Detroit to Demolish Arena, Give Land to Creditor in Bankruptcy Case.

Financial Guaranty Insurance To Get Land of Joe Louis Arena, Home of Red Wings Hockey Team

Detroit is on the verge of a mostly amicable end to its historic bankruptcy case, with its largest holdout creditor unveiling a deal Thursday to stop fighting and instead take a major stake in the city's revival.

Under the plan, the city will knock down its fabled but soon-to-be vacant Joe Louis Arena, home of the Detroit Red Wings professional hockey team, to make way for redevelopment led by Financial Guarantee Insurance Co., which the city owes about $1 billion.

Once marred by high vacancy and low prices, Detroit real estate has heated up in recent months, driven by renovations of long-vacant buildings and new buyers including Chinese companies. There are also several major construction projects under way, including a downtown light-rail line and a $400 million mixed-use development centered around a new home for the Red Wings.

The latest deal calls for turning into an ally the bond insurer that had once argued the city's debt-cutting plan was unworkable. FGIC also pushed for the city to consider selling its famed art collection to help pay off its debts.

The bond insurer is now planning to enter a new development deal for the right to build a hotel, riverfront condominiums and retail stores on the site of Joe Louis arena.

The arena site is considered prime in part because it is near the city's Cobo convention center, the home of the annual North American auto show, which is undergoing a yearslong renovation and expansion.

City officials said FGIC's rate of recovery on its claim—at about 13 cents on the dollar—is similar to some other bond insurers, but Detroit will tack on cash and real-estate inducements potentially worth close to $100 million.

By comparison, Detroit's debt-cutting plan gives the city's pensioners about 46 cents on the dollar for their $3.1 billion claim.

"It's a big day," said Bill Nowling, spokesman for Detroit Emergency Manager Kevyn Orr. "It's the last major hurdle before plan confirmation."

The Detroit City Council also must approve the development-rights deal, but any rejection could be effectively overridden by Mr. Orr and a state oversight board.

The city's broader debt-cutting plan still needs the approval of U.S. Bankruptcy Judge Steven Rhodes of the Eastern District of Michigan.

After a weekslong trial on the viability and fairness of Detroit's restructuring plan, Judge Rhodes is expected to hear closing arguments next week. A ruling could follow within several weeks and city officials hope Detroit could be out of bankruptcy court as soon as Thanksgiving.

Detroit filed for bankruptcy protection in July 2013 with an estimated $18 billion in long-term obligations.

Its current restructuring plan calls for a $7 billion reduction in debt and a $1.4 billion reinvestment in removing blighted buildings and boosting police and fire services in the city of about 680,000.

Most of the city's creditors, including municipal employees and retired workers, agreed to settle. Some individual objectors remain, arguing in part that the city's emergency manager acted improperly to cut any benefits to pensioners.

In addition to its size, the bankruptcy case drew note because Judge Rhodes earlier ruled that the city in bankruptcy court had the ability to cut future pension payments once thought to be guaranteed under the state constitution.

However, no other cash-poor major city has followed Detroit into Chapter 9, perhaps a recognition of the enormous costs involved in the year-plus endeavor.

Detroit also had the additional advantage of capitalizing on its storied history as an automotive capital. It was able through federal mediators to forge a unique "grand bargain" to use hundreds of millions of dollars from private foundations and the state of Michigan to help safeguard its world-class art collection and reduce the blow to its city pension system.

"The City all along has sought negotiated settlements with its impaired creditors that were not only fair and reasonable given Detroit's financial situation, but also would allow it to exit bankruptcy solvent and able deliver basic services," Mr. Orr said in a statement Thursday.

By revitalizing the former home of the Red Wings of the National Hockey League at the city-owned Joe Louis Arena along the Detroit River, FGIC is following the earlier example of another bond insurer who settled in return for a development deal involving a tunnel linking the city to Canada, nearby vacant land and a city parking garage.

"FGIC has always been, and continues to be, believers in Detroit's long-term revival prospects, and this deal gives us the opportunity to participate in and help catalyze that revival," Timothy Travers, chief executive of FGIC, said Thursday.

A statue of Joe Louis, the former heavyweight boxing champion, is on display in the nearby Detroit convention center known as Cobo Hall, won't be affected by the real-estate deal, a city spokesman said.

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