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## AGENDA REPORT

TO: DEANNA J. SANTANA  
CITY ADMINISTRATOR

FROM: Fred Blackwell

SUBJECT: Amendment to Loan Agreement with  
JLG Associates

DATE: January 31, 2013

City Administrator  
Approval

*Deanna Santana*

Date

*2/5/13*

COUNCIL DISTRICT: 3

### RECOMMENDATION

Staff recommends that the City Council approve:

A Resolution Authorizing an Amendment to the Loan Agreement with JLG Associates, LLC, to Remove the Requirement for a Full-Service Grocery Store at the Jack London Gateway Shopping Center.

### OUTCOME

Removal of the full-service grocery store requirement in the Loan Agreement will allow JLG Associates, LLC (JLGA) more flexibility to lease the Jack London Gateway Shopping Center's major anchor space which has remained vacant for 6 years.

### BACKGROUND/LEGISLATIVE HISTORY

The Jack London Gateway Shopping Center ("Center") was constructed in 1983 by a non-profit entity, the Greater Acorn Community Improvement Association, and financed by a federal Economic Development Administration grant and a Redevelopment Agency loan. The Center was established with a grocery store serving as the anchor tenant. The Center and grocery store struggled financially during the first few years of operation, necessitating Agency subsidies totaling nearly \$6 million throughout the mid-1980s. In 1986, the Agency assumed ownership of the property through a quit-claim deed.

In 1989, the Agency sold the Center to Alex Hahn, a private investor, for \$1.91 million. Of those proceeds, \$600,000 was returned to the federal funding source. Mr. Hahn closed the grocery

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store due to low sales. In response to community concerns regarding deterioration of the Center and the lack of grocery services, the Agency re-acquired the property in December 1996. In November 1997, the City Council, through City Resolution 73913 C.M.S., authorized \$4.2 million in HUD EEC funding to the Agency toward the acquisition and rehabilitation of the Center.

The Agency entered into an Operating and Management Agreement (OMA) with Community Plaza Developers LED (CPD) in October 1998, and then in July 1999 the Agency and City authorized the sale of the Center and the transfer of EEC funding to CPD. In October 2003, the Agency and City modified that sale authorization to replace CPD with a new entity, Jack London Gateway Associates, LLC (JLGA) as purchaser and developer of the property. The Agency entered into a new interim OMA with JLGA to cover the operation of the Center until the transfer of the property and funding was consummated.

On July 8, 2004, the Agency entered into a DDA with JLGA for the sale and rehabilitation of the Center. The sale closed on March 1, 2006 when concurrently the City and JLGA entered into a Loan Agreement which governs the HUD EEC funding.

The DDA's requirement to include a "full-service grocery store" at the Center terminated on January 1, 2012 when the Acorn Redevelopment Plan terminated. However, the Loan Agreement remains in effect and requires as a condition of the funding that JLGA develop and operate the Center as a community shopping center consisting of a "full-service grocery store" and other retail uses.

JLGA is committed to the goal of bringing food to this underserved area of West Oakland and has worked diligently to attract a full-service grocery store tenant as well as other neighborhood-serving retail and service businesses. In 1999, JLGA (CPD at the time) succeeded in leasing the grocery space to Gateway Market, a full-service grocery store that emphasized community involvement and catered to the needs of the community, owned by Sean Loloee. With this new anchor tenant, the Center went from 25% occupancy to 100% occupancy and began to flourish. In 2004, Mr. Loloee sold the grocery store and the new owners changed the store to a Korean grocery store called Eugene's International Market. By the end of 2006, JLGA had completed the "Project" per the DDA with respect to renovations and physical improvements to the Center, including retaining a full-service grocery store amongst its tenant mix.

On February 25, 2007, Eugene's closed. At that time, JLGA once again launched a massive leasing campaign and by mid-2007 entered into lease negotiations with Fresh and Easy but in the end that lease fell through. In April 2009, JLGA partnered with real estate firm Collier's International to find a grocery store tenant. Since then, numerous grocery stores have been contacted and all reasonable, prudent and industry recognized means have been used to locate a grocery store. Despite their best efforts, JLGA was unable to attract a viable full-service grocery to fill the vacated 27,500 square foot space.

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In October of 2009, the Agency agreed to allow JLGA to split the space so that 11,780 square feet could be leased to Citi Trends, leaving 15,720 square feet for a grocery store. That remaining 15,720 square foot space remains vacant today. In December 2012, JLGA signed a lease with a small Middle Eastern grocery that sells canned goods, dry goods and some produce to occupy a separate 1,200 square foot space within the Center.

### **ANALYSIS**

Other retail outlets have expressed interest in locating at the vacated grocery site but they do not conform to a strict definition of "full-service grocery store". For example, in 2010, Dollar Tree, whose merchandising includes food products, wanted to locate at the site. JLGA began negotiations with the Agency to come up with a compromise. However, the Agency at that time did not proceed with amending the grocery store restriction, in part because of the continued lack of a full-service grocery store in the West Oakland neighborhood. In negotiations, staff considered recommending removing the restriction after a full-service grocery store was built in West Oakland. At that time FoodsCo was looking to locate in West Oakland; however, that project is now on hold and the Center's major anchor tenant space remains vacant today.

The lack of a major anchor has resulted in a lower than projected cash flow for the Center and loss of sales tax revenue for the City. It has also negatively affected existing businesses in the Center. Two have since failed and a third is expected to end its lease in April 2013, citing decreased foot traffic and diminishing sales. Filling these vacancies is difficult as prospective tenants cite the large vacancy in the anchor position as a reason for not signing a lease at the Center. Leaving the major anchor space vacant may lead to a domino effect of businesses failing and closing, jeopardizing the financial strength of the Center.

### **PUBLIC OUTREACH/INTEREST**

This item did not require any additional public outreach other than the required posting on the City's website.

JLGA is comprised of three Oakland-based companies: East Bay Local Development Corporation, Portfolio Property Investors and West Oakland Marketplace Advancement Company which is the community-based partner in the group who has maintained community relations throughout this project.

JLGA will continue to market to grocery stores and even a farmers market to the parking lot. If this amendment is approved, JLGA's asking rent for a grocery store would be much lower than for a non-grocery store use, due to the community's desire for a grocery store and the substantial upfront costs of a grocery store.

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## COORDINATION

This report has been coordinated with the City Attorney's Office, the CDBG/Commercial Lending Unit, and JLGA.

## COST SUMMARY/IMPLICATIONS

There is no fiscal impact expected as a result of the amendment to the Loan Agreement to remove the full-service grocery store requirement. However, the proposed modification will increase JLGA's options to attract a quality anchor tenant to the Center, and fill a long-term vacancy and thereby creating tax revenues, job opportunities, increasing cash flow revenue and potentially reducing any obligation of the Oakland Redevelopment Successor Agency (ORSA).

An increased cash flow revenue to the Center is especially important for three main reasons:

For the first 10-year period of the Loan Agreement, ORSA relies on existing funds to front the payment of the loan on JLGA's behalf and is reimbursed annually by JLGA from the Center's cash flow ("50% of net revenue"), tax increment and sales tax (for the first 5 years only). However, those existing funds may be "swept" by the State. If so, ORSA would need to request the funds be replaced from the Redevelopment Property Tax Trust Fund ("RPTTF"). Funds from increased cash flow revenue would offset any funds needed from the RPTTF, which would leave more funds available to the other tax entities including the City of Oakland.

Excess cash flow revenues would decrease any liability amount owed by JLGA to the City at the end of the first 10-year period of the Loan Agreement.

For the remaining 5-year period of the Loan Agreement, JLGA will have only cash flow revenue to rely on to pay off the remaining amount on the loan owed to the City.

## SUSTAINABLE OPPORTUNITIES

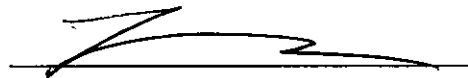
**Economic:** The proposed modification to the loan will remove the requirement for a grocery store and increase the pool of eligible tenants for this long-vacant grocery space and hence the chances for filling the vacancy. Filling the vacancy would lead to enhanced appearance of the Center, increased sales tax revenues, benefit the existing tenants by increasing the number of shoppers visiting the Center, expand economic opportunities through job creation, and increase cash flow which would help to sustain the financial viability of the Center.

**Environmental:** An increased amount of local neighborhood-serving retailers in the West Oakland neighborhood would reduce greenhouse gas emissions by decreasing the distance West Oakland residents have to travel by car to purchase basic necessities.

Social Equity is promoted through increased opportunities for West Oakland residents to shop in their neighborhood for food, clothing and other basic necessities.

For questions regarding this report, please contact Hui-Chang Li, Urban Economic Analyst I, at 510-238-6239.

Respectfully submitted,



Fred Blackwell, Assistant City Administrator

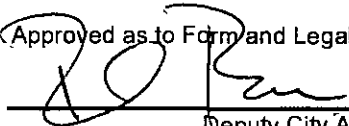
Reviewed by:  
Gregory Hunter  
Neighborhood Investment Officer  
Office of Neighborhood Investment

Patrick Lane, Redevelopment Manager

Prepared by:  
Hui-Chang Li, Urban Economic Analyst I

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Approved as to Form and Legality:  
  
Deputy City Attorney

## OAKLAND CITY COUNCIL

RESOLUTION NO. \_\_\_\_\_ C.M.S.

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### RESOLUTION AUTHORIZING AN AMENDMENT TO THE LOAN AGREEMENT WITH JLG ASSOCIATES, LLC, TO REMOVE THE REQUIREMENT FOR A FULL-SERVICE GROCERY STORE AT THE JACK LONDON GATEWAY SHOPPING CENTER

**WHEREAS**, on December 26, 1996, the Redevelopment Agency of the City of Oakland acquired the Jack London Gateway Shopping Center (the "Center" or "Project") to develop a new shopping center to provide jobs primarily within Oakland's Enhanced Enterprise Community ("EEC") areas and to maintain services provided by the community shopping center; and

**WHEREAS**, on November 4, 1997, the City Council, through Resolution No. 73913 C.M.S., authorized \$4.2 million in HUD EEC funding to the Redevelopment Agency toward the acquisition and rehabilitation of the Center; and

**WHEREAS**, on July 20, 1999, through Resolution No. 99-34 C.M.S., the Redevelopment Agency authorized a Disposition and Development Agreement ("DDA") with Community Plaza Developers, LLC ("CPD") for the sale and rehabilitation of the Center; and

**WHEREAS**, on July 20, 1999, through Council Resolution No. 75142 C.M.S., the City Council consented to the sale of the Center and the transfer of the funding to CPD; and

**WHEREAS**, on October 21, 2003, through Council Resolution No. 78127, the City Council consented to replace CPD with Jack London Gateway Associates, LLC ("JLGA") as purchaser and developer of the Center; and

**WHEREAS**, on July 8, 2004, the Redevelopment Agency entered into a DDA with JLGA; and

**WHEREAS**, the DDA required that the Center provide a full-service grocery store as well as other neighborhood-serving retail and service businesses; and

**WHEREAS**, the DDA's requirement to include a the full-service grocery store remained in effect for as long as the Acorn Redevelopment Plan was in effect, and so the DDA requirement expired when the Acorn Redevelopment Plan expired on January 1, 2012; and

**WHEREAS**, on March 1, 2006, JLGA and the City entered into a Loan Agreement which governs the EEC funding; and

**WHEREAS**, the Loan Agreement requires as a condition of the funding that JLGA develop and operate the Center as a community shopping center consisting of a full-service grocery store and other retail uses; and

**WHEREAS**, JLGA has been unable to retain or attract a viable full-service grocery tenant to the Center despite a major leasing campaign since 2007; and

**WHEREAS**, retail outlets have expressed interest in locating at the Center, but these uses do not meet the requirement for a "full-service grocery store" and, as a result, the Center's major anchor tenant space has been vacant since 2007; and

**WHEREAS**, JLGA wishes to amend the Loan Agreement to remove the requirement to provide a full-service grocery store; and

**WHEREAS**, JLGA remains committed to the goal of bringing food to this underserved area of Oakland; and

**WHEREAS**, the proposed amendment will allow JLGA more flexibility in leasing the important anchor space at the Center, fill a long-term vacancy, and thus create tax revenues and job opportunities; now, therefore, be it

**RESOLVED:** That the City Council hereby authorizes the City Administrator or her designee to negotiate and execute an amendment to the Loan Agreement with JLGA for the EEC funding to remove the requirement to provide a full-service grocery store; and be it

**FURTHER RESOLVED:** That the City Administrator or her designee is hereby authorized to take action with respect to the amendment authorized herein and the grocery store requirement consistent with this Resolution and its basic purpose.

IN COUNCIL, OAKLAND, CALIFORNIA, \_\_\_\_\_

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GIBSON McELHANEY, KALB, KAPLAN, REID, SCHAAF, and  
PRESIDENT KERNIGHAN

NOES -

ABSENT -

ABSTENTION -

ATTEST: \_\_\_\_\_  
LaTonda Simmons  
City Clerk and Clerk of the Council  
of the City of Oakland, California