



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: November 13, 2020

HCR20-111

SUBJECT: Exclusive Negotiating Agreement, Predevelopment Loan for Predevelopment Analysis and Contingent Sale of Property at Southeast Corner of Famosa and Nimitz Boulevards

COUNCIL DISTRICT(S): 2

ORIGINATING DEPARTMENT: Real Estate Division

CONTACT/PHONE NUMBER: Michael Pavco, 619-578-7488

REQUESTED ACTION:

Authorize the San Diego Housing Commission (Housing Commission) on behalf of the Housing Authority of the City of San Diego (Housing Authority) to: (i) enter into an Exclusive Negotiating Agreement with Bridge Housing Corporation (Bridge); (ii) make a Predevelopment Loan for the potential sale of property on the southeast corner of Famosa and Nimitz Boulevards; and (iii) on behalf of the Housing Authority, authorize the Executive Director of the Housing Authority, or designee, to enter into a contingent Purchase and Sale Agreement (PSA) with Bridge with a purchase price of \$800,000.00.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The Housing Authority owns approximately 5.61 acres of real property on the southeast corner of Famosa and Nimitz boulevards in zones RM-2-5 and RM-3-7, consisting of 12 parcels, located within the Peninsula Community Planning Area (Property).
- On July 6, 1981, the City of San Diego sold the Property to the Housing Authority via resolution No. 254594, which specified the Property shall be used for the construction of no fewer than 78 low-income rental apartments.
- In 2017 and 2019, a consultant for the Housing Commission prepared two land use studies that confirmed the Property can accommodate the construction of at least 78 rental units.
- The Housing Commission issued a Request for Proposals (RFP) from development teams experienced in the construction of high-quality, affordable rental housing.
- At the RFP's closing date of February 27, 2020, the Housing Commission received two responsive and responsible proposals from Bridge Housing Corporation (Bridge) and McCormick, Baron and Salazar, Inc.
- An Evaluation Committee evaluated, scored and ranked the responses to the RFP and concluded that Bridge's proposal provided the best overall value.
- If the Housing Authority approves, the Housing Commission and Bridge will enter into an exclusive negotiating agreement, and the Housing Commission will make a \$910,000 predevelopment loan to Bridge.
- The proposed actions in this report would authorize the Executive Director of the Housing Authority, or designee, to enter into a Purchase and Sale Agreement (PSA), on behalf of the Housing Authority with Bridge for a purchase price of \$800,000.00 and authorize the conveyance of the Property after full vetting of the proposed project, with attendant modifications required during the entitlement process, contingent upon satisfactory design of the Project (which design shall include rental affordable housing units) as well as the Project receiving all necessary discretionary approvals, entitlements and environmental clearances from the City of San Diego.



REPORT

DATE ISSUED: November 6, 2020

REPORT NO: HCR20-111

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of November 13, 2020

SUBJECT: Exclusive Negotiating Agreement, Predevelopment Loan for Predevelopment Analysis and Contingent Sale of Property at Southeast Corner of Famosa and Nimitz Boulevards

COUNCIL DISTRICT: 2

REQUESTED ACTION

Authorize the San Diego Housing Commission (Housing Commission) on behalf of the Housing Authority of the City of San Diego (Housing Authority) to: (i) enter into an Exclusive Negotiating Agreement with Bridge Housing Corporation (Bridge); (ii) make a Predevelopment Loan for the potential sale of property on the southeast corner of Famosa and Nimitz Boulevards; and (iii) on behalf of the Housing Authority of the City of San Diego (Housing Authority) authorize the Executive Director of the Housing Authority, or designee, to enter into a contingent Purchase and Sale Agreement (PSA) with Bridge with a purchase price of \$800,000.00.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) recommend that the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

- 1) Authorize the Housing Commission's President and Chief Executive Officer (President & CEO), or designee, to enter into an Exclusive Negotiating Agreement with Bridge Housing Corporation (Bridge), which will include a predevelopment loan to Bridge in the amount of \$910,000.00 (Loan) to be used for predevelopment activities. If Bridge acquires the Property from the Housing Authority, the predevelopment loan shall be repaid to the Housing Commission at closing. However, if Bridge does not acquire the Property from the Housing Commission, the predevelopment loan shall be deemed repaid in exchange for Bridge assigning all of its interest in all reports, studies and plans pertaining to the Property, subject to any applicable third-party rights in such materials so assigned.
- 2) Authorize the Executive Director of the Housing Authority, or designee, to enter into a Purchase and Sale Agreement (PSA), on behalf of the Housing Authority with Bridge for a purchase price of \$800,000.00 and authorize the conveyance of the Property, contingent upon satisfactory design of the Project (which design shall include rental affordable housing units) as well as the Project receiving all necessary discretionary approvals, entitlements and environmental clearances from the City of San Diego.

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- 3) Authorize the President & CEO, or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form approved by General Counsel, and take such actions as are necessary and/or appropriate to implement these approvals.

SUMMARY

The Housing Authority owns the approximately 5.61 acres of real property on the southeast corner of Famosa and Nimitz Boulevards in zones RM-2-5 and RM-3-7, consisting of 12 parcels, located within the Peninsula Community Planning Area (Property).

The City of San Diego (City) acquired the Property in June 1874. On April 13, 1909, the Property was designated as a park by the City via City resolution No. 3664. In June 1956, the park designation for the Property was rescinded via City resolution No. 6906, which resolution was ratified by the required 2/3rds public vote approving ballot Proposition L on June 5, 1956. On July 6, 1981, the City sold the Property to the Housing Authority via resolution No. 254594, which specified the Property shall be used for the construction of no fewer than 78 low-income rental apartments.

In December 2017, the Housing Commission retained a consultant to study the Property's development potential. Although that analysis identified various land use constraints, the consultant concluded the Property could accommodate multifamily housing construction. In May 2019, the same consultant conducted a second and more thorough study of the Property, including reports from various due diligence engineering disciplines. This second analysis confirmed the Property, subject to additional analysis, could reasonably be considered for the development of at least 78 rental housing units.

Given the positive results of the preliminary feasibility studies, the Housing Commission issued a Request for Proposals (RFP) on August 29, 2019, for the potential development of high-quality, affordable rental housing on the Property. The RFP was posted on the Housing Commission's PlanetBids system. A total of 179 notifications were sent to registered vendors and firms. Twenty-four firms became plan holders. A pre-proposal meeting was held September 17, 2019, with representatives from two firms in attendance.

At the RFP's closing on February 27, 2020, the Housing Commission received two proposal responses from the below-listed firms:

Proposer	Responsive
Bridge Housing Corporation	Y
McCormick, Baron and Salazar, Inc.	Y

An Evaluation Committee (Committee) evaluated, scored, and ranked the responses to the RFP based on the following criteria: Project Plan, Project Related Experience, Strength of Development Team, Respondents Financial Capacity and Capability, Due Diligence Budget, Funds Requested and Proposed Terms. At the conclusion of the initial evaluation process, Best & Final Offers (BAFO) were requested from both firms. BAFO's were received August 26, 2020, and thoroughly reviewed. Subsequently, the Committee made the determination that Bridge's proposal provided the best overall value to the Housing Commission and entered into discussions and negotiations with them. Below is the proposal ranking summary for each firm. The summary represents the Committee's final ranking.

Proposer	Ranking
Bridge Housing Corporation	1
McCormick, Baron and Salazar, Inc.	2

The Committee recommends the Board authorize the Executive Director of the Housing Authority, or designee, to enter into an Exclusive Negotiating Agreement with Bridge, which will include a predevelopment loan in the amount of \$910,000.00 (Loan) to be used for predevelopment activities. The intent of the Loan is to assist Bridge in designing and determining the feasibility of a potential affordable housing project on the Property, which is anticipated to include not less than 78 rental affordable units (Project). In no event shall the Housing Authority or Housing Commission take any action that would foreclose any alternatives or mitigation measures with respect to any use of the Property, including the “no project” alternative. If Bridge acquires the Property from the Housing Authority, the predevelopment loan would be repaid to the Housing Commission at closing. However, if Bridge does not acquire the Property from the Housing Commission, the predevelopment loan will be deemed repaid in exchange for Bridge assigning all of its interest in all reports, studies and plans pertaining to the Property, subject to any applicable third-party rights in such materials so assigned.

The Committee recommends the Board authorize the Executive Director of the Housing Authority, or designee, to enter into a Purchase and Sale Agreement (PSA), on behalf of the Housing Authority with Bridge with a purchase price of \$800,000.00. Closing on the sale of the Property shall be contingent upon the Executive Director of the Housing Authority, or designee, approving the design of the Project, as well as the Project receiving all necessary discretionary approvals, entitlements and environmental clearances from the City of San Diego. In no event shall the Housing Authority or Housing Commission take any action that would foreclose any alternatives or mitigation measures with respect to any use of the Property, including the “no project” alternative.

The proposed terms of the proposed transaction have been determined to be fair and reasonable. Bridge would pay \$800,000 for the Property consistent with its fair market value according to a recent appraisal, which represents a \$300,000 increase from Bridge’s original proposed offer. In addition, although the Housing Commission offered up to \$1,500,000 in an advance for due diligence activities subject to reimbursement upon close of escrow and purchase, after negotiations, the predevelopment loan will be capped at \$910,000. Should the contingencies to conveyance of the Property to Bridge be satisfied, Bridge shall repay the Housing Commission \$910,000.00 at closing in addition to paying the purchase price of \$800,000.00.

The Project shall achieve sustainability and energy efficiency goals that exceed the minimum requirements of the California State Building Code and shall adhere to Green Building fundamentals, which shall be integrated into the Project’s design and construction, while complying with all land use and zoning requirements.

Bridge has created a preliminary conceptual proposal for a potential project to be constructed on the site at the southeast corner of Famosa and Nimitz boulevards. This is not a definitive, final proposal. The conceptual proposal is subject to a thorough review by the City of San Diego and the community. During this type of process, it is common for a conceptual proposal to change substantially before it is finalized and potentially approved. The current conceptual proposal is for a potential development of 87 units with a mix of affordability, as described below.

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Nine of the units are proposed to be affordable to households with income up to 100 percent of the San Diego Area Median Income (AMI); 22 units would be affordable to households with income up to 80 percent of AMI; 33 units would be affordable to households with income up to 60 percent of AMI; and 22 units will be affordable to households with income up to 40 percent of AMI. The development also would include one three-bedroom unrestricted manager's unit. A breakdown of the proposed one-, two- and three- bedroom units by affordability level is as follows:

Unit mix:

40 percent of AMI: 9 one-bedroom units, 8 two-bedroom units, and 5 three-bedroom units

60 percent of AMI: 14 one-bedroom units, 12 two-bedroom units, and 7 three-bedroom units

80 percent of AMI: 9 one-bedroom units, 7 two-bedroom units, and 6 three-bedroom units

100 percent of AMI: 3 one-bedroom units, 3 two-bedroom units, and 3 three-bedroom units

Unrestricted Manager's Unit: 1 three-bedroom unit

The estimated total development cost for this preliminary conceptual proposal is \$41,318,417 and is subject to change, depending on modifications to the proposal.

FISCAL CONSIDERATIONS

Provided the PSA is entered into and all contingencies are satisfied, Bridge will pay \$800,000 to purchase the Property, which is consistent with the Property's fair market value. Bridge will receive up to \$910,000.00 as a predevelopment loan for due diligence and predevelopment activities.

PREVIOUS COUNCIL and/or COMMITTEE ACTION

- The City acquired the Property in June 1874.
- On April 13, 1909, the Property was designated as a park by the City via City resolution No. 3664.
- In June 1956, the park designation was rescinded via City resolution No. 6906, which resolution was ratified by the required 2/3rds public vote approving ballot Proposition L on June 5, 1956.
- On July 6, 1981, the City sold the Property to the Housing Authority via resolution No. 254594, which specified the Property shall be used for the construction of no fewer than 78 low-income rental apartments.
- On June 15, 2017, at the invitation of the Peninsula Community Planning Board (PCPB), Housing Commission staff made a presentation to the PCPB about affordable housing, and the PCPB approved a letter to then-Councilmember Lorie Zapf and the Housing Commission, signed by then Board Chair Jon Linney, supporting development of affordable workforce housing at the property at the southeast corner of Famosa and Nimitz Boulevards.
- On May 17, 2018, Housing Commission staff returned to the PCPB to provide a brief summary of progress to date on the Housing Commission's studies of the feasibility of developing affordable housing at property at the southeast corner of Famosa and Nimitz Boulevards.
- On June 24, 2018, Housing Commission staff returned to the PCPB for a special meeting, at which the Housing Commission provided a more formal presentation about the property at the southeast corner of Famosa and Nimitz Boulevards and affordable housing.
- On June 21, 2018, the PCPB sent a letter to then-Councilmember Lorie Zapf and the Housing Commission, rescinding the PCPB's previous letter of June 15, 2017.

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- On July 19, 2018, the PCPB sent a letter to then-Councilmember Lorie Zapf, stating that, at this time, the PCPB takes no position in support of or opposition to development of the property at the southeast corner of Famosa and Nimitz Boulevards.
- On August 28, 2019, the PCPB voted to send a letter opposing development on the property at the southeast corner of Famosa and Nimitz Boulevards.

KEY STAKEHOLDERS and PROJECTED IMPACTS

The Project's stakeholders are residents of the Peninsula Community Planning Area, Bridge Housing Corporation, the future residents of the Project, the San Diego Housing Commission, the Housing Authority, and the City of San Diego.

ENVIRONMENTAL REVIEW

This activity is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment because this does not constitute a final approval of the project. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. To the extent, the activity herein is a project, the Housing Commission has determined this activity would not have potential for causing a significant effect on the environment pursuant to CEQA State Guidelines Section 15262 (Feasibility and Planning Studies). A project involving only feasibility or planning studies for possible future actions which the agency, board, or commission has not approved, adopted, or funded does not require the preparation of an EIR or Negative Declaration but does require consideration of environmental factors. Before any further commitment is made to this project, an environmental analysis will be conducted. Further, to the extent the activity herein is a project, it is exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3) (Common Sense) which states that CEQA applies only to projects that have the potential for causing a significant effect on the environment. The Common Sense Exemption is applicable where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment. This would not, on its own accord, cause a significant effect on the environment.

Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,

Michael C. Pavco

Michael C. Pavco
Senior Vice President
Development & Portfolio Management
Real Estate Division

Approved by,

Jeff Davis

Jeff Davis
Deputy Chief Executive Officer
San Diego Housing Commission

Docket materials are available in the "Governance & Legislative Affairs" section of the San Diego Housing Commission website at www.sdhc.org.