

DATE: APRIL 27, 1998

TO: COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA KURTZ, ACTING CHIEF EXECUTIVE OFFICER

SUBJECT: APPROVAL OF AN EXCLUSIVE NEGOTIATION AGREEMENT BETWEEN THE PASADENA COMMUNITY DEVELOPMENT COMMISSION AND LAKE DEVELOPMENT COMPANY FOR THE CONSTRUCTION OF A RITE AID DRUG STORE AT THE SOUTHEAST CORNER OF FAIR OAKS AVENUE AND ORANGE GROVE BOULEVARD.

RECOMMENDATION

It is recommended that the Community Development Commission take the following actions:

1. Approve the terms and provisions of an Exclusive Negotiation Agreement with Lake Development Company ("Participant") as the Participant for the proposed Rite Aid Drug Store.
2. Authorize and direct the Chief Executive Officer to execute, and the Secretary to attest, the agreement substantially in the form presented to the Commission.

BACKGROUND

In February, 1998 Lake Development Company submitted a development proposal that proposes the construction of an approximately 14,000 square foot Rite Aid Drug Store at the southeast corner of Fair Oaks Avenue and Orange Grove Boulevard. The proposed development site consists of four parcels (approximately one acre of land) that is currently owned by AVH Associates. Currently, there are (4) four separately owned businesses that are operating on the subject property. The businesses are 1) Fair Grove Automotive Industries, an automotive mechanic shop, 2) Master Towing, 3) Urethane Coating, an automotive paint center and 4) H & K Construction, a general contractors office.

Lake Development Company in its proposal has indicated that it is negotiating the acquisition of the subject property and that AVH Associates has no desire to bring forth a development proposal of its own on the proposed development site. However, AVH Associates has indicated that it is the desire of the existing businesses to be relocated. Specifically, it is the desire of the site owners that the existing businesses be relocated to an alternate site to reinstate the businesses. AVH Associates has waived its owner participation rights for the proposed development site, clearing the way for Lake Development Company to proceed with the proposed project, as the Participant. The Participant has requested that the Community Development Commission ("Commission")

assist in relocating the existing businesses on the development site and that the Commission enter into an Exclusive Negotiation Agreement with (“ENA”) Lake Development Company as the developer of the proposed development site.

RITE AID Drug Store

Lake Development Company is the development company identified by Rite Aid Drug Stores as the preferred developer for the construction of its drug stores. The Participant proposes to construct a 14,000 square foot store on the proposed development site. It is projected that this proposed Rite Aid store will generate annual sales of \$6 million , of which approximately 65% will be for sale of taxable merchandise. It is the intent of Rite Aid Drug Store to negotiate a lease agreement with Lake Development Company and the Participant will proceed to secure construction financing and build the project. The project will be built to suit all of Rite Aid’s requirement. Recently, Rite Aid, the largest drug store chain in North America acquired Thrifty Drugs and are building stores at Colorado Boulevard and Holliston Street, Allan Avenue and Washington Boulevard and Lake Avenue and Altadena Drive. Information on the Rite Aid Drug Store is attached.

RELOCATION

Since the submission of this proposal staff has met with the Developer to clarify certain aspects of the proposal and has moved forward in assessing the potential cost to the Commission should the Commission desire to move forward with the project. Specifically, staff has retained the services of a relocation consultant and a business valuation appraiser to provide preliminary budget estimates related to the cost to relocate and or acquire the existing businesses on the site. . Pacific Relocation Consultant has estimated that relocation cost to move the existing business may range from \$110,000 to \$170,000. Desmond, Marcelo, and Amster the business valuation appraiser has estimated that the range of relocation related to loss of goodwill is \$510,000 to \$645,000 and fixtures and equipment is estimated to range from \$113,000 to \$145,000. Thus the cost range for the Commission could range from \$733,00 to \$1,000,000.

In addition to obtaining an estimated relocation cost for budgetary purposes staff has also identified City owned property where Master Automotive and Master Tow Service can relocate their respective businesses. Currently, an appraisal of this property is being conducted to determine its fair market value should it be the desire of the business entities that occupy the property to acquire the City-owned property. Also, staff has identified an economic consultant to determine the economic feasibility of the proposed project.

Negotiation Period

It is the desire of the Participant to enter into a 120 day negotiation period at which time the Commission can ascertain the economic feasibility of the proposed project and to determine whether the Commission has the ability to participate in the proposed project. During this period the Participant will move forward and secure financing commitments for the project based on the Rite Aid commitment.

DEPOSIT

Prior to and as a condition to the execution of the ENA by the Commission, the Participant shall submit a good faith deposit (“Deposit”) in the amount of \$10,000 in the form of cash or certified check to ensure that the Participant will proceed diligently and in good faith to negotiate and perform all the Participant’s obligation under the ENA and be used for the purposes and terms set forth therein. The Deposit, when received by the Commission shall be deposited into an interest bearing account in a Bank or trust company selected by the Commission Treasurer, in his sole discretion. Such interest, if any, shall be added to the Deposit and held as additional security for the Participant’s obligation.

Limits of the Exclusive Negotiations

By its execution of the ENA, the Commission is not committing itself to or agreeing to undertake a) financing, acquisition, relocation or disposition of land to Participant; or b) any other acts or activities requiring the subsequent independent exercise of discretion by the Commission, City or any agency or department thereof. The parties recognize that one or more of the conditions as set forth in the Participant’s proposal may fail to be met as a result of negotiations, subsequent studies, reviews and proceedings involving the exercise of discretion by the Commission, the City or any agency or department.

The ENA does not constitute a disposition of property or exercise of control over property by the Commission or the City and does not require a public hearing. Execution of the ENA by the Chief Executive Officer of the Commission is merely an agreement to enter into a period of exclusive negotiations according to the aforementioned terms, reserving final discretion and approval of the Commission and the City as to any Agreement and all proceedings and decisions in connection therewith.

Compliance with Plans

The proposed project concept is in compliance with the purposes and permitted uses of the Villa Parke Redevelopment Plan and the General Plan. In addition the proposed project is consistent with Fair Oaks Master Development Plan approved by the Commission in 1990.

Housing Impact

There is no housing impact should the Commission approve staff recommendation.

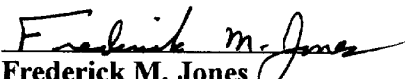
Fiscal Impact

During the Negotiation Period there will be cost of various studies estimated at approximately \$25,000. The implementation costs associated with the project could range between \$733,000 and \$1,000,000. This project could be funded from interest earnings from a HUD Section 108 loan approved in 1993, land sale proceeds and Villa Park tax increment funds and will be considered as part of the FY 99 budget. Upon the completion of an economic feasibility analysis during the negotiation period, the Participant and the Commission come to agreement on an Owner Participation Agreement, staff will return to the Commission with a complete report regarding the impact this project will have on the Commission.

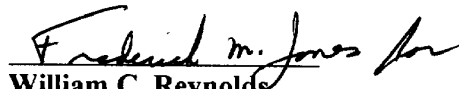
Respectfully submitted,


Cynthia Kurtz
Acting Chief Executive

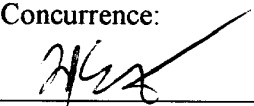
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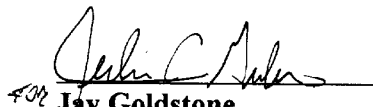

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