

# Talks to begin for 7th, Market project

## Developer Chelsea pitches 405 affordable units at city-owned site

BY LORI WEISBERG

The downtown San Diego site once destined to become a luxury five-star hotel could be transformed into more than 400 units of affordable housing under a proposal favored by city officials for the publicly owned parcel.

In an internal memo released Wednesday by Mayor Todd Gloria's office, the city said it will begin negotiating over the next 90 days with Carlsbad-based Chelsea Investment Corp., which has proposed developing 405 units of housing — all affordable to lower-income households — on the downtown site at Seventh Avenue and Market Street. The proposal by the longtime affordable housing developer was one of four the city received in response to a solicitation in May for redeveloping the downtown site.

Guiding the future development of the city-owned parcel is a state law known as the Surplus Land Act that is designed to encourage the construction of housing affordable to lower-income households. At the very least, those bidding on the site were required to set aside 25 percent of their proposed units as affordable.

Chelsea's proposal, though, calls for every unit to be affordable. Rents for the proposed studio, one-, two-, and three-bedroom units would have a range of affordability from 30 percent to 80 percent of area median income in San Diego County, which is \$116,800 for a family of four, said Chelsea Chief Development Officer Jim Andersen.

"Chelsea Investment Corporation is thrilled to have the opportunity to work with the city on another groundbreaking project," he said shortly after learning from the city that his firm had beat out three other bidders for the site. "We think that Seventh and Market will enhance downtown San Diego and provide much-needed housing to a wide variety of constituents."

In the memo to Gloria, the city's six-member selection committee that evaluated all four proposals stated that "based on various factors and to maximize the site for housing, the Committee recommends the City proceed into 90-day Good Faith Negotiations with Chelsea Investment Corporation, as the firm intends to deliver a 100% housing project with 405 units, with almost 80% of the units provided for affordable housing with 60% of Area Median Income (AMI) or less."

The 90-day process begins immediately and does not require approval by the San Diego City Council, said Christina Bibler, the city's director of Economic Development. The other three proposals the city received came from Community Housing Works, a longtime affordable housing nonprofit in San Diego County; The Kelsey, a Northern California-based that focuses on affordable projects accessible to individuals with a range of disabilities; and Related California, which describes itself as the state's largest mixed-income developer.

The proposal from Related was deemed to be "unresponsive" to the solicitation because it did not specify how many units of housing it was proposing nor the level of affordability, Bibler said.

A key factor in Chelsea's favor, Bibler said, was that it crafted a proposal that best met the city's goal of maximizing affordable housing by providing the most units affordable to lower-income households. Chelsea, which has invested more than \$3 billion in developing over 15,000 units of affordable housing since 1984, is also part of the Midway Rising development team chosen to redo the city's 48-acre sports arena site.

"The city is pleased to have received multiple interested proposals for the Seventh and Market site and excited to begin negotiations to maximize its full development potential and drive affordable housing to a highly desirable area of downtown," Bibler said Wednesday.

The start of negotiations with Chelsea marks a critical juncture for the long-running effort to transform a key piece of downtown real estate. It has been more than seven years since San Diego-based Cisterra proposed an ambitious development that called for a Ritz-Carlton hotel, Ritz-branded condos, a gourmet grocer, offices and housing. The \$700 million project, though, was delayed multiple times due to several factors, including litigation, COVID-19 and challenges getting financing.

In February, the city decided to terminate its deal with Cisterra "because of the developer's inability to carry out the project or otherwise perform its material obligations."

Before Cisterra's project was formally terminated, the development team made some significant changes in hopes of persuading the city to not abandon the project. The revised development plan would have eliminated the grocery and

office uses and more than doubled the amount of housing, including 137 residential units deed-restricted for families making 60 percent of the area median income.

It remained questionable at the time, however, how interested the city would be in reviving its relationship with Cisterra due to the fallout from two highly publicized lease-to-own transactions that have since been unwound.

Last year, while contemplating a controversial settlement agreement with the developer for 101 Ash St. and Civic Center Plaza office towers, some council members publicly suggested that the firm be barred from doing business with the city.

Chelsea's proposal calls for considerably more lower-cost housing than the Cisterra team's revised proposal and at deeper levels of affordability reaching families falling into the category of extremely low income. For a family of four earning 30 percent of median income, or \$41,350 a year, a three-bedroom apartment would rent for as little as \$1,075 a month, based on California tax credit guidelines. At 80 percent of median income — or \$110,250 a year for a four-person household — that same apartment would rent for \$2,866 a month.

Chelsea, which is working with San Diego architect Doug Austin of AVR Studio, is currently contemplating spreading the housing units among three eight-story buildings that would include underground parking and community rooms with computer labs, as well as outdoor spaces and decks, Andersen said. In addition, Chelsea would team with nonprofit service providers dedicated to working with the tenants in each of the buildings, he added.

Financial terms related to the purchase or lease of the city-owned site have not been worked out and would be discussed during the 90-day negotiation period, Andersen said. Likely sources of funding for the Seventh and Market project would be low-income tax credits and tax-exempt bonds, he said.

Chelsea has considerable experience developing high-profile affordable housing projects in San Diego, including the mixed-use development Mercado del Barrio in Barrio Logan and St. Teresa of Calcutta Villa, a 14-story mixed-use development at 14th and Commercial streets that includes 407 affordable apartments. It teamed with Father Joe's Villages on that project.

The decision to move forward with the Seventh and Market site comes a week after the city announced it would be entering into a 90-day negotiation period with La Jolla-based Reven Capital, a real estate investment management firm proposing a nearly 400-unit housing project in place of the empty office tower at 101 Ash St.