

CITY HEIGHTS REDEVELOPMENT PROJECT

SAN DIEGO, CALIFORNIA

**SUMMARY PERTAINING TO THE PROPOSED SALE OF CERTAIN PROPERTY
WITHIN THE
CITY HEIGHTS PROJECT AREA**

**California Community Redevelopment Law
Section 33433**

**PURSUANT TO THE DISPOSITION AND DEVELOPMENT AGREEMENT AS
PROPOSED TO BE AMENDED BY THE SECOND IMPLEMENTATION AGREEMENT
BETWEEN
THE REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO
AND
CITY HEIGHTS REALTY, LLC**

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

November 2008

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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 City Heights Realty (Developer). The Report describes and specifies:

1. The costs to be incurred by the Agency under the Disposition and Development Agreement and as amended by the First Implementation Agreement and proposed to be amended by the Second Implementation Agreement (collectively, 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 Acquisition Parcel;
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 City Heights Redevelopment Plan; and
5. An explanation of why the sale of the Acquisition Parcel will assist with the elimination of blight.

B. Description of Area and Proposed Project

The City Heights area is a business and residential area in the heart of Mid-City, and encompasses nearly 2,000 acres. The area is characterized by its densely populated neighborhoods and its ethnic diversity. The community's mixed ethnic population has stimulated growth in the form of a rich variety of local restaurants, shops, and service-oriented stores. Most of this growth has centered around four main axes: University Avenue, El Cajon Boulevard, Interstate 15, and the 43rd Street/Fairmount Avenue couplet.

The Developer intends to build a mixed-use, five-story development with 92 residential units and approximately gross 29,000 square feet (SF) of commercial space (Project). The Project will be constructed on an approximately 1.42-acre site (Site) on the north side of University Avenue between 43rd Street and Fairmount Avenue in the City Heights community of San Diego.

The Site is approximately 1.42 acres and located in the City Heights Redevelopment Project Area in the City of San Diego. Specifically, the Site is situated at the southern portion of the block bounded by University Avenue on the south, Fairmount Avenue on the east, Polk Avenue on the north, and 43rd Street on the west. Approximately 1.14 acres of the Site is owned by the Developer (Developer Parcel) and the remaining portion is owned by the Agency (Acquisition Parcel). The Acquisition Parcel is currently occupied by a Jack-in-the-Box restaurant. Adjacent to the Developer's Parcel lies approximately 5,300 SF of property owned by the Agency (Park Site). The Developer conveyed the Park Site to the Agency as part of the DDA.

The Site is comprised of the following properties:

- Developer Parcel – 1.14 acres
- Acquisition Parcel – 0.29 acres

Under the terms of the DDA, the Agency will acquire the Acquisition Parcel and convey it to the Developer.

C. Proposed Transaction Terms

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

- The Agency will convey the Acquisition Parcel to the Developer for the purchase price of \$586,000.
- The Agency will be responsible for relocation of all tenants of the Acquisition Parcel in accordance with all applicable relocation laws and requirements. The Agency will use its best efforts to relocate the existing tenant, Jack-in-the-Box, prior to January 31, 2009.
- The Agency will be responsible for demolition and removal of the existing building on the Acquisition Parcel.
- The Developer will be responsible for all development costs, including environmental remediation, construction of the Project, and off-site improvements.

- The Developer has loaned the Agency funds (Developer Advance) in an amount estimated to equal the cost for the acquisition of the Acquisition Parcel; the costs of demolition, furnitures, fixtures, and equipment (FF&E), and relocation and goodwill; and the park and Planned Development Permit (PDP) entitlement costs. The loan is for a maximum of \$3,500,000 and will carries a term of 20 years, and an interest rate of 8.0%. If the Agency pays off the loan within five years of issuance, the interest rate will be retroactively lowered to 6.0%.
- SCS Engineers have provided an Updated Conceptual Cost Estimate for remediation costs (Contamination Value) of the Acquisition Parcel. The Contamination Value is estimated to total \$264,000.
- If the actual Contamination Value of the Acquisition Parcel is less than \$264,000, the difference will be credited against the outstanding principal balance owed by the Agency to the Developer under the loan.
- If the actual Contamination Value of the Acquisition Parcel is in excess of \$264,000, the difference will be added to the outstanding principal balance owed by the Agency to the Developer under the loan.
- The Developer will construct 92 residential units, of which a minimum of 14 will be affordable to very low- and low-income families (Affordable Apartments).
- The Affordable Apartments will remain affordable for a term of 55 years.
- It is the responsibility of the Developer to ensure that applicable City zoning and land use requirements will permit development of the proposed Project.

II. COSTS OF THE DDA TO THE AGENCY

Costs to the Agency related directly to the development of the Acquisition Parcel total \$3,521,000, and are itemized below. They consist of the following (1):

I. Costs to the Agency

A. Acquisition Costs (2)

Land Acquisition	\$1,900,000
Demolition	\$84,000
Tenant FF&E	\$85,000
Tenant Goodwill (3)	\$261,000
Contingency	<u>\$100,000</u>
Subtotal Acquisition Costs	\$2,430,000
Add: Financing Costs (4)	<u>\$1,661,000</u>
Total Acquisition Costs	\$4,091,000

B. Other Agency Costs

Pro-rata Portion of Park Site/Park Entitlements	\$171,000
Legal, Economic, and Environmental Consultants	<u>\$175,000</u>
Total Other Agency Costs	\$346,000

C. Total Costs to the Agency **\$4,437,000**

II. Net Costs to the Agency

Total Costs to the Agency	\$4,437,000
(Less) Purchase Price for the Acquisition Parcel	(\$586,000)
(Less) Rental Income (5)	<u>(\$330,000)</u>
Net Costs to the Agency	\$3,521,000

(1) Unless noted, all figures provided by the San Diego Redevelopment Agency.

(2) To facilitate the Agency's ability to acquire the Acquisition Parcel and pay for acquisition and related expenses, the Developer has advanced a loan to the Agency in the amount of \$3.5 million (Developer Advance).

(3) Agency estimate. The Agency is aware that there may be a threatened loss of goodwill claim, which if happens, will be vigorously contested. The costs will remain an Agency responsibility.

(4) Reflects maximum interest payments due on Developer Advance over 20-year term (undiscounted future dollars). Actual Agency financing costs may be significantly lower if the Agency elects to use the City Heights Non-Housing Line of Credit approved by the Agency on June 26, 2007. This cost of funds is currently estimated in the 2.5%-3.5% range, versus the 8.0% interest rate on the Developer Advance.

(5) Reflects rental income from the existing Jack-in-the-Box site projected through December 31, 2008.

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 Acquisition Parcel 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 City Heights Redevelopment Plan, Mid-City Community Plan, and the Central Urbanized Planned District Ordinance govern the zoning and land uses for the Acquisition Parcel. The Redevelopment Plan identifies commercial mixed-use projects, affordable housing, and rehabilitation projects as primary development objectives.

KMA prepared an independent analysis of property values in the City Heights area (memorandum to Agency, November 12, 2008). Based on this analysis, it is the KMA estimate that the fair market value of the Acquisition Parcel, as though remediated, at its highest and best use is \$850,000. The costs to remediate the contaminated soils on the Acquisition Parcel are estimated to be \$264,000. Therefore, KMA concludes that the fair market value of the Acquisition Parcel at its highest and best use is \$586,000.

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 ACQUISITION PARCEL

This section explains the principal conditions and covenants which the Developer of the Site must meet in order to comply with the City Heights Redevelopment Plan and the DDA.

The DDA contains specific covenants and conditions designed to ensure that the conveyance of the Acquisition Parcel will be carried out in a manner to achieve the Agency's objectives, standards, and criteria under the City Heights Redevelopment Plan. Such covenants and conditions include a limitation on use such that a portion of the Project can only be used for the development of an apartment development available to persons earning below the area median income for a minimum period of 55 years.

Based on this restriction KMA estimates the fair re-use value of the Acquisition Parcel to be *negative* \$3,061,000.

V. THE COMPENSATION WHICH DEVELOPER WILL BE REQUIRED TO PAY

The estimated value of the compensation to be received by the Agency for the Acquisition Parcel is \$586,000.

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

There is no difference between the compensation to be paid to the Agency by the proposed transaction and the fair market value of the Acquisition Parcel at its highest and best use.

VII. EXPLANATION OF WHY THE SALE OF THE ACQUISITION PARCEL WILL ASSIST WITH THE ELIMINATION OF BLIGHT

The Redevelopment Plan for the City Heights Project Area adopted by the Redevelopment Agency in April 1992 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.
- The defective design in character or physical condition of existing buildings.

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

- Consolidation of irregular parcels into a site appropriate for development.
- Elimination of conditions of economic dislocation such as fragmented ownership patterns.
- Provision of affordable housing opportunities for City Heights residents.
- Provision of new employment and shopping opportunities for the City Heights community.
- Provision of an environment where a socially balanced community can work and live by providing jobs and housing compatible with a modern urban center.