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A Big Scrap

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As the owner of a scrap metal recycling business, Stanley Kramer should be on Easy Street. The recent commodities boom has pushed prices for steel, aluminum and other metals to record levels – in some cases three or four times the previous highs.

The 71-year-old could have left a flourishing business in the heart of South Los Angeles to his son. But for Kramer, the boom is a huge lost opportunity: A significant portion of his business and the property it sat on has been forcibly taken by the Los Angeles Community Redevelopment Agency through eminent domain. The agency has long eyed the land – which sits on a key intersection – for a shopping center.

Kramer's saga is unusual partly because it has dragged on so long and partly because he's chosen to put up a good scrap. Kramer has spent years and nearly \$3 million of his own money trying first to prevent the agency from taking his land and now trying to get the land back. He spent another \$3 million to build a temporary but smaller replacement facility in nearby Huntington Park.

Making the situation more galling to Kramer was that even when he saw the writing on the wall for his scrap metal business on the site and put forward his own plans to build a shopping center, the redevelopment agency repeatedly rebuffed his proposals and chose to go with a rival plan from a politically connected non-profit group called Concerned Citizens of South Central Los Angeles. That plan relies on up to \$14 million in public subsidies.

Kramer has repeatedly taken the redevelopment agency to court, only to lose each time.

Along the way, Kramer has accumulated many critics who take issue with his characterization of the events surrounding the redevelopment of the land. These critics repeatedly suggested to the Business Journal that Kramer and his associates' actions have not been above scrutiny. However, several of these sources declined to comment on the record.

Now, as groundbreaking on the rival plan looms in the next six months, Kramer is mounting a last-ditch appeal in state court in the hopes of reversing the agency's actions. Even with help from eminent domain reform advocates throughout the state, the odds are against him.

And while Kramer does own two other scrap metal sites nearby, including the Huntington Park facility, they are maxed out and he has been unable to expand his business during this record run of prices.

"They put a huge percentage of my business out of business," Kramer said. "And for what? So they can spend millions of taxpayer dollars on a shopping center when they could have let me develop a virtually identical center without public subsidies."

Frustration all around

Kramer isn't the only party upset over the 6.5-acre site at the southwest corner of Slauson and Central avenues, on the edge of a 200-acre industrial tract of land in South L.A. that was once home to a huge Goodyear Tire and Rubber Co. plant.

In the 18 years since a shopping center was first proposed for Kramer's parcel and a smaller property right next door, the site has become a classic example of how difficult it can be to redevelop in South L.A.

One exasperated redevelopment agency board member summed it up this way: "How in good conscience

can the city do business the way we do business? We drag these projects on forever. There's due diligence and there's caution and then there's slowing things down until they barely move," said vice chairman Bruce Ackerman, who is also chief executive of the Economic Alliance of the San Fernando Valley.

Among the criticisms levied against Kramer: He has been reluctant to clean up toxic residue on the site from his metal recycling facility. Indeed, Kramer is facing a lawsuit from Santa Monica Baykeepers, an environmental group. Kramer said he's in settlement negotiations with the group.

Also, the CRA claims that every proposal that Kramer and his development partners bought before the agency required at least some level of public financial assistance, despite their verbal claims to the contrary.

The frustration also was evident for City Councilwoman Jan Perry, who represents the area. "We have waited an inordinate amount of time for this to come to fruition," she said.

Perry has pushed hard for the shopping center plan put forward by a partnership of Concerned Citizens of South Central Los Angeles, Jacksonville, Fla.-based retail developer Regency Centers Corp. and Infinity Redevelopment LLC, a Los Angeles-based inner-city developer. The plan calls for a 45,000-square-foot grocery store, a 13,000-square-foot drugstore, a 6,500-square-foot sit-down restaurant, a computer training center and several smaller tenants.

Grocery store chain Northgate Gonzalez Markets Inc. has signed a letter of intent to be the anchor tenant, while CVS Caremark Corp. has signed a letter of intent for the drugstore.

Kramer's plan, proposed with partner and adjacent property owner M and A Gabae LLC, would include a 72,000-square-foot supermarket they say would be operated by Kroger Co. subsidiary Food 4 Less, though no letters of intent have been signed. Kramer and Gabae principal Arman Gabay (Gabay changed the spelling of his last name) claim their plan would involve no subsidies, though that is in dispute.

"If you owned the property for all these years, why didn't you develop the property? It's easy to look at what we've worked hard on to put together and say, 'I could do it for less.' But you don't have executed leases," said Noreen McClendon, executive director of Concerned Citizens.

But Kramer and Gabay said the city has prevented them from progressing.

Kramer alleges that because Concerned Citizens' support of Perry was crucial to the councilwoman's election campaigns, she has pushed for Concerned Citizens' proposal as "political payback," effectively blocking Kramer and Gabay's efforts.

Perry's response: "The Slauson Central development has a long and well-documented history on the public record. Regency is developing this project as a result of a request for proposal and public process that the CRA/LA has engaged since approximately 1992. Any allegations to the contrary are 'sour grapes.'

"The bottom line is that the project will deliver a much-needed amenity to this underserved community – a place where people now have to go five to 10 miles outside of their neighborhood to access comparable retail outlets."

However, Concerned Citizens itself is no stranger to controversy. In 2004, the Los Angeles Times reported that the non-profit group was asked to return a \$2.2 million grant to the state. The grant was intended to buy land for a soccer facility, but some of the grant funds went to the sons of then-executive director Juanita Tate, who had passed away earlier that year. What's more, the group had already used grant monies from the city to buy the land. Ultimately, Concerned Citizens returned the money to the state.

Kramer and an M and A Gabae representative said the allegation that Concerned Citizens misused the state funds is crucial because there is not a lot of assurance that the group is a good steward of money. Yet the non-profit would start with a 5 percent stake in the project at Slauson and Central avenues under

an amended development agreement reached with the redevelopment agency and ratified by the City Council earlier this month.

McClendon, who is also the daughter of the late Tate, did not respond to follow-up questions seeking comment on the alleged misuse of state funds.

However, McClendon previously made some criticisms of her own. She said that much earlier in the process, Concerned Citizens had attempted to work with Kramer to redevelop his property but that failed. She said those talks broke down in part because Kramer had made several "non-negotiable" demands that her organization found unacceptable. She said that Kramer wanted the ability to buy back the property – once it had been redeveloped and open for three years – at a highly discounted price. Kramer disputes that claim.

Rights violated?

In a series of legal actions over the past four years, Kramer and M and A Gabae claim that the Community Redevelopment Agency has violated their rights to adequate "owner participation" in the redevelopment process as the owners of record for the property and instead favored the Concerned Citizens-Regency partnership. Owners are supposed to have first crack at redevelopment of their property in such cases.

"A key question here is whether owner participation laws are adequate to give owners a fair opportunity to do the projects themselves if they choose to go that route," said Daniel Wright, an attorney with the Silverstein Law Firm in Pasadena, which represents M and A Gabae. "It appears in the case of Mr. Kramer, the CRA may have used certain sharp practices to meet the bare minimum requirements of the law but assure the ultimate failure of his meaningful efforts to redevelop the property."

While the agency does not dispute Kramer's right to ownership participation, it does question Gabay's claim, saying he bought his parcel years after a request for proposals had been issued.

This ownership participation issue has drawn into the fray some of the same eminent domain reform advocates that backed the unsuccessful Proposition 98 initiative on the June ballot.

"It is astonishing that a public agency can seize private property from its rightful owners and give it to an organization that tried to swindle the state of millions of dollars," said Marko Mlikotin, president of the California Alliance to Protect Private Property Rights. "Until California's eminent domain laws are reformed, politically connected organizations and developers will exploit their political connections to acquire private property from unwilling sellers."

But redevelopment officials say the project went through a competitive process and that both Kramer and Gabay had ample time to present their plans to the agency.

"We gave more than fair warning and time to the property owners that we were interested in building a shopping center there," said Jenny Scanlin, project manager for the downtown region for the Community Redevelopment Agency. "Mr. Kramer had several months' notice about the request for proposals, that it would be coming."

That explanation was apparently enough to satisfy redevelopment agency board vice chair Ackerman, who at a meeting earlier this summer asked agency staff to report back to the board on its efforts to negotiate with Kramer and Gabay. "I favor owner participation wherever humanly possible, so I just wanted to make sure that we negotiated in good faith with the owners."

Scanlin also said that the agency addressed its concerns about the state grant to Concerned Citizens. "We checked with both the state and with Concerned Citizens and found that the matter had been resolved to their satisfaction."

Mounting costs

Meanwhile, all the legal wrangling over the site has pushed up the development cost and the amount of taxpayers' money that the city is putting into the project, which could total \$14 million in direct agency funds and city property taxes earmarked for the project.

"If we had done this deal back in 2003, the subsidy would be nowhere near the size of what it is today," said David Webber, senior manager of investments for Regency Centers. He added that the construction costs have also mounted with the delays to at least \$15 million.

As part of the deal struck with the city, Regency agreed to sell the project once it is fully leased to Concerned Citizens and Infinity Redevelopment at a prenegotiated price.

"We will probably have a negative return on the project," Webber said.

As for Kramer, he is challenging that the agency's initial offer of just over \$2 million for his property three years ago is inadequate. Whatever the outcome of his appeal, he has another legal battle ahead of him: getting the agency to pay for the cost of relocating his metal recycling facility to an adjacent parcel. He said the city has only given him \$10,000 toward building that replacement facility; he also said he needs at least \$400,000 to improve the site before he can put a recycling facility there.

"They say they will reimburse me for all my expenses, but only if I drop my lawsuit."

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