

BUSINESS

Plan to build hundreds of low-income housing units on former Ritz-Carlton site in downtown San Diego reaches critical milestone



Rendering shows initial design concept for proposed affordable housing on a city-owned site at Seventh Avenue and Market Street. (AVRP Studios)

City of San Diego and affordable housing developer Chelsea Investment Corp. have reached an agreement to begin negotiating specific terms for redeveloping a downtown San Diego site at Seventh and Market that had previously been intended for a \$700 million mixed-use project by Cisterra.

By **Lori Weisberg**

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An ambitious plan by a local affordable housing developer to build more than 400 low-income units in downtown San Diego has reached a key milestone that will allow the city to start negotiating terms for redeveloping a site once intended for a five-star Ritz-Carlton hotel.

The city's Economic Development Department will ask members of a City Council committee on Wednesday to authorize entering into exclusive negotiations with Carlsbad-based Chelsea Investment Corp. to redevelop the publicly owned block at Seventh Avenue and Market Street. If approved by the full City Council at a subsequent hearing, Chelsea would have 180 days to firm up its development and financing plans and undertake more detailed inspections of the East Village site to ensure that its affordable housing project is in fact doable.

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This latest milestone comes nine months after the city agreed to begin initial talks with Chelsea about redeveloping the downtown parcel, currently being used as a surface parking lot. Chelsea was among four developers that responded to a formal solicitation by the city following years of delays by San Diego-based Cisterra to transform the site into a Ritz-Carlton hotel, Ritz-branded condos, a gourmet grocer, offices and housing.

“We’re really excited,” said Chelsea Chief Development Officer Jim Andersen. “We’ve been working very cooperatively with the city to put together the language associated with this exclusive negotiating agreement that allows us to continue the process and gives us access to the site to do due diligence on the site so we can move the development to the next step that will result ultimately in a negotiated (development) agreement with the city of San Diego.

“We’ll be able to refine the project based on what we find and work through all the elements of development.”

Chelsea has extensive experience building housing for lower-income households, having developed more than 100 affordable communities costing more than \$2 billion. Its proposal for redeveloping the Seventh and Market parcel was guided by the state Surplus Land Act, which is designed to encourage the construction of housing affordable to lower-income households. At the very least, Chelsea and others that bid on the site were required to set aside 25 percent of their proposed units as affordable.

Chelsea, however, went beyond that, proposing to make all 402 units affordable to lower-income households earning from 30 percent to 80 percent of area median income in San Diego County, which is \$119,500 for a family of four.

“Chelsea’s vision is to transform the Seventh and Market site into a vibrant and high-quality inter-generational affordable housing community ... by providing the most units of high-quality affordable housing in an efficient time frame,” the developer wrote in its project proposal, which the city’s Economic Development Department released this week.

Toward that end, a mix of studios and one-, two- and three-bedroom units have been proposed. Chelsea is proposing to divvy up the overall project into three components that would be independently financed and constructed to cater to the needs of low-income families, seniors and the workforce population.



A rendering of another perspective of the proposed affordable housing development. (AVRP Studios)

The developer is working with San Diego architect Doug Austin of AVRP Studios, which has proposed spreading the housing units among three eight-story buildings that would include underground parking and community rooms with computer labs.

The agreement to be considered next week by the council’s Economic Development and Intergovernmental Relations Committee means that San Diego “won’t negotiate with any other entities, and that will give Chelsea the opportunity to look at the project’s feasibility and the terms that would dictate a Disposition and Development Agreement,” explained Christina Bibler, Economic Development director.

Such terms would include the precise number of affordable housing units, income levels of those renting units in the project, and timelines for securing financing and completing the development, Bibler said. She’s hopeful that a final development agreement could reach the council by December.

“We understand that the project could change depending on what’s uncovered,” Bibler said. “We continue to support affordable housing on this site, and it’s now down to the nuances of the timing. Chelsea has been doing some of the due diligence on their side so that way, the next six months should be really productive in terms of site due diligence

and financing. The city is fully committed to executing a high-quality development on this site and we're excited to work with Chelsea on the next steps to achieve that vision."

Once the exclusive negotiating period begins, Chelsea will be obligated to pay the city a good faith deposit of \$50,000 and a negotiation payment of \$25,000, plus provide periodic status reports on financial feasibility and construction cost estimates. It will also need to provide the city with its development and financing plan. In its proposal to the city, Chelsea said it plans to tap several financing sources, including low-income tax credits and tax-exempt bonds.

"All sources of financing for affordable housing are fiercely competitive, and many projects are vying for precious dollars," Anderson said. "So it is challenging but we've managed to thrive in many periods of time throughout California's ups and downs, so we're confident that this is a project that will find a great home in downtown San Diego. At the end of the day, we'll find the sources to consummate the project, and we know our state and local leaders are very committed to making this happen."

Also still to be worked out is a purchase price for the 50,000-square-foot site. Under the city's previous agreement with Cisterra, the developer was to eventually pay \$20 million to acquire the parcel. A new appraisal will now be needed, and that process should start once the exclusive negotiation agreement is approved, Bibler said.

The focus on developing the Seventh and Market site with affordable housing moved into high gear more than a year ago, when the city decided to terminate its original deal with Cisterra "because of the developer's inability to carry out the project or otherwise perform its material obligations."

The \$700 million project had faced multiple obstacles, including litigation, the intrusion of a pandemic and challenges getting financing.

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