

Memorandum



DATE December 4, 2009

TO Members of the Economic Development Committee: Ron Natinsky (Chair),
Tennell Atkins (Vice Chair), Jerry R. Allen, Dwaine Caraway, Sheffie Kadane,
Ann Margolin, Linda Koop, and Steve Salazar

SUBJECT **Purchase option for the former JCPenney Property at Southwest Center Mall**

On Monday, December 7, 2009, you will be briefed on a purchase option for the former JCPenney property at Southwest Center Mall. Briefing material is attached.

Should you have any questions, please contact me at (214) 670-3314.


A.C. Gonzalez
Assistant City Manager

C: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Administrative Judge Municipal Court
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest Turner, Assistant City Manager
Jeanne Chipperfield, Director, Office of Financial Services
Dave Cook, Chief Financial Officer
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Helena Stevens-Thompson, Assistant to the City Manager

Purchase Option for Former JCPenney Property at Southwest Center Mall

Economic Development Committee
December 7, 2009



Purpose

- Present **background on Southwest Center Mall** and review recent **ULI Advisory Services Panel recommendations**
- Present to the Committee a **proposed purchase option** for the former JCPenney property located at **Southwest Center Mall**
- Receive a **recommendation from the Committee** on the proposed **option agreement** and implementation of ULI Advisory Services Panel Report

Background on Southwest Center Mall

- Facility built in 1975 by DeBartalo Company as Redbird Mall
- 1.1 million s.f. on 96 acres with five anchor tenant properties
- Renamed Southwest Center Mall in 2001 in effort to rebrand facility
- Current anchor tenants include:
 - Burlington Coat Factory (replaced Montgomery Ward in 2001)
 - Macy's (Foley's rebranded in 2006 when May Company was purchased by Federated Department Store)
 - Sears
- Vacant anchor space includes:
 - JCPenney (vacated 2001) – relocated to Cedar Hill
 - Dillard's (vacated 2006) – relocated to Cedar Hill
- In-line portion of mall is currently owned by a **joint venture of Madison Capital and CityView Commercial**

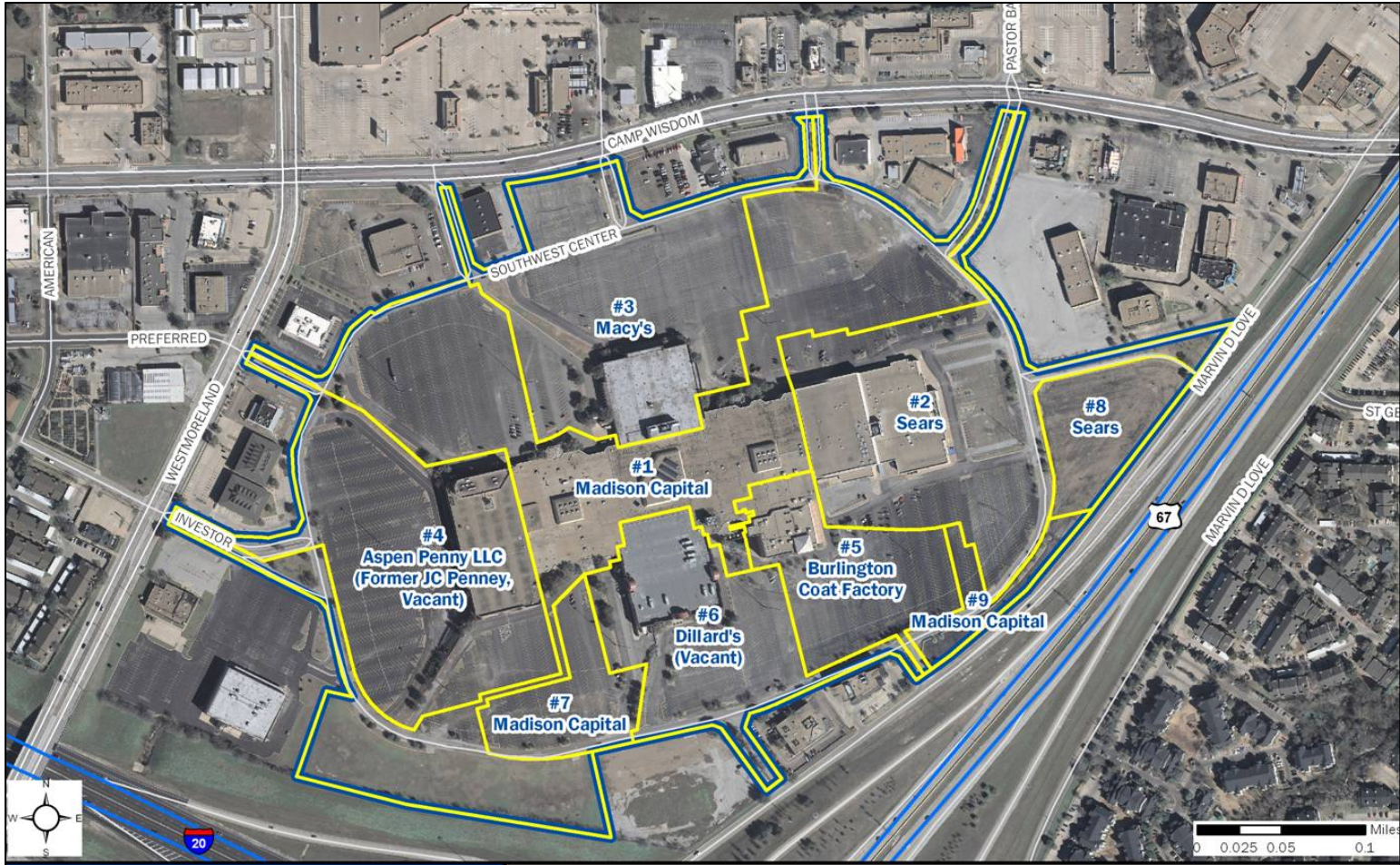
Review of ULI Advisory Services Panel

- **Southern Dallas Task Force Southwest Oak Cliff Work Team** identified redevelopment of **Southwest Center Mall** as their **top priority**
- Nine member Advisory Services Panel spent **five (5) days in Dallas** examining Southwest Center Mall
 - Received in advance an in-depth briefing package
 - Toured Southwest Center Mall, and other neighborhood and retail developments
 - **Interviewed over 70 community members, stakeholders and public officials**
 - Presented an **oral summary of findings** and recommendations to the community on **June 19th**
 - The Panel's **formal written report issued in October** (hard copy provided under separate cover)

Panel Findings

- The **market**: too **weak** to **justify private investment** in redevelopment **without public investment**.
- Site: There are **six major property owners: Independent and Interdependent**.
- There really is **no existing vision or comprehensive redevelopment plan**.
- The **community strongly supports** revitalization of the property as a community resource, but no consensus on mixture of uses.
- The site has **poor access**, limiting its market potential.
- There are **community concerns about the City's commitment** to help with revitalization.
- **Limited window** to keep SWC Mall as a viable retail site; immediate action needed.
 - **Anchor stores may abandon** the mall soon if nothing is done

Ownership Puzzle



Primary Panel Recommendations

- **City buys or facilitates purchase of Dillard's and JCPenney parcels** and initiates high level **conversations with remaining anchors**
 - Consolidate ownership and gain control of site
 - Assure existing anchors of City's interest in redeveloping the site
- Form an **expanded tax increment financing district**, including Executive Airport, to support public investment in site redevelopment, job creation and housing rehabilitation
- Formalize a **community-based vision and redevelopment plan** that articulates development options and produces zoning consistent with the vision/plan
- After the community-based revitalization strategy is created, **recruit a developer** or developers to implement the plan
- Negotiate public private and civic partnerships that **address the viability** of the development

Activity Since ULI Panel Findings

- **Madison Capital** formed **joint venture** with **CityView Commercial** as owner of in-line store mall property (see Appendix for company background).
 - Opens dialogue with City and community leaders – participates in townhall meeting
 - Proactive initiatives directed toward re-tenanting and stabilization of existing in-line stores
- “Fiesta Mundo” concept proposed for **Dillard’s property** (in due diligence period of land acquisition).
- **“Flea market” proposal** for long-term lease made to ownership of former JCPenney property (allowable use under current zoning).
- Staff **negotiated option to purchase** JCPenney building with owner to avoid this undesirable use
 - Parallel discussions with potential redevelopment partners for JCPenney site

Option Contract Terms

- **Sale price of \$2,061,000** (price is \$8,000 less than DCAD appraised value) with Aspen Penny LLC for potential acquisition of the former JCPenney property (land and building).
- **Six-month option fee (\$97,200)**
 - Option fee **counts against final sale price**
- If **fair market value** is determined **below \$2,061,000** (based on appraisals), then **sale price will be negotiated.**
- Two **appraisals have been ordered.**
- **Environmental site assessment** to be conducted as part of the City's due diligence (anticipate presence of asbestos).
- Option is **assignable with consent** of owner.

Alternative Courses of Action

- City takes **lead as principal developer**
 - Take control of all properties “asap” (potential eminent domain)
 - Create a vision for public purpose redevelopment
- **Facilitator** of development **with City land position**
 - City acquires strategic properties
 - Solicit private developer to support public/private mixed development (including incentive package)
- **Facilitator of development** (no City land position)
 - Solicit private developer for land acquisition
 - Propose incentive package
 - Developer and City partners to determine best land use(s)
- **Passive City Role**
 - Wait for privately initiated redevelopment proposals that City can support
 - Support current owner’ phased redevelopment strategy

Recommendations and Next Steps

- **Authorize a six-month option** to purchase contract in the amount of \$97,200 with Aspen Penny LLC for potential purchase of the property (land and building).
 - Option amount included in final purchase price
 - Sales price will not exceed fair market value as established by independent appraisals, but capped at \$2,061,000 price (current DCAD value \$2,069,00)
 - Environmental assessment required with cost of clean-up established
 - Source of funding: Public/Private Partnership Fund
- Pursue **parallel conversations with potential redevelopment partner** for JCPenney site.
- Work with CityView Commercial and community leaders to **create a community-based redevelopment strategy** for the in-line store area as well as the overall site.
- Continue **senior level contact** with Burlington Coat Factory, Macys and Sears.

Questions

Appendix

- CityView Commercial is the real estate arm for Jimmy Jazz Corporation (owned by James “Jimmy” Khezrie).
- Jimmy Jazz is a leading national urban apparel and footwear chain comprised of 200 stores in 18 states.
- Jimmy Jazz/CityView is also a major real estate investor.
 - Owns/manages over 5 million s.f. of retail properties including malls, strip centers and street assets. Examples include: State Street Shops (IL), Military Circle Mall (VA), South Dekalb Mall (GA), Tri County Mall (OH), 125th Street (NY), Overbrook Plaza, Philadelphia (PA) Frazer (SC), Malvern (PA), etc.
 - Owns and manages over 500 apartments in Jersey City (NJ).