C SEG Letter

SEG ADVISORS

December 16, 2014

Alan Ashimine
RBF Consulting
P.O. Box 57057
Irvine, CA 92619

Re: Response to Comments; Conservancy Alternative Retail Plan – Whittier, CA

Dear Mr. Ashimine:

I have prepared this letter on behalf of the applicant, BHCSP, LLC, and the City of Whittier ("City"). I have reviewed the comment letter prepared by the Whittier Conservancy dated November 29, 2014 that was submitted on the Draft Environmental Impact Report prepared by the City for the Lincoln Specific Plan ("DEIR"). I have reviewed the alternative plan set forth by the Conservancy in their comment letter ("Conservancy Plan"). The purpose of this letter is to provide my opinion on the infeasibility of that plan from any reasonable and realistic metric.

In addition, we have commissioned David Taussig & Associates ("DTA") to provide a fiscal analysis of the likely "real world" retail sales tax performance of the Conservancy Plan as compared to the modern retail concept set forth in the alleged Conservancy Plan. The DTA analysis is attached hereto and incorporated by reference as Exhibit "A."

Our opinions and supporting explanations are set forth below.

EXECUTIVE SUMMARY

Maintaining the maintenance garage, gymnasium and auditorium on the portion of the site plan where such buildings are currently located creates a highly un-leasable and un-saleable retail site plan and hence is infeasible. In short, the restored in-place retail concept submitted by the Conservancy would create a completely unworkable first-class shopping center for the numerous reasons set forth in greater detail below:

PROFESSIONAL QUALIFICATIONS

John Gebhardt is a Principal in the real estate consulting and investment firm of SEG Advisors. In such role he is active in development, leasing, design, entitlement, valuations, financial underwriting, acquisition, disposition, master planning, financing and recapitalization of retail, mixed-use, multi-family and office properties.

Prior to such role at SEG, Mr. Gebhardt served as the local Partner and Project Principal for Panattoni Development Company, an international commercial real estate developer. In such role he was responsible for all ownership activities in the Greater Los Angeles area, including property acquisition, financial underwriting, acquisition, disposition, design, entitlements, master planning, leasing and development for retail, office, mixed-use and multi-family properties.

Previous to Panattoni Mr. Gebhardt was a Project Partner with the J.H. Snyder Company, one of the largest commercial real estate developers in Southern California. In this role he focused on the acquisition, disposition, entitlement, leasing, financial underwriting, and development of retail, mixed-use multi-family and office properties. While at the J.H. Snyder Company Mr. Gebhardt oversaw the redevelopment of a number of public-private, RDA projects including Bella Terra in Huntington Beach, The River at Rancho Mirage, West Hollywood Gateway and NoHo Commons in North Hollywood.

Prior to joining the J.H. Snyder Company, Mr. Gebhardt was with CB Richard Ellis, the world's largest real estate service company. He served as a Managing Director of the North Los Angeles office, the West Los Angeles office and in Charlotte, North Carolina. In such roles he helped formulate the strategic plan for the respective geographic areas, with a focus on development and redevelopment. He also served as the Co-Director of the firm's Institutional Services Group for the Los Angeles metro region, which included landlord leasing, property management, mortgage banking and investment sales.

Prior to his leadership role at CB Richard Ellis, Gebhardt was with Voit Development Company, a full-service real estate development company based in Woodland Hills, CA. During his tenure at Voit, he achieved the title of Senior Vice President. He was responsible for the company's suburban development projects throughout Los Angeles, and oversaw the growth of the company's asset management business. He was also Director of Marketing for Warner Center Properties, a 2.8 million square foot mixed-use project in Woodland Hills, as well as development manager for the 80-acre Simi Valley Business Center.

Mr. Gebhardt began his career as an associate with Price Waterhouse, where he earned the credential of Certified Public Accountant from the state of California. He earned his Bachelor of Arts degree in Economics from UCLA, and has participated in Harvard University's Executive Education Program and Stanford University's Advanced Management College. He is currently a licensed Real Estate Broker in California, and is a member and former Southern California Board Member of the International Council of Shopping Centers (ICSC) and is a former Co-Chairman and Board Member of the Los Angeles Commercial Realty Association (LACRA). He also has served as an Executive Committee Member for the UCLA Real Estate Alumni Group. He holds the designations of Real Property Administration (RPA) and Facilities Management Administration (FMA) through BOMI. He is also an active member of the

Southern California Chapter of the Real Estate Investment Advisory Council.

ANALYSIS OF THE CONSERVANCY PLAN

In our professional opinion, the Conservancy's proffered entertainment and dining retail concept is infeasible. Maintaining the maintenance garage, gymnasium and auditorium on the portion of the site plan where such buildings are currently located, as suggested by the Conservancy creates a completely un-leasable and un-saleable retail site plan and hence is infeasible. The restore in place retail concept submitted by the Conservancy would create a completely unworkable shopping center for the following reasons:

- The Hypothetical Tenants of the Maintenance Garage, Gymnasium and Auditorium for the Uses Proffered by the Conservancy is not Remotely Realistic or Grounded in Any Factual Basis: The four small retail buildings (inclusive of the maintenance garage, gymnasium and auditorium) set forth in the central part of the Conservancy site plan are simply not leasable to the type of tenants proffered or hypothesized by the Conservancy. As demonstrated by the extensive photographs of these buildings attached hereto as Exhibit "B", the Page & Turnbull Report (Exhibit "C"), the Mac5 Report (Exhibit "D"), the Spectra Report (Exhibit "E"), and the EPS Report (Exhibit "F"), the re-use of any of the historical buildings is anything but "plug and play." To the contrary, millions of dollars will have to be spent to get the buildings up to code – let alone have the tenant improvements and capability to house a modern restaurant for example. Simply stated, the dining and entertainment plaza concept that envisions preservation in situ is not feasible because the costs associated with bringing the three identified buildings up to code would not allow for any profitable restaurant uses.

The reasons for the eminent doom of the Conservancy Plan is not just due to costs and financing, but to the reality of demand from the world of retail tenants. Major national and regional tenants have a tremendous amount of options as to where they can locate and are not willing to take risks such as those presented by this proposed plan. From a retailers perspective there are numerous deficiencies in the plan combined with relatively no positives. In today's economic environment the retailers are looking for the "sure thing" with all the property attributes of good visibility, good access and circulation, very good parking, good loading and attractive architecture where they can build their brand identity. The proposed alternative plan does not meet any of these requirements for the following reasons:

- Grade Differential and Lack of Visibility from Whittier Boulevard. The Conservancy's proposal is infeasible because the Project site contains a severe grade differential from Whittier Boulevard to the southern portion of the Project site, where the proposed shop space and restaurant plaza would be located. This grade differential ranges from approximately

17.6 to 29.5 feet below Whittier Boulevard to the conceptualized dining and entertainment plaza. This means the hypothetical restaurants and entertainment plaza will not be visible from Whittier Boulevard. This lack of visibility will not work for quality retailers and restaurants, and on top of the prohibitive costs discussed above further underscores the infeasibility of the Conservancy's proposal.

- <u>Conservancy Plan is Severely Under-parked</u>: The Conservancy's preservation in place proposal is severely under-parked. Pursuant to the City's Municipal Code, the Conservancy's proposal would require approximately 963 stalls. However, the Conservancy's proposal can only accommodate approximately 456 stalls. Moreover, this parking deficiency is further compounded by virtue of the fact that any regional or national tenant that would express any interest in the front small box and shop space would require parking restrictions guaranteeing them no less than four parking stalls per thousand square feet of building area for retailers, ten stalls per thousand square feet for restaurants, and a minimum parking lot size for the use of customers and employees. If this minimum guaranteed number of parking spaces are not provided, then in today's world, no regional or national tenants of any significant value would be willing to take down any of the commercial space located at the north of the Conservancy's proposed site plan. Yet, providing these require parking restrictions would have the effect of eliminating the parking for the alleged dining and entertainment center. Thus, the proffered dining and entertainment concept put forth by the Conservancy would not be visible from Whittier Boulevard and would be severely under-parked. Again, for these additional reasons the Conservancy's proposal would be infeasible.

- <u>The Conservancy Plan Does Not Produce Economic Benefits to the City:</u> In addition, one of the key Project Objectives is to "generate net revenue to the City." As set forth in the DTA Report (<u>Exhibit "A</u>"), even if one were to assume that the Conservancy proposal attracted some restaurant and other tenants (which is highly doubtful for the reasons set forth above), the Conservancy proposal would be projected to only generate approximately $74,520 in net recurring sales tax revenue. This is approximately 79.2% less than the estimated $358,810 in net recurring sales tax revenue estimated to be generated by the proposed Project. Given the highly speculative nature of the Conservancy's proposal for all of the reasons identified above, the possible and highly speculative generation of approximately $74,520 in annual recurring sales tax to the City does not fulfill one of the basic City objectives of the Project.

- <u>Analogies to Anaheim, Brea and Fullerton are Inapt</u>: Lastly, the analogies to successful historic reuse examples in places like Anaheim, Brea and Fullerton are not appropriate when compared to the western edge of Whittier. The areas of those cities that have implemented adaptive re-use for restaurant uses are entirely different than the situation at Nelles. All of those examples concern buildings that are immediately adjacent to major thoroughfares and those jurisdictions generally have a higher median income demographic base. In contrast, the east side of the City in which Nelles is located is home to a more diverse, moderate income community within in the City. Moreover, the re-use of historic buildings in downtown Fullerton, the Anaheim Packing House and downtown Brea were all subsidized through the former redevelopment agencies and tax-increment financing. Per State law, redevelopment agencies have been eliminated and local agencies no longer have tax increment financing to use as a tool. Thus, the notion that the maintenance garage, the gymnasium and the auditorium could be converted into a Anaheim or Fullerton-style restaurant destination is simply wrong. Further, uptown Whittier cannot be compared to the neighborhood in which Nelles is located for these same reasons.

CONCLUSION

The Alternative plan proposed by the Conservancy does not represent a viable, first-class retail development program. It is deficient in all normal areas of contemporary site design and no reasonable developer would build it because it would not attract the quality retailers and exciting restaurants concepts as envisioned. Instead, if somehow it got built the prospective retailers could include indoor swap meets, thrift stores, temporary and seasonal uses, dialysis centers, urgent care facilities, tree and pumpkin lots, or back-office uses, all of which are the tenants who become occupants of struggling retail centers in the very competitive retail world. Even these types of uses might not be sustainable and the center could wallow as a vacant, blighted eyesore on the major street of the city. Retailers in today's environment are down-sizing their store sizes, closing stores and using available technology to reduce costs and deal with the challenges of internet shopping and high occupancy costs. They want to become tenants in shopping centers which have a design which is straight-forward and functional, not a gamble.

This Whittier submarket could use real community serving retail that will be of benefit to the existing population and new residences which would be built on the former Nelles campus. A quality, well designed project will attract quality tenants in an attractive retail environment, with the associated benefits of sustainable jobs and sales tax performance. The proposed Conservancy plan will not produce these same results.

Sincerely,

John A. Gebhardt

Principal