediation, construction of the Project, and off-site improvements.
- The Developer will enter into an affordable housing monitoring and reporting agreement with the Agency and/or the San Diego Housing Commission, and pay customary monitoring fees.

II. COSTS OF THE DDA TO THE AGENCY

The estimated cost of the proposed Agreement to the Agency totals \$3,606,000, broken out as follows:

| | Amount |
|--|--------------------|
| Acquisition Cost | \$2,540,000 |
| Agency Residual Receipts Loan | \$3,606,000 |
| (Less) Developer Purchase Price | (\$2,540,000) |
| Agency Costs | \$3,606,000 |
| Add: Agency Administrative/Other Costs (1) | \$0 |
| Total Agency Costs | \$3,606,000 |

- (1) The Developer is responsible for all costs incurred by the Agency for acquisition, relocation, condemnation, and site clearance. As part of the DDA, the Agency is likely to incur costs for third-party legal and economic consultants. Prior to entering into an Exclusive Negotiation Agreement (ENA) with the Agency, the Developer submitted a good faith deposit, which the Agency is exclusively using to pay for expenses incurred in negotiating and preparing the DDA.

III. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

This section presents an analysis of the fair market value of the Property at its highest and best use.

Typically, the analysis of the fair market value at highest and best use does not consider the specific Agency/Developer transaction or development concept, but rather the most profitable use that is consistent with the Redevelopment Plan or other governing land use regulations. The purpose of the analysis is to estimate the maximum compensation that the Agency could achieve if it were to offer the subject property or development right on the open market. The highest and best use of the property is the use that generates the highest property value. By definition, the highest and best use is that use which is physically possible, financially feasible, and legally permitted.

The San Ysidro Community Plan governs the zoning and land uses for the Property. The Property is zoned RM-1-1, which allows for multi-family development at one unit per 3,000 SF of land with a maximum FAR of 0.75. A density bonus is available if certain restrictions are met.

The Agency separately contracted with Rasmuson Appraisal Services for an appraisal of the subject Property. The appraisal estimates the current market value, excluding entitlements, of the subject Property as of January 10, 2008. The appraisal does not consider the specific conditions, covenants, and restrictions contained within the DDA. The appraiser concluded a value of \$2,540,000, or \$26 per SF land.

KMA prepared an independent analysis of property values in the San Ysidro area. Based on this analysis, KMA concurs with the Rasmuson appraisal that the fair market value of the Property at its highest and best use is \$26 per SF land, or \$2,540,000.

IV. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE USE AND WITH THE CONDITIONS, COVENANTS, AND DEVELOPMENT COSTS REQUIRED BY THE SALE OF THE PROPERTY

A. Conditions, Covenants, and Development Costs

This section explains the principal conditions and covenants which the Developer of the Property must meet in order to comply with the San Ysidro Community Plan and the DDA.

The DDA contains specific covenants and conditions designed to ensure that the conveyance of the Property will be carried out in a manner to achieve the Agency's objectives, standards, and criteria under the San Ysidro Redevelopment Plan. Such covenants and conditions include a limitation on use such that:

- The Project will be restricted to very low- and low-income households for 55 years.
- The Project is proposed to receive Low Income Housing Tax Credits (LIHTC).

B. Estimated Fair Re-use Value of the Interest to be Conveyed

Re-use value is defined as the highest price in terms of cash or its equivalent which a property or development right is expected to bring for a specified use in a competitive open market, subject to the conditions, covenants, and development costs imposed by the DDA.

KMA has separately reported to the Agency that the fair re-use value of the Property is *negative* \$1,066,000.

V. THE COMPENSATION WHICH DEVELOPER WILL BE REQUIRED TO PAY

The estimated value of the compensation to be received by the Agency for the Property is *negative* \$847,000, as outlined below.

| | |
|---|----------------------|
| Developer Purchase Price | \$2,540,000 |
| NPV of Residual Receipts Payments to Agency (1) | <u>\$219,000</u> |
| Total, Developer Payments | \$2,759,000 |
| (Less) Agency Loan to Developer | <u>(\$3,606,000)</u> |
| Net Effective Compensation to Agency | (\$847,000) |

(1) See the KMA estimate of re-use value memorandum dated February 4, 2008.

VI. EXPLANATION OF THE DIFFERENCE, IF ANY, BETWEEN THE COMPENSATION TO BE PAID TO THE AGENCY BY THE PROPOSED TRANSACTION AND THE FAIR MARKET VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE CONSISTENT WITH THE REDEVELOPMENT PLAN

The fair market value of the interest to be conveyed at the highest and best use consistent with the San Ysidro Redevelopment Plan is estimated by KMA to be \$2,540,000, or \$26 per SF land.

The compensation to be paid to the Agency pursuant to the DDA is estimated by KMA to be *negative* \$847,000. Factors affecting the difference in compensation and fair market value of the Property at highest and best use include:

- The Project will consist of rental apartments restricted to very low and extremely low-income households for 55 years.
- The Project is proposed to receive Low Income Housing Tax Credits (LIHTC).

VII. EXPLANATION OF WHY THE SALE OF THE PROPERTY/GRANT OF EASEMENT AREA WILL ASSIST WITH THE ELIMINATION OF BLIGHT

The Redevelopment Plan for the San Ysidro Redevelopment Project adopted by the Redevelopment Agency on April 16, 1996 in accordance with Section 33490 of the California Community Redevelopment Law, contains the goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Areas. These blighting factors include:

- The age, obsolescence, deterioration, mixed character, or shifting uses of existing buildings.
- The subdividing and sale of lots of irregular form and shape, and inadequate size, for proper usefulness and development.
- A prevalence of depreciated values and impaired investments.

Implementation of the DDA can be expected to assist in the alleviation of blighting conditions through the following:

- Consolidation of irregular parcels into a site appropriate for development.
- Encouragement of new and continuing private investment.
- Creation of viable housing options within the San Ysidro community that span a range of incomes.