



City of San Antonio

Agenda Memorandum

File Number: 16-5640

Agenda Item Number: 17.

Agenda Date: 12/1/2016

In Control: City Council A Session

DEPARTMENT: Center City Development & Operations

DEPARTMENT HEAD: John Jacks

COUNCIL DISTRICTS IMPACTED: District 5

SUBJECT:

Amendment to Economic Development Loan Agreement for Peanut Factory Lofts and its assignment to 939 S Frio Street LLC

SUMMARY:

This Ordinance approves an amendment to the Chapter 380 Economic Development Loan Agreement with South Frio Development LLC for the Peanut Factory Lofts Project at 939 S. Frio in Council District 5, and its assignment to 939 S Frio Street LLC, as prospective purchaser of the project, per the terms of agreement.

BACKGROUND INFORMATION:

The Peanut Factory Lofts project is a mixed-use development at 939 S. Frio in Council District 5 and the Westside Tax Increment Reinvestment Zone (TIRZ). It includes the redevelopment of the former Birdsong Peanut Factory into 102 rental apartments and 2,868 square feet of retail/commercial space. The project officially opened in December of 2014.

As a housing project in the downtown area, the project received financial assistance from the City through the Center City Housing Incentive Program and through a Chapter 380 Economic Development Loan in the amount of \$400,000. The loan was granted to offset the costs of environmental remediation on a 0.7922-acre property that the City sold to the developer to incorporate into the project.

The \$400,000 loan was to be forgiven over 10 years based on the number of housing units that were leased to

students. Per the agreement, 10% of the loan would be forgiven for each year where at least 49 housing units were leased by students. This student housing condition was based on a recent study which indicated a need for student housing in the area based on the proximity of nearby colleges and universities.

ISSUE:

The developer, South Frio Development LLC, is requesting an amendment to the Economic Development Loan Agreement to reduce the minimum student housing requirement to more accurately reflect actual student housing demand. After nearly two years of operation and efforts to attract students to meet the student housing requirement, the developer has been unable to meet the minimum threshold for loan forgiveness and feels that this will continue to be the case based on a softer student housing demand than expected. There is also a prospective purchaser of the project who has requested, as a condition of the purchase, that the minimum threshold be reduced to more accurately reflect the demand for the area - a demand which has proven to be less than suggested by the housing study.

After discussion with the developer, staff is recommending the following amendment to the Economic Development Loan Agreement with South Frio Development LLC:

- Developer will repay \$150,000 of the loan back to the Inner City Incentive Fund;
- The balance of the loan will be forgiven over 10 years at 10% per year where a minimum of 15 housing units are leased by students;
- “Students” may include non-degree-seeking and vocational students;
- Developer will commit at least \$5,000 of their marketing budget per year to attracting traditional degree-seeking students; and
- All other requirements and obligations of the agreement will remain unchanged.

Staff feels that this is an appropriate amendment to the agreement to support the project and more accurately reflect the current student housing market in the area. The project has already yielded a \$13 million investment in the area plus the addition of new businesses and residents. Furthermore, the original purpose of the loan funds has been achieved by the environmental remediation and improvement of the parcel, which has been redeveloped into a surface parking lot for the Peanut Factory Lofts.

The project is currently scheduled to be sold to 939 S Frio Street LLC in December 2016. As per the terms of the economic development agreement and at the request of the developer, staff is also recommending approval of the assignment of the agreement to the prospective purchaser, subject to all rights and obligations of the agreement, as amended, and contingent upon the closing of the sale.

ALTERNATIVES:

The City Council may elect to deny the amendment or assignment, in which case, the pending sale of the project would be delayed or cancelled, and the current owner would struggle to meet the minimum student housing requirements for loan forgiveness. Alternatively, staff could renegotiate terms with the developer based on City Council feedback.

FISCAL IMPACT:

This action has no fiscal impact to the General Fund. The \$150,000 repayment from the developer will be deposited back into the Inner City Incentive Fund as well as any future principal repayments. The outstanding loan funds will continue to accrue interest at 4% per year unless forgiven under the terms of the agreement. Accrued interest payments will also be deposited back into the Inner City Incentive Fund.

RECOMMENDATION:

Staff recommends approval of the amendment to the Chapter 380 Economic Development Loan Agreement with South Frio Development LLC for the Peanut Factory Lofts project and its assignment to 939 S Frio Street LLC, as prospective purchaser of the project.