

MEMORANDUM

2

DATE: OCTOBER 1, 2015

TO: GOVERNING BOARD

FROM: STEVE VALENZUELA, CHIEF EXECUTIVE OFFICER

STAFF: BARRON MCCOY, CHIEF OPERATING OFFICER
DAN KAHN, SENIOR REAL ESTATE DEVELOPMENT AGENT

SUBJECT: **DISTRICT SQUARE OWNER PARTICIPATION AGREEMENT.** Authorization to negotiate and execute a Termination and Mutual Release Agreement with District Square, LLC to terminate the Owner Participation Agreement for the proposed District Square Retail Shopping Center at 3570-3670 Crenshaw Boulevard in the Mid-City Recovery Redevelopment Project Area.

RECOMMENDATION

That the Governing Board authorize the Chief Executive Officer to negotiate and execute a Termination and Mutual Release Agreement with District Square, LLC to terminate the Owner Participation Agreement for the proposed District Square Retail Shopping Center.

SUMMARY

In 2011, the Former Agency entered into an Owner Participation Agreement (“OPA”) with District Square, LLC (“Developer”), the members of which are Arman Gabay and Mark Gabay, for development of an approximately 300,000 square foot retail shopping center located at 3570-3670 Crenshaw Boulevard. The shopping center was proposed to be constructed on a 6.5-acre site bounded by Crenshaw Boulevard to the east, Rodeo Road to the north, Norton Avenue to the east, and Coliseum Boulevard to the south. The proposed tenants for the shopping center included a number of well known national soft goods and regional retailers.

The Developer began construction of the retail center’s foundation in 2013; construction activities ceased within six months. After numerous discussions with the Developer’s representatives regarding the status of the project, an extended period of time ensued during which no updates were provided to CRA/LA. Consequently, on July 21, 2015, a Notice of Default (NOD) was issued to the Developer, as important project milestones in the Schedule of Performance had not been met. In response to the issuance of the NOD, the Developer and CRA/LA staff recently met to discuss the project.

The Developer advised CRA/LA staff that a major tenant had withdrawn its interest in leasing space at the center, causing the project to be delayed. As a consequence of that event and other changed economic factors, the Developer is now seeking to entitle a mixed use development at the site that incorporates less retail space and adds a new 200-unit multifamily component. In the meeting, the Developer also requested that CRA/LA terminate the OPA so that the reconfigured project could move forward. CRA/LA staff supports the Developer’s request to terminate the OPA, as it also helps CRA/LA to expeditiously wind down the affairs of

the Former Agency. Staff therefore requests authorization for the Chief Executive Officer to negotiate and execute a Termination and Mutual Release Agreement.

DISCUSSION AND BACKGROUND

In 2011, the Former Agency entered into an OPA with the Developer for the District Square commercial center. To facilitate the development, the Former Agency agreed to reimburse the Developer for certain on-site public improvements through a pledge of site-specific tax increment. To evidence this obligation, the Former Agency executed a promissory note in a principal amount of up to \$6,500,000, plus interest (6%, compounding annually), with a term expiring in 2042. The OPA requires the Developer to comply with the Former Agency's policies, including the Construction Careers and Project Stabilization Policy and implementation of a permanent local hiring program. The permanent local hiring program requires tenants leasing 5,000+ square feet to ensure that no less than 30% of hours worked are performed by individuals residing within three (3) miles of the Mid-City Recovery Redevelopment Project Area.

The Former Agency's site-specific tax increment pledge and payment is predicated on the Developer satisfying a number of milestones, including: the Developer submitting fully executed leases from two anchor tenants; the shopping center being completed; the Developer providing evidence that its anchor tenants have accepted possession of their respective spaces; the Developer providing estoppels confirming that the anchor tenant leases are in full force and effect, the leases have not been modified, and there is no default associated with the leases; and a cost certification has been submitted and approved for the development of the shopping center.

SOURCE OF FUNDS

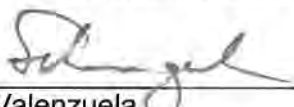
No CRA/LA funds are required for this action.

ROPS AND ADMINISTRATIVE BUDGET IMPACT

Approval of the recommended action will relieve the Successor Agency of its obligations to monitor the project's compliance with construction and post-construction policies, and administer the pledge of site specific property taxes.

ENVIRONMENTAL REVIEW

The recommended action does not constitute a "project" as defined by the California Environmental Quality Act (CEQA).



Steve Valenzuela
Chief Executive Officer

There is no conflict of interest known to me which exists with regard to any CRA/LA officer or employee concerning this action.