MAIN PLACE: A LOOK AT A MULTI-USE REDEVELOPMENT

by

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Main Place: A Look at a Multi-Use Redevelopment

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David K. Cole

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ABSTRACT

This thesis is the study of a multi-use redevelopment project called Main Place in Santa Ana, California. The site is presently the location for Fashion Square Santa Ana, the first of four Fashion Squares developed by Bullocks Realty during the 1950s and 1960s. In its structure and sequence, the thesis is a timely look at a current project scheduled to break ground in September of 1985, after almost 9 years of planning. The understanding will come through a detailed analysis of the history of Fashion Square Mall, the involvement of the Joint Venture Partners: JMB/Federated Realty, Henry Segerstrom and Chase McLaughlin and the Redevelopment Agency of Santa Ana. Main Place is designed to create a new downtown for Orange County by redeveloping the Fashion Square site and adjacent parcels into a 1 million square foot shopping galleria, a new hotel with up to 1,200 guest rooms, and three new office towers with 1.5 million square feet of office space.

The basic intent is to understand the strategy for redeveloping an old regional shopping center, explore the financial opportunities of a multi-use development and the marketing and leasing strategy of the project. This is approached by analyzing the players, the market, the competition, and the product.

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I. INTRODUCTION

A. Statement of Purpose

The subject of this paper is a multi-use redevelopment project called Main Place, located in Santa Ana, California. The project, as planned, will consist of an expanded retail center, three new office buildings and a new hotel. This redevelopment, on the site of a deteriorating shopping center, is being undertaken to create a town center for Santa Ana. The scope of the thesis will be to explore the history of Fashion Square Mall in Santa Ana and how a joint-venture between 2 large developers and the City of Santa Ana works to accomplish an urban redevelopment. The thesis will focus on both the strategy for positioning the new retail center in the competitive Orange County retail market, and the risk of redeveloping an older regional shopping center into an urban center by including new office buildings and a hotel. The goal of the thesis is to answer the following questions:

1) What is the strategy for redeveloping an old regional center?

2) What are the financial opportunities of a multi-use development?

3) What is the marketing and leasing strategy of the project?

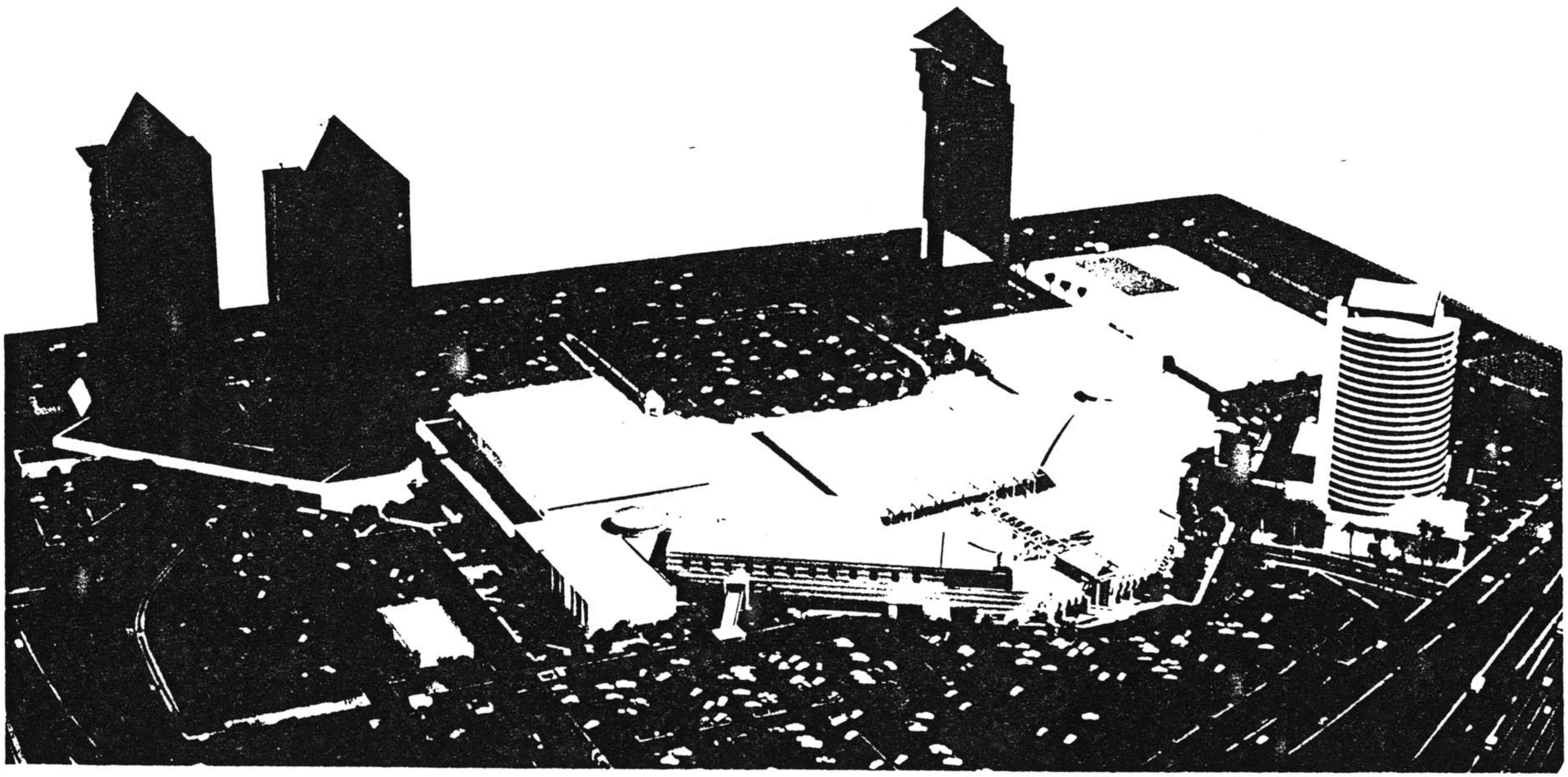
This will not be an exhaustive study of how to develop multi-use projects but rather a timely look at a current project that is scheduled to break ground in September of 1985, after almost 9 years of planning. The understanding will come through a detailed analysis of the history of

Santa Ana Fashion Square Mall, the impetus of the city to improve the area, as well as the involvement of both JMB/Federated through the existing Bullocks store and Henry Segerstrom (and his partner, Chase McLaughlin), developer of the South Coast Plaza area and lifetime resident of Orange County.

B. <u>Project Introduction</u>

Main Place Santa Ana is a multi-use development plan to create a "new downtown for Orange County"[1] through the redevelopment of the current Fashion Square retail center. The existing center and adjacent Main Street center will be changed to an enclosed 1 million square foot shopping galleria, a new hotel with up to 1,200 guest rooms, and 3 new office towers with up to 1.5 million square feet of office space. Retail plans call for 3 new department stores and 140 new shops in a glass garden, 2-level galleria to be constructed south of the existing (Fashion Square) Bullocks and I. Magnin department stores. The Nordstroms Company from Seattle, Washington, will construct a 3-level, 150,000 square foot store along with J.W. Robinsons, who also plan to add a 150,000 square foot unit. A fourth department store is being sought to "round out the center." Parking for the retail center will accommodate 4600 cars.

The office space currently planned has three components. The first building is a 30-story office tower scheduled for completion in 1987. Buildings 2 and 3 are part of future phases, as is the hotel portion.



"Shops at Main Place"

JMB Federated Realty Associates Ltd

Main Place
Santa Ana

"Market at Main Place"

JMB/Federated Realty Associates, Ltd.
Developer

Main Place
Santa Ana

The hotel will be operated by a separate hotel company not yet determined. Total parking to be provided for on site is 9200 cars.

Summary of Conclusions

Main Place is an exciting multi-use redevelopment project that is being developed by a talented team composed of McLaughlin and Segerstrom, strong local office, hotel, and retail developers; JMB/Federated, a strong national retail development company; and the City of Santa Ana. They have chosen two outstanding architectural firms by having the Jerde Partnership design the retail center and Skidmore, Owings and Merrill design the hotel and office portion. This combination of local and national development and design talent will help to create a successful and dynamic project.

The risk for the retail center lies in its ability to differentiate itself from the other strong retail centers in the competitive central Orange County market. This risk can be mitigated by attracting a fifth anchor store not presently operating in the area, creating a marketing plan that includes targeting the 30 million visitors that come to Orange County annually and by selecting a unique mix of retailers for the center that focuses attention and draws customers from a larger trade area.

The risk for the office and hotel is timing the construction schedule to coincide with market demand. Orange County's phenominal office growth has created high vacancy rates in certain areas and the Joint Venture is working to mitigate this risk by setting preleasing targets that have to be met before construction is started. The hotel portion of the project is the least volatile and is a function of attracting the right hotel management company. The ability of the development team to work together and use their strength and expertise will determine its ultimate success.

B(1) Players in the Process

The project is composed of three teams of Participants each with distinct roles and expertise. The three Participants are: first, the Community Redevelopment Agency, City of Santa Ana, which has been involved behind the scenes in the redevelopment effort since 1976; second, JMB/Federated Realty, formed as a partnership between the real estate group of Federated Department Stores (FDSRA) and JMB Realty, the large syndication and development firm; third, the partnership formed between the Henry Segerstrom Family and Chase McLaughlin, that is being developed by a talented team composed of McLaughlin and Segerstrom, both prominent retail and office developers in Orange County. The partnership made up of JMB/Federated and Segerstrom and McLaughlin is called Santa Ana Venture, formed to develop Main Place in agreement with the City of Santa Ana.

(a) Community Redevelopment Agency

The Community Redevelopment Agency, founded in 1973 to help redevelop the city areas, has been working to upgrade the Fashion Square area as a way of drawing people back to downtown Santa Ana. The present mall has long been perceived by city officials as "minor league, under-developed and underexposed."[2] This is viewed by the city officials as a loss of tax revenues as well as prestige. The city believed that expanding Fashion Square would draw people to the area and began studying it as a redevelopment area in 1976. Their role in the project has been to assist the private development effort by gaining control of the site through eminent domain.

(b) JMB/Federated Realty

JMB/Federated Realty was formed in 1983 as a partnership between JMB Realty Corporation and Federated Department Stores to develop new retail centers and renovate existing properties. JMB is one of the nation's leading companies in real estate equities, finance, and development. Formed in 1968, their combined assets, including affiliates, exceed $9.5 billion. Their portfolio of properties includes 100 regional malls and retail centers, 86 office and industrial buildings containing over 23 million square feet of office space, and 38 thousand residential units. Federated department stores consists of 18 operating divisions (including Bullocks, I. Magnin, Bloomingdales and Filenes), operating more than 580 department, mass merchandising stores, supermarkets and other retail stores reporting 1984 sales of $9.6 billion. In 1973 Federated Stores Realty was formed to manage all of the division's property and development. The negative impact of real estate holdings on the financial statement of a public company caused them in 1983 to spin the real estate division off as a separate entity. Federated still owns most of its locations and many centers, but has become a limited partner in JMB/Federated and the development of any new projects. Federated has begun to sell to the partnership some of its properties (such as Town Center in Boca Raton, Florida, sold to JMB/Federated in January 1985) when it is appropriate. A recent article in Forbes Magazine stated that Federated's stockholders' equity is "surely understated because it fails to reflect the market value of the company's real estate."[3] Federated's land, building, and equip-ment are on the books at $2.1 billion while current estimates show their value to be in excess of $3.1 billion.

JMB/Federated is technically an affiliate of JMB Realty and acts as general partner in the projects. Currently owning 13 centers, they are involved in the development, expansion, and renovation of 17 additional centers besides Main Place. JMB/FRA is developing the retail portion of Main Place, taking the position of Federated Realty whose involvement through Bullocks started in the early 1970s.

(c) Chase McLaughlin and Henry Segerstrom

Henry Segerstrom, managing partner of the family-owned C.J. Segerstrom and Sons, is a lifelong resident and developer in Orange County. His most notable project, located in Costa Mesa, is South Coast Plaza Town Center on the border of Santa Ana. Realizing that Orange County did not have a recognizable focus, he moved to develop what were his family's lima bean fields in Costa Mesa. He constructed South Coast Plaza which today is "the number one retail center in the United States"[4] with estimated sales of well over $200 per square foot. After great success with the South Coast Mall, he began developing South Coast Plaza Town Center in the late 1970's. Called by some early on "Henry's Folly",[5] SCPTC is quickly growing to almost 3 million square feet of commercial and cultural buildings. Presently complete is the 17-story Imperial Bank, the 21-story Center Tower, the Central Bank and Great Western Savings Towers, and the Westin South Coast Plaza Hotel.

Segerstrom became involved in Main Place when the city of Santa Ana talked with him about creating another success story like South Coast at Santa Ana Fashion Square. They needed to recapture tax revenues after proposition 13 was passed in California. Segerstrom met with Bullocks and then the developers Federated Realty and decided to joint venture the project. Chase McLaughlin joined C.J. Segerstrom in the fall of 1980 after developing office and hotel space for the Prudential Insurance Company Real Estate Group. A native of Tennessee, he developed projects in New Orleans and Phoenix before becoming manager of the South Coast Plaza Town Center development for Segerstrom. Segerstrom and McLaughlin have created a partnership outside of the C.J. Segerstrom and Sons envelope to develop Main Place with JMB/Federated.

B(2) The Agreement

Two formal documents bind the joint venture to the project. The first is a 50-page agreement binding the Participants as they are referred to throughout the document "to a project that is designed and developed consistent with the redevelopment plan as a multi-purpose commercial center."[6] The document further stipulates the individual role and responsibility of the joint venture to construct 2 or more new major department stores containing at least 100,000 square feet together, and a minimum mall space with tenant shops of 100,000 square feet of gross building area. In addition, the Participant have to demolish, rehabilitate, renovate and redevelop the existing retail center buildings as detailed, and "construct or cause to be constructed a minimum of 150,000 square feet of net rentable floor area."[7] Maximum density is further stated as not to exceed 1.5 million net rentable square feet of office space, 1.6 million gross leasable square feet of retail space and 1200 hotels rooms. The City of Santa Ana receives sales tax from both the retail and hotel businesses but because of Proposition 13, property tax is reduced to 1% of an assigned value subject to a maximum increase of 2% each year. The Community Redevelopment Agency, organized and existing under the California Community Redevelopment Law, is bound to acquire the 5 sales parcels necessary for the project. Parcel 1 is the existing Main Street Center adjacent to Fashion Square and was condemned by the city in what was described as a friendly taking. Sales Parcel 2 was negotiated from a private party, the KLST partnership. Parcel 3 the city has received and Parcel 4 was negotiated and purchased from the Comet Corporation, who had ground leased it to the KLST Partnership. Parcel 5 is owned by the State of California (CALTRAN), and provisions were made for the possible inability to purchase this site. Santa Ana Venture gave to the city $11.5 million dollars to secure the sites to cover purchase price and any relocation provisions that were incurred. This loan was agreed to be the purchase price for the land, contingent on the value of the land appraised by an independent agency. In addition, the Participant were required to loan a maximum total amount of $13.5 million to the Agency for the performance of its obligation. This additional loan will bear interest at the rate 10% annually from the date of each call or draw down. The city, in addition to the $24.5 million dollars contributed by the Participant, will contribute $4 million from working capital, bringing the total to almost $29 million. A further agreement states that the Agency will receive from the Participant at the start of construction $10 per square foot for each additional net rentable square foot in excess of 1.2 million square feet, and $5,000 for each guest room in excess of 800 rooms built on the site. The present buildout plans will cause the Participant to pay an additional total sum of $5 million.

Document number 2 is entitled the Joint Venture Agreement between Henry T. Segerstrom and JMB/Federated Realty Associates, and JMB (Center Partners). This 70-page document establishes the Joint Venture organized as a general partnership according to the laws of the State of California. This breaks the development site into two categories: the redevelopment and expansion of the shopping center, and the construction of high-rise office buildings and/or hotels. Venture property is described as: the site, all buildings and future improvements on the site, all real and personal property used or held in conjunction with the site and all rights, privileges, rights of way and easements and agreements or contracts. The agreement specifically states the percentage of profits and losses to be a 50-50 split and allows the participation in other business ventures or organizations that compete with the Santa Ana Venture (such as South Coast Plaza). A management .pa committee is set up to manage the project and the property at the end of completion.

C. History of the Site

Santa Ana, California, the site for the proposed Main Place project was first founded in October 1869 by William H. Spurgeon on what was then a "mustard patch." "Spurgeon, a native of Kentucky was a successful Participant in the California Gold Rush."[8] He purchased 74 acres from the Rancho Santiago de Santa Ana for $594 (about $8 per acre) and began mapping out the townsite. He chose the name Santa Ana in honor of the valley and the rancho.

Located 45 miles southeast of Los Angeles, Santa Ana became the county seat when Orange County was separated in 1889 from the larger Los Angeles County. Today it is the second largest city in Orange County and eleventh largest in California. It still retains one of the largest historic areas in Southern California and is the home of the Bowers Museum and the Santa Ana Zoo.

"The land where Fashion Square is located has a colorful history" according to local historian Jim Sleeper. In the early 1900s the site was the home of a woman named Martha M. Shaffer who owned several of the town's movie theaters. After her death in the 1930s, the house that she had lived in was considered to be haunted. Eventually, the land was purchased and the house torn down to make way for new development but some feel that Martha's spirit lives on.

Fashion Square Santa Ana (the site for Main Place Santa Ana) is one of four Fashion Square malls developed in the mid-1950s as retail centers for the towns south and east of Los Angeles. The expanding growth of Southern California and the need for more quality stores to serve the expanding suburban areas provided the motivation for the development of the Fashion Square Shopping Centers. Bullocks Realty, the development arm of Bullocks Department stores, "introduced the concept of a friendly, ultra-modern shopping complex, composed of a Bullocks store and a group of selected specialty shops blended together with emphasis on fashion, quality, and a broad selection of merchandise for all members of the family."[9] The idea was to use Bullocks as the anchor or lead store and surround it with smaller local or independent specialty retailers to create a strong retail center.

Each of the buildings were set in the center of richly landscaped surroundings "that until recently were changed 4 times a year to reflect the seasons." Designed to become more verdant and abundant over time, the plants created a "cool, restful and inviting setting." Initially over 400 trees and 10,000 plants, shrubs and flowers were planted. Trees indigenous to California were planted including Jacaranda, olive, Brazilian pepper, redwood Sequoia, eucalyptus, weeping bottle brush, Canary Island pines, dwarf citrus, oleander, hibiscus, bouganvillea, and flaming succulents. The landscape architect was Shellhorn-Kueser of South Pasadena.

Original plans called for the center of the mall to have one building known as "La Casita", Spanish for "little house", dedicated to the community by Fashion Square. This building was to become the "heart of civic and cultural life in the area, as it was used for club meetings, recitals and various functions."[10] Fashion Square could also sponsor events such as fashion shows, festivals, concerts, exhibits, and displays of civic interest. This was omitted from Santa Ana but incorporated into the later Fashion Square.

Opened in September 1958, FSSA was the first Center strategically positioned at what is now the intersection of the Santa Ana Freeway (US 5) and the Garden Grove Freeway (State Freeway 22). According to Santa Ana Community Development Director David Ream, its location gave it the "best freeway access in Orange County."[11] Architects Pereira and Luckman (later to become the Luckman Partnership) conceived the 43-acre site plan and designed the Bullocks Store. Their site plan, shaped in a Z, "located the eight buildings around a broad center Fountain Court shaded by deep logias that overhang all buildings, reminiscent of early California."[12] Space was provided for 3,000 cars (or approximately 5 cars per 1000 square feet). The gross buildable area (GBA) is 577,799 square feet, including Bullock's 340,000 square foot department store. The cost to construct in 1958 was $15 million, including Bullocks and I. Magnin stores and land.

The second Fashion Square center was opened four years later in the San Fernando Valley in Sherman Oaks. This center had the same concept, good freeway access to the Ventura Freeway and consisted of 9 buildings with Bullocks and I. Magnin as the anchors. The third Fashion Square was opened at Del Amo in Torrance, California in September of 1966. A fourth

Fashion Square was opened at La Habra two years later in April 1968. FSSA has had several owners starting with the developers, Bullocks Realty in 1958, who were then merged into Federated Department Stores Realty after being acquired by Federated Department Stores, Inc. in 1964. In 1970, Federated sold three of the malls, Santa Ana, Sherman Oaks, and La Habra for $13 million (not including the Bullocks and I. Magnin land and parking) to Urban Investment and Development Company (UIDC). UICD owned the centers and had Draper and Kramer of Chicago, Illinois, manage the property until 1973 when they sold the three Fashion Squares to Bank of America Realty Investor and Draper and Kramer for $16.3 million. BARI owned the land and leased it to Draper and Kramer on ground lease for 42 years at 8%. It was ranked 46th among Southern California's 58 regional centers in 1982 with sales of $29.8 million.

The decline of SAFS during the 1970s in the midst of increasing competition started the Santa Ana Redevelopment Agency to begin focusing on the area. They began in 1976, after the Redevelopment Agency was chartered by the passing of the 1973 California Redevelopment Law, to work on a way to "wrest the center from its owner and find a developer who would turn it into a showplace."[13] Their plan began when the Main Street Redevelopment area was expanded outside of downtown to include the center. In 1977 the CRA invested $3.5 million in a 4-level, 1400 space parking garage built at the rear of the center. This facility has never reached capacity, so part of it was leased to nearby St. Joseph's Hospital for employee parking.

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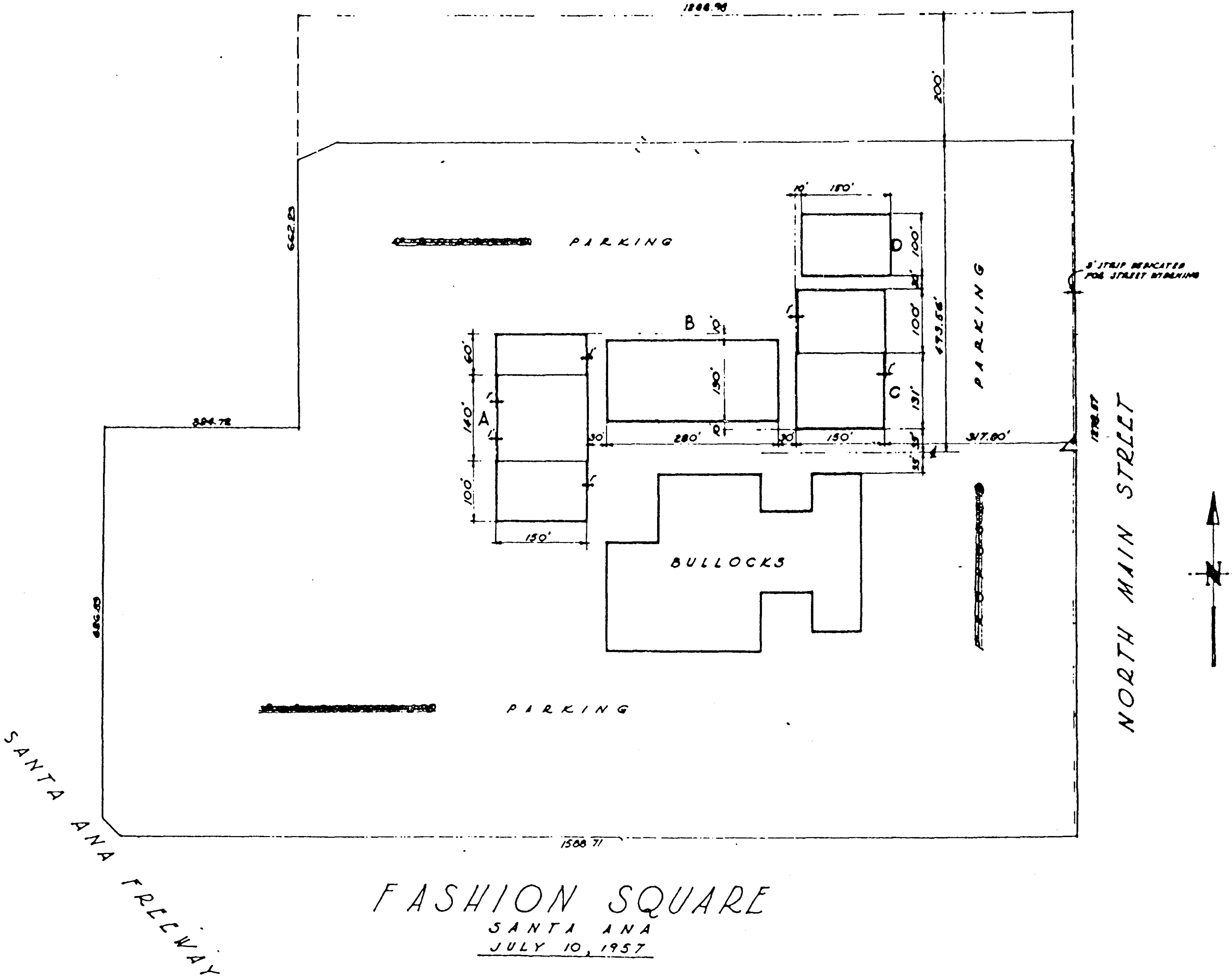


FASHION SQUARE
SANTA ANA
JULY 10, 1957

Fashion Square Santa Ana

D. Strategy of the Project

Santa Ana Venture was formed in 1984 to develop Main Place with each party having an interest in the site, but neither had the capacity nor the desire to build the project themselves. The city felt that a top-quality developer was needed to create an atmosphere of excitement and enthusiasm for downtown Santa Ana. The politics of the site required that a local developer, like Henry Segerstrom, be involved to work with the city assembling the land and helping to guide the project from a local perspective. Segerstrom, having grown up in the area, was interested in the site and the community of Santa Ana. Since Bullocks was the original anchor store in the center and owned the land under their building, they were very interested in the center and involved Federated Realty. When JMB/Federated was formed, they became involved (representing Federated) as a developer with both staying power and national exposure.

The team was formed with each player having a different role but bound together by an agreement to share both the risk and rewards of the entire project. The City of Santa Ana was responsible for assembling the land and assisting in any zoning changes. Henry Segerstrom was responsible for the office and hotel portion of the project and JMB/Federated would do the retail center and the master plan.

The strategy that was formed was to create a focus for Santa Ana by creating a destination for residents of Orange County. Many people passed by Fashion Square on their way to other retail areas such as South

Coast Plaza or Fashion Island. By creating a unique place through retail, Class A office space and hotel facilities, Santa Ana would regain prestige in Orange County as well as the tax revenues that were going elsewhere.

The retail center will attract people by creating a festival-like atmosphere including a ranchstyle market, a food court and up to a dozen movie theaters expanding the hours of the center. This will be complemented by the familiar department stores such as Bullocks, Robinsons, Nordstroms, and I. Magnin, as well as retailers new to the Orange County and California market. JMB/Federated's national retail exposure is an advantage to attract new retailers who are seeking to expand into California and may currently be in JMB or Federated centers elsewhere. The combination of unique merchandising and location should create the dynamics for a very successful redevelopment project to bolster Santa Ana.

Main Place retail will be connected by skybridges to all of the planned office structures and hotel, to create a path for traffic and to give the project a sense of cohesion rather than just individual pieces. The office towers are planned to offset the high land cost being carried by the retail projects and also by creating a business community population on site. Connecting the office and hotel to the center will give the retailers the benefit of additional traffic during lunch and after working hours. Having a hotel adjacent to the center will help to attract visitors, business people working in the area, and office personnel to the center, the food court, the restaurants, and the movie theaters. This will draw people to the hotel and retail rather than just leaving at the end of the day by providing onsite entertainment and meeting places.

D(1) Demographics of the Area

Market studies completed for Main Place indicate that "Orange County ranks among the top 15 growth areas in the United States." Population increased dramatically from 1970 to 1980 by almost half a million people and projects show this area of Southern California continuing its growth. Sally Helwig, President of Helwig Associates, a market research firm of Columbia, Maryland, formerly of The Rouse Company, pointed out in her Retail Market Analysis that "if it were a state, it would be ranked fifth in the nation after New York, Texas, Pennsylvania and the remainder of California."[14] The current trade area population is an impressive 1.6 million people with an estimated increase to almost 1.9 million by 1990. The trade area including Anaheim, Buena Park, and Fullerton is projected to gain 237,000 of the 436,000 population increase (about 54%) expected in Orange County.

Corresponding to this explosion in growth, the stock of new housing inventories increased from 257,694 units in 1970 to almost 400,000 units in 1980. The current stock of 428,542 units is expected to increase to 455,651 units by 1989. Helping to fuel this growth, according to the Southern California Labor Market Information Group, is the creation of new jobs -- expected to increase by almost 39,000 new jobs annually.

Income levels are expected to increase as the median income in 1984 for Orange County is $33,600, and projected to increase to $36,080 by 1990 (in constant 1984 dollars). The median income for the trade area ranged from $26,812 in Santa Ana to $32,775 in the bordering City of Orange. Unemployment in Orange County is under 5%.

Exit polls conducted at Fashion Square by both the Helwig Associates and JMB/FRA during 1984 indicate that the average current shopper is 46 years old and has a household income of $55,930, 46% greater than the average for the trade area. The Fashion Square shopper drives an average of 13.2 minutes to reach the center, while over 20% drive more than 15 minutes. An analysis of the reported zip codes show penetration levels in the higher income areas of Anaheim Hills, Villa Park, Orange Park and Tustin, as well as the cities of Orange and Santa Ana. Polls also indicate a greater willingness of customers to visit Fashion Square from work. Shoppers stated that they came from work 15.6 times versus the 9.6 times from home, as recalled, over the previous 6 months.

Economic forecasts for Orange County show a strong taxable sales base; in 1984 reported sales increased 17.6% to $18.5 billion. If this trend continues at the same rate, Orange County taxable sales would grow to $41.6 billion by 1900. Santa Ana alone showed a 21.4% increase to $1.95 billion. Helwig Associates predict that with a mall opening in 1987, Main Place retail volume should reach between $233 to $245 million in current dollars ($236 to $248 per square foot). Mall stores should reach between $108 and $114 million ($304 to $319 per square foot) and department store sales should reach $124 to $131 million ($197 to $209 per square foot) in current dollars. This would mean that by 1990, assuming the current (28.5%) ratio of GAF to total retail and its continuing growth of 17.6% annually, the overall Main Place capture rate would be 2% of the total Orange County GAF (.6% of total retail sales). (See Attached Tables)

D(2) Competition

Market studies completed by both JMB/Federated Realty and Helwig Associates show that in the Santa Ana general trade area there are 10 major competitors (the Helwig report listed 2 additional), listed in the chart following. Shoppers interviewed in the exit surveys indicated that South Coast Plaza was the leading competition, as indicated by the number of visits during the previous three months. Brea Mall was listed as second, the City Shopping Center third and Fashion Island was fourth. When respondents were asked where they shopped for clothing and household needs, responses were evenly split between South Coast Plaza and Fashion Square, runners up included the Mall of Orange, Brea Mall and the City Shopping Center.

Analyzing the 12 centers listed as competing with Fashion Square, 5 have undergone renovation or expansion and 2 are presently under construction. Fashion Square is the second oldest center, Anaheim Plaza being built 3 years before in 1955. Presently, the average center GLA is 976,000 square feet, increasing to 1.1 million in 1987 when current expansions are complete. Average revenue for the 12 centers is $128 million or $131 per square foot (based on estimated 1983 sales figures).

The largest of the centers is South Coast Plaza, currently undergoing expansion; it has the highest volume in Los Angeles and Orange Counties. 1984 sales exceeded $340 million ($209 per square foot), with projected receipts to climb to $700 million ($250 per square foot) in 1987, when the present 900,000 square foot addition is completed (Main Place total will be 1 million square feet). Nationally, South Coast ranks seventh in GLA but will become first with 2.8 million square feet when the addition is complete. (California will boast of having the three largest malls in the United States, each with over 2.25 million square feet of GLA). South Coast will have 8 anchor stores, including Bullocks, I. Magnin, Nordstroms, Robinsons (the four anchor stores planned for Main Place), as well as Saks and an impressive 1.01 million square feet of mall GLA.

Located 15 miles southwest of Santa Ana is Fashion Island, built in 1967 to serve the affluent beach communities of Newport Beach, Corona Del Mar and Laguna. Fashion Island, a large open air center with a view of the Pacific Ocean, has five major department or specialty stores. They include Bullocks Wilshire (an upscale version of Bullocks deriving its name from the original location in an art deco building on Wilshire Boulevard in Los Angeles), Neiman Marcus, and Robinsons. This center, in response to a low sales productivity, is completing a renovation of the former J.C. Penney store into a 3-level atrium, with food court and farmers market on the first level, and new stores on the second and third levesl. Included in the renovation is a modern facade at the mall entrance and interior walkways. Estimated sales for 1983 were $115 million ($99 per square foot).

Closest to Main Place is The City Shopping Center, located 2 miles away off the (22) Garden Grove Freeway. Opened in 1970, the 771,700 square foot center was renovated and enclosed in 1978 and is anchored by the May Company and J.C. Penney's. The center is targeted for the lower and middle income shoppers living within the cities of Santa Ana, Garden Grove and Orange. Estimated sales for 1983 were $62.8 million ($120 per square foot).

Brea Mall opened in 1977 with 874,000 square feet of GLA and is located in the northern part of Orange County, approximately 11 miles from Fashion Square. The mall is anchored by four stores, including Nordstroms, the May Company, the Broadway, and Sears. Estimated sales for 1983 were $136.6 million ($160 per square foot), an increase of 14% over 1982 sales. Current plans call for expanding the Nordstroms store to 140,000 square feet.

The other competitive mall listed by shoppers at Fashion Square is the Mall of Orange which is one block west of the Newport Freeway (55), approximately 7.5 miles northeast of Fashion Square. Opened in 1971, the 830,220 center is anchored by Sears, J.C. Penney, and the Broadway. According to Sally Helwig, the mall "has a rather dated exterior

POPULATION TRENDS AND PROJECTIONS
ANAHEIM-SANTA ANA-GARDEN GROVE SMSA
1970-1990

COMPONENT PARTS	1970	1980	1984	1990	AVERAGE ANNUAL CHANGE 1980-1990 NUMBER	PRESENT
Anaheim	166,408	219,311	233,019	250,300	3,100	1.3%
Fullerton	85,987	102,034	106,914	116,800	1,477	1.3%
Garden Grove	121,155	122,797	128,879	137,700	1,490	1.1%
Orange City	77,365	91,788	97,197	113,300	2,151	2.1%
Santa Ana	155,710	203,713	222,950	249,600	4,590	2.0%
Balance of SMSA	814,608	1,193,066	1,277,539	1,489,600	29,653	2.2%
Total SMSA	1,421,233	1,932,709	2,066,498	2,357,300	42,460	2.0%

Source: U.S. Department of Commerce, Bureau of the Census, 1970 and 1980 Census of Population; 1984 population estimates by California State Department of Finance; 1990 Forecasts-Southern California Association of Governments and Helwig Associates.

HOUSEHOLD TRENDS AND PROJECTIONS
ANAHEIM-SANTA ANA-GARDEN GROVE SMSA
1970-1990

COMPONENT PARTS	1970	1980	1984	1990	AVERAGE ANNUAL CHANGE 1980 - 1990 NUMBER	PERCENT
Anaheim	53,153	79,749	84,458	98,330	1,858	2.1%
Fullerton	27,001	37,869	39,571	42,420	455	1.1%
Garden Grove	35,398	41,590	43,417	44,320	273	0.6%
Orange City	22,960	31,708	33,648	36,820	511	1.5%
Santa Ana	47,659	64,038	66,885	74,440	1,040	1.5%
Balance of SMSA	247,949	431,313	463,539	575,270	14,396	2.9%
Total SMSA	436,120	686,267	731,518	871,600	18,533	2.4%

Source: U.S. Department of Commerce, Bureau of the Census, 1970 and 1980 Census of Population and Housing; 1990 projections based on Regional Housing Allocation Model prepared by Southern California Association of Governments and projections prepared by Helwig Associates.

MEDIAN HOUSEHOLD INCOME TRENDS
ANAHEIM-SANTA ANA-GARDEN GROVE SMSA
1970-1990

SELECTED CITIES	CURRENT DOLLARS 1970	1980	1984	1990 A/
Anaheim	$10,928	$20,026	$29,335	$30,800
Fullerton	$11,939	$21,656	$32,116	$33,720
Garden Grove	$11,415	$21,374	$31,454	$32,990
Orange City	$11,457	$22,100	$32,775	$34,410
Santa Ana	$ 9,077	$18,362	$26,812	$28,120
Balance of SMSA	$11,846	$23,860	$35,750	$38,590
Total SMSA	$11,381	$22,557	$33,600	$36,080

A/ 1990 estimates projected in 1984 constant dollars.

Source: U.S. Department of Commerce, Bureau of the Census, 1970 and 1980 Census of Population and Households, 1984 and 1990 estimates prepared by Helwig Associates.

RETAIL SALES TRENDS
ANAHEIM-SANTA ANA-GARDEN GROVE SMSA
1972-1982
(IN 000 OF CURRENT DOLLARS)

	1972	1977	1982	AVERAGE ANNUAL CHANGE IN SALES 1972 - 1977 NUMBER	1972 - 1977 PERCENT	1977 - 1982 NUMBER	1977 - 1982 PERCENT
ANAHEIM-SANTA-ANA-GARDEN GROVE (SMSA)							
Total Retail Sales	$3,864,454	$7,270,443	$12,736,000	$681,197.8	13.5%	$1,093,111.4	11.8%
Number of Retail Stores	10,958	14,900	N/A	788.4	6.4%	----	----
GAF Sales	$1,128,028	$2,372,937	$ 3,798,000	$248,981.8	16.0%	$ 285,020.0	9.8%
Number of GAF Type Stores	3,654	4,642	N/A	197.6	4.9%	----	----
Department Store Sales	$ 562,334	$ 978,674	$ 1,437,000	$ 83,268.0	11.7%	$ 91,665.2	8.0%
Number of Department Stores	62	78	N/A	3.2	4.7%	----	----
SANTA ANA CITY							
Total Retail Sales	$ 493,628	$ 872,968	N/A	$ 75,868.0	12.1%	----	----
Number of Retail Stores	1,301	1,559	N/A	51.6	3.7%	----	----
GAF Sales	$ 142,168	$ 199,265	N/A	$ 11,419.4	7.0%	----	----
Number of GAF Type Stores	331	396	N/A	13.0	3.6%	----	----
Department Store Sales	$ 67,521	$ 82,395	N/A	2,974.8	4.1%	----	----
Number of Department Stores	8	7	N/A	-0.2	-2.7%		

Source: U.S. Census Bureau, Department of Commerce, 1972 & 1977 Census of Retail Trade-Major Retail centers; U.S. Census Bureau, Department of Commerce, Revised Monthly Retail Sales and Inventories, 1974-1983; Helwig Associates.

TOTAL WAGE AND SALARY EMPLOYMENT BY MAJOR CATEGORY
ANAHEIM-SANTA ANA-GARDEN GROVE SMSA (ORANGE COUNTY)
1972-1985

ESTABLISHYMENT DATA BY CATEGORY	EMPLOYMENT IN THOUSANDS 1972		1982		1983		MAY, 1984		1985 A/		PERCENTAGE ANNUAL CHANGE 1972 - 1983	
	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
Agricultural	6.3	1.3%	7.7	.9%	8.7	1.0%	12.1	1.3%	8.0	0.8%	0.2	3.0%
Non-Agricultural	(473.9)	(98.7%)	(848.8)	(99.1%)	(860.3)	(99.0%)	(900.0)	(98.7%)	(937.9)	(99.2%)	35.1	5.6%
Manufacturing	132.5	27.6%	212.4	24.7%	209.6	24.1%	219.3	24.0%	227.1	24.0%	7.0	4.3%
Contract Construction	27.9	5.8%	32.0	3.7%	32.5	3.7%	39.3	4.3%	45.0	4.8%	0.4	2.6%
Transportation & Public Utilities	16.0	3.3%	30.0	3.5%	29.4	3.4%	29.1	3.2%	29.7	3.1%	1.2	5.7%
Wholesale & Retail Trade	111.5	23.2%	210.1	24.5%	216.8	25.0%	225.4	24.7%	240.5	25.4%	9.6	6.2%
Finance, Insurance & Real Estate	25.0	5.2%	60.9	7.1%	63.6	7.3%	66.1	7.2%	69.9	7.4%	3.5	8.9%
Services & Mining	86.5	18.0%	199.4	23.3%	204.9	23.5%	213.4	23.3%	222.9	23.6%	10.8	8.2%
Government	74.4	15.0%	104.1	12.1	103.6	11.9%	107.4	11.8%	102.8	10.9%	2.6	3.1%
Total Wage & Salary	480.2	100.0%	856.5	100.0%	869.0	100.0%	912.1	100.0%	945.9	100.0%	35.3	5.6%

A/ 1985 Forecast prepared by Southern California Labor Market Information Group, Employment Data and Research Division.

Source: California State Department of Employment Development, "Annual Planning Information, Anaheim-Santa Ana-Garden Grove (Orange County) 1983-1984"; Helwig Associates.

ANNUAL RETAIL AND DEPARTMENT STORES SALES
ANAHEIM-SANTA ANA-GARDEN GROVE SMSA
1978-1983

RETAIL CATEGORY	SALES IN MILLIONS 1978	1979	1980	1981	1982	1983	AVERAGE ANNUAL CHANGE 1978 - 1983 NUMBER	PERCENT
Total Retail Sales	$9,134	$10,436	$10,847	$11,912	$12,736	$14,816	$1,136.4	10.2%
GAF Sales	$2,875	$ 3,100	$ 3,365	$ 3,689	$ 3,798	$ 4,176	$ 259.8	7.7%
Department Store Sales	$1,164	$ 1,253	$ 1,329	$ 1,454	$ 1,437	$ 1,554	$ 78.0	5.9%

Source: Revised Monthly Retail Sales and Inventories: January 1973 through December 1983, Bureau of the Census, U.S. Department of Commerce; Helwig Associates.

SELECTED DEMOGRAPHIC CHARACTERISTICS
FASHION SQUARE TRADE AREA
1980-1990

	1980	1984	1987	1990
POPULATION				
Primary Trade Area	658,990	701,850	731,270	756,240
Secondary Trade Area	819,790	898,850	952,790	1,002,550
Total Trade Area	1,478,780	1,600,700	1,684,060	1,758,790
HOUSEHOLDS				
Primary Trade Area	223,110	242,180	252,730	264,160
Secondary Trade Area	281,880	312,950	335,920	356,290
Total Trade Area	504,990	555,130	588,650	620,450
AVERAGE HOUSEHOLD INCOME (PROJECTED IN 1984 CONSTANT $)				
Primary Trade Area	$24,200	$35,410	$36,590	$37,800
Secondary Trade Area	$26,870	$40,420	$42,200	$43,940
Average Household Income	$25,690	$38,300	$39,790	$41,320
TOTAL DISPOSABLE INCOME (IN 000'S 1984 CONSTANT $)				
Primary Trade Area	$ 4,562,479	$ 7,350,011	$ 7,934,104	$ 8,547,372
Secondary Trade Area	$ 6,400,128	$10,873,134	$12,162,857	$13,401,008
Total Trade Area	$10,962,607	$18,223,145	$20,096,961	$21,948,380
TOTAL GAFO EXPENDITURE[A/] POTENTIAL (IN 000'S OF 1984 CONSTANT $)				
Primary Trade Area	$ 912,496	$1,470,002	$1,586,821	$1,709,474
Secondary Trade Area	$1,280,025	$2,174,627	$2,432,571	$2,680,202
Total Trade Area	$2,192,521	$3,644,629	$4,019,392	$4,395,076
TOTAL GAFO EXPENDITURE[A/] POTENTIAL (IN CURRENT $)				
Primary Trade Area	$ 912,496	$1,470,002	$1,784,856	$2,162,997
Secondary Trade Area	$1,280,025	$2,174,627	$2,736,156	$3,391,260
Total Trade Area	$2,192,521	$3,644,629	$4,521,012	$5,554,257

A/ Includes those expenditures typically spent for general merchandise, apparel, home furnishings and "other" miscellaneous retail categories such as food away from home, books, toys, etc. which are usually sold in regional shopping centers.

Source: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; County of Orange Environmental Management Agency, Advance Planning Division; U.S. Census of Retail Trade; Helwig Associates.

MAJOR RETAIL COMPETITION
ORANGE COUNTY, CALIFORNIA
1984

MAP KEY	CENTER NAME	YEAR OPEN	DEPARTMENT STORES	SIZE-G.L.A (SQ.FT.)	ESTIMATED 1983 SALES[A/] (IN MILLIONS
SUBJECT	Santa Ana Fashion Square	1958	Bullock's	299,000	
	Main & La Veta at		I. Magnin	40,000	
	Santa Ana & Garden		Remainder	173,725	
	Grove Freeways		Total	521,725	
	Santa Ana				
1	The City Shopping Center	1970	J.C. Penney	205,586	
	Chapman Rd. at Garden	Ren.-	May Dept.	160,987	
	Grove Freeway	1978	Remainder	306,427	
	Orange		Total	673,000	$ 62.8
2	South Coast Plaza	1967	Bullock's	186,000	
	3333 Bristol at	Expan.-	I. Magnin	76,566	
	San Diego Freeway	1978	May Dept. Store	245,000	
	Costa Mesa	Ren.-	Nordstrom	107,511	
		1980	Saks Fifth Ave.	103,605	
			Sears	377,000	
			Remainder	528,884	
			Total	1,625,000	$340.0
3	The Mall of Orange	1971	Broadway	160,000	
	2298 N. Orange Mall		J.C. Penney	106,000	
	Orange		Sears	280,000	
			Remainder	284,220	
			Total	830,220	$ 95.9
4	Brea Mall	1977	Broadway	151,878	
	57 Freeway at	Expan.-	May Dept. Store	143,000	
	Imperial Hwy.	1979	Nordstrom	90,000	
	Brea		Sears	156,000	
			Remainder	333,900	
			Total	874,700	$136.6
5	Fashion Island Newport Center	1967	Broadway	160,000	
			Buffum's	55,000	
	Pacific Coast Hwy. &		Bullock's Wilshire	80,000	
	MacArthur Blvd.		Neiman Marcus	120,000	
	Newport Beach		Robinson's	230,000	
			Remainder	494,000[B/]	
			Total	1,139,000	$115.0
6	Westminster Mall	1974	Robinson's	160,000	
	San Diego Freeway &		Buffum's	85,000	
	Bolsa Ave.		May Dept. Store	147,194	
	Westminster		Sears	185,000	
			Remainder	485,000	
			Total	1,062,000	$173.0

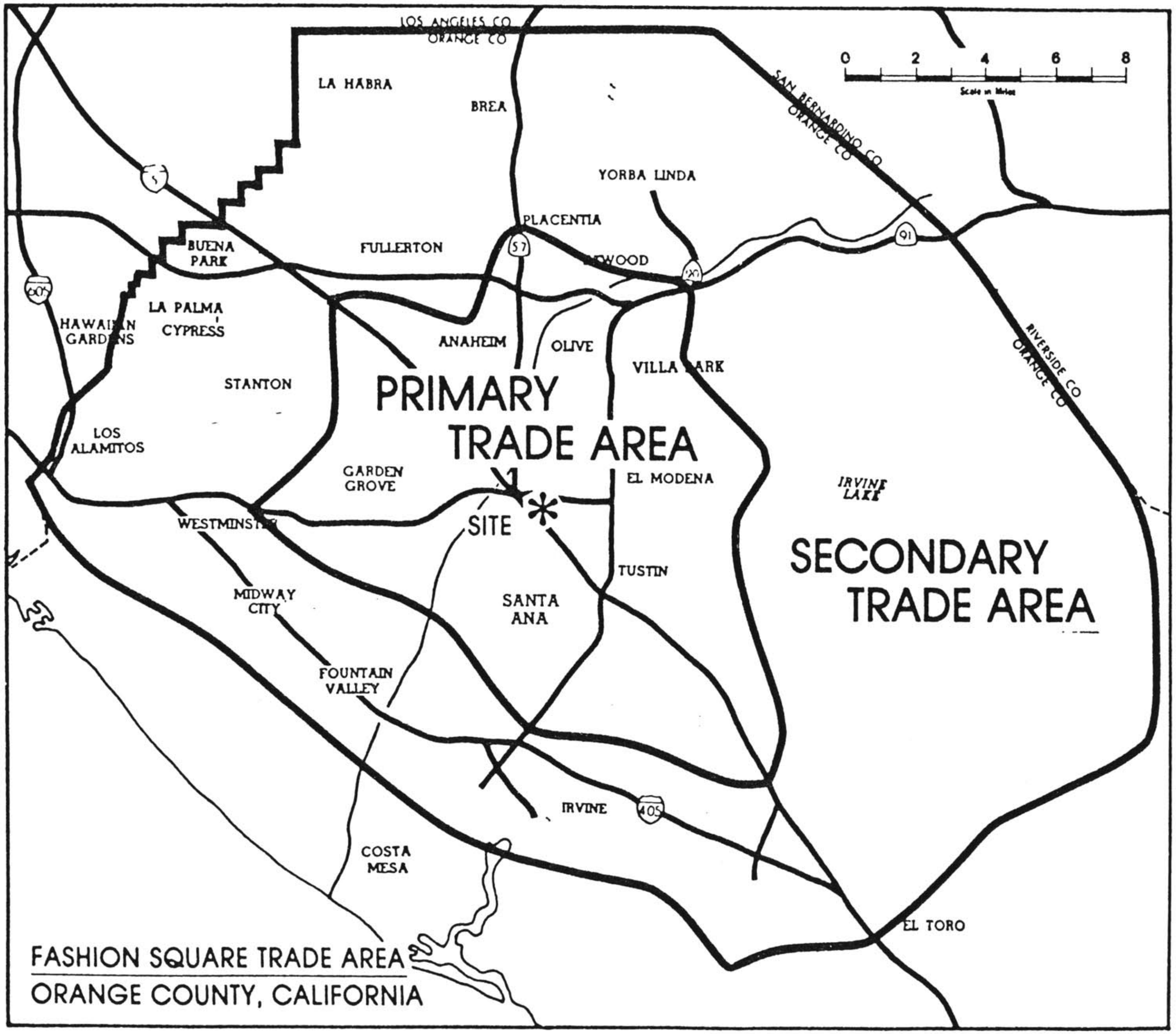
MAJOR RETAIL COMPETITION
ORANGE COUNTY, CALIFORNIA
1984

MAP KEY	CENTER NAME	YEAR OPEN	DEPARTMENT STORES	SIZE-G.L.A (SQ.FT.)	ESTIMATED 1983 SALES A/ (IN MILLIONS
7	Anaheim Plaza	1955	Broadway	220,165	
	Euclid at Santa Ana	Expan.	Robinson's	178,293	
	Freeway	& Ren.-	Mervyn's	80,000	
	Anaheim	1974	Remainder	273,566	
			Total	752,024	$ 70.5
8	Buena Park Mall	1961	May Dept. Store	249,000	
	La Palma Ave. Bet. Dale	Expan.&	J.C. Penney	140,000	
	& Stanton	Ren.-	Sears	300,000	
	Buena Park	1980,	Remainder	360,575	
		1984	Total	1,049,575	$108.8
9	Huntington Center	1966	J.C. Penney	225,000	
	Edinger Avenue		Montgomery Ward	197,300	
	Huntington Beach		Broadway	156,500	
			Remainder	240,000	
			Total	818,800	$ 84.9
10	Laguna Hills Mall	1973	Broadway	152,500	
	24155 Laguna Hills Mall		Buffum's	50,325	
	Laguna Hills		J.C. Penney	149,206	
			Sears	178,226	
			Remainder	221,300	
			Total	751,557	$ 89.3
11	Mission Viejo Mall	1979	Bullock's	133,923	
	Crown Valley Pkwy. at		May Dept. Store	149,950	
	San Diego Freeway		Montgomery Ward	147,065	
	Mission Viejo		Robinson's	88,500	
			Remainder	296,200	
			Total	815,267	$ 84.7
12	Los Cerritos Center	1971	Robinson's	145,678	
	South St. at San Gabriel		Sears	277,559	
	River Freeway		Broadway	174,500	
	Cerritos		Nordstrom's	119,500	
			Ohrbach's	85,691	
			Remainder	604,477	
			Total	1,321,714	$172.8

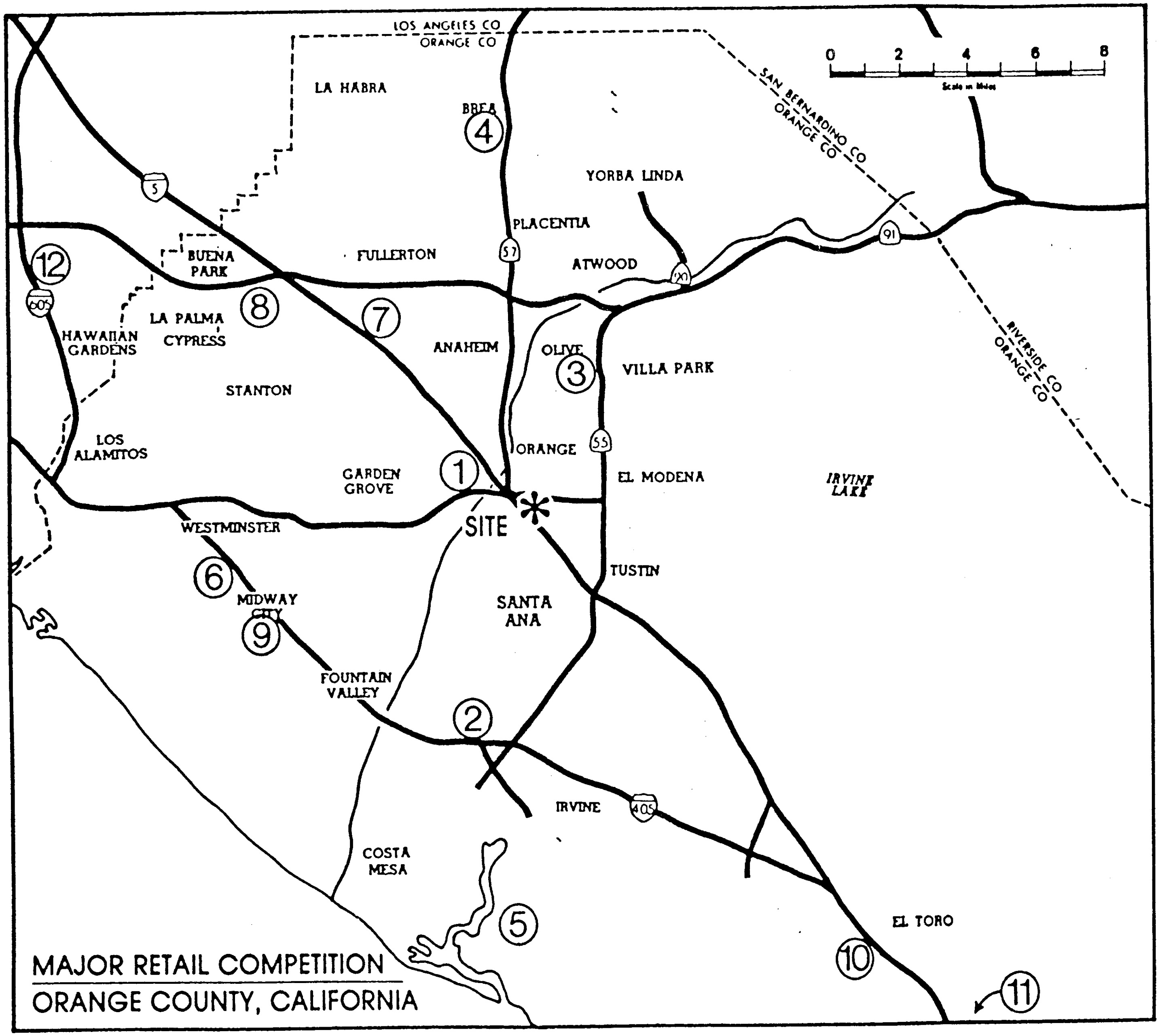
A/ Based on Retail Sales Tax data for first three quarters of 1983 provided by the Lo Angeles Times Marketing Research Department; 1983 year end total sales estimated by Helwi Associates; Sales figures reflect only sales tax categories and do not include services.

B/ Includes former J.C. Penney store (218,000 square feet) to be renovated as new shop in three level Atrium court.

Source: 1984 Shopping Center Directory, National Research Publications; Helwi Associates.



FASHION SQUARE TRADE AREA
ORANGE COUNTY, CALIFORNIA



MAJOR RETAIL COMPETITION
ORANGE COUNTY, CALIFORNIA

appearance and is poorly lighted on the interior one-level mall."[15] Estimated sales for 1983 were $95.9 million ($120 per square foot).

The seven other malls listed by Sally Helwig are located in the general trade area. An interesting aspect of the 12 competitive malls data is that: eight have a Broadway Department Store, six have a Robinsons (seven including Main Place) and a Broadway, five has a J.C. Penneys, and three centers each have a Nordstroms and Bullocks or Bullocks Wilshire (four including Main Place). Fashion Island is unique by having a Neiman Marcus, South Coast by having a Saks, and Anaheim Plaza by having a Mervyn's.

E. Politics of the Development

The politics of the Main Place project is the study of the City of Santa Ana and their effort to redevelop a shopping center to increase tax revenues and repair a tarnished image. Santa Ana, jealous of the development that had occurred on its border in Costa Mesa, was interested in a developing a project that rivaled South Coast. Approached by Developer Orrin Ericson of Arizona with a plan to redevelop Fashion Square and add two anchor stores, they were anxious to begin development in 1974. Their site, the deteriorating Fashion Square Center, was owned by BARI and leased back by the management firm of Draper and Kramer. Draper and Kramer had neither the resources nor the desire to redevelop Fashion Square and were comfortable with the income and property appreciation. Under California Redevelopment Law, the present owners have to be given the opportunity to propose a plan for redevelopment. The city, not realizing Draper and Kramer's real intentions, moved to extend the downtown redevelopment district (thereby doubling its size to almost 700 acres) to Fashion Square and built the parking garage in 1976. Using a government UDAG grant (the last one approved under the Ford Administration), they hoped that the parking garage would "seed" the project and start a major development effort.

In 1978 when no development plans had been presented and the city became increasingly more frustrated, they approached Henry Segerstrom about intervening in the center development. Henry subsequently flew to Chicago to meet with Draper and Kramer. According to Roger Ward, Vice President of D&K, "Henry left convinced that D&K would not sell the center, and flew back to California to seek another avenue." The city, realizing that they were up against a brick wall, became more determined to gain control of the site. Draper & Kramer became more determined not to sell because they felt the city had no right to take away their property. Since Bullocks was losing business as Fashion Square deteriorated, (even though their building and parking were being kept up), they wanted to see a redevelopment effort and involved the development arm of Federated Stores Realty (later to evolve into JMB/Federated Realty). Joseph Johnson of Federated Realty met, as he described, "casually for lunch with Henry Segerstrom and decided to attack the project as a joint venture."

The city then worked with this Segerstrom/Federated team to gain control of the site through the redevelopment provision of eminent domain. Once Draper and Kramer heard about this through their channels, they filed an injunction to prevent the taking. The courts threw it out because no formal documents had been filed by the city or the development team, but it successfully delayed the project another full year. Draper and Kramer were prepared to keep filing as many times as it took and retained both a local redevelopment specialist in Orange County as well as a team of lawyers in Chicago. Draper & Kramer lost as the courts ruled on behalf of the city and proceedings started to gain control of the site. Not to be outmaneuvered, D & K decided that if the project was to be taken by the city, they would control the price and found a buyer for the property outside of Federated and Segerstrom partnership. This, in Roger Ward's mind, "established the selling price for the site." Without going to court D&K had boosted their price to a handsome $13.5 million in 1984 (all three Fashion Squares were sold in 1973 for $16.3 million) and were prepared to sell to the third party if no agreement could be reached with Federated/Segerstrom.

Once in control of the main center, the adjacent parcels had to be purchased. The time had passed and it was already 1984, nine years after the city had started working on the project. This was done through a series of purchases and what Ed Krasnov, legal council for JMB/Federated described as "friendly takings." During the time that negotiations were proceeding to purchase the land, the city of Orange and some of its citizens filed a suit to prevent the project on the grounds that it would increase traffic on its neighborhood streets and more subletly, create competition for its retail centers. (This is especially critical since the passage of Proposition 13 limits property tax and retail tax becomes more important.) Their efforts successfully delayed the project for almost two years.

In 1983 JMB/Federated was formed with both Federated Department stores and JMB Realty acting as limited partners to develop retail centers. The transfer of interests from Federated to JMB/Federated almost unravelled the original deal with the city, but the relationship of Federated as limited partner and Bullocks as owner of the Fashion Square site provided the conduit to complete the deal. Segerstrom had originally asked SOM (the office and hotel architects) to complete a master plan for the site. Once JMB/Federated became involved, they contacted Jerde and asked him to do a master plan in which he conceived of a curved center. This was different than the formal straight mall SOM conceived using three levels. This changed the focus from an urban office-hotel-retail center to more of a suburban retail focus with an office and hotel component suggesting an multi-use rather than mixed-use format.

As the retail portion of Main Place became more creative and exciting, Henry Segerstrom began planning expansions to his South Coast Plaza to insure that what was developed in Santa Ana only 11 miles away did not significantly impact his business. His additions include the expansion of Nordstroms, the addition of Robinsons and Broadway, and additional square feet of specialty retail, making South Coast Plaza at completion, the largest mall in the United States. Some have suggested that Henry's involvement in Santa Ana was to protect South Coast from yet another competitor. This is probably true to a certain extent but Henry also has deep family ties to Santa Ana and owns office buildings in downtown Santa Ana, which will appreciate with the redevelopment effort both downtown and at Fashion Square. He could not have attempted to do the retail portion because it would have been a clear conflict of interest with South Coast. His involvement in the project was necessary, though, as a local player to guide the project politically and in the city's eyes to draw attention to the retail project as the office and hotel developer. Initially, Henry and his mother made up the Segerstrom partnership, formed outside of the C.J. Segerstrom and Sons envelope, but due to the risk involved of having only two people, others have been drawn into the agreement including Chase McLaughlin.

JMB/Federated's involvement in the project as stated, started with Bullocks ownership of the site. When it became too cumbersome to handle from the newly formed offices in Cincinnati, Ohio, a local office was formed in Southern California, directed by Robert Little, recruited from the May Company Development Group and an alumni of The Rouse Company. Also recruited after the purchase of Fashion Square was complete from Draper and Kramer was Patricia Kincaide, one of the original management team members that opened Fashion Square in 1958, who left to become a retail mall consultant. This gave the project a stability that it lacked before, and the city the confidence that had been, and will continue to be, tried.

As the project proceeds toward construction, various pieces are falling into place. The Broadway overpass above the 5 Freeway was opened on Friday, August 1, 1985, having been promised to D&K during the mid 1970 planning session. McLaughlin and Segerstrom have agreed, in principle, to build the first office tower adjacent to Bullocks, instead of adjacent to Robinsons, creating an office focus in the northeast corner of the site. This will reduce the requirement for underground parking, especially under Robinsons, which would add significant additional cost to the project.

II. RETAIL PORTION OF THE PROJECT

A. Main Place Santa Ana Concept

The concept for Main Place is described in the JMB/Federated company logo, "to create great places."[16] Their belief is that by using award winning retail designers, planners, and leasing specialists supported by extensive market research, they will create a dynamic center. This strategy is a hybrid of philosophies of both The Rouse Company and Federated Realty, whose alumni came together to form JMB/Federated. Main Place is also a maturation of this experience as it combines not only upscale retail, but office buildings and a hotel plus a festival market component.

Architecturally, Main Place is being designed by the firm that is best known for retail design and urban retail facilities design in Southern California, the Jerde Partner-ship. Founded in 1977 by Jon A. Jerde to provide complete architectural and urban design services, they specialize in designing mixed-use centers, and planning and revitalizing communities. Recent projects include Horton Plaza in downtown San Diego, West Side Pavilion in West Los Angeles, and the Citicorp Plaza Shopping Complex in downtown Los Angeles. They received an AIA (American Institute of Architects) Institute Honor Award for their work as the coordinating architects for the extremely successful, 1984 Summer Olympic Games held in Los Angeles.

Jerde's approach to retail is that is should be a celebration, with the architecture creating a certain curiousity and ambiguity. His designs incorporate a feeling that promotes the communality through a return to the urban experience. He feels that people are ready to be "urban adventurers" as a reaction to today's isolated suburban society. The creation of festival markets brings together the needs of people to shop in the stores and also to browse and interact with others. The architecture supports this by creating a rich environment that is too complex to be fully explored in just one visit.

Jerde has designed for Santa Ana an "~industrial style structure", reminiscent of the steel and glass structure used in the Crystal Palace Exhibition of 1851, sponsored to herald the industrial revolution. The design incorporates the four present anchor stores connected by a two-level curved galleria. The front face of the center will be anchored by Bullocks to the north, Nordstroms in the center and Robinsons to the south in a semi-circular orientation. I. Magnin, the only other anchor store to remain, will be adjacent to Bullocks on the west. An open space is being left to the north for a future fifth anchor store. Restaurants will be located facing Main Street, on either side of Nordstroms to provide an outside entrance and maximum exposure.

The interior of the center is being designed as three separate components: the two circular arms connecting the anchors and providing space for the specialty tenants, the shaft projecting east from the center of the mall, and the festival market at the western-most portion of the straight corridor. The curved mall chosen early in the design over straight corridors creates a constantly changing vista for the pedestrian and a subtle curiousity to find out what is next. It also creates unequal widths in the mall corridors and in the tenant spaces for a more dramatic effect. Since the mall space varies along the length of the arm, seasonal exhibits and functions can be set up in various areas. This is done in lieu of designating a certain space or area for presentations because it eliminates the visitors preconceived expectations and preserves the element of surprise. At the end of each arm the mall forms a circular court heralding the entrance to the department stores and creating an area for kiosks and other exhibits or displays.

The intersection of the two arms becomes a focus as the straight mall corridor projects west from this intersection into the festival market. This space is one of the focal points of the center as the intersection forms a large circular space covered by a domed roof. This corridor provides the transition from specialty retail into the festival market. It will contain on the third level up to 12 movie theaters for entertainment. The festival market is the third area designed to draw people to the mall for relaxation and browsing or meeting friends. The area will be a two-level open atrium with a ranchstyle market selling fresh meats and produce on the first level, fast food shops and cantinas on the second level, and a California-style garden store opening to the west of the center.

The "industrial-style concept" will be articulated by the structural elements, the introduction of light into the space and the attention to detail. The mall will have an open feeling created by the two-story mall space covered by a shed roof and penetrated by a series of clerestories. The clerestories will run along the roofs of the circular arms and above the food court to the west of the center. Light will be introduced into the center through these clerestories during the day and at night they will provide the contrast for artificial light. As Brian Honda, a designer with Jerde points out, "the use of slanting and curved glass clerestories creates interesting geometries that can be experimented with to create a changing visual effect." As the light diminishes during the afternoon and evening, interior light will either be reflected off the glass and ceiling or small tivoli lights will frame the glass structure in keeping with the festival atmosphere.

The light, airy feeling is picked up in the rest of the structure by exposed steel framing on all supports, bridges, and walkways. Trusses are exposed open-web and all handrails are exposed metal with surface-mounted grilles for articula-tion. Floors are tile with "variegated patterning to create zoning along the homogenious floor."[17] The interior will contain selective amounts of trees and intermittent seating along with banners and flags for appropriate occasions. Colors have been chosen from a "warm pastel palate" to increase what Jerde associate David Meckel describes as "the smile coefficient." As a means of increasing visibility from the outside, both Robinsons and Bullocks will have colorful stair/identity towers outside their main entrances on the main level.

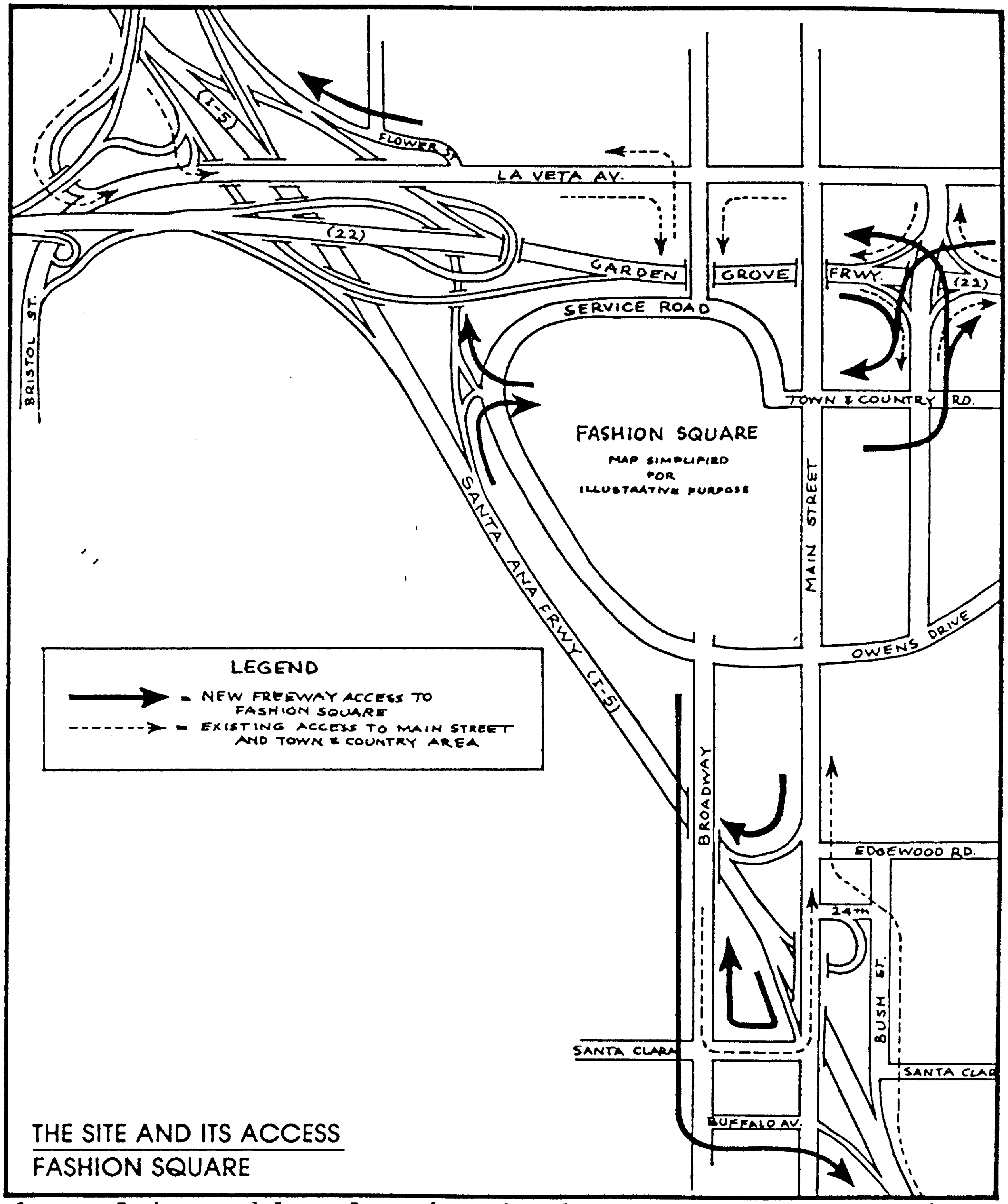
Additional traffic will be generated by skybridges connecting the office towers and hotel to the retail center. The second level of Robinsons will be linked by skybridge to the planned 30-story office tower, located directly to the east of Robinsons. The second level of Bullocks will also be linked by a skybridge to the two office towers planned for the northeast corner of the site. A third skybridge will connect the hotel to the west side of the mall and a fourth bridge will connect the existing city parking structure to the center. This will create a pedestrian network that encourages access to all parts of the site from the main retail center and each of the office buildings and hotel.

B. Site Plan

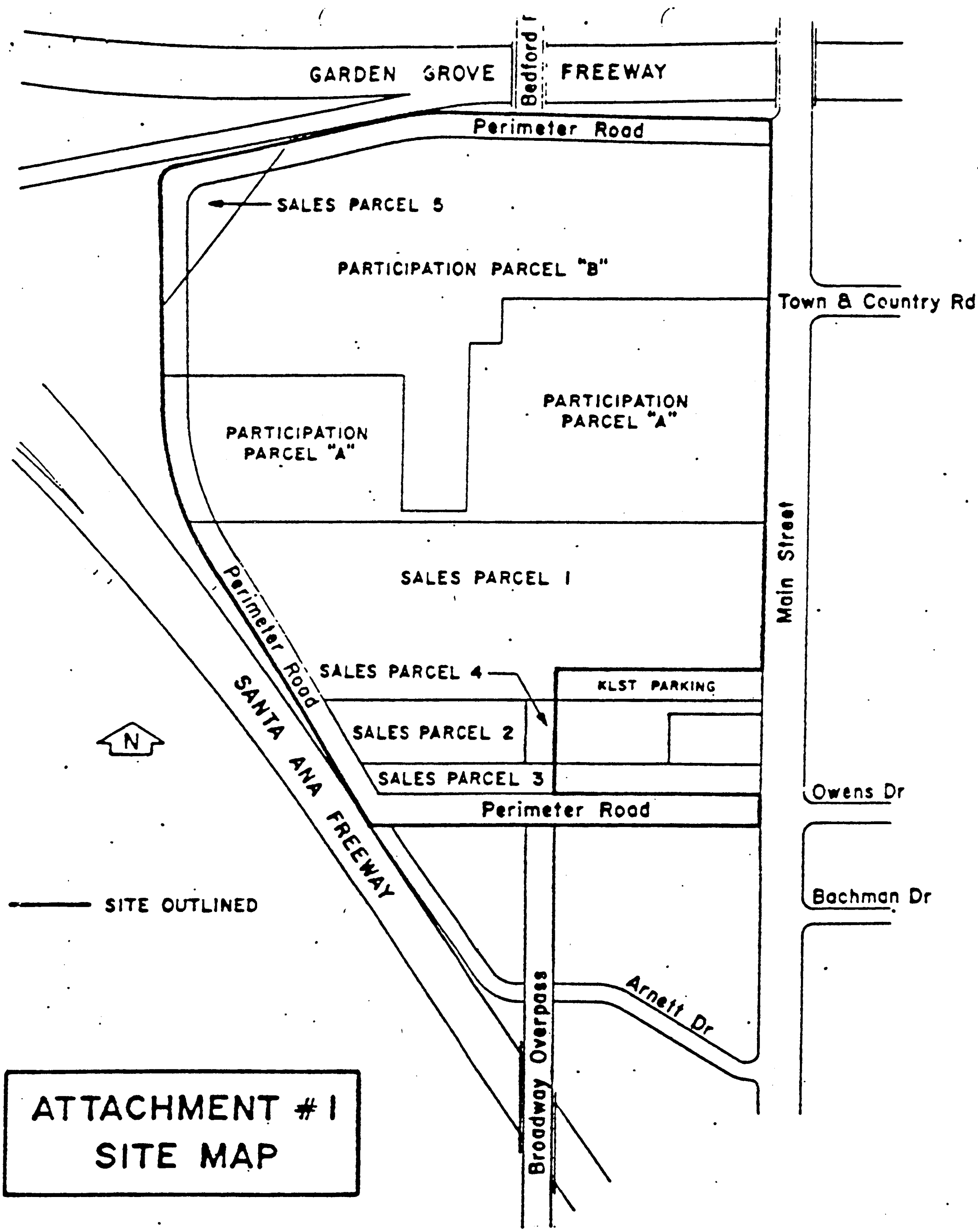
The orientation of Main Place is important to create a focus for both the project and also Santa Ana. Politically, this is key because the site is on the boundary of Santa Ana and the city of Orange. Santa Ana is motivated by the loss of retail revenue currently going to South Coast Plaza which is located on its border in Costa Mesa. This project, created to be a showplace, fronts on Main Street and is highly visible from both freeways abutting the site. The current site plan calls for the retail portion in the center of the site, the three office towers in the northeast corner of the site, and the hotel directly west of the retail. Each building and parking structure is designed to be interconnected. Originally sited by Skidmore, Owings and Merrill, the architectural firm for the office and hotel portion of the project, the Jerde people redesigned the site to accept their design for a circular center. They oriented the plan to be accessible from all directions. Since the main access is gained from Main Street (the eastern border for the site), two entrances and exits will be built from Main to serve the retail, hotel, and office buildings.

The city of Santa Ana is extending Broadway by building an overpass above the 5 Freeway to serve the south side of the site bringing traffic in from the central business district downtown. Caltran, the highway division of California, has agreed to build a special access road from the 5 Freeway connector road to the site and to name it Main Place. Exit signs will be called Main Place and guide signs will be posted on the freeway for exiting at Main Place. Traffic from the 22 Freeway will have access to the site via Town and Country both eastbound and westbound. Visitors from the north will have access by an existing road called Bedford and to the northeast by way of Main Street.

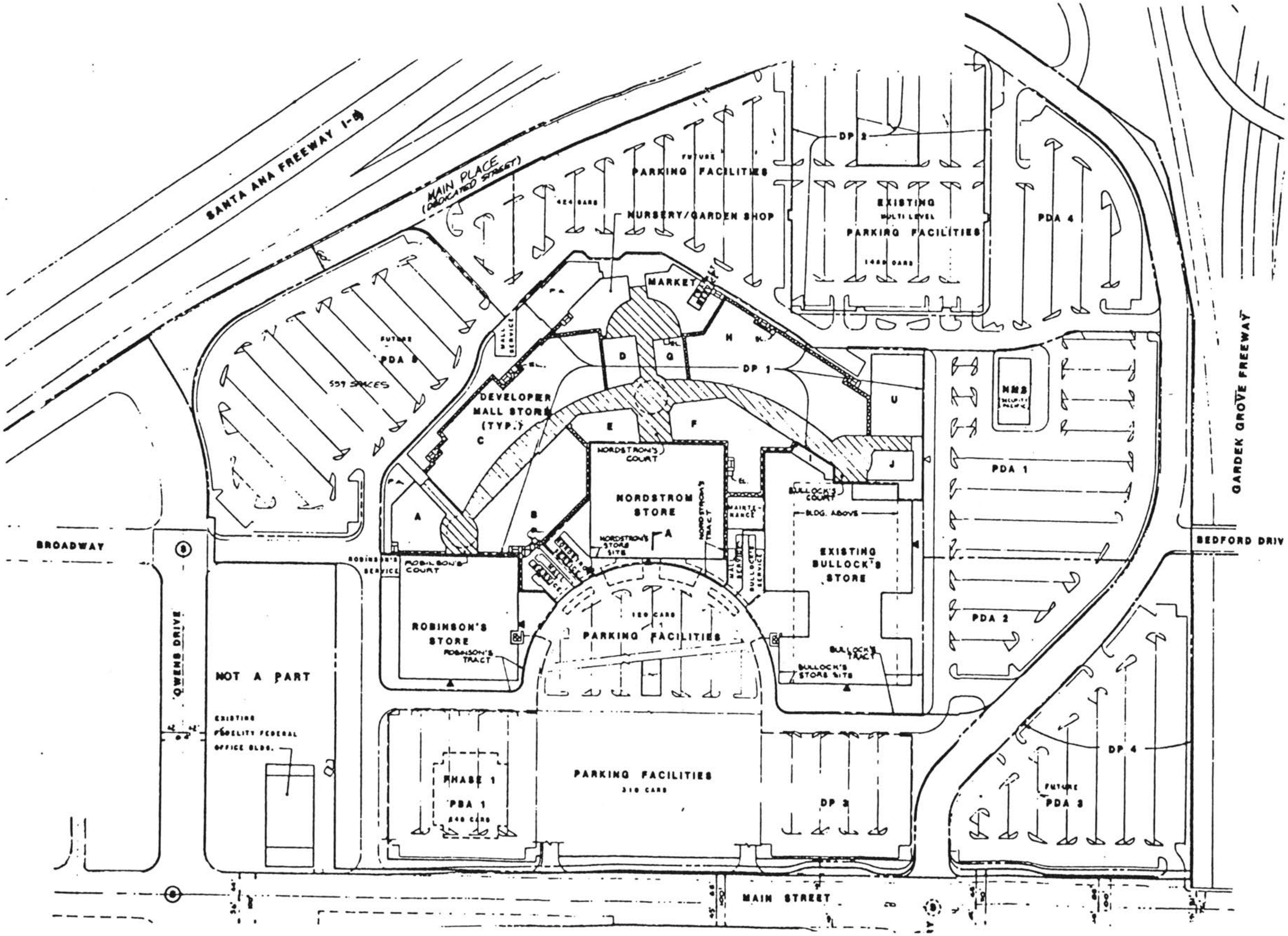
Neighbors to the north of the site are the city of Orange, north of the 22 and a series of office buildings between Bedford drive and Main Street. The residential neighborhoods of Orange are north of the site above the 22. Orange initially resisted the project because of increased traffic in the area and also because of the potential revenue being drawn into Main Place. Town and Country strip center is directly across Main Street to the east of Main Place, increasing the retail concentration in the area. Directly south of the site is a KLST office building and commercial strip retail on either side of Main Street extending into

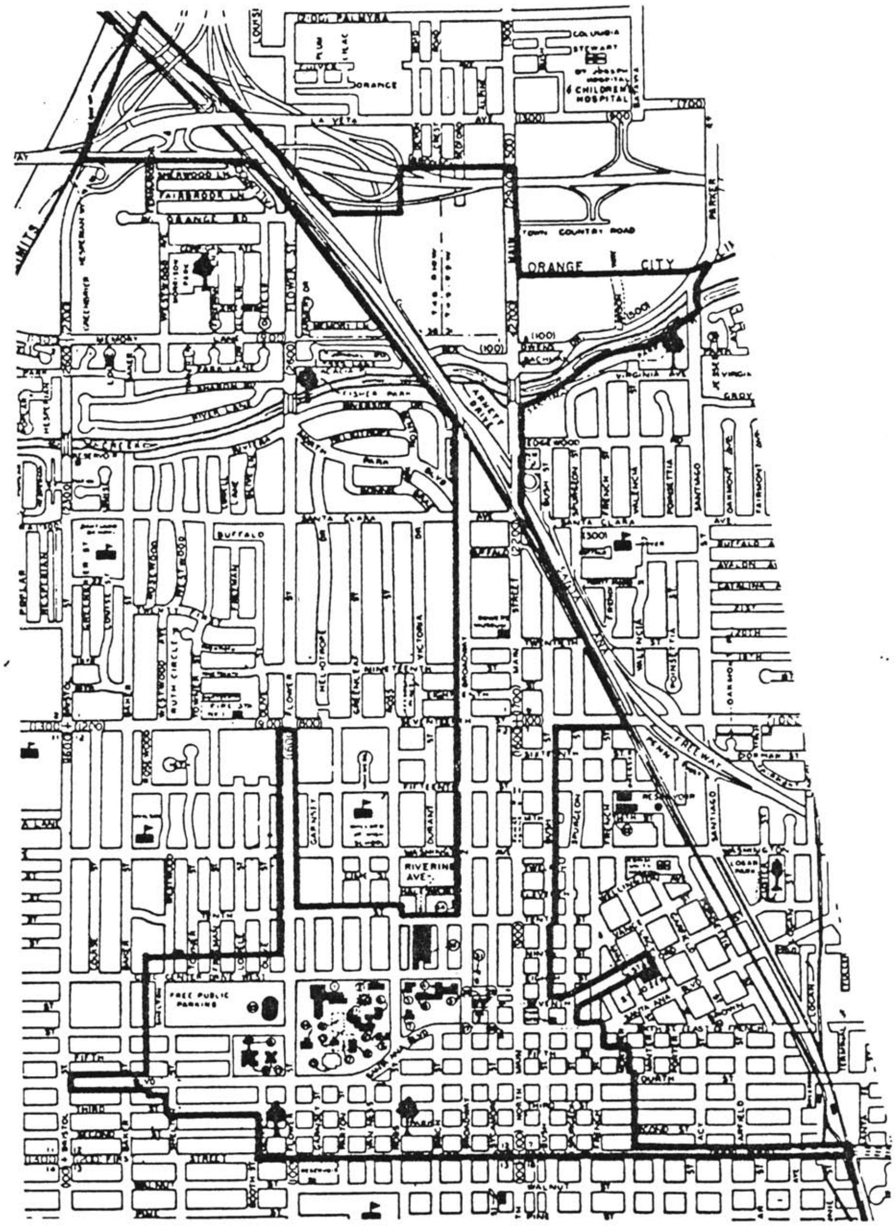


Source: Environmental Impact Report for Fashion Square prepared by Ultrasystems, Inc.



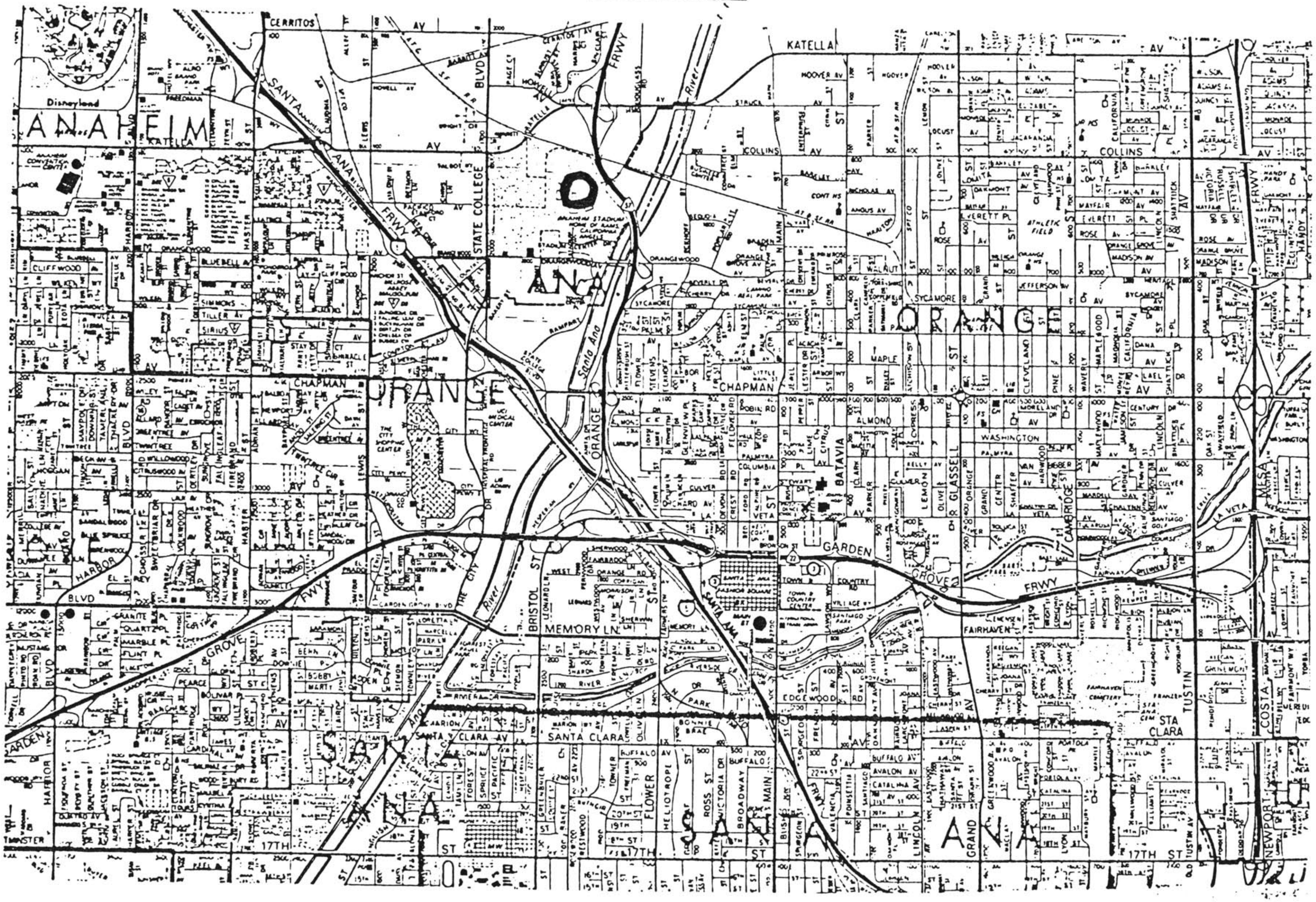
ATTACHMENT # 1
SITE MAP


SANTA ANA FREEWAY
MAIN PLACE
(DEDICATED STREET)
FUTURE
PARKING FACILITIES
424 CARS
NURSERY/GARDEN SHOP
MARKET
DP 2
EXISTING
MULTI LEVEL
PARKING FACILITIES
PDA 4
FUTURE
557 SPACES
MALL SERVICE
DEVELOPER
MALL STORE
(TYP.)
C
D
Q
H
DP 1
U
E
F
NORDSTROM'S COURT
NORDSTROM
STORE
NORDSTROM'S TRACT
NORDSTROM'S STORE SITE
A
B
I
J
BULLOCK'S COURT
MAINTE-NANCE
BLDG. ABOVE
EXISTING
BULLOCK'S
STORE
NMS
PDA 1
PDA 2
BEDFORD DRIV
GARDEN GROVE FREEWAY
BROADWAY
OWENS DRIVE
ROBINSON'S SERVICE
ROBINSON'S COURT
ROBINSON'S
STORE
ROBINSON'S TRACT
120 CARS
PARKING FACILITIES
BULLOCK'S TRACT
BULLOCK'S STORE SITE
NOT A PART
EXISTING
FIDELITY FEDERAL
OFFICE BLDG.
PHASE 1
PDA 1
PARKING FACILITIES
310 CARS
DP 3
DP 4
FUTURE
PDA 3
MAIN STREET



BOUNDARY FOR THE CITY OF SANTA ANA
REDEVELOPMENT PROJECT AREA

MAIN PLACE
Santa Ana
SITE & VICINITY



downtown. The residential neighborhoods of Santa Ana lie to the south and east and south and west of the site.

One of the major site constraints is how to accommodate parking on the site and phase it to be most beneficial and economical. A sloping surface parking lot is being constructed to extend from Main Street up to the center, giving the appearance of flat parking that ends in a circular turnaround serving the second level department stores and restaurants. Structured parking will be constructed underneath the sloped lot to provide additional front parking and a ground level entrance to the department stores and mall, as well as shaded parking for shoppers on rainy and warm, sunny Santa Ana days. The original parking structure, built by the city of Santa Ana in 1978, is located west of the center.

C. Construction

Actual construction of the project is scheduled to begin in the fall of 1985 with the demolition of the Main Street shopping center, a small strip center located on the proposed site. Building construction of the mall will not begin until spring of 1986, with grand opening scheduled for the fall of 1987, in anticipation of the Thanksgiving and Christmas retail seasons. It is possible that Phase 1 of the office building will be under construction at the same time.

The complexity of construction for a multi-use project the size of Main Place lies in the coordination of the individual construction projects being performed simultaneously. These include the construction of

Robinsons and Nordstroms department stores, and the renovation of Bullocks along with the construction of the mall and tenant spaces. Each of these are separate contracts controlled by the individual owners. Robinsons, Nordstroms and Bullocks will each have separate architects design their buildings or renovation and then award the construction contract to the contractor of their choice. This requires that the details of each construction document be coordinated to interface with other pertinent construction documents. Schedules will have to be coordinated and an area set aside as a staging area for receiving equipment and material as well as equipment storage. This is further complicated by the fact that many of the current mall stores will be open during the expansion, including Bullocks and I. Magnin.

Opening the mall on time is critical, due to the nature of the retail business. Stores want to open seasonally either in early spring to capture spring and summer sales (including Easter, Mother's Day, Father's Day, graduation, weddings, back to school, etc.) or in early fall to take advantage of the Thanksgiving and Christmas season. The overall project has to be coordinated so that critical dates are met in the production schedule. All department stores should be ready for the opening as well as a majority of the specialty retail tenants. As the mall spaces are leased, the tenant hires an architect and a contractor to finish out his space and designs a storefront to display "the goods." These have to be designed and built to create excitement without detracting from the neighboring tenants' displays. The tenant coordinator has responsibility for coordinating all of the tenant designs and the contractors building out their spaces.

The first phase of the project may also include the start of the office building construction, depending on the strength of the market and the success of preleasing. Original targets called for the building to be 40% preleased by September 1985 in order to start construction to coincide with mall construction. The present situation has changed and 40% leaseup is not progressing as planned, partially because of the hesitancy about when the building will be finished. One of the large problems is how parking will be handled for Robinsons customers and occupants of the office tower. The current site plan calls for the Phase 1 tower to be located directly in front of Robinsons with parking under Robinsons and the office building. The biggest problem becomes the cost of structured parking and whose responsibility it is.

There are three possible areas of construction risk in the project. The first is the requirement of special foundations due to the existing material's low-bearing capacity requiring a pile foundation system to be driven from 16" - 18" in diameter until they reach bearing soil, a depth of approximately 35 feet. Preliminary soil samples show that the soil is not a bearing soil and piers will have to be sunk varying from 18" to 4' in diameter until they reach bearing soil. The second risk lies in the destruction of the old mall complex and the new tie-ins to the original buildings, especially Bullocks two-level entry and I. Magnin's single-level entry. The third area involves the parking structure and coordinating parking while the center operates and construction proceeds. All of these risks could result in cost overruns and are magnified when more than one party is involved in making changes and the project involves renovating an existing structure. Another possible risk is that the construction union contracts expire in 1987, but this is covered in the construction documents, listed with wars and an act of God. Currently, the construction staff consists of one person -- the Project Manager or Vice President of Regional Construction. As the project grows in size he will be assisted by an under project manager to oversee all construction on the site. The Main Place project may have an additional assistant if Bullocks renovation is handled by the developer, due to the relationship between JMB/Federated and Bullocks as a way of reducing costs.

Once the mall space is ready for tenant finishes, a tenant coordinator will be assigned to work with each of the tenants to finish their space. Usually each tenant has a separate architect and contractor similar to the anchor stores, but in their case, overall tenant finishes must be approved by the tenant coordinator,in conjunction with the architect, so as not to change the basic mall design or infringe on other tenants. All fire and life support systems must be operational before the mall and tenant space can be opened. The tenant coordinator has the responsibility of coordinating the work of each tenant, in the case of Main Place, up to 150 stores.

Construction of the center will be awarded through the process of bidding, and then a contract will be negotiated for a fixed price. The general contractor will then hire out his subs with the provision that they be reviewed by the construction manager. The first phase of the project, demolition, is being bid prior to the completion of working drawings.

D. Marketing

The marketing of Main Place will be a function of the type of tenants the project selects. Already the stage has been set by the anchor stores with the existing Bullocks and I. Magnin and the new Nordstroms and Robinsons. Bullocks and I. Magnin are the original fashion components in Fashion Square and have their loyal customers. Bullocks is being renovated to accommodate the new mall connection and to attract new customers with a more modern store facility. The I. Magnin store is also the original store and, even though it will not be significantly remodeled, its business is anticipated to increase slightly from the increased mall traffic.

Nordstroms has been making a significant impact on Southern California. Based in Seattle, Nordstroms expanded to California in 1978 and now boasts that their California stores are the highest volume. The current 41-store chain has built a tremendous reputation on service and their $267 per square foot sales figure is twice the industry average. Each salesperson for Nordstroms is on commission, with a higher rate offer than other competitive retailers. Nordstroms' buyers, similar to those at Bullocks and Robinsons, have regional responsibility. According to Betsey Sanders, Vice President in charge of Southern California stores, "about 20 percent of the merchandise on each store's racks is bought with that particular store in mind." This adds to their appeal and ability to grow, as each store reflects the local tastes. Nordstroms presence will add a strong energy to the traditional stores of Bullocks and I. Magnin.

Robinsons is the most upscale of the department stores, firmly entrenched in the Southern California market, adding another degree of familiarity along with an upscale product to balance Bullocks, I. Magnin and Nordstroms.

Tenants in the mall will be selected and placed to complement the department stores and use their synergy to attract customers. Various zones will be created in the mall to focus on high-end fashion, medium-scale fashion, mens clothes, specialty goods, sporting goods, jewelry stores, record stores, etc. The plan is to create flows of traffic throughout the center to avoid dead or lightly travelled areas. This will occur by careful attention to tenant selection and placement and the positioning of retailers to play off of one another. The architect has created for the tenants a space that he describes as ambiguous or constantly changing. The customer has to feel a certain familiarity or comfort in the center without being bored by the space.

One of the significant problems facing the leasing people is the curving space which creates a more dramatic vista but also pie-shaped tenant spaces. These are usually thin at the front (window area) and wide in the rear. This is being changed by dividing up the spaces unevenly (like a puzzle) to create different size and shape spaces to accommodate more tenants effectively.

Architecturally, the banners, colors chosen, displays, and store fronts should be designed to herald the type of retail tenants that are located in the area. They should also play on the architectural ambiguity of the space, luring customers into seeking out new areas in the mall and finding new stores.

E. Financing

The pro forma for the retail portion of Santa Ana is based on the inclusion of the three anchor stores of Bullocks, Nordstroms, and Robinsons and a mall GLA of 387,000 square feet. The retail pro forma also includes the total land cost for the project of $29.27 million. Tenant rents are projected at $29.75 in the third or stabilized year with a projected 5% increase annually. New anchor tenants contribution is $30,000 annually.

The total development cost for the project is $99.6 million ($257.5 per square foot including land cost). This breaks down into $46.2 million for construction costs and $53.4 million in soft costs, including tenant allowances and land cost. Building construction is estimated at $85 per square foot and tenant allowances at $9.70 per square foot.

The financing for the project is being handled by Bank of America who has proposed two options for borrowing the funds required. The first is a credit facility of $75 million as a maximum amount, subject to the Banks review and approval of finished drawings and specifications for a retail mall space of not less than 375,000 square feet. Bank of America also requires that periodic appraisals of the project be made so that partial releases of funds can be made. The appraisals are performed at the bank's request and the cost is to be borne by the developer up to $50,000.

Option B allows the developers a credit facility up to $80 million and not to exceed 80% of the acceptable bank appraisal. A pro forma debt service coverage ratio of 1.1 to 1 must also be met, based on a retail space of 387,000 square feet. The appraisal requirements must be satisfied before July 1, 1986, on all parcels and proposed future developments.

The joint venture also has the flexibility of selecting a floating or fixed interest rate. Plan A states that the interest charge will be a floating BOA Reference Rate plus 50%, calculated on a 360-day basis. Plan B allows on minimum advances of $1 million up to the full value of the loan, the bank's CD rate, composed of the adjusted cost of funds plus a 1.5% spread, or the bank's money and loan policy committee minimum, whichever is greater. The minimum maturity for each advance is 30 days with a maximum of 90 days. Prepayment of any advance is subject to a

SANTA ANA FASHION SQUARE 61885
SANTA ANA, CALIFORNIA

SUMMARY OF ASSUMPTIONS

ANCHORS	LEVELS	SQ. FT. OF GLA	PARKING SPACES	ACRES
BULLOCKS	3	250000	1250	20.00
NORDSTROMS	3	200000	1000	15.00
ROBINSONS	3	150000	750	12.00
MALL PUBLIC AREA	3	100000		2.50
TENANT GLA	3	387000	1935	29.50
TOTALS		1087000	4935	79.00

PHASE I OPEN YR. 1987 THIRD YEAR RENT 29.75

VACANCY RATES:	OPENING YEAR	.30
	1ST FULL YEAR	.15
	2ND FULL YEAR	.10
	3RD FULL YEAR	.05

GROWTH IN RENT AFTER 3RD YEAR .05
GROWTH IN EXPENSES AFTER 3RD YEAR .06

MGMT. FEE RATE .04 CONSTRUCTION LOAN RATE .11

CAP. RATE FOR RESIDUAL VALUE .07 PERMANENT LOAN RATE .12

THIRD YEAR OPERATING INFORMATION:

CAM EQUIP CHARGE	.75
DEPT. STORE CONTRIBUTIONS- STORE 1	0
STORE 2	30000
STORE 3	30000
ON-SITE MANAGEMENT COST	125000
PROMOTIONAL SERVICE	.20
STRUCTURAL MAINTENANCE	.08
MAINTENANCE & SECURITY	3.50
TAXES & INSURANCE	2.50
CONTINGENCIES	20039

DEVELOPMENT COST INFORMATION:

SITE DEVELOPMENT	10000000
BUILDING CONSTRUCTION	32875000
GENERAL CONDITIONS	800000
A&E SERVICES	2550000
TENANT ALLOWANCES	3750000
LEASING FEE	1161000
RELATED EXPENSES	3800000
INTERIM INTEREST	11862000
SHORTFALL FOR LEASE-UP	2420000
DEVELOPMENT FEE	1161000
LAND COST	29270000
REIMBURSABLES: DEPT. STORES	1000000
FINANCED BY TAXES	8000000
SALE OF OFFICE LAND AND EQUITY	12604000
NET COST OF DEVELOPMENT- AFTER REIMBURSABLES & SALES	78045000

SANTA ANA FASHION SQUARE 61885
SANTA ANA, CALIFORNIA

FINANCING ANALYSIS

		COST	CASH FLOW	YIELD
TOTAL COST (LESS D.S. CONTRIBUTIONS)		98649000	10602339	10.75%
LESS:	BONDS TO BE CARRIED BY TAX INCREMENTS	8000000	0	
		90649000	10602339	11.70%
	TRANSFER OF LAND TO 1ST OFFICE BUILDING	3390000	0	
		87259000	10602339	12.15%

MORTGAGE AVAILABLE

	10602339	
	1.1	
	9638490	
	.12	
	80320748	80320748
EQUITY REQUIRED		6938252

SANTA ANA FASHION SQUARE 61885
SANTA ANA, CALIFORNIA

DEVELOPMENT COST BUDGET

	387000 SQ.FT. GLA $/SQ.FT.	TOTAL $	
SITE DEVELOPMENT	25.84	10000000	
BUILDING CONSTRUCTION	84.95	32875000	
GENERAL CONDITIONS	2.07	800000	
A & E SERVICES	6.59	2550000	
SUBTOTAL-CONSTRUCTION	119.44	46225000	
TENANT ALLOWANCES	9.69	3750000	
LEASING FEE	3.00	1161000	
RELATED EXPENSES	9.82	3800000	
INTERIM INTEREST	30.65	11862000	
SHORTFALL FOR LEASE-UP	6.25	2420000	
DEVELOPMENT FEE	3.00	1161000	
LAND COST	75.63	29270000	
TOTAL COST OF DEVELOPMENT	257.49	99649000	
D.S. REIMBURSABLES: NOW	2.58	1000000	
FINANCED BY TAXES	20.67	8000000	
OFFICE LAND & EQUITY	32.57	12604000	
NET COST	201.67	78045000	
			TAX INCREMENTS
CASH FLOW BEFORE DEBT		10602339	800000 AT
CASH ON NET COST YIELD		13.58%	10.00% SUPPORTS $8,000,000

CASH FLOW CAPPED @ 8%	132529234
TOTAL COST (LESS D.S. CONTR.)	98649000
POTENTIAL GAIN	33880234

SANTA ANA FASHION SQUARE 61885

SANTA ANA, CALIFORNIA

($000) OPERATING PRO FORMA

	-1	OPENING	1	2	3	4	5	6	7	8	9	10
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
RENT		4078	10362	10938	11513	12089	12693	13328	13994	14694	15429	16200
CHARGES		964	2452	2599	2755	2921	3096	3282	3479	3687	3909	4143
SUBTOTAL		5042	12814	13537	14269	15010	15789	16610	17473	18382	19337	20343
VACANCY		1512	1922	1354	713	750	789	830	874	919	967	1017
D. STORES		25	60	60	60	60	60	60	60	60	60	60
INCOME		3554	10952	12243	13615	14319	15060	15839	16659	17522	18431	19386
MGMT.FEE		114	352	394	438	459	482	506	532	558	586	616
EXPENSES		901	2292	2430	2575	2730	2894	3067	3251	3446	3653	3872
EXPENSE		1015	2644	2823	3013	3189	3376	3574	3783	4005	4240	4488
CASH FLOW		2539	8308	9420	10602	11130	11684	12265	12876	13518	14191	14898
DEBT SERV		3902	9365	9365	9365	9365	9365	9365	9365	9365	9365	9365
NET CASH		-1363	-1058	55	1237	1764	2318	2900	3511	4152	4826	5533
RESIDUAL												79040
TOTALCASH	-39023	-36484	8308	9420	10602	11130	11684	12265	12876	13518	14191	171983
INTERNAL RATE OF RETURN		17.36%										

SANTA ANA FASHION SQUARE 61885
SANTA ANA, CALIFORNIA

($000)

ESTIMATED FUNDING REQUIREMENTS
(BY MONTH)

MONTH	SITE	BLDG.	GEN.CON.	A & E	TENANT	LSG.FEE	RELATED	DEV.FEE	LAND	REIMB.	11.00% INT.	CUM. COST
1			40				76					116
2			40	51			76				1	284
3			40	51			76				3	454
4			40	51			76		29270		5800	35691
5			40	51		58	76	81			327	36324
6	800		40	128		58	114	81		11666	333	26212
7	1400	986	40	255		58	190	81			240	29463
8	1500	986	40	255		58	190	81			270	32843
9	1300	1644	40	306		58	190	81			301	36763
10	500	1973	40	306		58	190	81			337	40248
11	700	2630	40	204		58	190	81			369	44520
12	500	3616	40	153		58	190	81		9938	408	39629
13	500	3616	40	128		58	190	81			363	44606
14	500	3288	40	128		58	190	81			409	49299
15	600	3288	40	128	150	116	266	81			452	54419
16	500	3288	40	128	225	116	266	81			499	59561
17	400	1973	40	128	488	116	304	81			546	63636
18	500	1644	40	51	600	116	380	104			583	67655
19	300	1973	40	51	825	116	380				620	71960
20		1973	40		1463		190					75625
TOTALS	10000	32875	800	2550	3750	1161	3800	1161	29270	21604	11862	

ADDITIONAL INTEREST AND LEASE-UP COSTS	2420
TOTAL DEVELOPMENT FUNDING NEEDED	78045

SANTA ANA FASHION SQUARE 61885
SANTA ANA, CALIFORNIA
OPERATING PRO FORMA
3RD YR. AFTER OPENING

	387000 SQ.FT. GLA $/SQ.FT.	TOTAL $
INCOME		
NET RENTAL INCOME	29.75	11513250
CAM EQUIPMENT CHARGE	.75	290250
MAINTENANCE & SECURITY	3.87	1497675
TAXES AND INSURANCE	2.50	967500
SUBTOTAL	36.87	14268675
LESS VACANCY	1.84	713434
INCOME FROM TENANTS	35.03	13555241
D.S. CONTRIBUTIONS		
BULLOCKS	.00	0
NORDSTROMS	.08	30000
ROBINSONS	.08	30000
TOTAL INCOME	35.18	13615241
EXPENSES		
ON-SITE MANAGEMENT	.32	125000
MANAGEMENT FEE	1.13	437504
PROMOTIONAL SERVICE	.20	77400
STRUCTURAL MAINTENANCE	.08	30960
MAINTENANCE & SECURITY	3.50	1354500
TAXES AND INSURANCE	2.50	967500
CONTINGENCIES	.05	20039
TOTAL EXPENSES	7.79	3012903
CASH FLOW BEFORE DEBT	27.40	10602339

premium. A second rate available on Plan B is the "Offshore Rate" as quoted by the bank's Grand Cayman desk plus reserves and a 1.5% spread. This has a minimum 30-day maturity up to a maximum of 12 months. All loan advances have to mature at or before the stated maturity of the loan. The joint venture has the option of using either option A or B or a combination of both, subject to availability and the bank's mood of the day.

The timing of the loan is scheduled in Phase I and Phase II. Phase I is limited to a maximum of $20 million to fund the acquisition of the existing land with a maturity of 36 months; and all requirements for approval must be met on or before September 1, 1985. The bank requires payment of all expenses estimated at $55,000 for appraisals, legal and miscellaneous along with a current insurance policy for 90% of all existing buildings, fixtures, and improvements.

Phase II obliges the bank to advance additional funds up to the maximum loan amount, depending on whether Option A or B is selected. Phase II funding is available 36 months from the date of the note and coterminous with Phase I funding. Similar conditions apply to Phase II as to Phase I, including the payment of additional loan fees of up to $525,000.

E. <u>Status - July 1985</u>

The status of the retail portion of the project as of July 1985 is that demolition of the existing Mainstreet Center buildings on the site will begin in the fall of 1985 with construction of the Main Place to begin in the spring of 1986.

III. OFFICE PORTION OF THE PROJECT

A. Office Towers Concept at Main Place, Santa Ana

Main Place retail is the focus of this paper but the office and hotel portion of the plan play an important role in the financial reality of this project. The partnership of Henry Segerstrom and Chase McLaughlin is responsible for both the office and hotel portions. Their plan is to use the site to create a Class A office center in Santa Ana, capitalizing on excellent freeway access, existing Class A tenants and the city's role as county seat of Orange County. This will give Main Place the depth of an urban center by providing a resident office population during the daytime and hotel visitors during the evening.

The concept is to construct in phases -- three office towers totalling 1.5 million square feet of rentable floor area, and up to two hotels with a total of 1200 guest rooms. McLaughlin feels that their experience and reputation from nearby Costa Mesa will give them an advantage in the Santa Ana market and allow them to create what he describes as "a landmark in Southern California." Phase I is scheduled to begin construction with the first office tower in the fall of 1985, provided pre-leasing requirements are met. Named One Main Place, the 30-story black glass and granite tower is sited east of the J.W. Robinsons Department Store and west of Main Street, in the southwest corner of the site.

Maris Peika, a graduate of MIT and a partner in the architectural firm of Skidmore, Owings and Merrill is designing the first tower to be 565,000 gross square feet with 500,000 net rentable, approximately 88% efficient. Three Main Place will be layed out in a square to accommodate larger space uses and because it is more cost effective to build. Each floor will be a square plan measuring approximately 140 feet by 140 feet. The building is being constructed on a 45 degree angle to Main Street to allow passing motorists a view of the Robinsons store and to provide a more dramatic profile of the building. Parking for approximately 2700 cars will be constructed beneath the tower and an outside elevator will provide access from the garage and street level to the skybridge connecting Three Main Place with Robinsons Department Store.

Peika describes the building as a "unique tower, a reaction to the flat top buildings required by Los Angeles code for helicopter pads." The geometry of the building places the square shape on a diagonal with Main Street and then orients the pointed top so that it is parallel to Main Street with notched out corners. The material chosen is a green reflective glass on the sides complemented with either dark green marble or precast on the facade.

One of the more interesting features of the building is that the first level of the office tower is designed to complement the retail center and will house retail tenants. The main entrance will be on the second level. This is reminiscent of urban mixed-use projects but is seldom seen in suburban projects. The second level will be the formal entrance to the office tower and the public lobby for the building.

B. Construction

Phase I is scheduled to begin in October 1985 if pre-leasing is successful and the 40% target is met. Standard construction procedures used by McLaughlin and Segerstrom is to negotiate the job with C.L. Peck Construction Company from Los Angeles. Peck has built most of their buildings at South Coast Plaza and Town Center and through this has developed what McLaughlin calls a "special working relationship." If Peck is not able to do the project because of other commitments or the present inability to pinpoint when construction will begin, the job will be put out for bids. One potential risk for the retail and office portions of the project is that the present union contract expires in 1987.

C. Marketing

Three Main Place is being positioned to attract the Class A large-space tenants who are either expanding in Santa Ana or are moving into Orange County. Market studies of Santa Ana show that Class A type office tenants such as banks, stockbrokers, law firms and insurance companies are located in the Santa Ana CBD and close to the municipal buildings. Creating a high profile building central to both downtown and to the municipal buildings with good freeway access will allow tenants the ability to move out of their existing space without having to leave Santa Ana.

Segerstrom is counting on his reputation at South Coast as a good landlord and developer of quality buildings to give him an edge over other projects coming on-stream in the area. Already proposals have been made to Bank of America (the construction lender for Main Place Retail) to move their Orange County regional office to Three Main Place and place a branch in the lobby. Pacific Bell is considering purchase of up to 200,000 square feet as office condominiums.

Offering the telephone company purchase space would help the developers to finance the project and leave them open to lease the top floors which are the most desirable. McLaughlin's feeling, like many developers in a slowing market, is that you lose money on the first one-third of the building, breakeven on the second-third, and make money on the remaining third. Selling floor space to Pacific Bell would reduce their initial exposure and allow them greater flexibility in leasing the floors.

The largest risk marketing has to overcome is the softening demand for office space in Orange County. September 1985 was set as the target date for having leased 40% of the first building. This schedule will not be met and will require a decision as to the size of building to be constructed. New leasing figures show that the Orange County office market is increasing in vacancy. Coldwell Banker's market reports show that since 1970 almost 33.5 million square feet of office space has been built in Orange County. 26% (8,710,000 square feet) has been completed in the communities in Orange, Santa Ana and Tustin; 48% has been built in the Newport Irvine area (Santa Ana's closest competitor in Class A office space). Further figures indicate that "between 1980 and 1984, 13.3 million square feet of office space was completed, of which approximately 22% (2.9 million square feet) remains unleased."[18] Today's construction figures indicate that 7.1 million square feet of office space is under construction of which 6.3 million (88%) remains unleased. (See following chart.)

Coldwell Banker reported that in the general area of Anaheim Stadium, the city, and Fashion Square, absorption has been 210,000 square feet annually for the period from 1977-1982. In 1983, absorption jumped to 300,000 square feet and 350,000 square feet in 1984; 1985 and 1986 were predicted to show jumps of 75,000 square feet to annual absorption of about 425,000 square feet. Santa Ana currently has a 4.7 year supply of unleased space, compared to the county average of 4.1 years.

Tenant profiles show that in competitive high-rise office buildings, 53% of the space is currently occupied by tenants taking less than one floor. Recent historic trends also show that 46% of the tenants were previously located within the surrounding environs of central Orange County, 19% migrated from Los Angeles County locations and 4.3% moved from the south Orange County area.

Gross rent projects, as of April 1985, show a range from $19.20 to $27.00

Table 1

OFFICE CONSTRUCTION IN ORANGE COUNTY SINCE 1970
(Thousands of Square Feet)

	Built 1970-1979	Built 1980-1984	Under Construction	Total Since 1970
NORTH ORANGE COUNTY				
Anaheim	558	825	378	1,761
Brea	215	552	153	920
Fullerton & Yorba Linda	433	75	155	663
Total	1,206	1,452	686	3,344
WEST ORANGE COUNTY				
Fountain Valley	103	509	0	612
Garden Grove	158	146	200	504
Huntington Beach	222	366	528	1,116
Other	161	538	40	739
Total	644	1,559	768	2,971
CENTRAL ORANGE COUNTY				
Orange	1,454	939	544	2,937
Santa Ana	1,569	1,741	1,192	4,502
Tustin	642	460	0	1,102
Total	3,665	3,140	1,736	8,541
NEWPORT/IRVINE AREA				
Airport Area	2,267	955	26	3,248
Costa Mesa	860	1,520	1,174	3,554
Irvine	2,130	2,745	2,486	7,361
Newport Center	1,577	480	0	2,057
Total	6,834	5,700	3,686	16,220
SOUTH ORANGE COUNTY				
Laguna Hills	259	813	64	1,136
Remainder	397	681	179	1,257
Total	656	1,494	243	2,393
TOTAL ORANGE COUNTY	13,005	13,345	7,119	33,469

Source: Based on data from Coldwell Banker.

Table 2

UNLEASED NEW OFFICE SPACE IN ORANGE COUNTY
(Thousands of Square Feet)

	Unleased New Space		
	Existing	Under Construction	Total
NORTH ORANGE COUNTY			
Anaheim	111	366	477
Brea	59	54	113
Fullerton & Yorba Linda	1	155	156
Total	171	575	746
WEST ORANGE COUNTY			
Fountain Valley	66	0	66
Garden Grove	64	200	264
Huntington Beach	66	270	336
Other	39	40	79
Total	235	510	745
CENTRAL ORANGE COUNTY			
Orange	136	446	582
Santa Ana	302	1,114	1,416
Tustin	271	0	271
Total	709	1,560	2,269
NEWPORT/IRVINE AREA			
Airport Area	78	0	78
Costa Mesa	95	1,015	1,110
Irvine	1,124	2,442	3,566
Newport Center	62	0	62
Total	1,359	3,457	4,816
SOUTH ORANGE COUNTY			
Laguna Hills	267	55	322
Remainder	194	143	337
Total	461	193	659
TOTAL ORANGE COUNTY	2,935	6,300	9,235

Source: Based on data from Coldwell Banker.

Table 3

AVERAGE ANNUAL ABSORPTION AND UNLEASED NEW OFFICE SPACE IN ORANGE COUNTY
(Thousands of Square Feet)

	Unleased New Space	Average Annual Absorption Since 1980	Years Supply of Unleased New Space
NORTH ORANGE COUNTY			
Anaheim	477	145	3.3
Brea	113	118	1.0
Fullerton & Yorba Linda	156	15	10.4
Total	746	278	2.7
WEST ORANGE COUNTY			
Fountain Valley	66	89	0.7
Garden Grove	264	16	16.0
Huntington Beach	336	112	3.0
Other	79	100	0.8
Total	745	316	2.4
CENTRAL ORANGE COUNTY			
Orange	582	180	3.2
Santa Ana	1,416	303	4.7
Tustin	271	38	7.1
Total	2,269	521	4.4
NEWPORT/IRVINE AREA			
Airport Area	78	180	0.4
Costa Mesa	1,110	317	3.5
Irvine	3,566	333	10.7
Newport Center	62	84	0.7
Total	4,816	914	5.3
SOUTH ORANGE COUNTY			
Laguna Hills	322	111	2.9
Remainder	337	105	3.2
Total	659	216	3.0
TOTAL COUNTY	9,235	2,245	4.1

ORANGE COUNTY
OFFICE MARKET SUMMARY
APRIL, 1985

Sub-Market	Gross Month Rent Per Square Foot	Gross Annual Rent	Expense Stop	Net Annual Rent	Months Free	Standard T.I./ Above Standard
Airport/Irvine/Newport Center	$1.85-$2.25	$22.20-$27.00	$5.00-$5.50	$17.50-$21.50	5 months	$18-$20 / $1-$2
South Coast Metro (Costa Mesa)	$1.85-$2.25	$22.20-$27.00	$5.00-$5.50	$17.20-$21.50	5 months	$18-$20 / $1-$2
Note: Hutton Center -- JMB Analysis	$1.75-$1.85	$21.00-$22.20	$4.50-$5.00	$16.50-$17.20	5 months	$10 on renewals
Santa Ana	$1.65-$2.05	$19.80-$24.60	$4.50-$5.00	$15.30-$19.60	5-10 months	$17-$19 / $1-$2
South Orange County	$1.60-$1.95	$19.20-$23.40	$4.50-$5.00	$14.70-$18.40	12 months	$17-$19 / $1-$2
Brea	$1.60-$1.80	$19.20-$21.60	$4.50-$5.00	$14.70-$16.60	5-10 months	$16-$18

CPI Increases:
5% annually after 30 or 36 months <u>or</u> fixed increases each year.

Leasing Commissions:
4 % of Gross Rent for the first 5 years.
2% for the next 5 years.
1 1/2% thereafter.

per square foot with average annual 5% increases after 36 months or fixed increases each year. Santa Ana has an average rental rate of $22.20 in comparison to the competitive South Coast/Irvine area average of $24.60. Market concessions are five months free rent in South Coast and five to ten months free rent in Santa Ana. Tenant finish allowances are comparable at $18 to $20 and $17 to $19 per square foot with an additional $1 to $2 per square foot given.

D. Financing

The pro formas for Main Place prepared by Chase McLaughlin for the 30-story office building assume a rent of $21.70 per square foot in the high-rise section and $17.37 in the low-rise section of the building. This translates to an average rental rate of $19.31 per square foot (compared to the current Santa Ana average of $17.45. This does not include the lobby area designated as retail, at the rate of $30 per square foot, triple net.

Construction costs are estimated at $50 per square foot and tenant improvements at $17 per square foot (compared to the current average of $18 plus $1-$2 above standard) for a total hard cost of $40.85 million. Including a total soft cost of $18.09 million, the total building development budget comes to $58.94 million, $111.00 per square foot of rentable area. Parking for 2,080 cars plus the cost of land adds an additional $21.63 million for a total cost of $80.57 million or $152 per square foot. (See attached pro forma)

THREE MAIN PLACE

DEVELOPMENT BUDGET - OFFICE

GROSS AREA	625,004 sq. ft.		
RENTABLE AREA	530,140 sq. ft.	(Office 488,340) (Lobby 41,800)	
BUILDING SHELL @ $50		$ 31,250,000	
T.I.'s @ $17		8,300,000	
SITE DEVELOPMENT		1,000,000	
SPACE PLANNING		300,000	
			$ 40,850,000
A&E @ $2.75		$ 1,720,000	
INSPECTION & TESTING		200,000	
REAL ESTATE TAXES		100,000	
BUILDERS RISK INSURANCE		100,000	
LEGAL & ACCOUNTING		120,000	
PERMITS & FEES		200,000	
			$ 2,440,000
TITLE INSURANCE		$ 150,000	
LENDERS INSPECTION		75,000	
APPRAISAL		25,000	
INTERIM INTEREST @ 12½%		5,600,000	
LOAN FEES		600,000	
			$ 6,450,000
MARKETING @ $6		$ 3,200,000	
START-UP		3,000,000	
CONTINGENCY		2,000,000	
FEE		1,000,000	
			$ 9,200,000
TOTAL OFFICE			$ 58,940,000

THREE MAIN PLACE

DEVELOPMENT BUDGET - GARAGE

2,080 CARS
300 SQ. FT./CAR (40% Compact), 624,000 sq. ft.

CONSTRUCTION @ $25 PER SQ. FT.	$ 15,600,000
A&E @ $1.10 + PER SQ. FT.	690,000
BUILDERS RISK, LEGAL, ETC.	100,000
PERMITS, FEES, TITLE INSURANCE	100,000
INTEREST @ 12½%	1,000,000
CONTINGENCY	750,000
	$ 18,240,000

BUDGET RECAP

OFFICE	$ 58,940,000
GARAGE	18,240,000
LAND (5 acres @ $15.56 psf)	3,390,000
TOTAL BUDGET	$ 80,570,000

THREE MAIN PLACE

LOAN ANALYSIS

INCOME - $ 10,870,000

AVAILABLE FOR DEBT SERVICE - $ 9,452,000 (1.15 Coverage)

AVAILABLE LOAN	EQUITY REQUREMENT
@ 11½% - $ 79,500,000	$ 1,070,000
@ 12% - $ 76,600,000	$ 3,970,000
@ 12½% - $ 73,800,000	$ 6,770,000
@ 13% - $ 71,200,000	$ 9,370,000

THREE MAIN PLACE

PROFIT ANALYSIS

PROJECT VALUE ($ 10,870,000 Cap. @ .09) √	$120,800,000
PROJECT BUDGET	80,570,000
DEVELOPMENT PROFIT	$ 40,230,000

THREE MAIN PLACE

INCOME ANALYSIS

OFFICE:	LOBBY AREAS	41,800 sq. ft. @ $30.00 NNN	$ 1,254,000
	LO-RISE	268,800 sq. ft. @ $17.37 NNN	4,668,100
	HI-RISE	219,540 sq. ft. @ $21.70 NNN	4,765,800
			$ 10,687,900
		LESS VACANCY @ 2.5%	(267,200)
		NET OFFICE INCOME	$ 10,420,700
GARAGE:	1,780 SPACES @ $25 PER MONTH		$ 534,000
	300 SPACES @ $50 PER MONTH		180,000
			$ 714,000
		LESS VACANCY @ 10%	(71,400)
			$ 642,600
		LESS OPERATING EXPENSES	(193,000)
		NET GARAGE INCOME	$ 449,600
TOTAL INCOME (OFFICE & GARAGE)			$ 10,870,000 (R)

E. Status

As of August 1, 1985, the office building has not met the preleasing target of 40% and its timetable for construction is uncertain.

IV. HOTEL PORTION OF THE PROJECT

A. Hotel Concept at Main Place, Santa Ana

The hotel portion of the project is the third component of the multi-use project. Since it is slated for the second phase of the project, its concept and planning are the most fluid. Tentatively planned for completion in 1989, its role is construction subordinate to the completion of the retail center. The plan of the hotel is to provide an accommodation for visitors to Santa Ana and central Orange County as well as a nighttime component for the retail center. Additional functions of the hotel are meeting and banquet facilities for community and business functions, and a restaurant and a possible lounge with entertainment facilities.

Currently, Santa Ana Venture is considering selling the hotel site to a hotel company described by Chase McLaughlin as "between a Westin Style Hotel at the top end and a Marriott at the low end." Area hotel activity has centered around the Anaheim/Disneyland area with the next largest concentration in the Irvine (near the John Wayne Orange County Airport), Newport Beach, and Costa Mesa areas. Downtown Santa Ana has no business nor convention type hotels with the exception of the Saddleback, which is similar to a Holiday Inn.

Hotel operators are concerned about the growing vacancy rates as more new hotels are being constructed. Down from an average vacancy rate of 72.1%

in 1984, hotel operators expect an average vacancy rate of 64.2% in 1985 and sliding even further to 55% in 1986. This is due to the increase in the number of rooms available in 1986, expected to be 65% greater than the number of rooms available in 1983. Eventually, the demand will catch up with supply, "but that could take over 3 years and current operators cannot wait that long"[19], according to Helen Gavin, Supervisor of the Newport Beach Accounting firm of Pannell, Kerr and Forster.

As the market softens for hotel rooms, the likelihood of one hotel operator building a single 1200 guest room hotel is reduced. This raises the question of more than one hotel on the site and the accommodation for more parking. The status of the hotel as of August 1, 1985, is that Marriott is considering purchase of the site and construction of a 250 room hotel with banquet facilities.

V. SUMMARY AND CONCLUSIONS

Analysis

The most difficult challenge facing Santa Ana Venture is the development of a unique identity for Main Place. Fashion Square, once the most desirable place to shop in Orange County, lost its image as a premier center when it failed to change to serve the needs of its customers. Every other center built in Orange County since 1957 has been renovated and expanded to keep pace with the exploding growth of the area, Fashion Square has not. Main Place will have to create a brand new identity to attract them back.

In order to analyze the potential of Main Place, it is necessary to inventory the strengths and weaknesses of the project and weigh these against the potential risks. The ultimate success or failure of this project lies in the developers ability to differentiate Main Place retail from competitive centers in the area. A second part of the project is the timing of the Class A office space and hotel projects. Starting the office buildings will depend on the ability of those responsible for leasings to attract quality tenants from older buildings in Santa Ana and new tenants away from competitive new buildings in Newport Beach and Costa Mesa. The hotel's success will be a function of the operating company chosen, the success of the Santa Ana redevelopment effort, and the retail center and office buildings in generating activity and traffic.

The first important ingredient in the project is the development team, which joins nationwide experience in retail development and financial strength along with the most visible office and retail developer in Orange County and the very competent and creative architectural firms of Jerde and SOM. In the words of Richard Idler, Marketing Director for Alcoa Properties, the developers for the multi-use Century City project "basically you need a specialist or group of specialists for each project type."[20] This will influence the marketing strategy by providing both a national perspective as well as a local prominence. Federated has a presence in most of the major retail markets nationwide giving them the strength to draw new retailers into Orange County and Southern California. These components will play an important part in helping to differentiate Main Place as a unique retail environment, providing a mix of stores that is not available elsewhere in the area.

JMB/Federated brings to the project the talent and experience of having developed retail projects all over the United States. Currently involved in 17 new or redevelopment projects, they have the leverage and national exposure to attract exciting new tenants into Main Place. Their strength financially through JMB gives them the deep pockets to endure the extended development time.

Chase McLaughlin and Henry Segerstrom bring a local prominence to the project as the successful developers of South Coast Plaza and South Coast Plaza Town Centers. South Coast Plaza has the reputation as one of the busiest retail centers in the world and Segerstroms involvement will lend local credence and recognition to the project. Since the Segerstrom family has developed office buildings in closeby Costa Mesa and downtown Santa Ana, they have a broad understanding of the office marketplace and a rapport with local office tenants both large and small.

The architects chosen for both the retail and office portion of the projects are nationally known firms. The Jerde people recently gained notoriety for their role in coordinating the designs for the 1984 Summer Olympic Games and designed the soon-to-open Horton Plaza. Both of these projects incorporated a festival theme which has also been used in the Westside Pavilion, a retail concept similar to Main Place, designed by Jerde, which opened in May of 1985 in West Los Angeles, and is already being hailed as a great success.

Skidmore, Owings and Merrill's reputation for design, as one of the largest architectural firms with projects worldwide, will give the project instant recognition. Tenants seeking office space in Orange County will be attracted to Main Place because it will offer both prestige and image as the focal point of Santa Ana. Segerstrom's influence and reputation should provide the competitive edge to make the project successful.

The second important ingredient in Main Place is its central location in Santa Ana, the county seat for dynamic Orange County. Main Place is an established retail location with excellent freeway access, Disneyland and Anaheim Stadium nearby and on the route of travelers going to Orange

County Airport and the ocean communities of Newport Beach and Costa Mesa. Main Place has the potential to draw from the growing population in central Orange County and especially those residents in the 45 to 60 age group, loyal to Fashion Square, who would rather not travel to South Coast Plaza or Fashion Island. Main Place has the added advantage of being surrounded by a larger, more diverse population group that is rapidly expanding.

Santa Ana's near neighbor is Anaheim, the home of Disneyland and Knotts Berry Farm, which last year attracted over 17.5 million of the 30 million visitors to Orange County. Elaine Cali of the Anaheim Convention and Tourism Center reports that "in 1984 visitors to Orange County spent $3.7 billion and approximately 14% ($518 million) was spent on retail." Since Disneyland and all of the Anaheim hotels are within 5 miles, a marketing program could be created to take advantage of all of this visitor traffic. Already, three shopping areas have a direct link to the hotels by providing a shuttle to their centers. The participating centers are, The City Shopping Center, Anaheim Plaza and South Coast Plaza, the closer ones charging $1 and South Coast charging $2 for the shuttle. Main Place could image itself through visitor's brochures, along the lines of a Quincy Market or South Street Seaport, as the most unique retail center in Southern California, an added attraction for visitors to Orange County. This would help generate traffic to support the festival market, food court, theater operations, and specialty stores. Special events could be planned for the center, during the summer and heavy travel times to draw additional attention to the center. Promotional events such as discount tickets or free tee-shirts could be planned for slower times to generate interest locally, when tourism is down. Early programs have been made to link the center with Disney, such as sponsoring the Wuzzles, a Disney character group based in New York, to perform at Fashion Square. This initial attempt was described by Pat Kincaide, Mall Manager of Fashion Square, as "very successful and creating good mall traffic."

The third ingredient necessary for a strong image is product differentiation. As stated previously, JMB/Federated and Segerstrom/McLaughlin have the talent to a produce a product that has both local familiarity and comfort and national drawing power. Combining these two factors should give the center a distinctly California flavor with a little different twist. This new twist will be the hybrid of suburban and urban retail centers, singularly unique in merchandising and connected to both hotel and office functions.

This uniqueness will be supported by a host of familiar stores in the marketplace (i.e. Bullocks, I. Magnin, Robinsons, etc.) and enhanced by new stores to the area, upscale restaurants, a festival market, theaters and a food court all wrapped up in a carnival-type atmosphere; that in itself will create a sense of activity and intrigue. The design of the center will support the merchandising by using brightly colored banners and window displays that play off one another to create zones of special merchandising and excitement. The food court and specialty market are being planned to support the retail and to add to the center a nighttime dimension along with the theaters and restaurants. New stores should be selected not only for their impact, but also to reinforce the department stores and to attract customers who presently do not shop or feel they cannot shop at stores like Robinsons or Bullocks but because of the attraction and availability of other, more familiar, merchandising are attracted as a customer.

Several trump cards are available to the project to help expand its marketing area. The first is the potential to attract a fifth anchor store with wide recognition not presently merchandising in the area. Macy's is an example of a department store that is reportedly looking for a location in Southern California. The competitive relationship between Macys and some other department stores has caused them to be turned down for space in several locations. Main Place could be an excellent location for Macys store because of their instant recognition (due in part to the New York image and Thanksgiving Day Parade Tradition) and more recently their aggressive merchandising. Shoppers would have a stronger incentive to travel to Santa Ana to visit Macys; Main Place would offer them the convenience of shopping at the familiar stores of Bullocks, Robinsons, and Nordstroms as well. In addition, it would prevent Macys from seeking another site in the local area and jeopardizing the potential of Main Place.

A second trump card is the potential of having the Plitt Theater Company operate the mall cinemas. Plitt is experimenting with a new type of film called SHOWSCAN which has been described by <u>The Washington Post</u> as "a breakthrough that may someday rank with the first deployment of sound and color in film." The SHOWSCAN process uses 70 frames per second versus the traditional 28 frames per second to improve the visual effect. The result is that the picture is four times brighter and four times larger than standard projections, improving the speed at which the eye perceives reality. This is accompanied by a six channel Dolby Sound System that produces a sound level of up to 120 decibels to increase the experience of enhanced realism.

Plitt is planning to build one SHOWSCAN theater, which uses a larger screen, in their new multi-screen projects and then masking it off to normal size until the new concept is available in commercial films. The first film using SHOWSCAN is expected to be produced in 1987. According to Ira Mitchell, Vice President of Plitt Theaters, a pilot of the SHOWSCAN concept is being shown at the Japanese Expo '85 in Tsukuba, Japan where viewers have waited in lines for up to 4.5 hours to see the show. This type of attraction, the first of its kind in Orange County (the nearest one planned for Plitts theaters in Century City near Los Angeles), would draw people from a larger area to Main Place.

While the potential for success is apparent, the risk in the project is less visible. The demographic study of Orange County and exit polls taken at Fashion Square show a strong growth potential with relatively high incomes. The reality of Santa Ana, however, is that it is a redevelopment site designated by the city of Santa Ana to increase tax revenue and enhance its tarnished image.

A preliminary financial analysis of the site shows that office space would be a more profitable use, because of the greater density of development. Santa Ana, as part of the redevelopment agreement, required that a minimum of two new department stores with a combined square footage of 100,000 square feet and mall space and tenant shops containing a minimum of approximately 100,000 square feet of gross building area be built on the site to generate retail sales tax for the city. Office space was added as an incentive and to increase the image of the area and attract new upscale business. Fashion Square is regarded by most as a run down center and, except for the loyal Bullocks and I. Magnin customers, shoppers have been going elsewhere, including South Coast Plaza and Fashion Island.

Viewing the project from a financial perspective, the cost of acquiring the land requires that either office or hotel space has to be built to support the pro forma. A second alternative would be to sell the land for the office buildings, but that would dilute the master concept for the project. The present reading of the Orange County office market shows a vacancy rate of about 14.7 percent (not including older buildings' vacancy), with an average absorption rate in Santa Ana, Orange, and Tustin of about 100,000 square feet per year. Currently under construction is close to 500,000 square feet of new space or about a 4 year supply (including growth). Main Place is projected to add 1.5 million square feet to that number in three increments of 500,000 square feet. Chase McLaughlin is counting on the market becoming more bullish over the next few years and the positive image of the three 30-story office towers to fill a void that exists in the market today. McLaughlin feels that since Class A tenants are located in Santa Ana, the risk will be met by Segerstrom's strong reputation as a landlord.

Original plans call for up to 1200 hotel rooms to be built on the site. The market dictates that this should be broken up into a series of hotels, rather than build one large hotel. The present site is not large enough to accommodate multiple hotel projects and the parking that would be required.

The single greatest question, is whether the retail center will be successful in the extremely competitive Orange County retail arena. The strongest competitor in the marketplace is South Coast Plaza, owned and operated by C.J. Segerstrom and Sons, partners in Main Place. Segerstroms are continually expanding and strengthening South Coast center to create what the New York Times described as "a diminuitive west coast version of Fifth Avenue."[21] Current expansion of South Coast includes a new Nordstroms, replacing the existing one with a parking garage. Across the street from South Coast, Segerstroms are building a new smaller center with three anchors, Robinsons, May Company and Broadway, bringing the total number of stores to 300 with 10 anchors. Henry Segerstrom has the advantage of being involved as a partner in the strategy of Main Place and then planning his strategy for South Coast Plaza, only 11 miles away.

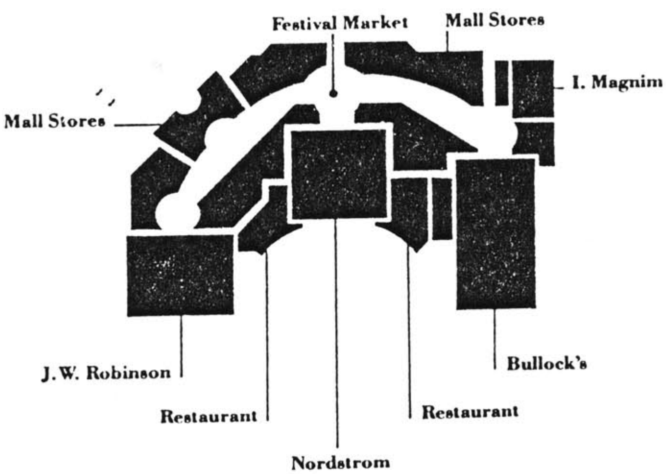
The second major competition from a fashion standpoint, is Fashion Island in Newport Beach now undergoing a major renovation to attract more customers. The Jerde Partnership recently designed for them a food court/festival market and is renovating some of the facades and mall spaces to increase the center's potential. Overlooking Newport Beach, the center has never lived up to its potential primarily because of its layout and the competition from South Coast. Fashion Island has catered more to high-end shoppers with such stores as Neiman Marcus, Brooks Brothers, and Amen Wardys' womens store.

The project bottom line then becomes what is the right combination of unique retail and popular retail that will create a critical mass. This is a dynamic process that continues throughout the life of the project. As new retailers are discovered, they are added to the list of possible candidates, replacing those that have dropped off. The key is to understand the market from the shoppers perspective and then appeal to retailers to fill that need, so that what drew customers away from Fashion Square will draw them back to Main Place.

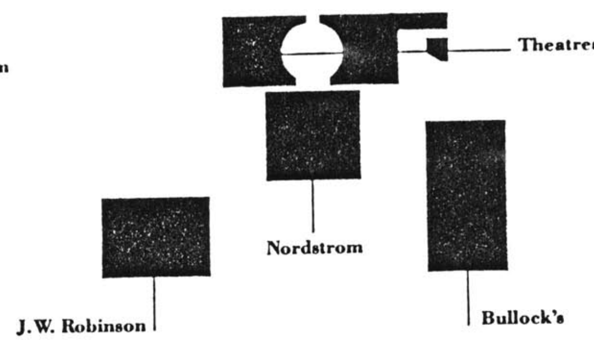
Main Place/Santa Ana

1ST FLOOR

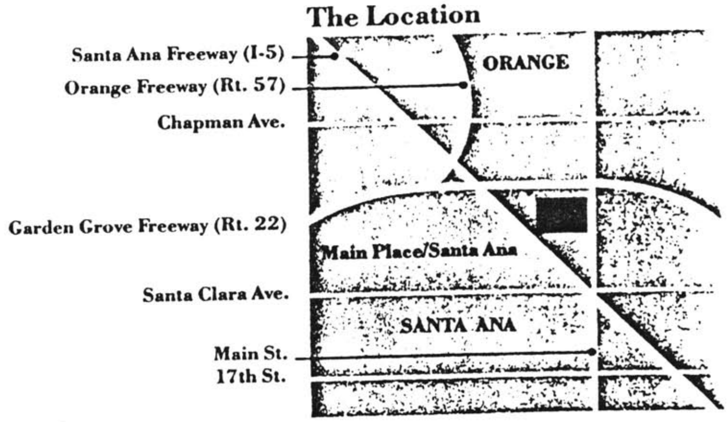
2ND FLOOR



3RD FLOOR



The Location



JMB/Federated Realty Associates, Ltd.
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FOOTNOTES

1. Michael Runzler, "Santa Ana Plans to Revamp Fashion Square", Orange County Register, March 1, 1984, p. B5.

2. Ibid, p. B5

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