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GOLDMAN FERGUSON PARTNERS

Corporate Realty Advisors

CONFIDENTIAL MEMORANDUM

TO: County of San Diego, Real Property Management

RE: Superior Courts Lease Acquisition

DATE: October 18, 1989

The County of San Diego selection process for nine Superior Court rooms was assigned to Goldman Ferguson Partners to assist the Department of General Services as of September 19, 1989. Prior to that date the selection process had narrowed the field to the two final buildings; El Cortez and Walker Scott. Therefore our analysis has only considered these two sites.

I. Economics:

Based on the final proposals of both buildings dated October 13, 1989 and one unsolicited revision from each building thereto the base economics are as follows:

Five Year Proposal

	El Cortez	Walker Scott
Effective Base Rent* (No tenant improvements)**	.89 NNN per mo. (County pays all expenses)	2.54 NNN per mo. (County pays all expenses)
GFP fee	.028	included
Total	.918 NNN	2.54 NNN

* Normalized flat base rent months 1-60
** County will pay for all tenant improvements beyond "shell."

Ten Year Proposal

	El Cortez	Walker Scott
Effective Base Rent (No tenant improvements)	1.01 NNN per mo.	1.45 NNN per mo.
Profit Participation*	-0-	[.16]
GFP fee	.028 60 mos.	included in base rent
Total	1.024 NNN	1.29

* Assuming a sale at end of third year at an 8% cap rate and profit to the County of $1,175,000.

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II. Economic Variance:

Based on the above economics, the total base rent economic variance, assuming 60,000 square feet is as follows:

Five Year:

The El Cortez project is approximately 5.8 million dollars less that than the Walker Scott project in base rent comparison.

Ten Year:

The El Cortez project is approximately 1.9 million dollars less that than the Walker Scott project in base rent comparison.

III. Other Important Considerations:

There are various other important variables in the selection process. The following is a summary of those points and how both projects differ.

Square Footage:

The El Cortez plans approved by the County call for the County to lease 71,000 rentable square feet as contrasted with the Walker Scott plans which call for 58,508 rentable square feet. However, El Cortez has represented that the County may choose to lower their square footage amount at the same economics.

Operating Expenses:

The El Cortez annual projection for triple net operating expenses is $5.78 compared to Walker Scott at $6.30. Both buildings will cap increases other than utilities at 5% annually. Both buildings also offer full protection against tax increases as a result of sale, although El Cortez has a unique proposal of paying the County the net present value of these increases that should be revised.

Tenant Improvements:

The El Cortez projection (which they claim is a firm bid) based on the September 18, 1989 plans and specs is $2,438,119 compared to Walker Scott's estimate at $3,080,000. This is a difference of $641,881. Both "bids" reflect prevailing wage pricing. El Cortez will amortize excess tenant improvements at 12.5% over the lease term. Walker Scott will amortize any excess at 10% over the term.

Our projections however assume that the County will fund the full cost of the tenant improvements from the City contribution of 3.1 million from the point at which the owner delivers the shell building.

Shell Contribution:

Both buildings have submitted a full clarification of items that are included in their cost in providing the County an asbestos free, fully sprinkled shell building. Both owners have agreed to fully bear this cost. The County Architect should approve this section of the proposals.

FF&E:

Both buildings have agreed to finance the cost of FF&E up to 2 million dollars and sell the FF&E to the County at lease conclusion for $1.00. El Cortez will finance this amount over 60 months at 12.5%. Walker Scott will finance over 120 months at approximately 20%.

We recommend however that the County fully investigate leasing the FF&E from another source due to the financial strength of the County.

Parking:

Both buildings will commit to parking. El Cortez can provide up to 386 reserved spaces at a monthly cost of $90.00 per space increasing not more than 5% annually. In addition, they agree to provide 12 judicial spaces at no cost for the term. Walker Scott can provide only 42 spaces at a monthly cost of $100.00 increasing not more than 5% annually.

Refurbishment:

Walker Scott has agreed, at their cost, to provide a $5.00 per RSF refurbishment allowance in the 61st month. El Cortez will provide $7.00 per RSF but this amount will be amortized at 12.5% in addition to the base rent.

Options:

To Renew: El Cortez will provide 1 five year option at fixed base rent increases capped at 5% over the existing base rent for either a five or ten year term.

Walker Scott will provide 2 five year options at fixed base rent increases capped at 3% for either a five or ten year term.

To Expand:

The El Cortez project has a total square footage of 77,685 RSF while Walker Scott can provide a total of 74,087 RSF. Both buildings agree to provide any space not taken initially as expansion space at the same rents as then are being paid under the existing lease.

Lease Cancellation:

El Cortez will provide a lease cancellation at any time after the 36th month of the term with the payment of all free rent and any unamortized tenant improvements, FF&E and leasing commissions. This also applies to a ten year term in the event the County has paid for all tenant improvements.

Walker Scott's cancellation provision is contained in their proposal but is basically so onerous to the County as to be not feasible.

Liquidated Damages:

Neither project has responded in a meaningful way to our request for significant liquidated damages in the event of non-performance. Both responses are contained in the proposals.

IV. Other Concerns:

Both projects require a significant amount of planning and development for the Superior Courts. Neither developer has been financially pre-qualified to perform a project of this magnitude and both have been very vague and non-responsive to written questions contained in items 16a-j of our letter regarding these issues. We have received no financial statements, no lender commitments, no evidence of ability to obtain a performance bond, and no significant evidence of either developer having completed projects of this magnitude. In the future we recommend that the County pre-qualify developers in a build to suit situation prior to selecting them as finalists.

Specifically regarding the El Cortez the concern is whether J. Mark Grosvenor has the authority to bind the new owners of the property, the Minami Group. Further to what extent the new ownership will embrace a building with criminal courts in the midst of a planned hotel/office/residential complex. Finally, the availability of the conditional use permit.

Regarding the Walker Scott building, the major concern is whether O Hill Partners, the proposed developer, can accomplish all the development hurdles contained in their proposal such as curb cuts, historical site board approvals, structural analysis, etc. within a realistic time frame.

Therefore both projects have significant contingencies that the County should be fully aware of prior to making any firm commitments to the Superior Courts.

V. Conclusion:

Based on the above information and analysis it is clear that economically the best alternative is the El Cortez project. The important criteria and savings are as follows:

1. Base Rent - 5.8 million over five years compared to Walker Scott.

   - 2.1 million over ten years compared to Walker Scott

2. Tenant Improvements - approximately $641,881 less when compared to Walker Scott.

3. Parking - 386 spaces in El Cortez versus 42 in Walker Scott.

4. Lease Cancellation - available after 36 months in El Cortez versus extremely limited in Walker Scott.

The best alternative of the two projects is for the County to proceed with El Cortez, on a five year lease because of the flexibility of the lease cancellation and the ability to renew for an additional five years at the same rates as under the ten year lease.