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Gateway Park ground unturned as deadline nears

By Nancy Kaffer

Two years ago, momentum was building around the **Shops at Gateway Park**.

A group of longtime Detroiters pitched the retail development in 2004 as a 251,000-square-foot, $40 million outlet mall near the **Michigan State Fairgrounds** at Eight Mile and Woodward.

By 2007, **J.C. Penney Co. Inc**. had signed a letter of intent to anchor the development. The Legislature had approved a tax incentive. A national developer had signed on to lease the mall, and the city's pension fund had invested $10.5 million in the project.

Two years later, the lot is still empty.

J.C. Penney has pulled out of the deal, as has the national developer. The site's developers have yet to announce a single tenant and have requested a second extension on repayment of the pension board loan. And to retain the tax incentive, ground must be broken by July 1.

Marvin Beatty, a principal in **Detroit Gateway Park Outlet Mall L.L.C.**, insists developers will make the deadline.

“We're moving very quickly,” Beatty said. “We intend to break ground. I'm not sure to what degree that means, or what we will accomplish, but we will meet our commitment to the tax increment financing authority.”

Other principals in the project include developer Bernard Schrott, former Wayne County Commissioner Ricardo Solomon and Dykema Gossett attorney Elliot Hall.

In 2007, the Legislature approved the creation of a Tax Increment Finance Authority, or TIF, for the project — a tax zone that allows developers to capture revenue from taxes levied within the authority's region.

“It essentially subsidizes the rent,” said Ken Nisch, chairman of Southfield-based retail consultancy **JGA Inc.**

“If they have a TIF, the cost to develop, the cost of money, all kinds of things are

impacted by having the TIF in place. Obviously, if they have the TIF, they can charge lower rent."

If the July 1 deadline isn't met, it could be the end of Gateway Park, one analyst says.

Conflicting reports make it difficult to gauge the project's progress.

Schrott told *Crain's* last fall his team was negotiating with three anchor tenants for the development — described then as a 330,000-square-foot, $90 million project. He said he expected to announce deals within the month. In November, the project still didn't have an anchor tenant, according to pension fund records.

In April, Schrott told *The Detroit News* that more than 60 percent of the 365,000-square-foot center was leased and that he was negotiating leases with retail tenants with unionized workers for 190,000-square-foot and 40,000-square-foot stores.

Last week, Beatty told *Crain's* that the partners were "focusing primarily on securing or finalizing our relationship with our anchor tenant."

"Then we will aggressively move forward with the rest of our tenants," he said.

Schrott didn't respond to attempts to contact him last week.

The market has changed since the project was pitched, said retail consultant Kenneth Dalto of Farmington Hills-based **Kenneth J. Dalto and Associates**.

"Like any of these projects that were drawn up two and three and four years ago, at that point there were not really problems with financing," he said. "There were not really problems with the market, not really problems with retailers they were lining up."

The lack of progress indicates trouble with financing, Dalto said.

"I would believe they were having problems lining up anchors and the amount of tenants to get everything in place," he said. When it comes to financing, Nisch said, the project's comparatively small cost can work in its favor.

"This development is fully built out at $80 million, and I think there's a lot better chance to cobble together in this environment $80 million than $350 million or $1 billion dollars," he said. "The negative is finding that five or six people who can make the economic model work, which is why this TIF is so important."

The $10.5 million loan by Detroit's pension board was due last November. The group requested a six-month extension, then asked for a 60-day extension when the six months was up in April.

“They're attempting to negotiate with a major tenant, and they needed some more time,” said **Detroit City Council** member Sheila Cockrel, who recently joined the pension board as an ex officio trustee representing the council.

“We insisted that they pay a piece of the money, the interest payment that was due, and they have a number of requests that are pending before the board. We're waiting to see what happens with this first step. Are they able to get the tenant that they're seeking?”

Beatty wouldn't discuss whether the group would seek another loan extension in July.

“If you don't have the TIF, I think the deal is lost,” Dalto said.

Cockrel said she is doing due diligence on the investment participation of the pension board system.

“One has to take into account the following realities: Since council approved the project and the group came to the pension board for the investment, the economy has collapsed and is in a complete state of carnage and wreckage in the state and the city,” she said. “Real estate is in a different position than it was earlier, and all of these factors I'm assuming would play in their ability to bring the project to fruition.”

But Cockrel said she hopes the project can still succeed.

“When this project was first brought before the council for approval in terms of the creation of the authority, the great social good here is creating a retail presence in the city,” she said.

“That's a hugely important kind of development because that's what you need for cities that work. That's been one of the policy considerations that has driven this project from the very beginning.”

Nancy Kaffer: (313) 446-0412, nkaffer@crain.com-