STAFF REPORT
Lancaster Redevelopment Agency

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DATE: November 9, 2010

TO: Chairman Parris and Agency Members

FROM: Vern Lawson, Jr., Economic Development/Redevelopment Director

SUBJECT: **Approval of an Amendment to the Disposition and Development Agreement Between the Lancaster Redevelopment Agency and SC Premier Properties**

Recommendation:
Approve an amendment to the Disposition and Development Agreement between the Lancaster Redevelopment Agency and SC Premier Properties and authorize the Executive Director or his designee to sign all necessary documents. The said property is located on 27th Street West to the west; Antelope Valley Freeway to the east; Avenue I to the north; and Lancaster Boulevard to the south.

Fiscal Impact:
If this transaction is approved by the Agency, the Agency will forego interest from the original note estimated to be approximately $2,000,000 for the remaining term. In lieu of this interest, the Agency will be obtaining approximately 6.92 acres and be absolved from the obligation to install public improvements which could have exceeded $6,000,000. The Agency will still receive the principal value of the remaining 27.46 acres estimated to be $2,370,000 in 2017.

Background:
As the recession continues to take its toll, we have been approached by the landowner/developer of the Front Row Center project to renegotiate the existing Disposition and Development Agreement. This deal was originally negotiated in June of 2006 when the real-estate market was at its peak. Today, ground up retail projects have fallen out of favor with lenders, making it almost impossible for the developer to perform under the existing terms and conditions. The land purchase included a note at market rate interest that has created a hardship for the developer and a transaction is now proposed that would exchange the interest payments for assets and a reduction in the agency responsibility to fund public improvement costs.

While the envisioned Shopping Center portion of the project has not occurred, the Hotel portion was constructed and is successful. The development of the Hampton Inn and the Homewood Suites generates in excess of $400,000 per year in bed tax and tax increment. This was accomplished prior to the recession.

It is proposed that the Agency receive the deeds to the remaining parcels east of Valley Central (see map) with the developer continuing to control the parcels west of the street. We have valued the properties through a negotiated settlement and the exchange allows the Agency to retain two parcels that may be used to attract additional hotel development, while the developer is absolved from interest payments. We have also factored in a reduction in previously required Agency infrastructure cost in exchange for relieving the developer's responsibility to pay the rest of the interest carrying costs.

Summary:

If the Agency concurs with the staff's recommendation, it would be appropriate to give approval to the Executive Director or his designee to execute the necessary documents. The approval of this transaction will insure that this property is properly positioned to be developed when the market rebounds. The Agency will also gain the ability to control two excellent locations for retail attraction including the opportunity to perhaps add an additional Hotel. The property retained by the developer will also be marketed to potential sales tax producers.

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Attachment:

Front Row Center Map