



## REPORT

**DATE ISSUED:** February 17, 2009

**REPORT NO:** HCR09-22

**ATTENTION:** Chair and Members of the Housing Commission  
For the Agenda of February 20, 2009

**SUBJECT:** Approval of Purchase and Sale Agreement for the Acquisition of Chollas Creek Villas Condominium Project

**REQUESTED ACTION:** Recommend that the Housing Commission and Housing Authority authorize the President and Chief Executive Officer (CEO) or designee to proceed with the Commission's proposed acquisition of Chollas Creek Villas Condominium property located at 4805 Castana Street, San Diego, California 92102 (the "Property").

### **STAFF RECOMMENDATION:**

**Recommendation 1:** Recommend Housing Commission and Housing Authority of: (i) the Housing Commission's purchase of the Property for a total acquisition cost not to exceed \$8.6 million; (ii) authorize the CEO or designee to execute a purchase and sale agreement for the property between the Commission and Chollas Creek 31 LLC as approved by the CEO and General Counsel; and (iii) authorize the CEO to enter into any and all other agreements and execute any and all documents that are approved by General Counsel and are necessary to effectuate the foregoing.

**Recommendation 2:** Recommend that the Housing Commission and Housing Authority authorize an amendment to the fiscal year 2009 Commission's budget transferring \$6,112.478 million of Local Units funds from the Reserves for development to Rental Housing Development for the acquisition of Chollas Creek Villas.

**BACKGROUND:** The Commission submitted an application in March, 2007, to the U.S. Department of Housing and Urban Development (HUD) to transition from the Federal public housing program and received approval on September 10, 2007 from HUD and the Special Applications Center (SAC) for the disposition of its existing portfolio of 1,366 low-rent public housing units (excepting thirty six units that were in acquisition stage resulting from a taking of units by the San Diego Unified School District). On November 15, 2007 title passed from the Housing Authority to the Commission and on that same day Section 8 vouchers were issued to all Public Housing residents. The HJD approval requires the acquisition and/or production of 350 low-income units in the City of San Diego. The 350 units are to be affordable to and occupied by households earning 80% or less of the area median income (AMI). The Los Angeles Office of Public Housing (LAOPH) has stated that any method of ownership and/or development by the Commission to satisfy the covenant to "acquire and/or produce 350 additional low income units" will include maintaining those units as low-income for a minimum period of 55 years.

### **Development Concept**

Chollas Creek 31 LLC (the "Developer") is the owner of the Property. The project is a proposed thirty-one (31) unit detached condominium project, comprised of twenty-seven (27) row homes and four (4) detached conventional built homes. The Property is located on the corner of Charles Lewis Way and

49<sup>th</sup> Street, San Diego, California 92102. The site area is 1.55 acre or 67,518 square feet gross. All thirty-one (31) homes are mapped as condominiums, but will be rentals under Commission permanent ownership with rents of all units to be restricted at 65 percent AMI levels and occupancy restricted to those households earning 80% or less of AMI at initial occupancy. The Property includes a common area greenbelt, parking, tot lot and barbeque area. The 27 row homes have 1,606 square feet of living area with three bedrooms and three baths. The four (4) conventional detached homes are to have 2,086 square feet of living area with four bedrooms and three baths.

Construction is mostly complete on six (6) of the row homes. The remaining twenty-five (25) units have not yet been constructed. The site development work is mostly complete. The remaining site development work primarily consists of landscaping and construction of a retaining wall.

This project was processed through the Affordable/In-Fill Housing and Sustainable Building Expedite Program and exceeds the minimum requirements for supplying Affordable Housing. The project also improves a challenging and constrained parcel to provide residential use and affordable housing for the Community and the City of San Diego.

The Chollas Creek Villas condominium property sales were suspended due to a continued down turn in the residential market, prior to closing on the sale of any individual units. This resulted in a notice of default, election to sell under the deed of trust and securing the construction loan from Pomona Financial Services, Inc. (PFF). PFF agreed that in the event the Commission enters into a purchase and sale agreement to purchase the 31 units upon completion, PFF will continue funding the construction loan.

### **Ownership Structure**

The Commission and developer shall enter into a purchase and sale agreement for the Property. Thereafter, the Developer shall continue to own the all of the Property and shall construct the remaining twenty-five (25) units, as well as other components of the Property. Upon completion of the project, the Commission would purchase the Property without any financing, initially and will own the 27 detached row homes, four conventional detached homes and the land, including all common areas.

### **Budget Analysis**

The Commission will utilize its own funds to acquire the Property. After the Property has been acquired and rents have stabilized, the Commission will seek to leverage the value of the development in order to obtain a loan on the Property to the maximum extent feasible based on the restricted rents. The primary purpose of obtaining such a loan would be to replenish the funds initially invested in the Property, thereby permitting the Commission to generate additional affordable housing units.

### **Risk and Mitigation**

There is a possibility that after the Commission enters into the purchase and sale agreement and escrow is opened, the Developer will fail to complete construction of the project. In such event the purchase and sale agreement will be terminated and the deposit will be returned to the Commission.

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**FISCAL CONSIDERATIONS:** Approval of the acquisition of Chollas Creek Villas condominium property would result in a total cost of up to \$8.6 million and will utilize SDHC Local Units, University Canyon and Local funds. Ongoing operating expenses would be approved each year in the Commission's annual budget.

**AFFORDABILITY:** Each of the units will be occupied by persons or households earning 80% of Area Median Income (AMI) at initial occupancy, with rents set at 65% of AMI, or market, whichever is less. This will comply with the provisions of the Disposition approved by HUD and these units will count toward the 350 that the Commission has agreed to acquire and/or produce.

**PREVIOUS COUNCIL and/or COMMITTEE and/or SELECTION COMMITTEE ACTION:**

On October 31, 2008 and November 18, 2008, the Housing Commission and Housing Authority, respectively, approved the project plans for the Commission to proceed with development of additional affordable housing units. In addition the Housing Authority authorized for the Commission Board to enter into exclusive negotiations with a lender to provide financing for additional affordable units including leveraging of the existing stock of housing units owned by the Commission to acquire or create additional affordable housing units. Citi Community Group, gave notice that it cannot proceed after being approved for negotiation by the Housing Authority. The Commission is now working with Red Capital in an effort to provide the required financing. A Board report is scheduled at the Commission in March of 2009 concerning financing. The Commission Selection Committee comprised of Chair Sal Salas and Commissioner Tony Yip, recommended that the Commission proceed with attempting to negotiate with Chollas Creek 31 LLC.

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

The Chollas Creek Villas was presented to City Council on January 24, 2006 and to other entities as follows:

- Southeastern Economic Development Corporation (SEDC): On December 3, 2004, SEDC completed the review and recommended approval of the plans for the proposed residential development (31 for-sale units) identified as the Chollas Creek Villas located within the Central Imperial Redevelopment Project Area.
- Community Planning Group (CPG): On March 21, 2005, the Encanto Neighborhoods CPG voted 6-4-1 to recommend approval, with recommendations.
- Planning Commission (PC): On November 17, 2005, the PC voted 6-0 to recommend approval of the project. The PC placed the project on the consent agenda and voted unanimously to recommend the City Council to approve staff's recommendations.

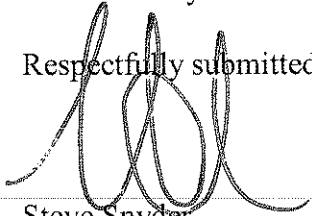
**ENVIRONMENTAL REVIEW:** On January 24, 2006, by resolution number 301197, the City of San Diego certified the information contained in Mitigated Negative Declaration (MND) No. 6896. Because the matters described in this report are adequately addressed in said MND, and as there has been no substantial changes in circumstance, additional information, or project changes that would warrant an additional environmental review, no further review is necessary at this time.

Under the purchase and sale agreement, there will be no obligation to purchase the Property, unless all units have been completed, all environmental clearances have been obtained and such clearances authorize the construction and occupancy of the units.

**KEY STAKEHOLDERS & PROJECTED IMPACTS:**

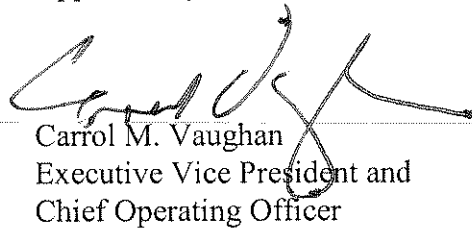
The property owner is Chollas Creek 31 LLC, a California Limited Partnership. As of January 1, 2004, the total number of housing units in this community was 28,122 with approximately 29 percent of these units being multi-family. Based on the planned land use designations per the community plan, a total maximum number of 31,000 housing units could be allowed in the community planning area. The project development would help the City address its shortage of affordable housing units during a time when the City Council has determined that the City is in a Housing State of Emergency.

Respectfully submitted,



Steve Snyder  
Director of Development  
and Asset Management

Approved by,

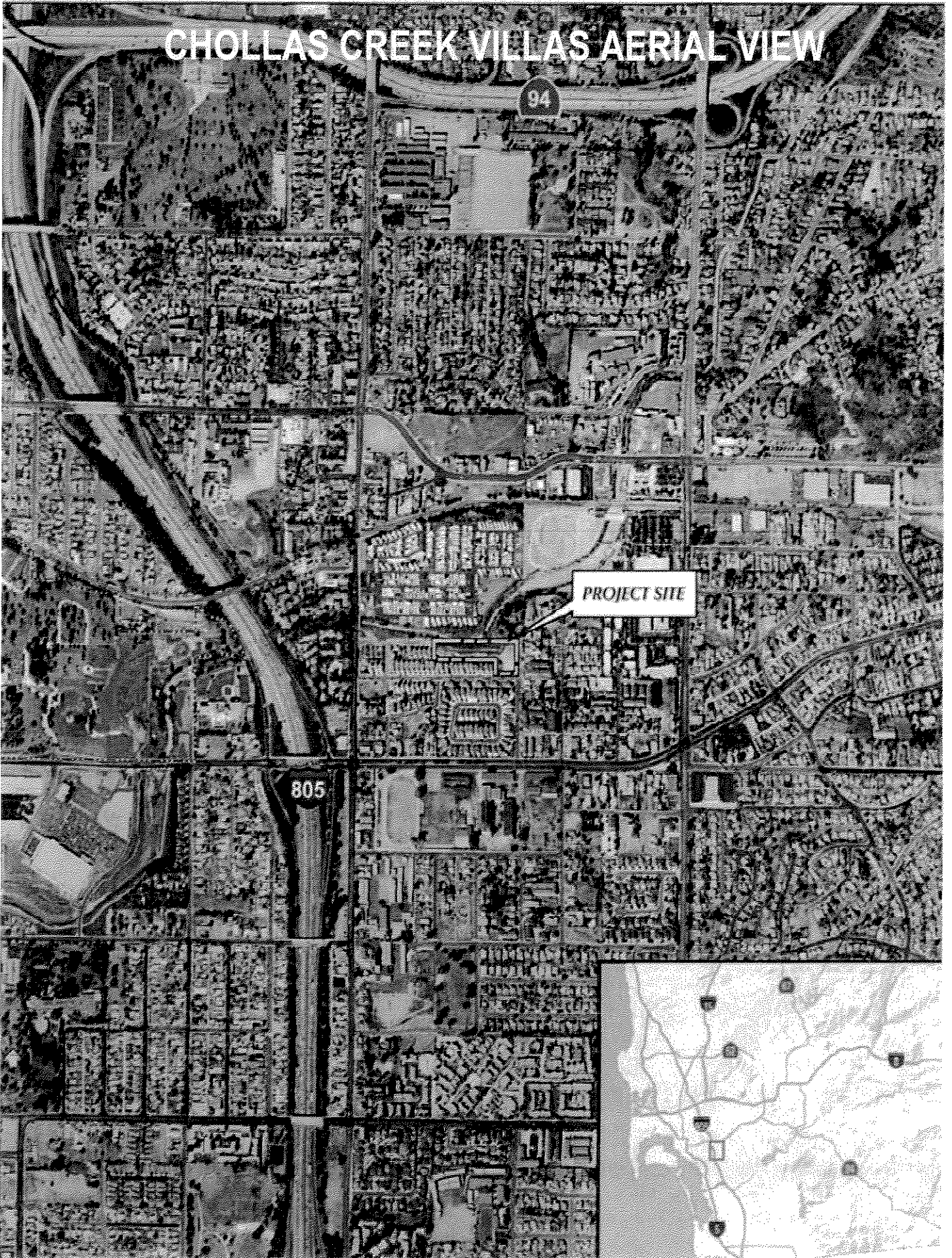


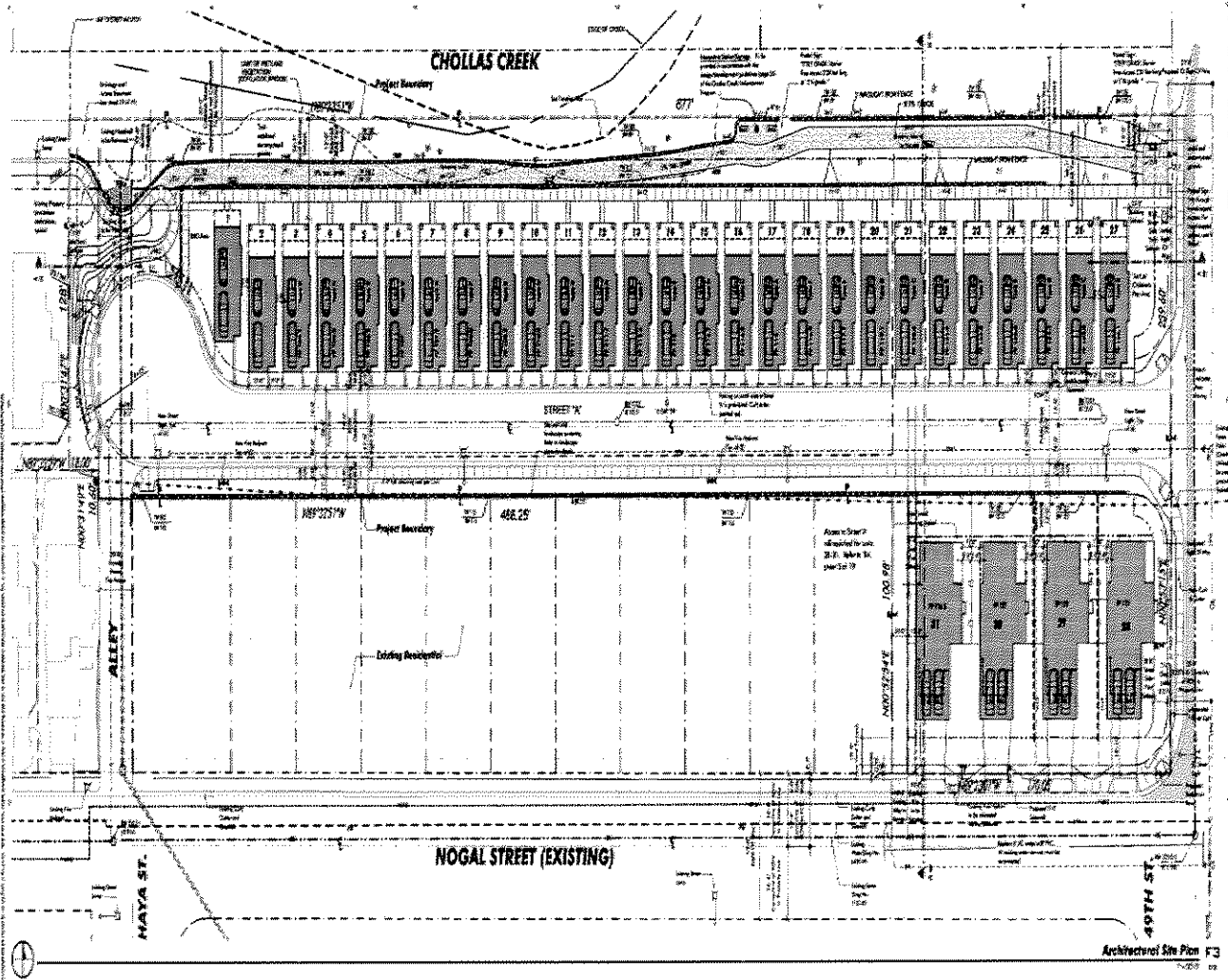
Carrol M. Vaughan  
Executive Vice President and  
Chief Operating Officer

Attachments: 1. Site Photographs

Hard copies are available for review during business hours at the Housing Commission offices at 1122 Broadway, San Diego, CA 92101, Main Lobby and at the Office of the City Clerk, 202 C Street, San Diego, CA 92101. You may review complete docket materials on the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org).

# CHOLLAS CREEK VILLAS AERIAL VIEW





**FAKTURA**  
 ARCHITECTURE

# Chollas Creek Villas

Architectural Site Plan  
 1/2008

# CHOLLAS CREEK VILLAS

Charles Lewis Way West from Entry



Row Homes 1 through 6 from Charles Lewis Way

