

THE EMLLEN W. HOAG FOUNDATION
9860 Larson Avenue
Garden Grove, California 92844

February 20, 2015

Mr. Allan L. Roeder
Interim City Manager
City Manager's Office
City of Garden Grove
11222 Acacia Parkway
Garden Grove, California 92840

Re: Property Owned by The Emlen W. Hoag Foundation ("**Hoag Foundation**") and Located at 10080 & 10180 Garden Grove Boulevard, Garden Grove, California (the "**Property**")

Dear Mr. Roeder:

Hoag Foundation appreciates the efforts of the City of Garden Grove in establishing the meeting among the representatives of the City, Hoag Foundation and Cathay Bank on February 13, 2015. Hoag Foundation believes the meeting was very productive and informative.

In the meeting you advised the City Council requested the status of the Property and the partially constructed improvements thereon be addressed at the City Council meeting on February 24, 2015. The City Council instructed City staff to advise as to the options of the City. The purpose of this letter is to provide the City with the input of Hoag Foundation.

I. ABOUT HOAG FOUNDATION.

Hoag Foundation is a charitable foundation that was formed in 1951 for the benefit of the children of Garden Grove. The Board of Trustees for Hoag Foundation administers the operations of Hoag Foundation. The Board of Trustees are volunteers and members of the community.

Hoag Foundation owns approximately 11 acres of property. The property consists of 2 parcels, a 3-acre parcel on Garden Grove Boulevard, which is referred to as the Property in this letter. Hoag Foundation also owns an 8-acre parcel to the south of the Property, upon which the Boys & Girls Club of Garden Grove ("**BGCGG**") main facility is located. In addition, the 8-acre parcel contains KiwanisLand, an approximate 5-acre park, and the Lions Club building.

II. HISTORY OF THE PROPERTY.

Historically, Hoag Foundation ground leased the Property and used the rent to support the BGCGG. In 2003, Hoag Foundation entered into a 99-year Ground Lease of the Property with Garden Grove Galleria ("**GGG**"). Pursuant to the Ground Lease, GGG was to construct a mixed-use high-end retail and luxury residential project on the Property. The retail component consisted of a 2-story shopping center containing a total of 125,983 square feet. The residential component consisted of 66 condominiums.

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In connection with the construction of the GGG project, GGG obtained a loan from Cathay Bank. In January 2010, Cathay Bank ceased funding the construction loan. When construction halted numerous lawsuits were filed and litigation ensued, which took approximately 4 years to resolve. Ultimately, GGG was awarded a judgment against Cathay Bank for approximately \$11,275,000. The GGG judgment is currently being appealed by Cathay Bank.

GGG maintains that it no longer has any leasehold or other interest in the Property and has "walked away" from the Property. Cathay Bank is endeavoring to locate a replacement developer to enter into a new ground lease with Hoag Foundation and complete the partially constructed improvements. Hoag Foundation is cooperating with Cathay Bank in connection with Cathay Bank's efforts to locate a replacement developer. However, Hoag Foundation has final approval over both any new ground lease of the Property and the proposed development.

III. OBJECTIVES OF HOAG FOUNDATION.

Hoag Foundation is willing to cooperate with both Cathay Bank and the City in an effort to have a project developed on the Property that benefits Hoag Foundation and the City on a long-term basis. Hoag Foundation recently disapproved a development proposal for the Property based upon concerns regarding whether parking would be sufficient and the resulting negative impact on the community.

Additionally, pursuant to the zoning requirements of the City, the developer was required to have a minimum of 40,000 square feet of commercial/retail space. Hoag Foundation had serious reservations as to whether the retail component would be successful due to, among other things, the fact that retail patrons would have to park in a parking garage.

Although the decision to disapprove the proposed project was difficult for the Board of Trustees, the Board concluded it was in the best long-term interest of both Hoag Foundation and the community for the project not to proceed. Hoag Foundation is aware the partially constructed improvements on the Property are an eyesore and detract from the community.

Hoag Foundation is also cognizant of the fact that the City issued a demolition Notice and Order on July 2, 2013. Pursuant to the Notice and Order, the partially constructed improvements were to be demolished by December 1, 2014. As the City is aware, both Hoag Foundation and Cathay Bank have requested a reasonable extension of the demolition deadline.

It is the position of Hoag Foundation, if a developer and development plan for the modification of the partially constructed improvements cannot be identified within a reasonable period of time, the improvements should be demolished. Hoag Foundation agrees with the strong sentiment and consensus in the City that either a project must move forward in an expeditious manner, or the partially constructed improvements should be demolished.

IV. CHALLENGES INVOLVING THE PROJECT.

In connection with Hoag Foundation's efforts to cooperate with Cathay Bank in locating a new developer, Hoag Foundation has met with various developer representatives. Additionally, Hoag Foundation has referred to Cathay Bank all developers and interested parties who have contacted Hoag Foundation.

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From the discussions with the various representatives of developers and interested parties, there are certain issues that have been identified, which constitute major hurdles to the completion of any project on the Property. As members of the community and in view of the significant cooperation of the City in the past, the Board of Trustees of Hoag Foundation believes it is appropriate to disclose to the City and its constituents issues of concern.

A. DESIGN CONSTRAINTS. One of the primary constraints faced by developers is how to adapt the existing improvements for a different development. The steel structure of the building has been erected, and the adjacent concrete parking garage is approximately 50% complete. As a result, it is difficult for any developer to adapt the existing improvements for a different use such as apartments and/or to add parking.

Hoag Foundation has also been advised the GGG project would not be constructed today. This is because land values in Garden Grove are not sufficiently high to justify the construction of a steel high-rise, mixed-use development building. Also, there is not sufficient demand for retail space, especially in a high-rise building with a parking garage, to support retail uses.

For example, Lennar Homes' A-Town project in the Platinum Triangle in the City of Anaheim was to contain 11 high-rises, including 2 mixed-use, residential and retail 35-story towers. Lennar Homes is in the process of significantly revising the A-Town development plan with the tallest buildings being 6-story residential. Furthermore, the office and retail components are to be significantly reduced.

Several other developers of projects in the Platinum Triangle have modified their development plans to remove or significantly reduce any office and/or retail component. It appears residential housing is in demand and the most expanding segment of the Orange County real estate market as compared to office and/or retail uses.

B. ZONING ISSUES. The overall consensus of the development community and the architectural consultant engaged by Hoag Foundation is that it will be extremely challenging for retail uses to be successful on the Property as part of a mixed-use development. This is because consumers in Orange County have consistently demonstrated an aversion to patronizing retail establishment where the consumer must park in a parking garage.

Examples of the foregoing are the Triangle Square project in Costa Mesa and the Kaleidoscope project in Mission Viejo. Upon opening, Triangle Square had many nationally-recognized retail tenants as well as a grocery store. Ultimately, all of the initial tenants ceased operations due to the fact that there was not sufficient patronage. The foregoing appears to be primarily attributable to the fact that consumers had to park in a parking garage.

As noted above, pursuant to the zoning ordinance of the City, the minimum required retail space is 40,000 square feet. Although the first floor could be developed with 40,000 square feet of retail, this would force consumers to park on the second floor or above, which is less than ideal. If the 40,000 square feet of retail is divided between the first and second floors, Hoag Foundation has been advised it is questionable whether either or both the first and second floor retail space would be successful.

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Hoag Foundation respectfully submits that the City might consider revisiting the mixed-use zoning ordinance of the City. This is because numerous developers have advised Hoag Foundation that retail space in the project will not be successful. Hoag Foundation believes that vacant retail space in the project would substantially detract from any residential component and be counterproductive to the intent of mixed-use zoning and the revitalization of Garden Grove Boulevard.

An Orange County residential apartment developer has advised Hoag Foundation it would be interested in adapting the partially constructed improvements for apartments, provided there is no requirement to construct retail/commercial space. However, even if the City approved the adaptation of the partially constructed improvements for apartments only, there are other challenges that would have to be overcome, including parking and access issues.

Perhaps, a Commercial Market Analysis should be performed in an effort to ascertain the viability of any commercial/retail space in the project. It is the understanding of Hoag Foundation that, in connection with developers' requests for the modification of existing entitlements involving a reduction of the required retail/commercial space, other Orange County cities have required a Commercial Market Analysis to be performed.

C. CONSTRUCTION ISSUES. Several developers have advised Hoag Foundation it may be a challenge for a developer to locate a construction company and structural engineer who are willing to certify the construction of the improvements on the Property. This is because of the uncertainty created by the cessation of construction and/or as a result of having to adapt the partially constructed improvements. Additionally, the general contractor and structural engineer for GGG are no longer in business.

All of the entitlements and building permits for the GGG project have terminated. Thus, it will be necessary to obtain new entitlements and building permits for any proposed project. Additionally, all of the plans and specifications will have to be updated, as the Uniform Building Code has changed since the GGG project was initially approved.

Although there may have been millions of dollars spent on the partially constructed improvements, they may have no value (or a negative value, if the cost to demolish is more than the scrap value), unless a developer can adapt the improvements for a use that is acceptable to the City and Hoag Foundation. Additionally, any developer must ascertain whether the cost to complete construction of the improvements versus the ultimate value of and the projected return from the project upon completion will make economic sense.

V. REQUESTS/RECOMMENDATIONS OF HOAG FOUNDATION.

In the February 13 meeting with the City, Cathay Bank's representatives requested the City to grant an extension of the December 1, 2014 demolition Notice and Order deadline to December 31, 2015. Cathay Bank requested the extension to provide time for Cathay Bank to identify a developer and development plan that is acceptable to the City and Hoag Foundation.

You responded the City may be willing to agree to a reasonable extension of the demolition Notice and Order deadline. However, you noted, as a condition to any extension of the demolition Notice and Order deadline, the City may require Cathay Bank to enter into a written agreement with the City.

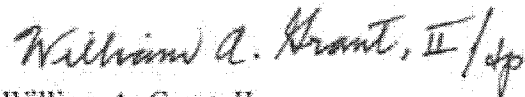
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You suggested that in consideration for the City agreeing to an extension of the demolition Notice and Order deadline, Cathay Bank agree in writing to reasonable milestones and/or conditions that must be satisfied by a specified date. If the milestones and/or conditions are not satisfied by the date specified, Cathay Bank would consent and agree to the demolition of the partially constructed improvements. Furthermore, Cathay Bank would be required to post a bond with the City for the estimated demolition cost.

Hoag Foundation is completely supportive of your suggestion. Although Hoag Foundation is willing to cooperate with Cathay Bank, Hoag Foundation believes there must be a date by which either the project proceeds, or the partially completed improvements are demolished. Furthermore, in connection with any extension of the demolition deadline, Hoag Foundation is willing to enter into a written agreement with the City and Cathay Bank consenting to the demolition of the partially constructed improvements, if the benchmarks are not achieved.

Hoag Foundation's representatives will be present at the City Council meeting on February 24, 2015, to answer any questions and provide any additional information requested by the City. Hoag Foundation appreciates the City's consideration of this letter.

Very truly yours,



William A. Grant, II
President
The Emlen W. Hoag Foundation

cc: Hoag Foundation Board of Trustees (via email)
Ms. Pat Halberstandt, The Boys & Girls Club of Garden Grove (via email)
William B. Brinckloe, Jr., Esq. (via email)
Ms. Erin Webb (via email)
Thomas F. Nixon, Esq. (via email)
James H. Eggart, Esq. (via email)
Mr. Heng W. Chen, Cathay Bank (via email)
Lisa L. Kim, Esq., Cathay Bank (via email)