



REPORT

DATE ISSUED: November 7, 2003

Item 106

REPORT NO.: HCR03-103
For the Agenda of November 14, 2003

SUBJECT: East Village Affordable Housing Agreement (District 2)

SUMMARY

Issue: Should the Housing Commission approve an alternative method of complying with the City's Inclusionary Housing Program and Single Room Occupancy (SRO) ordinance for the East Village projects described herein?

Recommendation: Authorize the Chief Executive Officer to execute the Affordable Housing Agreement (Attachment) with EV Two to provide for replacement of 23 SRO rooms with 24 studio apartments, and allow the developers to pay their inclusionary housing in-lieu fee "in kind" toward provision of these studios.

Fiscal Impact: None with this action. Approval of this Agreement would result in the direct investment of approximately \$2.4 million of developer funds to create 24 low- and very-low income housing units, which includes approximately \$327,000 that would otherwise be paid to the Inclusionary Housing Fund.

Affordable Housing Impact: Approval of this agreement would allow development of 24 studio apartments; 12 affordable at 50% Area Median Income (AMI) and 12 at 65% AMI. Restrictions would remain in place for 60 years.

Future Related Action: The Agreement will be contingent upon 1) Centre City Development Corporation approval of findings for a variance in accordance with §143.0520 of the SRO ordinance at its November 12, 2003 Board meeting; and 2) the approval of the City Council at a future meeting.



BACKGROUND

SRM, a development company, has created two limited partnerships, EV One and EV Two, and proposes to redevelop two adjacent parcels of land in downtown San Diego between 11th and 13th Street along Market. The two city blocks of proposed development would be comprised of ground floor retail including a full service grocery store, and a total of 502 market rate apartments, all built over structured parking. The redevelopment project will trigger two affordable housing policies found in the San Diego Municipal Code: the Inclusionary Housing Program and the Single Room Occupancy (SRO) Hotel Regulations.

The redevelopment of the properties will result in the demolition of 23 SRO rooms at the St. Paul Hotel. The St. Paul is currently occupied but in poor physical condition. Although the City of San Diego's SRO Regulations require replacement of any demolished SRO rooms, requirements within the ordinance have been the subject of recent litigation and their enforceability has come under question.

In addition, the San Diego City Council has enacted a citywide inclusionary housing program. The program requires that all new residential development either provide affordable housing or the pay an in-lieu fee. Currently the level of the fee is \$1.00 per square foot assessed on the residential development.

DISCUSSION

Despite the uncertain legal climate surrounding the SRO regulations, developers of the EV properties have been exploring ways to mitigate for the proposed loss of 23 SRO rooms within the new development. Their plans would accommodate construction of a 24-unit studio apartment complex with separate access. Affordability of the studio units would be guaranteed for 60 years, with half of the apartments affordable at 50% AMI and half at 65% AMI. These studios would be larger and contain substantially better amenities than the 23 SRO rooms slated for demolition. Construction of the studio apartments would cost approximately \$2.4 million, significantly more than the value of the St. Paul Hotel.

St. Paul residents displaced by the demolition would be entitled to standard relocation payments found in the SRO regulations. This currently includes two months rent plus \$10 per month for each month of tenancy over 90 days, up to \$210. Housing Commission staff would provide technical assistance to ensure that all residents were relocated to alternate housing with minimal disruption.

Although the developer's proposal is not in strict compliance with the City's SRO ordinance, the regulations provide an opportunity for the City Council to provide a waiver or variance from the housing replacement requirements (MC §143.0520) when a redevelopment project is found to

provide significant public benefit. The Centre City Development Corporation (CCDC), as the administrator of the redevelopment project area, will be considering findings for the use of this redevelopment variance provision at its November 12, 2003 Board meeting. The outcome of this hearing will be reported orally at the November 14, 2003 Housing Commission meeting. Contingent upon their approval of the item, the affordable housing agreement would then proceed to City Council for its final approval at a future date.

In addition to the requirements under the SRO ordinance, the subject properties are also obligated by the inclusionary housing regulations. If EV One and EV Two were to pay their in-lieu fees, they would be calculated at present at approximately \$327,000. Rather than paying this amount directly to the Housing Commission, approval of this agreement would credit the payment as an "in kind" contribution to the construction of the replacement studio apartments. In essence, this would acknowledge the greater cost involved in replacing the St. Paul with new and better housing and the lengthened term of restrictions on the units. City Council approval to pay the in-lieu fee "in-kind" will be sought.

Unlike most Housing Commission agreements, this contract has a provision for shared indemnity in the case of litigation. It is believed that the process outlined in this report for seeking a variance under the "redevelopment clause" limits Housing Commission liability.

As Commissioners are aware, the SRO requirements are in flux. Likewise, the inclusionary housing requirements are new and envisioned flexibility in meeting them. Staff recommends this creative agreement as a means to fulfill both affordable housing requirements within the private development. No other public subsidies are anticipated.

Approval of this Agreement would result in the production of 24 new affordable studio units and the demolition of 23 poorly maintained SRO rooms, upgrading the health, safety and welfare of the housing stock.

Contingent upon the Housing Commission's approval and CCDC's approval of the variance findings, staff would bring the Agreement to the City Council for its consideration as soon as possible.

Respectfully submitted,

**Signature on File
With Original Document**

Elizabeth C. Morris
Chief Executive Officer

Attachments:

1. East Village Affordable Housing Agreement Summary
2. Affordable Housing and Single Room Occupancy Agreement