

DATE: AUGUST 24, 1998

TO: COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA KURTZ, ACTING CHIEF EXECUTIVE OFFICER

SUBJECT: PROPOSED RITE AID DEVELOPMENT PROJECT

RECOMMENDATION

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

1. Direct staff to proceed to negotiate the terms of a ground lease with AVH Associates to occupy City owned land located at 120-160 Altadena Drive for an automobile repair facility, consistent with the terms outlined in this report.
2. Direct staff to continue to negotiate the terms and conditions of an Owner Participation Agreement ("OPA") with Lake Development Company for the proposed construction of a Rite Aid Drug Store at the southeast corner of Fair Oaks Avenue and Orange Grove Boulevard; and
3. Authorize staff to specify in the OPA that relocation assistance to be provided shall be in an amount not to exceed \$547,000 for the proposed Rite Aid Project. Relocation assistance shall consist of \$400,000 in cash and forgiveness of a Promissory Note that the Commission currently holds on a portion of the proposed development site.

BACKGROUND

In April, 1998 the Community Development Committee ("Committee") approved an Exclusive Negotiation Agreement ("ENA") between Lake Development Company ("Developer") and the Community Development Commission for the proposed construction of an approximately 14,400 square foot Rite Aide Drug Store at the southeast corner of Fair Oaks Avenue and Orange Grove Boulevard. As part of this development proposal the Developer has requested Commission assistance to relocate the existing businesses on the development site. In addition, it is the desire of the existing property owners ("AVH Associates") to acquire City owned property (known as the Santa Anita Substation) to build a new automobile repair facility. The Committee approved the ENA subject to the Commission's approval of the following conditions:

1. Commission assistance should be limited to no more than \$147,000, owed to the Commission for the previous purchase of part of the proposed development site.
2. Commission shall commit to seeking an agreeable purchase price with the owners of the

proposed development site to acquire certain City-owned property.

3. That the project is consistent with the Fair Oaks Master Development Plan.

In June, 1998 the Commission approved the ENA with Lake Development Company.

Since that time staff has continued to work with the Developer and owners of the proposed development site ("AVH Associates") in order to gain a better understanding of the amount of Commission assistance that may be required to bring the project to fruition. Specifically, staff retained the services of Kotin and Mouchly to conduct an economic feasibility analysis of the proposed Rite Aid Drug Store project; and the Ellis Group to determine the fair market value for property owned by the City that AVH Associates would acquire to relocate the existing businesses that occupy the proposed development site. It is the request of the Developer and AVH Associates that the Commission pay the cost of relocation for this project.

Santa Anita Substation. The Santa Anita Substation property located at 120-160 N. Altadena Drive is the property identified by AVH Associates as the preferred location for the relocation of the existing businesses that occupy the proposed development site. The total square footage of that portion of the Santa Anita Substation that AVH Associates proposes to acquire is approximately 67,950 square feet. The proposed acquisition does not include the existing building that is currently vacant. The Ellis Group, an MAI appraiser, completed an appraisal of that portion of the Santa Anita Substation to be acquired by AVH Associates. The fair market value, at its highest and best use for that portion of the Santa Anita Sub Station needed by AVH Associates to relocate its automobile repair business and tow company (Master Automotive and Master Tow), is \$1,020,000. However, the appraiser has indicated that this valuation has been reduced/offset to \$880,000 because any potential buyer would incur off-site improvement costs (i.e. Curbs, gutters, sidewalks and street lights) which have been estimated to cost approximately \$140,000.

Since receiving this information staff has met with the Developer and AVH Associates to discuss the Commission's appraisal of the Santa Anita Substation property. At the meeting AVH Associates raised considerable concern regarding the valuation of this property. Specifically, AVH Associates has indicated that the value of the property is much too high because of its close proximity to utility transformers. As a result AVH Associates requested that it be allowed to complete its own appraisal of the subject property, and staff agreed to have its appraisal reviewed by another MAI appraiser. The review appraisal completed by Mason and Mason for the Commission basically concurred with the Ellis Group appraisal with the exception of cost of off-site improvements. Mason and Mason felt that off-site improvement costs were underestimated in the Ellis Group appraisal. It was the opinion of Mason & Mason that off-site improvement costs will be approximately \$264,000. With this offset the fair market land valuation has been established at \$756,000.

Currently AVH Associates has retained the services of Virgil Hill, a principal with the real estate

appraisal company Appraisals R Us, to review the work completed by the Commission's appraiser and review appraiser. Although Mr. Hill did not complete a valuation appraisal of the substation property he did raise a number of concerns related to the Commission's appraisal. Staff is reviewing the concerns raised by Mr. Hill. Following our review of Mr. Hill's comments staff has determined that no new information has been presented that has not been considered by our own appraisers. Therefore it is staff's position that the fair market value for that portion of the Santa Anita Substation that AVH Associates would like to acquire remains at \$756,000.

On August 19, 1998 staff met with the Developer and AVH Associates to discuss our position related to the sale of a portion of the Santa Anita Substation property and to consider any new information related to relocation costs (discussed in the next section of this report). In response to staff's position on the value of the Santa Anita Substation property, AVH Associates has rescinded its offer to acquire the property needed to build a new automobile repair facility. AVH Associates has indicated that it is willing to enter into a ground lease with the City for the same property that they have previously offered to acquire. AVH Associates has proposed the following preliminary terms for the proposed ground lease:

- 1) AVH Associates proposes to enter into a ground lease with the City at its fair market value. The fair market value for a ground lease to be established by a commercial broker that is mutually acceptable to both the City and AVH Associates. This broker must be familiar with the Pasadena real estate market.
- 2) The term of the ground lease is 20 years.
- 3) Provisions be established in the ground lease that will allow AVH Associates to acquire the property sometime in the future at its fair market value.
- 4) The City agrees to lease the commercial portion of the Santa Anita Substation building to AVH Associates to serve as a office for Master Automotive and Tow Company.

The change in AVH position relates directly to the cost of relocating its business. The Developer and AVH Associates have provided staff with information related to the cost of constructing a new facility on the City-owned property. The consultants for AVH Associates have determined that the cost of a new automotive repair facility is estimated to be approximately \$1,018,000. Since the City cannot donate the land to AVH Associates or reduce its value to where it would be feasible to acquire the property at this time, AVH does not have the financial capacity to secure a construction loan to build the new facility and pay all cash for the land at the same time.

Relocation Costs: As part of the proposed Rite Aid Project the Developer has requested relocation assistance for the existing businesses that occupy the development site. In determining the cost of relocation for this project staff retained the services of Pacific Relocation Consultants and Desmond and Marcelo to provide budget estimates. Preliminary estimates provided by the Commission's consultants for budgetary purposes indicate that the relocation costs for all of the

businesses that occupy the development site is approximately \$350,000.

With respect to the relocation of the existing businesses on the proposed development AVH Associates disagrees with the estimated relocation cost provided by the Commission. The primary concern of AVH Associates relates to the estimated cost of relocating Master Automotive and Tow Company. As a result staff has agreed that AVH Associates may retain its own relocation expert and upon completion of this work meet and resolve this cost issue. In July, 1998 AVH Associates retained the services of Michael Jackson & Associates to determine the cost of relocating Master Automotive and Tow Company. In late July, AVH Associates forwarded a relocation report to staff that indicates the cost of relocating Master Automotive and Tow Company is approximately \$580,000 based upon a double move. The difference between the Commission's estimate for this particular business is that the Commission estimate did not anticipate that the Master Automotive and Tow Company would have to move into a temporary facility while a new facility is under construction. In addition, it is the position of AVH Associates that they will suffer business loss as the result of a move to a new location. The cost to the business has not been included as part of the relocation cost. It is the opinion of AVH Associates that \$50,000 be added to the Master Automotive and Tow Company for business interruption. AVH Associates expressed no concern related to the cost estimates of relocating the other two (2) tenants that occupy the development site.

As a result of this new information and in an attempt to negotiate a reasonable settlement of the relocation issue, the Developer and AVH Associates are requesting that the Commission provide \$547,000 in Commission assistance. It is their request that the relocation assistance consist of a \$400,000 cash contribution to the project and that the Commission forgive a promissory note in the amount of \$147,000 that the Commission holds on a portion of the proposed development site.

During previous discussions before the Committee, staff has indicated that the Commission is not required to provide assistance to this project. However, the Commission can provide assistance should it choose to do so. It is staff's opinion that the land use, specifically the Rite Aid Drug Store, is the appropriate use for the site. It is also staff's position that the project accomplishes the following:

1. The proposed Rite Aid Drug Store is consistent with the Villa Parke Redevelopment Plan and the Fair Oaks Master Development Plan.
2. The project is consistent with redevelopment goals and objectives related to the elimination of blight.
3. The project will generate approximately 20-25 new jobs.
4. The project will increase tax increment dollars to the Commission.

5. The project will increase sales tax revenue to the City.
6. A portion of the Santa Anita Substation property would be returned to the tax roll.

As a result of the new information provided by Michael Jackson and Associates, and notwithstanding the fact that the Commission is not required to provide assistance to the proposed project, it is staff's recommendation that the Commission provide an inducement to the Developer to secure the Rite Aid project. If it is the desire of the Commission to move this project forward it is staff's recommendation to provide relocation assistance in the amount of that the Developer and AVH Associates have requested. It is staff opinion that the relocation cost could be significantly higher (estimated to be a minimum of \$680,000) if the Commission used its eminent domain powers to gain control of the proposed development site.

Economic Feasibility Analysis

As indicated previously following the receipt of the Rite Aid proposal staff retained the services of Kotin & Mouchly to conduct an economic assessment of the proposed project. The results of the analysis after analyzing leases and land acquisitions by Lake Development indicate that this project is consistent with similar projects that the Developer has constructed in Southern California. The Developer focuses on acquiring development sites that are approximately 45,000 to 60,000 square feet in size and normally \$43-\$45 per square foot to acquire these development sites. Lake Development has tentatively agreed to pay approximately \$2 million for the proposed development site.

However, after reviewing comparable land sales data over the past three years it has been determined that there are very few sales of property in the range that the Developer has offered to the owners of the proposed development site. Kotin Mouchly has determined that the purchase price is approximately 40% over market and the Commission should not have to provide assistance to the project. The Commission expressed concern that it appeared that the property owners would make a windfall profit at the Commission's expense should the Commission assist in the project.

AVH Associates disagree with the Kotin and Mouchly findings that there will be significant financial gain should the Commission provide relocation assistance and reduce the purchase price of the Santa Anita Substation Property. Specifically, the Kouladjians, the owners of the proposed development site prior to AVH Associates acquiring the development site, acquired the property located at 680 N. Fair Oaks Avenue in 1989 for \$680,000 and subsequently the 670 N. Fair Oaks property in 1996 for \$385,000. In addition the City holds a first trust deed on a portion of the proposed development for \$147,000. However following these transactions AVH Associates acquired the property. Pursuant to a partnership agreement AVH Associates indicates that approximately \$1.8 million dollars is required to be paid to the lien holder, first, upon sale of the property. It is the position of AVH Associates that there is no windfall profit.

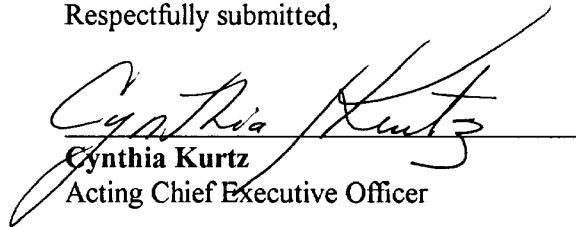
Housing Impact

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

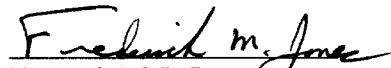
Fiscal Impact

If these recommendations are approved, there will be an impact to the Commission's fund balance. The cost to the Commission is \$547,000 which consists of a cash contribution of \$400,000 and the forgiveness of a promissory note in the amount of \$147,000.

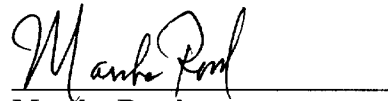
Respectfully submitted,


Cynthia Kurtz
Acting Chief Executive Officer

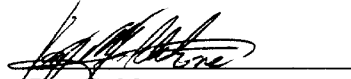
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