



March 18, 2022

Lisa Kim
Assistant City Manager
City of Garden Grove
11222 Acacia Parkway
Garden Grove, CA 92840

RE: Updated Offer - Sale/Lease of the property located at 3017 W. 5th Street, Santa Ana, CA 92703 (the "Site") per the Surplus Land Act

Dear Lisa:

Thank you for meeting with the Willowick Community Partners ("WCP") team yesterday. We found the discussion to be very productive. As you know, WCP previously offered to acquire the Site for \$100,000,000 (which is \$10,000,000 greater than the City's appraisal of \$90,000,000) and we offered 3 acquisition scenarios (all cash, 45-year note, and 99-year ground lease). In our experience public agencies prefer to minimize risk and therefore we assumed our initial approach was best suited for this transaction.

However, based on yesterday's meeting it's now clear that the City of Garden Grove (the "City") would prefer to take on more risk to obtain greater financial return. Therefore, WCP is providing an additional offer scenario as follows:

New Ground Lease Offer Scenario:

- 99-year ground lease.
- Initial Deposit in the amount of \$2,000,000, also known as the "Initial Base Rent Payment."
- The Master Development Plan Deadline is the date 3 years after the Commencement Date.
- WCP shall be responsible for the entitlement/infrastructure process and all related Project Costs to entitle the Site.
- Projects Costs will include Affiliate Fees and Cost Recoveries as follows:
 - Entitlement Fee is \$750,000 per year,
 - Construction Management Fee is 1.5% of all on and off-site hard infrastructure and horizontal improvements costs, not to exceed \$50,000 per month, and
 - Development Fee is 3% of total Project hard and soft costs not to exceed \$100,000 per month.
- Once the Site generates revenue from land sales and/or ground lease payments, WCP will be reimbursed for all Projects Costs along with a 12.5% Preferred Return.

- Upon Entitlements it can reasonably be assumed the value of the Site to be approximately \$3,000,000 per gross acre or \$68.00 per gross square foot. This shall be considered the Market Value and will establish the disposition prices for parcel sales and land value for ground leases.
- The portions of the Site that are not parcel sales shall remain on the ground lease and shall generate a Fair Market Value Rent which shall be equal to 4.5% for the initial year with annual escalations thereafter at the lesser of CPI or 2%.
- Upon receipt of Entitlements the Site shall be monetized as follows:
 - a 30-acre Parcel Sale will occur at \$68.00 per gross square foot, generating \$88.8M,
 - The remaining portion of the Site not used for affordable housing and/or public open space will be ground leased beginning in the 4th year at the Fair Market Value Rent (4.5%) of the Market Value (\$68.00 per gross square feet). This will generate ground rent payments for 99 years.
- Net cash flow shall be distributed as follows:
 - City's Percentage of Net Proceeds (parcel sales and ground rents) is 87.5%.
 - WCP's Percentage of Net Proceeds (parcel sales and ground rents) is 12.5%.

As you can see, we have replicated the terms and conditions of the McWhinney offer except we are charging a cheaper Preferred Return (12.5% instead of 15%) and we are providing a greater share of the Net Proceeds to the City (87.5% instead of 85%). These adjustments will provide considerable monetary value to the City.

We understand that McWhinney was a tremendous partner for the City with the Great Wolf Lodge project, and they should be commended for the revenue that has been generated on behalf of the residents of Garden Grove. However, Willowick is a much different project and requires a development team that has been specifically crafted for this opportunity. WCP is the right team for this moment, and we are best positioned help the City to achieve its financial goals and to partner with the local community to transform the Site into a transit village that will include critically needed housing (including homes restricted to low- and moderate-income households), open-space, cultural facilities, and other complementary uses.

WCP is committed to negotiating in good faith and will consider any reasonable counter proposals offered by the City. Please let us know if you have any questions regarding our revised offer. We look forward to working with you and your team on the next steps towards a binding transaction agreement.

Sincerely,

WILLOWICK COMMUNITY PARTNERS, LLC



Ryan D. Aeh
Senior Vice President, Land Acquisition
City Ventures