

CITY COUNCIL

For City Clerk's Use:

☐ **APPROVED** ☐ **DENIED**

Reso No. _____ File No. _____

Ord No. _____

Agenda Item No.: 11

Date: January 11, 2012

TO: Honorable Mayor and Members of the City Council

FROM: Jeffrey R. Epp, City Attorney

SUBJECT: Extension of Westfield Shopping Center Ground Lease

RECOMMENDATION:

Introduction and first reading of Ordinance 2012-02 authorizing the Mayor and City Clerk to execute a Lease Amendment and related documents to provide an option to extend the ground lease for the Westfield Shopping Center for an additional fifteen (15) years.

INTRODUCTION:

Westfield has proposed a renovation project for North County Fair involving the renovation and re-leasing of the May tract (former Robinsons-May South) as a new, three-story Target store; improvements to the mall common areas and entrances; re-surfacing of the parking lot; new restaurants; and a remodel of the food court. The total value assigned by Westfield to the project, including acquisition costs of the May tract, is approximately \$55.8 million. The proposal also includes an increase in the fixed and percentage rent payable to the City. Project completion is expected by December 2012. Upon successful project completion, Westfield requests that the City extend the Ground Lease term for an additional fifteen (15) years. The lease extension will enable Westfield to receive a return on certain past and future acquisition, financing, management and renovation costs. The primary ground lease would be modified to allow Westfield to offset percentage rent on an ongoing basis to account for "allowances" they provide to induce certain tenants to locate in the mall, and to add provisions that will benefit the City's position in the lease such as a requirement for periodic reinvestment and upgrades to the Center.

BACKGROUND / HISTORY:

Escondido's Westfield shopping center is located on approximately 83 acres at the south end of the City. The City of Escondido owns 75.11 acres and the May Tract of 7.58 acres is under separate ownership. It was originally developed by Ernest Hahn in the mid-1980's on land owned primarily by the City of Escondido. Significant issues at the time of development included environmental impacts on the surrounding park and Lake Hodges, bordering relationships with the City of San Diego, the potential impact of a shopping center on Escondido's downtown and East Valley Parkway areas, and potential surrounding development. However, the economic advantages to a major shopping center

resulted in the ultimate construction of a mall consisting of approximately 1.2 million square feet, including a combination of major department stores and smaller shops.

The ground lease from the City to the Developer (Hahn) was for a term of 55 years, the maximum permitted under state law at that time. The ground lease provided for a combination of fixed rent and percentage rent. The fixed rent is set at \$698,000 and remains the same throughout the lease term; the percentage rent is calculated on the basis of a formula which uses a base rent and revenues from the shopping center. Over the last ten years, the City has received an average of \$573,408 in percentage rent each year. In addition to fixed and percentage rent, the City receives sales tax from the stores at the shopping center. For the past five years the City has received an average of \$2,672,000 annually in sales tax revenue. The legal structure and the term of the lease were generally designed to favor the developer/ground lessee as an inducement for the center to be developed and opened.¹

The six major department stores at the time the mall opened in 1985 included Sears, J.C. Penney, Nordstrom, Robinsons, Broadway, and May Company. These stores were not part of the mall ground lease, but were on their own parcels, leased directly from the City of Escondido. The sole exception was the May Company, which owned the parcel on which their store was situated, and therefore, there is no lease arrangement in place for the May parcel. The term of each department store ground lease is similar to the primary ground lease, i.e., 55 years. Cooperation between the department stores and the shopping center is assured through a Reciprocal Access Agreement.

The department stores were seen as "anchors" for the shopping center, and thus desirable tenants. Thus, rents for the department stores were set very low to induce these stores to locate in the mall. With the exception of J.C. Penney, rents for each department store lease are fixed at \$98,000 per year. J.C. Penney pays virtually no rent at \$10.00 per year. However, all department stores provide significant sales tax revenues to the City and have "anchored" the shopping center since its opening.

There has been significant consolidation in the department store market sector since the shopping center was first developed. Sears, J.C. Penney, and Nordstrom remain. However, May Company consolidated with Robinsons, resulting in two anchors being owned by a single company. The Broadway was then acquired by Macy's. Federated Department Stores, which owns Macy's, subsequently acquired Robinsons-May. Thus, of the original six independent anchors at the shopping center in 1985, there are now four department store ownerships at the shopping center: Sears, J.C. Penney, Nordstrom, and Macy's. As discussed later in this report, this has also resulted in the unusual situation that Macy's operates a department store on a parcel it ground leases from the City (Broadway tract), and yet owns the empty parcel which was the original May Company department store (May tract).

¹ Note: The rent amounts set forth in this paragraph do not include fixed rent received by the City from each of the department stores.

THE CURRENT PROPOSAL:

The renovation project, parcel trade, and lease extension which are proposed by Westfield are also recommended by staff because they have been negotiated and modified for quite some time, with regular updates and policy direction involving the City Council in closed session discussions. Certain future items are planned, but because of legal and procedural requirements, are not guaranteed, are not part of the current project description, and must follow a specific process before they can actually occur. The future items are described later for informational purposes only. Each of the three aspects of the immediate project is discussed below.

- A. The Renovation Project. As noted elsewhere, the renovation will actually involve a number of components including the new Target store, the upgrades involving the parcel trade (discussed below) and may include other items as discussions with individual department stores progress. However, the immediate level of upgrade pledged by Westfield as part of the current project includes remodels to the mall common space, the exterior mall entries, and the food court area. In addition, the City Council requested, and Westfield agreed, to upgrade and resurface the entire parking lot of the shopping center over a two year period coinciding with construction activities.

The mall common space remodel includes items such as new floor finishes, interior paint and lighting schemes, new handrails, signage and a new children's play area, as well as new amenities such as planter pots, furniture, etc. The exterior mall entry remodel involves new signage, paint, lighting, material accents, exterior landscaping and enhanced entry paving. The food court remodel will consist of new floor, paint and lighting, new restrooms, new furniture amenities, re-leasing of food court operators upon existing lease expirations, expanded seating areas, and a remodeled outdoor patio dining area.

Westfield will be responsible for obtaining all of the Reciprocal Easement Agreement and final Department Store approvals, as well as an executed lease with Target necessary for the development and construction of the Renovation Project.

- B. The Parcel Trade. Westfield will arrange to trade the Broadway tract (which the City owns) for the May tract (which Federated owns). This enables Macy's to continue operating on top of land they will then own. It takes land Macy's owns now, and transfers it to the City, with leasehold interests to Westfield, who will then lease it for development and use as a Target store.

Keyser Marston Associates, Inc. conducted a detailed analysis of the economics associated with the proposed parcel trade and concluded that during the existence of the current leaseholds, differences in value and usability of the two parcels are insignificant. However, the City's parcel (Broadway tract) is approximately 8.2 acres and the May tract is 7.58 acres.

Using an assumed current land value of \$15 per square foot, escalated over the remaining term of the lease, and then reduced to its present value today, results in an economic advantage to Westfield of approximately \$100,000. Westfield has agreed to reimburse the City in this amount upon close of escrow for the transfer.

In sum, Westfield will pay the City \$100,000 for the difference in the reversionary value at ground lease expiration of the City's parcel (Broadway tract) relative to the May tract. In all other respects, it will be a straight trade. Westfield has already spent \$11.1 million to acquire the building/remaining leasehold on the Broadway tract.

- C. The Lease Extension. The ground lease was authorized by Resolution 81-13 and executed on February 2, 1981. The term is set at 55 years, however, the commencement date of the term was conditioned on completion and opening. The lease was amended three times (authorized by Resolutions 82-86, 86-37 and 86-300) to amend language providing for the commencement of the term. When all was said and done, however, the 55 year lease term commenced on July 1, 1983, expires on June 30, 2038. The current proposal provides an option to extend this term by an additional 15 years, subject to certain conditions and modifications, such that the ground lease will expire on June 30, 2053.

California Civil Code Section 719 and California Government Code Section 37380 generally provide that the maximum term for which a public entity may lease land for commercial purposes is 55 years. Despite careful research, both legal counsel for the City and Westfield have been unable to locate definitive guidance in California law on whether an extension of a lease which goes beyond the original 55 year term is subject to these Code sections. Some case authority from other states indicates an extension may not be subject to these types of requirements. However, in the interest of transparency and in an abundance of caution, staff and Westfield prepared the necessary public notices and the lease amendment has been drafted to comply with the requirements of these sections to the extent practicable. The proposed lease amendment calls for a periodic review to take into consideration the current market conditions, and is adopted by ordinance, following a public hearing. Although the statutes provide for a competitive bid process, such a process could not be effective given that any additional proposals would have to be subject to the existing ground lease which does not expire until 2038. Nonetheless, the notices for this public hearing did provide that opportunity to submit proposals was available. As of the distribution of the agenda packet, no correspondence has been received.

Since the legal arrangement provides for the renovation project (described in the previous section) to be completed prior to the lease extension being granted, the most significant aspect of the lease extension (in addition to the term) is the provision for increased ground rent to the City.

On the second anniversary after Westfield completes the renovation, the City's fixed rent will increase by \$150,000 (from \$1,090,000 to \$1,240,000.) [Note: The \$1,090,000 is a "total" fixed rent figure which consists of \$698,000, plus \$98,000 each for the Robinsons-May North (also referred to as Adcor) tract and the Broadway tract (existing Macy's) paid by Westfield, plus \$196,000 from the Sears and Nordstrom tracts.] On the third anniversary after Westfield completes construction, the fixed rent will increase another \$150,000 (from \$1,240,000 to \$1,390,000.) On the fourth anniversary after they complete construction, the \$300,000 portion of the increased fixed rent will itself increase by 2.5% or CPI, whichever is less. This 2.5% or CPI increase on the \$300,000 will continue each year for the remainder of the lease term.

Additionally, after 2038, the base rent of \$698,000 plus the \$98,000 for Robinsons-May North (Adcor) tract and the \$98,000 for the May tract will also be subject to the 2.5% or CPI increase formula as well.

Although relatively minor compared to the overall renovation project, the term, and the increase in rent, the proposed lease amendment contains other items which were important to both the City and Westfield. The lease amendment contains a provision to offset percentage rent on an ongoing basis to account for "allowances" Westfield provides to induce certain tenants to locate in the mall. Of importance to the City, the lease amendment also contains provisions requiring Westfield to conduct periodic upgrades to the center to avoid long term deterioration in the condition of the center.

DEPARTMENT STORE LEASES:

As noted earlier, five of the six department store parcels have separate leasing arrangements. However, the ground lease requires the "comparable" terms to the major department stores. The specific language of the ground lease states:

Notwithstanding the foregoing, if the term of the Developer Lease is extended beyond June 30, 2041 or if Lessor and Developer enter into a new lease for a period extending beyond June 30, 2041, Lessor agrees to offer a lease extension or new lease to Lessee on terms and conditions at least comparable to the terms and conditions of such agreement between Lessor and Developer. Lessor agrees to notify Lessee in advance of any proposed negotiations to extend the term of the Developer Lease beyond June 30, 2041, or to enter into a new lease for such period, and Lessee shall have the right to participate in such negotiations.

On the City's behalf, Westfield has complied with the notice provisions above by not only notifying, but having preliminary discussions with the major department stores. Discussions with Macy's are the most advanced because the original Broadway parcel and the original May parcel are part of the "parcel swap" provided by the current project. The leasehold for the original Robinsons tract has been acquired by Westfield and has been re-leased (that parcel is currently occupied by H & M, Forever

21, and North County Tavern and Bowl). Westfield has held preliminary discussions with Sears, J.C. Penney and Nordstrom. All department stores will naturally favor any proposal to upgrade the shopping center. Ongoing negotiations may include rent adjustments, store upgrades, operating covenants, and other items that will be mutually beneficial to the individual store, the City, and Westfield. Individual department store leasing issues will be presented to the Council at future dates as they unfold.

FUTURE LAND USE PLANS:

As noted earlier, the current project does not include various land use items. Westfield North County Fair lies within the City's Planned Development (P-D) zone. For property within the P-D zone, the City Council has the authority to hold a publicly noticed hearing to consider modifications to a master development plan pursuant to Escondido Municipal Code section 33-412. The City Council's approval is discretionary and shall be by ordinance. Compliance with the California Environmental Quality Act will be required for proposed changes, especially those to certain signage and parking.

However, it should be noted that Westfield also proposes to modify Master and Precise Development plans add retail square footage – addition of approximately 2,500 square feet:

- Demolish restaurant pad (Onami) on the north side of the site.
- Add new restaurant pad on the east side of the site.
- Add square footage to square off entrances to Rob-May north and adjacent retail building
- Add new retail space at the upper entry level between Macy's and vacant Rob-May South.

Master and Precise Development Plans will be modified to add permitted uses and temporary uses, and to amend the Sign Program to allow additional on and off premises signage (which may include up to 1,550 square feet of sign area in multiple locations on the exterior of the mall building, and a new pylon sign along the freeway up to 110 feet high (to provide visibility from both directions on the freeway) with up to 3,000 square feet of sign area, including an LED display. Westfield is also expected to ask that Master and Precise plans be amended to provide for a parking ratio of one space per 250 square feet or (4: 1,000) for all uses on the site consistent with the City's Zoning Code Section 33-765 parking ratio for general retail uses.

FINANCIAL ANALYSIS:

The City requested that Keyser Marston Associates, Inc. (KMA) undertake a financial analysis of the proposed lease amendment. Specifically, KMA prepared cash flow projections for the period 2011-2053, inclusive of the proposed 15-year term extension. The objective of these cash flow projections was to measure the economic return to Westfield, and the present value of ground rent and sales tax to the City, resulting from the proposed lease amendment. The full KMA report is attached to this staff report.

It is the KMA conclusion that the proposed lease term extension enables Westfield to undertake new investment in the form of a proposed mall renovation project. Even with the lease term extension, KMA concludes that the projected economic return to Westfield falls short of industry targets for this type of investment. However, if Westfield were to undertake the proposed renovation without a term extension, their economic return would be even lower, thereby rendering the investment infeasible. This portion of the KMA analysis validates the City's decisions regarding the grant of the lease extension for the period requested as being a necessary and appropriate use of a City resource.

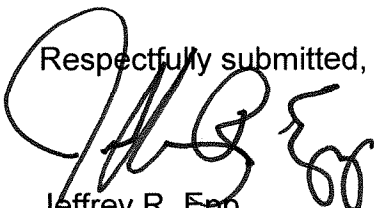
The proposed lease amendment will generate economic benefits to the City in the form of ground rent and sales tax. KMA estimates the present value of ground rent to the City for the period 2011-2053 to total \$29.0 million. In addition, fee title to the City's property will revert to the City in 2054. KMA estimates the present value of this future reversion value to be approximately \$2.9 million. In sum, KMA estimates the total value of the City's real property interest at the Westfield North County Shopping Center to be approximately \$31.9 million. KMA projected retail sales performance and sales tax generation for the mall for the period 2011-2053. KMA estimates the total present value of sales tax revenues to the City through 2053 to be approximately \$49.3 million. In sum, under the proposed lease amendment, the City has the potential to realize a total economic benefit of \$81.2 million in present value terms, as summarized below.

Present Value of 2011-2053 Ground Rent and 2054 Reversion	\$31,900,000
Present Value of Sales Tax to City, 2011-2053	\$49,283,000
Total Present Value of Economic Benefit to City	\$81,183,000

CONCLUSION:

For all the foregoing reasons, staff recommends Council adopt Ordinance 2012-02.

Respectfully submitted,


Jeffrey R. Epp
City Attorney



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Jeffrey R. Epp, City Attorney
City of Escondido

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From: KEYSER MARSTON ASSOCIATES, INC.

Date: January 5, 2012

Subject: Financial Analysis of Proposed Lease Agreement
Westfield North County Shopping Center

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I. INTRODUCTION

SAN DIEGO
GERALD M. TRIMBLE
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A. Background

The City of Escondido (City) currently ground leases portions of the Westfield North County Shopping Center site to Westfield and the respective department stores. The City and Westfield are considering a potential amendment to the existing ground lease to provide for a renovation project, a term extension, and other modifications. The following key provisions are included in the proposed lease amendment:

- The City and Westfield will exchange ownership interests in the existing Macy's (Broadway Tract) and former Robinsons-May South (May Tract) parcels.
- Westfield will renovate the mall common area, entrances, parking lots, and food court; complete the re-tenanting of the former Robinsons-May North department store building; and cause Target to develop and open a store in the former Robinsons-May South department store building.
- Westfield will increase its annual fixed rent payment to the City, and also agrees to future annual adjustments in fixed rent.

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- The City and Westfield will enter into a 15-year lease term extension, i.e., from 2038 to 2053.

B. Objective

The City requested that Keyser Marston Associates, Inc. (KMA) undertake a financial analysis of the proposed lease amendment. Specifically, KMA prepared cash flow projections for the period 2011-2053, inclusive of the proposed 15-year term extension. Based on these projections, KMA estimated the economic return to Westfield and the present value of ground rent and sales tax to the City.

In completing this assignment, KMA undertook the following work tasks:

1. Reviewed data on recent historic rental income and ground rent payments for the mall.
2. Reviewed Westfield's projections of future rental income, ground rent payments, and sales tax under multiple scenarios, i.e., with and without a lease term extension and renovation project.
3. Evaluated market data on land and building values, capitalization rates, discount rates, and escalation rates.
4. Prepared independent financial models projecting discounted cash flows to Westfield and the City for each scenario.

C. Report Organization

This memorandum report has been organized as follows:

- Following this introduction, Section II presents KMA's key findings.
- Section III summarizes the key provisions of the proposed lease amendment.
- Section IV presents an overview of the KMA method of analysis.
- Section V details limiting conditions pertaining to the KMA analysis.

KMA's detailed cash flow projections are attached to this memorandum.

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II. KEY FINDINGS

A. Economic Return to Westfield

The proposed lease term extension enables Westfield to undertake new investment in a mall renovation project. The projected economic return to Westfield falls short of industry targets for this type of investment. However, if Westfield were to undertake the proposed renovation without a term extension, their economic return would be even lower, thereby rendering the investment infeasible.

Westfield Investment

According to the Westfield Group Annual Report 2010, the appraised value of the Westfield North County Shopping Center was \$226 million. However, this valuation was based on an assumed long-term lease or fee simple interest. Given that there are only 27 years remaining on the ground lease, KMA believes that a downward adjustment to reflect the value of Westfield's leasehold position is appropriate. KMA has assumed that the value of Westfield's leasehold position is approximately 15% lower than the appraised value based on a long-term lease or fee simple interest, or say \$192.1 million. This figure is used throughout the KMA analysis as an estimate of Westfield's current basis in the Westfield North County Shopping Center property.

With the City's approval of the lease term extension, Westfield proposes to undertake a renovation in 2012, including:

- mall common space remodel
- exterior mall entry remodel
- food court remodel
- improvements to the parking lots and landscaping, including demolition and re-use of the existing duck pond area on the north side of the mall
- completion of the re-tenanting of the Robinsons-May North (also referred to as Adcor) department store

Westfield's total estimated renovation budget, including acquisition of the existing Macy's department store leasehold (Broadway Tract), is estimated to be \$55.8 million. In addition, Target separately proposes to develop a new store on the May Tract (former Robinsons-May South).

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Westfield Economic Return

In KMA's view, the industry standard threshold return for this type of investment is a minimum of 10.0%. Westfield has indicated that they believe a return as high as 12.0% is appropriate.

KMA prepared projections of Westfield rental income for the period 2011-2053 from existing, upgraded, and new subtenants, including a new Target store. KMA estimates the present value of future cash flow to Westfield to total \$234.4 million over 2011-2053, assuming a 10.0% discount rate. In other words, using a target return of 10.0%, KMA concludes that the present value of future cash flow to Westfield is less than their total investment through 2012 of \$247.9 million.

KMA also measured the Internal Rate of Return (IRR) to Westfield by comparing future cash flows to their total investment through 2012. KMA estimates an unleveraged IRR to Westfield of 9.1%. This outcome is approximately 1.0% lower than the KMA estimate of the industry target at 10.0% and 3.0% lower than the Westfield target of 12.0%.

Westfield Investment and Return	
Investment through 2010	\$192,100,000
Proposed Investment in 2012	<u>\$55,800,000</u>
Total Investment by Westfield	\$247,900,000
Unleveraged IRR, 2011-2053	9.1%
Industry Standard Minimum Target IRR	10.0%
Present Value of Cash Flow to Westfield, 2011-2053 (assuming 10.0% discount rate)	\$234,350,000

B. Ground Rent and Sales Tax to City

Ground Rent to City

During the period 2011-2053, the City will receive ground rent in various forms:

- Fixed rent from Westfield of \$698,000 per year, with annual escalation starting 2039
- Additional fixed rent from Westfield of \$300,000 per year, with annual escalation starting in the fourth year after completion of the renovation project
- Ground rent from Westfield for the Robinsons-May North (Adcor) and May Tract (future Target) leaseholds

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- Percentage rent on mall stores from Westfield
- Ground rent from Sears, Nordstrom, and JC Penney

KMA estimates the present value of ground rent to the City for the period 2011-2053 to total \$28.9 million. In addition, fee title to the City's property will revert to the City in 2054. KMA estimates the present value of this future reversion value to be approximately \$2.9 million.

In total, under the proposed lease amendment, KMA estimates the total value of the City's real property interest at the Westfield North County Shopping Center to be approximately \$31.9 million (the sum of \$29.0 million in present value of ground rent and \$2.9 million in present value of future reversion).

Present Value of Ground Rent to City, 2011-2053	
Fixed Rent	\$9,215,000
Additional Fixed Rent	\$3,896,000
Robinsons-May North (Adcor) and May Tract Rent	\$2,588,000
Percentage Rent	<u>\$10,697,000</u>
Present Value of Rent Payments from Westfield	\$26,396,000
Add: Present Value of Rent Payments from Department Stores	<u>\$2,551,000</u>
Subtotal, Present Value of Ground Rent to City, 2011-2053	\$28,947,000
Add: Present Value of Future Reversion at 2054	<u>\$2,904,000</u>
Total Present Value of Ground Rent and Future Reversion to City	\$31,851,000

Sales Tax to City

In addition, the City will continue to receive sales tax revenues from the Westfield North County Shopping Center. KMA prepared a sales tax projection for the period 2011-2053 to estimate future sales tax revenues to the City. This revenue stream has been discounted at a 10.0% rate, reflecting the potential variability in future market performance. On this basis, then, KMA concludes that the present value of sales tax to the City during 2011-2053 totals approximately \$49.3 million.

Total Economic Benefit to City

In sum, under the proposed lease amendment, the City has the potential to realize a total economic benefit of \$81.1 million (present value terms).

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Economic Benefit to City	
Present Value of 2011-2053 Ground Rent and 2054 Reversion	\$31,851,000
Present Value of Sales Tax to City, 2011-2053	<u>\$49,283,000</u>
Total Present Value of Economic Benefit to City	\$81,134,000

III. PROPOSED LEASE AMENDMENT

The proposed lease amendment between the City and Westfield includes the following key business terms:

Lease Extension

The ground lease term will be extended from its current expiration date of June 30, 2038 by 15 years to June 30, 2053.

Parcel Trade

The City will trade the Broadway Tract (which it owns) for the May Tract (which Federated Department Stores, Inc. owns). Specifically, the City will exchange its leased fee position under the existing Macy's store (Broadway Tract) for a similar position on the existing Federated fee simple parcel formerly occupied by the Robinsons-May South department store (May Tract). Federated will take fee title to, and continue to operate its Macy's store on, the Broadway Tract, while Westfield will sublease the May Tract to Target for adaptive re-use as a new Target store. Westfield will pay the City \$100,000 for the difference in value between the two parcels.

In a report dated June 29, 2011, KMA separately analyzed the proposed parcel exchange and concluded that the parcels were essentially of comparable condition and value even though the May Tract is slightly smaller than the Broadway Tract. KMA prepared an estimate of this value differential at the currently anticipated reversion of Broadway Tract leasehold in 2041 (prior to implementation of the lease term extension). On this basis, KMA concluded that the present value of the value differential between the two parcels is approximately \$100,000.

New Target Store

Westfield will sublease the May Tract to Target, which will adaptively re-use the existing building as a new Target store.

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Renovation Project

Westfield will complete a mall renovation project consisting of:

- mall common space remodel
- exterior mall entry remodel
- food court remodel
- improvements to the parking lots and landscaping
- demolition and re-use of the existing duck pond area on the north side of the mall and reconstruction of the Robinsons-May North building façade and entry
- completion of the re-tenanting of the Robinsons-May North building

Westfield agrees to a minimum capital budget expenditure for this renovation of \$48.7 million. This budget includes costs such as acquisition of the existing Macy's department store (Broadway Tract) leasehold, predevelopment costs, hard construction costs, and soft costs. Westfield has already separately earmarked \$7.1 million to fund the duck pond conversion and reconstruction of the Robinsons-May North building façade and entry. Taken together, these two budgets represent a total investment by Westfield in the mall of \$55.8 million.

Fixed Rent Increase

Westfield will increase its annual fixed rent payment to the City by \$300,000. This increase will occur in two installments, on the second and third anniversaries after completion of the renovation project.

Commencing with the fourth anniversary, the \$300,000 increase in fixed rent will itself increase annually by 2.5% or CPI, whichever is less.

Commencing in July 2038 (start of the lease extension period), the \$698,000 portion of the fixed rent will also increase annually by 2.5% or CPI, whichever is less.

Percentage Rent Offset by Tenant Allowances

The City will agree to allow Westfield to offset percentage rent payable to the City on an ongoing basis to account for tenant improvement allowances that Westfield provides to induce certain subtenants to locate in the mall. For the purposes of the percentage rent calculation, Westfield may exclude the portion of subtenant rental income that is attributable to the amortization of such allowances.

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Department Store Leases

Under the terms of the existing ground leases governing the Westfield North County Shopping Center, if the City grants a lease extension to Westfield, it is required to offer comparable terms and conditions to the department store leaseholders. The City and Westfield have provided required notices to the Sears, J.C. Penney, and Nordstrom, and discussions regarding options for lease extensions are expected to ensue. At this time, negotiations have not commenced and the specific outcomes in terms of potential rent increases to the City, store upgrades, and/or operating covenants have yet to be addressed. The KMA analysis has conservatively assumed that all existing department stores remain in place at current ground rent terms through 2053.

IV. METHOD OF ANALYSIS

The detailed KMA method of analysis of future cash flows to Westfield and the City is presented in the attached tables. Each table presents projections for the period 2011-2053, as described below.

Table 1 - Present Value of Net Cash Flow to Westfield

This table projects annual cash flow to Westfield during 2011-2053 resulting from subtenant rental income, less operating expenses, management fee, and ongoing capital expenditures. The projected cash flow is estimated to yield a total present value in 2011 of \$234.4 million, based on a 10.0% discount rate reflective of KMA's estimated target return for the proposed investment. The projected cash flow can also be measured against Westfield's historic and proposed investment, i.e., \$192.1 million through 2010 and \$55.8 million in 2012. This results in an unleveraged IRR to Westfield of 9.1%.

Table 2 - Present Value of Ground Rent to City

Table 2 presents a projection of ground rent to the City for the period 2011-2053, including:

- Fixed rent from Westfield of \$698,000 per year, with annual escalation starting 2039
- Additional fixed rent from Westfield of \$300,000 per year, with annual escalation starting in the fourth year after completion of the renovation project
- Ground rent from Westfield for the Robinsons-May North (Adcor) and May Tract (future Target) leaseholds
- Percentage rent on mall stores from Westfield
- Ground rent from Sears, Nordstrom, and JC Penney

To: Jeffrey R. Epp, City Attorney
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Westfield North County Shopping Center

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As shown in the table, KMA estimates the present value of ground rent to the City for the period 2011-2053 to total \$28.9 million. This estimate assumes an 8.0% discount rate for fixed rent and a 10.0% discount rate for percentage rent, reflecting the higher risk associated with percentage rent.

Table 3 - Sales Tax Projection

Table 3 presents a 2011-2053 projection of retail sales performance for the mall and the resulting sales tax generated to the City. The mall is expected to experience a significant growth in sales volume as a result of the renovation project, i.e., an approximately 18% increase in 2013 sales over the prior year. This equates to total sales tax to the City in 2013 of \$3.6 million. For the rest of the projection period, KMA has assumed an annual growth rate of 2.8%, which represents a blend of different escalation assumptions for specialty tenants, mini-anchors, and department stores. The estimated present value of the projected 2011-2053 sales tax revenues is \$49.3 million.

V. LIMITING CONDITIONS

1. The analysis contained in this document is based, in part, on data from secondary sources such as state and local government, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy. KMA did not independently verify historical performance figures provided by Westfield.
2. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured. Value estimates assume that any necessary entitlements or zoning changes for development can be obtained in a reasonable time frame.
3. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
4. The analysis, opinions, recommendations and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.

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5. Market feasibility is not equivalent to financial feasibility; other factors apart from the level of demand for a land use are of crucial importance in determining feasibility. These factors include the cost of acquiring sites, relocation burdens, design and engineering constraints, traffic impacts, remediation of toxics (if any), and mitigation measures required through the approval process.
6. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity.
7. The valuation assumes that the title of the property is good and marketable; no title search has been made, nor has KMA attempted to determine property ownership. The value estimates are given without regard to any questions of boundaries, encumbrances, liens, or encroachments. KMA has not independently verified estimates of building area or land area. It is assumed that all assessments (if any) are paid. KMA has not prepared an appraisal of the real estate interests reviewed in this memorandum.
8. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.

attachments

TABLE 1

**PRESENT VALUE OF NET CASH FLOW TO WESTFIELD
WESTFIELD NORTH COUNTY
CITY OF ESCONDIDO**

Proposed Lease Terms					
<u>Year</u>	<u>NOI After Management Fee (1)(2)</u>	<u>(Less) Capital Expenditures (2)</u>	<u>Cash Flow</u>	<u>(Less) Westfield Investment</u>	<u>Net Cash Flow</u>
2010				(\$192,100,000)	(\$192,100,000)
2011	\$13,381,875	(\$1,487,080)	\$11,894,795		\$11,894,795
2012	\$14,678,193	(\$2,103,922)	\$12,574,271	(\$55,800,000)	(\$43,225,729)
2013	\$18,444,213	(\$3,000,000)	\$15,444,213		\$15,444,213
2014	\$19,370,310	(\$3,000,000)	\$16,370,310		\$16,370,310
2015	\$20,057,887	(\$3,000,000)	\$17,057,887		\$17,057,887
2016	\$20,688,475	(\$3,000,000)	\$17,688,475		\$17,688,475
2017	\$21,499,921	(\$3,000,000)	\$18,499,921		\$18,499,921
2018	\$22,200,379	(\$3,000,000)	\$19,200,379		\$19,200,379
2019	\$22,924,463	(\$3,000,000)	\$19,924,463		\$19,924,463
2020	\$23,672,932	(\$3,000,000)	\$20,672,932		\$20,672,932
2021	\$24,445,573	(\$3,000,000)	\$21,445,573		\$21,445,573
2022	\$25,427,420	(\$3,000,000)	\$22,427,420		\$22,427,420
2023	\$26,259,755	(\$3,000,000)	\$23,259,755		\$23,259,755
2024	\$27,090,423	(\$3,000,000)	\$24,090,423		\$24,090,423
2025	\$27,948,909	(\$3,000,000)	\$24,948,909		\$24,948,909
2026	\$28,956,991	(\$3,000,000)	\$25,956,991		\$25,956,991
2027	\$30,148,610	(\$3,000,000)	\$27,148,610		\$27,148,610
2028	\$31,098,182	(\$3,000,000)	\$28,098,182		\$28,098,182
2029	\$32,079,384	(\$3,000,000)	\$29,079,384		\$29,079,384
2030	\$33,092,221	(\$3,000,000)	\$30,092,221		\$30,092,221
2031	\$34,138,731	(\$3,000,000)	\$31,138,731		\$31,138,731
2032	\$35,519,958	(\$3,000,000)	\$32,519,958		\$32,519,958
2033	\$36,637,058	(\$3,000,000)	\$33,637,058		\$33,637,058
2034	\$37,790,141	(\$3,000,000)	\$34,790,141		\$34,790,141
2035	\$38,981,380	(\$3,000,000)	\$35,981,380		\$35,981,380
2036	\$40,211,984	(\$3,000,000)	\$37,211,984		\$37,211,984
2037	\$41,812,170	(\$3,000,000)	\$38,812,170		\$38,812,170
2038	\$43,124,284	(\$3,000,000)	\$40,124,284		\$40,124,284
2039	\$44,418,000	(\$2,000,000)	\$42,418,000		\$42,418,000
2040	\$45,751,000	(\$2,000,000)	\$43,751,000		\$43,751,000
2041	\$47,124,000	(\$2,000,000)	\$45,124,000		\$45,124,000
2042	\$48,538,000	(\$2,000,000)	\$46,538,000		\$46,538,000
2043	\$49,994,000	(\$2,000,000)	\$47,994,000		\$47,994,000
2044	\$51,494,000	(\$1,000,000)	\$50,494,000		\$50,494,000
2045	\$53,039,000	(\$1,000,000)	\$52,039,000		\$52,039,000
2046	\$54,630,000	(\$1,000,000)	\$53,630,000		\$53,630,000
2047	\$56,269,000	(\$500,000)	\$55,769,000		\$55,769,000
2048	\$57,957,000	(\$500,000)	\$57,457,000		\$57,457,000
2049	\$59,696,000	(\$250,000)	\$59,446,000		\$59,446,000
2050	\$61,487,000	(\$250,000)	\$61,237,000		\$61,237,000
2051	\$63,332,000	(\$100,000)	\$63,232,000		\$63,232,000
2052	\$65,232,000	(\$100,000)	\$65,132,000		\$65,132,000
2053	\$67,189,000	(\$100,000)	\$67,089,000		\$67,089,000

**Present Value of
Cash Flow in 2011 @**

Discount Rate 10.0%

\$234,350,000

Internal Rate of Return (IRR)

9.1%

(1) "NOI after management fee" reflects the payment of ground rent.

(2) For the period 2039-2053 KMA has assumed a 3% escalation in NOI after Management Fee. Estimates of capital expenditures for 2039-2053 are based on information provided by Westfield.

TABLE 2

**PRESENT VALUE OF GROUND RENT TO CITY
WESTFIELD NORTH COUNTY
CITY OF ESCONDIDO**

Proposed Lease Terms							
Year	Fixed Rent	Additional Fixed Rent	Adcor/Target Rent (1)	Percentage Rent (2)	Total Rent From Westfield	Department Store Rent (3)	Grand Total Rent to City
2011	\$698,000	\$0	\$196,000	\$375,627	\$1,269,627	\$196,100	\$1,465,727
2012	\$698,000	\$0	\$196,000	\$489,939	\$1,383,939	\$196,100	\$1,580,039
2013	\$698,000	\$0	\$196,000	\$527,681	\$1,421,681	\$196,100	\$1,617,781
2014	\$698,000	\$150,000	\$196,000	\$588,496	\$1,632,496	\$196,100	\$1,828,596
2015	\$698,000	\$300,000	\$196,000	\$638,126	\$1,832,126	\$196,100	\$2,028,226
2016	\$698,000	\$308,000	\$196,000	\$674,225	\$1,876,225	\$196,100	\$2,072,325
2017	\$698,000	\$316,000	\$196,000	\$732,331	\$1,942,331	\$196,100	\$2,138,431
2018	\$698,000	\$324,000	\$196,000	\$781,729	\$1,999,729	\$196,100	\$2,195,829
2019	\$698,000	\$332,000	\$196,000	\$828,855	\$2,054,855	\$196,100	\$2,250,955
2020	\$698,000	\$340,000	\$196,000	\$870,218	\$2,104,218	\$196,100	\$2,300,318
2021	\$698,000	\$349,000	\$196,000	\$915,219	\$2,158,219	\$196,100	\$2,354,319
2022	\$698,000	\$358,000	\$196,000	\$973,776	\$2,225,776	\$196,100	\$2,421,876
2023	\$698,000	\$367,000	\$196,000	\$1,062,426	\$2,323,426	\$196,100	\$2,519,526
2024	\$698,000	\$376,000	\$196,000	\$1,130,614	\$2,400,614	\$196,100	\$2,596,714
2025	\$698,000	\$385,000	\$196,000	\$1,200,847	\$2,479,847	\$196,100	\$2,675,947
2026	\$698,000	\$395,000	\$196,000	\$1,280,138	\$2,569,138	\$196,100	\$2,765,238
2027	\$698,000	\$405,000	\$196,000	\$1,354,648	\$2,653,648	\$196,100	\$2,849,748
2028	\$698,000	\$415,000	\$196,000	\$1,431,394	\$2,740,394	\$196,100	\$2,936,494
2029	\$698,000	\$425,000	\$196,000	\$1,510,442	\$2,829,442	\$196,100	\$3,025,542
2030	\$698,000	\$436,000	\$196,000	\$1,591,862	\$2,921,862	\$196,100	\$3,117,962
2031	\$698,000	\$447,000	\$196,000	\$1,675,724	\$3,016,724	\$196,100	\$3,212,824
2032	\$698,000	\$458,000	\$196,000	\$1,762,103	\$3,114,103	\$196,100	\$3,310,203
2033	\$698,000	\$469,000	\$196,000	\$1,851,072	\$3,214,072	\$196,100	\$3,410,172
2034	\$698,000	\$481,000	\$196,000	\$1,942,711	\$3,317,711	\$196,100	\$3,513,811
2035	\$698,000	\$493,000	\$196,000	\$2,037,098	\$3,424,098	\$196,100	\$3,620,198
2036	\$698,000	\$505,000	\$196,000	\$2,134,318	\$3,533,318	\$196,100	\$3,729,418
2037	\$698,000	\$518,000	\$196,000	\$2,234,454	\$3,646,454	\$196,100	\$3,842,554
2038	\$698,000	\$531,000	\$196,000	\$2,337,594	\$3,762,594	\$196,100	\$3,958,694
2039	\$715,000 (4)	\$544,000	\$200,900 (4)	\$2,440,734	\$3,900,634	\$196,100	\$4,096,734
2040	\$733,000	\$558,000	\$205,923	\$2,546,843	\$4,043,765	\$196,100	\$4,239,865
2041	\$751,000	\$572,000	\$211,071	\$2,656,006	\$4,190,077	\$196,100	\$4,386,177
2042	\$770,000	\$586,000	\$216,347	\$2,768,311	\$4,340,659	\$196,100	\$4,536,759
2043	\$789,000	\$601,000	\$221,756	\$2,883,849	\$4,495,605	\$196,100	\$4,691,705
2044	\$809,000	\$616,000	\$227,300	\$3,002,713	\$4,655,013	\$196,100	\$4,851,113
2045	\$829,000	\$631,000	\$232,982	\$3,124,998	\$4,817,980	\$196,100	\$5,014,080
2046	\$850,000	\$647,000	\$238,807	\$3,250,803	\$4,986,610	\$196,100	\$5,182,710
2047	\$871,000	\$663,000	\$244,777	\$3,380,229	\$5,159,006	\$196,100	\$5,355,106
2048	\$893,000	\$680,000	\$250,897	\$3,513,381	\$5,337,277	\$196,100	\$5,533,377
2049	\$915,000	\$697,000	\$257,169	\$3,650,365	\$5,519,534	\$196,100	\$5,715,634
2050	\$938,000	\$714,000	\$263,598	\$3,791,292	\$5,706,890	\$196,100	\$5,902,990
2051	\$961,000	\$732,000	\$270,188	\$3,936,276	\$5,899,464	\$196,100	\$6,095,564
2052	\$985,000	\$750,000	\$276,943	\$4,085,433	\$6,097,376	\$196,100	\$6,293,476
2053	\$1,010,000	\$769,000	\$283,866	\$4,238,883	\$6,301,749	\$196,100	\$6,497,849
Present Value of Cash Flow in 2011 @							
Discount Rate 8.0%	\$9,215,000	\$3,896,000	\$2,588,000			\$2,551,000	
Discount Rate 10.0%				\$10,697,000			
Present Value of Total Rent Received					\$26,396,000		\$28,947,000

(1) Reflects Adcor and Broadway Tract ground rent paid by Westfield.

(2) See Worksheet A to Table 2 for KMA assumptions for the period 2039-2053.

(3) Includes ground rent for Sears (\$98,000), Nordstrom (\$98,000), and JC Penney (\$100).

(4) CPI adjustment to increased fixed rent and total base rent at 2.5%

Prepared by: Keyser Marston Associates, Inc.

Filename i: Escondido/North County/Copy of Lease Memorandum Tables_Dec 2011;1/5/2012;wcl

TABLE 3

**SALES TAX PROJECTION
WESTFIELD NORTH COUNTY
CITY OF ESCONDIDO**

Proposed Lease Terms							
Year	Specialty Tenants	Mini-Anchors	Department Stores	Total Sales	Annual Change	Taxable Sales @ 100.0%	Sales Tax to City @ 1.0%
2010							
2011	\$133,500,000	\$19,300,000	\$137,400,000	\$290,200,000		\$290,200,000	\$2,902,000
2012	\$135,600,000	\$24,300,000	\$139,700,000	\$299,600,000	3.1%	\$299,600,000	\$2,996,000
2013	\$147,500,000	\$29,200,000	\$188,200,000	\$364,900,000	17.9%	\$364,900,000	\$3,649,000
2014	\$152,000,000	\$29,900,000	\$193,400,000	\$375,300,000	2.8%	\$375,300,000	\$3,753,000
2015	\$156,500,000	\$30,600,000	\$198,900,000	\$386,000,000	2.8%	\$386,000,000	\$3,860,000
2016	\$161,195,000	\$31,325,000	\$204,668,000	\$397,188,000	2.8%	\$397,188,000	\$3,972,000
2017	\$166,031,000	\$32,067,000	\$210,603,000	\$408,701,000	2.8%	\$408,701,000	\$4,087,000
2018	\$171,012,000	\$32,827,000	\$216,710,000	\$420,549,000	2.8%	\$420,549,000	\$4,205,000
2019	\$176,142,000	\$33,605,000	\$222,995,000	\$432,742,000	2.8%	\$432,742,000	\$4,327,000
2020	\$181,426,000	\$34,401,000	\$229,462,000	\$445,289,000	2.8%	\$445,289,000	\$4,453,000
2021	\$186,869,000	\$35,216,000	\$236,116,000	\$458,201,000	2.8%	\$458,201,000	\$4,582,000
2022	\$192,475,000	\$36,051,000	\$242,963,000	\$471,489,000	2.8%	\$471,489,000	\$4,715,000
2023	\$198,249,000	\$36,905,000	\$250,009,000	\$485,163,000	2.8%	\$485,163,000	\$4,852,000
2024	\$204,196,000	\$37,780,000	\$257,259,000	\$499,235,000	2.8%	\$499,235,000	\$4,992,000
2025	\$210,322,000	\$38,675,000	\$264,720,000	\$513,717,000	2.8%	\$513,717,000	\$5,137,000
2026	\$216,632,000	\$39,592,000	\$272,397,000	\$528,621,000	2.8%	\$528,621,000	\$5,286,000
2027	\$223,131,000	\$40,530,000	\$280,297,000	\$543,958,000	2.8%	\$543,958,000	\$5,440,000
2028	\$229,825,000	\$41,491,000	\$288,426,000	\$559,742,000	2.8%	\$559,742,000	\$5,597,000
2029	\$236,720,000	\$42,474,000	\$296,790,000	\$575,984,000	2.8%	\$575,984,000	\$5,760,000
2030	\$243,822,000	\$43,481,000	\$305,397,000	\$592,700,000	2.8%	\$592,700,000	\$5,927,000
2031	\$251,137,000	\$44,511,000	\$314,254,000	\$609,902,000	2.8%	\$609,902,000	\$6,099,000
2032	\$258,671,000	\$45,566,000	\$323,367,000	\$627,604,000	2.8%	\$627,604,000	\$6,276,000
2033	\$266,431,000	\$46,646,000	\$332,745,000	\$645,822,000	2.8%	\$645,822,000	\$6,458,000
2034	\$274,424,000	\$47,752,000	\$342,395,000	\$664,571,000	2.8%	\$664,571,000	\$6,646,000
2035	\$282,657,000	\$48,884,000	\$352,324,000	\$683,865,000	2.8%	\$683,865,000	\$6,839,000
2036	\$291,137,000	\$50,043,000	\$362,541,000	\$703,721,000	2.8%	\$703,721,000	\$7,037,000
2037	\$299,871,000	\$51,229,000	\$373,055,000	\$724,155,000	2.8%	\$724,155,000	\$7,242,000
2038	\$308,867,000	\$52,443,000	\$383,874,000	\$745,184,000	2.8%	\$745,184,000	\$7,452,000

TABLE 3

**SALES TAX PROJECTION
WESTFIELD NORTH COUNTY
CITY OF ESCONDIDO**

Proposed Lease Terms							
Year	Specialty Tenants	Mini-Anchors	Department Stores	Total Sales	Annual Change	Taxable Sales @ 100.0%	Sales Tax to City @ 1.0%
2039	\$318,133,000	\$53,686,000	\$395,006,000	\$766,825,000	2.8%	\$766,825,000	\$7,668,000
2040	\$327,677,000	\$54,958,000	\$406,461,000	\$789,096,000	2.8%	\$789,096,000	\$7,891,000
2041	\$337,507,000	\$56,261,000	\$418,248,000	\$812,016,000	2.8%	\$812,016,000	\$8,120,000
2042	\$347,632,000	\$57,594,000	\$430,377,000	\$835,603,000	2.8%	\$835,603,000	\$8,356,000
2043	\$358,061,000	\$58,959,000	\$442,858,000	\$859,878,000	2.8%	\$859,878,000	\$8,599,000
2044	\$368,803,000	\$60,356,000	\$455,701,000	\$884,860,000	2.8%	\$884,860,000	\$8,849,000
2045	\$379,867,000	\$61,786,000	\$468,916,000	\$910,569,000	2.8%	\$910,569,000	\$9,106,000
2046	\$391,263,000	\$63,250,000	\$482,515,000	\$937,028,000	2.8%	\$937,028,000	\$9,370,000
2047	\$403,001,000	\$64,749,000	\$496,508,000	\$964,258,000	2.8%	\$964,258,000	\$9,643,000
2048	\$415,091,000	\$66,284,000	\$510,907,000	\$992,282,000	2.8%	\$992,282,000	\$9,923,000
2049	\$427,544,000	\$67,855,000	\$525,723,000	\$1,021,122,000	2.8%	\$1,021,122,000	\$10,211,000
2050	\$440,370,000	\$69,463,000	\$540,969,000	\$1,050,802,000	2.8%	\$1,050,802,000	\$10,508,000
2051	\$453,581,000	\$71,109,000	\$556,657,000	\$1,081,347,000	2.8%	\$1,081,347,000	\$10,813,000
2052	\$467,188,000	\$72,794,000	\$572,800,000	\$1,112,782,000	2.8%	\$1,112,782,000	\$11,128,000
2053	\$481,204,000	\$74,519,000	\$589,411,000	\$1,145,134,000	2.8%	\$1,145,134,000	\$11,451,000
Present Value of Sales Tax in 2011 @ 10.0% Discount Rate					Years 2011 through 2053		\$49,283,000

ORDINANCE NO. 2012-02

AN ORDINANCE OF THE CITY COUNCIL OF
THE CITY OF ESCONDIDO, CALIFORNIA,
AUTHORIZING THE MAYOR AND CITY
CLERK A LEASE AMENDMENT AND
RELATED DOCUMENTS TO PROVIDE AN
OPTION TO EXTEND THE GROUND LEASE
FOR THE WESTFIELD/NORTH COUNTY
FAIR SHOPPING CENTER FOR AN
ADDITIONAL FIFTEEN YEARS

The City Council of the City of Escondido, California, DOES HEREBY ORDAIN
as follows:

SECTION 1. This Ordinance is being adopted for the purpose of authorizing the Mayor and City Clerk to execute, on behalf of the City, a lease amendment and related documents for the Westfield/North County Shopping Center, which is located on land owned by the City. The City has held a public hearing in compliance with California Civil Code Section 719 and California Government Code Section 37380, notice of which has been provided pursuant to Government Code Section 6066 in the North County Times, which is a newspaper of general circulation in the City of Escondido. The City Council has considered the proposal, the staff report, the Notice of Exemption under the California Environmental Quality Act, and any public testimony presented at the hearing.

SECTION 2. There currently exists a ground lease between the City and Developer/Lessee which was authorized by Resolution 81-13 and executed on February 2, 1981 for a period of 55 years. The lease has since been amended three

times (authorized by Resolutions 82-86, 86-37 and 86-300) primarily related to the commencement of the lease term.

SECTION 3. Westfield is the current Ground Lessee and has proposed a renovation project for Westfield North County Fair which includes a new three story Target store, improvements to the mall common areas and entrances, new restaurants, resurfacing of the parking lot and remodeling of the food court. The proposal also includes an increase in the fixed and percentage rent payable to the City.

SECTION 4. Upon successful completion of the project, Westfield requests to extend the Ground Lease term for an additional fifteen years. The City Council hereby determines that the proposed lease extension and related agreements authorized by this Ordinance offer the greatest economic return to the City, particularly in light of the existing lease and the remaining term on said lease. The City Council further concludes that based on all the circumstances, including an analysis by Keyser Marston and Associates, the lease extension is also justified for the purpose of attracting the necessary capital investment.

SECTION 5. The extension of the leasehold interest for the term specified will provide certainty to the tenant and subtenants and enable additional investment by private parties in the shopping center, which will provide increased rent revenues and increased sales tax revenues for the City, which funds can be used to benefit the residents of Escondido.

SECTION 6. The Mayor and City Clerk are hereby authorized, subject to final negotiation and approval as to form by Special Counsel and the City Attorney, certain

documents, the forms of which are attached to this Ordinance as Exhibits 1 through 4, and as identified as follows:

- Exhibit 1 - Amendment No. 4 to Ground Lease
- Exhibit 2 - Agreement Regarding Renovation of Shopping Center
- Exhibit 3 - Amendment No. 1 to Ground Lease Re: NCF North
- Exhibit 4 - Amendment No. 1 to Ground Lease Re: NCF South

SECTION 7. SEPARABILITY. If any section, subsection sentence, clause, phrase or portion of this ordinance is held invalid or unconstitutional for any reason by any court of competent jurisdiction, such portion shall be deemed a separate, distinct and independent provision and such holding shall not affect the validity of the remaining portions.

SECTION 8. That as of the effective date of this ordinance, all ordinances or parts of ordinances in conflict herewith are hereby repealed.

SECTION 9. That the City Clerk is hereby directed to certify to the passage of this ordinance and to cause the same or a summary to be published one time within 15 days of its passage in a newspaper of general circulation, printed and published in the City of Escondido.

AMENDMENT NO. 4 TO GROUND LEASE

This AMENDMENT NO. 4 TO GROUND LEASE ("**Amendment**") is made and entered into as of the ____ day of _____, 2011, by and between the CITY OF ESCONDIDO ("**Lessor**"), and NORTH COUNTY FAIR LP, a Delaware limited partnership, and EWH ESCONDIDO ASSOCIATES, L.P. a Delaware limited partnership, as tenants-in-common (collectively, "**Lessee**").

R E C I T A L S :

A. This Amendment is made with respect to that certain Ground Lease dated as of February 2, 1981 between the City of Escondido, as landlord/lessor, and EWH 1979 Development Company, L.P., as tenant/lessee, relating to certain premises currently known as Westfield North County located on land described in Exhibit A hereto, a memorandum of which was recorded on July 21, 1983 as File No. 83-250262 in the Office of the Recorder of San Diego County ("**Recorder's Office**"), as amended by Amendment No. 1 to Ground Lease dated August 24, 1982, Amendment No. 2 to Ground Lease dated February 12, 1986, recorded on March 5, 1986 as File No. 86-087687 in the Recorder's Office, and Amendment No. 3 to Ground Lease dated November 26, 1986, recorded on November 26, 1986 as File No. 86-549261 in the Recorder's Office (collectively, the "**Lease**"). Lessee is the current "Lessee" under the Lease. Terms not otherwise defined in this Amendment are defined in the Lease.

B. Lessor and Lessee desire to amend the Lease to grant Lessee an option to extend the Lease Term, together with such other matters as set forth herein.

A G R E E M E N T :

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Option to Extend Lease Term. Lessor hereby grants to Lessee the option to extend the Lease Term (the "**Option**") for a period of fifteen (15) years commencing upon July 1, 2038 and ending on June 30, 2053 (the "**Option Term**"). Lessee may exercise the Option by giving Lessor written notice thereof at any time following completion of the work described on Exhibit B hereto (the "**Renovation**") and no later than one (1) year prior to the expiration of the Lease Term. Upon Lessee's exercise of the Option, all references in the Lease to the "Lease Term" shall include the Option Term. At any time following Lessee's exercise of the Option, Lessor and Lessee shall, at either party's request, enter into an amendment of the Lease to evidence the exercise of the Option. For purposes of this Amendment, "completion" of the Renovation means the date that Lessor's building inspection department "signs-off" on the building permits (the "**Permits**") for the Renovation evidencing that the work contemplated by the Permits is complete.

2. Fixed Rent During Initial Lease Term. Commencing on the second (2nd) anniversary of the Trigger Date (as defined below), the Fixed Rent as set forth in Section 3.1 of the Lease shall increase by \$150,000.00 per annum from \$1,090,000.00 per annum to \$1,240,000.00 per annum. Commencing on the third (3rd) anniversary of the Trigger Date, the Fixed Rent as set forth in Section 3.1 of the Lease shall increase by \$150,000.00 per annum from \$1,240,000.00 per annum to \$1,390,000.00 per annum (the \$150,000.00 increase in the preceding sentence and the \$150,000.00 increase in this sentence are collectively referred to as the "**Fixed Rent Increase**"). The term "**Trigger Date**" means the date that is earlier to occur of (i) one (1) year following commencement of the Renovation or (ii) completion of the Renovation. For purposes of the foregoing, the "commencement" of the Renovation shall be deemed to occur when the Permits are issued.

On the fourth (4th) anniversary of the Trigger Date and on each anniversary thereafter (each, an "**Adjustment Date**") during the initial Lease Term, the Fixed Rent Increase in effect immediately prior to such Adjustment Date shall increase by the lesser of (i) two and one-half percent (2.5%) or (ii) the percentage increase, if any, between the Index (as defined below) in effect on the date that is fourteen (14) months prior to such Adjustment Date and the Index in effect on the date that is two (2) months prior to such Adjustment Date. The "**Index**" shall be the Consumer Price Index for all Urban Consumers (CPI-U) San Diego, California, all items, published by the Bureau of Labor Statistics of the United States Department of Labor (Base Year 1982-84=100). If publication of the Index is discontinued, or if the basis of calculating the Index is materially changed, then the parties hereto shall substitute for the Index comparable statistics as computed by an agency of the United States Government or, if none, by a periodical or publication of recognized authority most closely approximating the result which would have been achieved by the Index, as mutually agreed upon by the parties hereto.

3. Fixed Rent During Option Term. The amount of Fixed Rent payable during the Option Term shall initially be the same amount of Fixed Rent payable immediately prior to the Option Term. On each Adjustment Date that occurs during the Option Term, the entirety of the Fixed Rent in effect immediately prior to such Adjustment Date shall increase by the lesser of (a) two and one-half percent (2.5%) or (b) the percentage increase, if any, between the Index in effect on the date that is fourteen (14) months prior to such Adjustment Date and the Index in effect on the date that is two (2) months prior to such Adjustment Date.

4. Clarification Regarding Subtenant Improvement Allowances. The parties acknowledge that an improvement allowance provided by Lessee to subtenants is the economic equivalent of a Subtenant Loan. Therefore, for purposes of Section 3.5(c) of the Lease, the amount of rent payable to Lessee by any subtenant that represents amortization (on a straight line basis over the sublease initial term) of an improvement allowance will be treated as if Lessor had made a Subtenant Loan instead of an improvement allowance. **[Note: This is intended to accomplish the same thing as Section 6 of the prior draft, but it is now rephrased to be a "clarification" rather than an "amendment" in order to minimize the Prop 13 risk.]**

5. Lessee's Mortgage-Joinder by Lessor. Section 11.1 of the Lease is deleted.

6. No Other Amendments. Except as amended hereby, all of the provisions of the Lease shall remain in full force and effect.

7. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.

8. Memorandum. At Lessee's request, Lessor and Lessee shall execute, acknowledge and record in the Recorder's Office a memorandum of this Amendment.

[Signatures continue on following pages]

IN WITNESS WHEREOF, the parties hereto have entered into this Amendment as of the date first above written.

"Lessor"

CITY OF ESCONDIDO

By: _____

Name: _____

Title: _____

"Lessee"

NORTH COUNTY FAIR, LP, a Delaware limited partnership, as tenants-in-common

By: Westfield America GP LLC, a Delaware limited partnership, its general partner

By: Westfield America Limited Partnership, a Delaware limited liability company, its sole member

By: Westfield U.S. Holdings, LLC, a Delaware limited liability company, its general partner

By: _____

Name: _____

Title: _____

[Signatures Continue On Next Page]

EWB ESCONDIDO ASSOCIATES, L.P., a
Delaware limited partnership, as tenants-in-
common

By: North County Fair LP, a Delaware limited
partnership, its general partner

By: Westfield America GP LLC, a Delaware
limited liability company, its general
partner

By: Westfield America Limited
Partnership, a Delaware limited
partnership, its sole member

By: Westfield U.S. Holdings, LLC, a
Delaware limited liability
company, its general partner

By: _____
Name: _____
Title: _____

EXHIBIT A

Legal Description of Demised Premises

PARCELS 7 AND 8 OF ESCONDIDO MAP NO. 85-08, IN THE CITY OF ESCONDIDO,
COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO PARCEL MAP
NO. 14270, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO
COUNTY, MAY 1, 1986.

EXHIBIT B

Description of Renovation

- **Mall Common Space Remodel**
 - New Floor Finish
 - New Interior Paint Scheme
 - New Interior Lighting Scheme
 - New Amenities, Planter Pots, Furniture, etc.
 - New Glass Handrails
 - New Interior Wayfinding Signage
 - New Children's Play Area
- **Exterior Mall Entry Remodel**
 - New Westfield Signage
 - New Exterior Paint Scheme
 - New Lighting Scheme
 - New Material Accents
 - New Exterior Landscaping at Entrances
 - New Enhanced Entry Paving
- **Food Court Remodel**
 - New Floor Finish
 - New Interior Paint Scheme
 - New Interior Lighting Scheme
 - New Men's and Women's Restrooms
 - New Amenities, Food Court Furniture, Planter Pots, etc.
 - New or Remodeled Food Operators upon existing lease expiration
 - Expanded Seating Areas
 - Remodeled Outdoor Patio Dining Area
- **New Restaurant Pad on Via Rancho Parkway**
- **Parking Lot Pavement Rehabilitation (over 2 years)**
- **Target Store**
 - Exterior Elevation Upgrades
 - New Mall Storefront on Level 1 and Level 2
 - Gut and Re-build Interior Store Area
- **Duck Pond & Adjacent Buildings Conversion to Parking / Rob-May North**

Westfield Project - \$55,800,000
(Including department store box costs and historical pre-development costs)

AGREEMENT REGARDING RENOVATION OF SHOPPING CENTER

This AGREEMENT REGARDING RENOVATION OF SHOPPING CENTER ("**Agreement**") is made and entered into as of the ____ day of _____, 2011, by and between the CITY OF ESCONDIDO ("**City**"), and NORTH COUNTY FAIR LP, a Delaware limited partnership, and EWH ESCONDIDO ASSOCIATES, L.P. a Delaware limited partnership, as tenants-in-common (collectively, "**Developer**").

R E C I T A L S :

A. Developer is the "Developer" under that certain Construction, Operation and Reciprocal Easement Agreement dated November 26, 1986 (the "**REA**") pertaining the shopping center located in the City of Escondido known as Westfield North County (the "**Shopping Center**"). All initially capitalized terms not otherwise defined herein shall have the same meanings set forth in the REA.

B. City is the fee owner of the Developer Tract, Broadway Tract, Sears Tract, Robinson's Tract, Nordstrom Tract and Penney Tract under the REA and ground leases such Tracts to the respective parties under the REA. Macy's West Stores, Inc. ("**Macy's**") is the fee owner of the May Tract under the REA.

C. City and Developer desire to enter into this Agreement to evidence their respective agreements concerning the renovation of the Shopping Center.

A G R E E M E N T :

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Renovation. Promptly following the execution and delivery of this Agreement, Developer shall complete all plans required for the renovation work described on Exhibit A attached hereto (the "**Renovation**") and apply for and diligently process all required governmental permits and approvals for the Renovation (the "**Permits**"). Promptly following receipt of all Permits Developer shall commence construction of the Renovation and thereafter diligently prosecute construction of the Renovation to completion, subject to delays in construction of the Renovation due to force majeure.

2. Exchange of Broadway Tract and May Tract. City agrees to exchange its fee interest in the Broadway Tract for Macy's fee interest in the May Tract (the "**Land Exchange**"). Upon the closing of the Land Exchange, Developer shall, on behalf of Macy's, cause to be paid to City the sum of One Hundred Thousand Dollars (\$100,000), which sum represents the difference in value between the Broadway Tract and the May Tract as determined by a report prepared by Keyser Marston Associates, Inc. dated June 29, 2011.

3. May Tract Ground Lease. City acknowledges that the May Tract is subject to that certain Ground Lease dated October 5, 2011 (the "**May Tract Ground Lease**") between Macy's, as Lessor, and Macy's Escondido, Inc. (the "**MEI**"), as Lessee. Concurrently with the closing of the Land Exchange, MEI will assign its interest in the May Tract Ground Lease to an affiliate of Developer, CMF NCF South, LLC ("**CMF**"). City agrees that, upon closing of the Land Exchange and the assignment of May Tract Ground Lease from MEI to CMF, City will enter into an amendment of the May Tract Ground Lease with CMF in the form and substance of Exhibit B attached hereto.

4. REA Extension. City agrees to the extension of the REA to June 30, 2053, and agrees to join in an amendment to the REA effecting such an extension at Developer's request. In addition, City agrees to join in any amendment to the REA that approves or otherwise accommodates any or all of the following at Developer's request: (i) an exchange of City's fee interest in the Broadway Tract for Macy's fee interest in the May Tract; (ii) a new restaurant pad adjacent to the currently existing On The Border Restaurant at the Shopping Center; (iii) the Renovation; (iv) new restaurant/retail space at the entry on both levels between the stores on the Broadway Tract and May Tract; (v) updated permitted use list; (vi) installation of graphic sign panels on the exterior of the Shopping Center for on and off premises advertising; (vii) construction of a taller pylon sign including an LED/graphic sign panel for on and off premises advertising; and (viii) reduction in the parking ratio to 4 automobile parking spaces per 1,000 square feet of floor area; provided, however, City's agreement to join in any such amendment is made only in its capacity as the fee owner of its Tracts, it being understood that the foregoing matters are subject to receipt of any necessary government approvals from City acting in its municipal capacity.

5. On-Going Maintenance. Developer shall, throughout the term of the REA, cause the Developer Tract to be maintained (including, without limitation, through periodic maintenance, updates and/or renovations) in a first class manner comparable to other similarly situated first class regional shopping centers in San Diego County.

6. General Provisions.

(a) Successors. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

(b) Attorneys' Fees. In any action between or among any of the parties to interpret, enforce, award, modify, rescind, or otherwise in connection with any of the terms or provisions of this Agreement, the prevailing party in the action shall be entitled, in addition to damages, injunctive relief, or any other relief to which it might be entitled to, reasonable costs and expenses including, without limitation, litigation costs and reasonable attorneys' fees.

(c) Jurisdiction. This Agreement shall be construed under the laws of the State of California.

(d) No Waiver. A waiver by a party of a breach of any of the covenants, conditions or agreements under this Agreement to be performed by another party shall not be construed as a waiver of any succeeding breach of the same or other covenants, agreements, restrictions or conditions of this Agreement.

(e) Modifications. Any alteration, change or modification of or to this Agreement, in order to become effective, shall be made in writing and in each instance signed on behalf of each party.

(f) Severability. If any term, provision, condition or covenant of this Agreement or its application to any party or circumstances shall be held, to any extent, invalid or unenforceable, the remainder of this Agreement, or the application of the term, provision, condition or covenant to persons or circumstances other than those as to whom or which it is held invalid or unenforceable, shall not be affected, and shall be valid and enforceable to the fullest extent permitted by law.

(g) Entire Agreement. This Agreement and contains the entire understanding between the parties relating to the transaction contemplated hereby. No subsequent agreement, representation, or promise made by either party hereto, or by or to an employee, officer, agent or representative of either party shall be of any effect unless it is in writing and executed by the party to be bound thereby.

(h) No Joint Venture or Partnership. The parties agree that nothing contained herein is to be construed as making the parties joint venturers or partners.

(i) Counterparts. This Agreement may be signed in multiple counterparts which, when signed by all parties, shall constitute a binding agreement.

[Signatures Continue On Next Page]

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the date first above written.

"City"

CITY OF ESCONDIDO

By: _____

Name: _____

Title: _____

"Developer"

NORTH COUNTY FAIR, LP, a Delaware limited partnership, as tenants-in-common

By: Westfield America GP LLC, a Delaware limited partnership, its general partner

By: Westfield America Limited Partnership, a Delaware limited liability company, its sole member

By: Westfield U.S. Holdings, LLC, a Delaware limited liability company, its general partner

By: _____

Name: _____

Title: _____

[Signatures Continue On Next Page]

EWB ESCONDIDO ASSOCIATES, L.P., a
Delaware limited partnership, as tenants-in-
common

By: North County Fair LP, a Delaware limited
partnership, its general partner

By: Westfield America GP LLC, a Delaware
limited liability company, its general
partner

By: Westfield America Limited
Partnership, a Delaware limited
partnership, its sole member

By: Westfield U.S. Holdings, LLC, a
Delaware limited liability
company, its general partner

By: _____
Name: _____
Title: _____

EXHIBIT A

Description of Renovation

- **Mall Common Space Remodel**
 - New Floor Finish
 - New Interior Paint Scheme
 - New Interior Lighting Scheme
 - New Amenities, Planter Pots, Furniture, etc.
 - New Glass Handrails
 - New Interior Wayfinding Signage
 - New Children's Play Area
- **Exterior Mall Entry Remodel**
 - New Westfield Signage
 - New Exterior Paint Scheme
 - New Lighting Scheme
 - New Material Accents
 - New Exterior Landscaping at Entrances
 - New Enhanced Entry Paving
- **Food Court Remodel**
 - New Floor Finish
 - New Interior Paint Scheme
 - New Interior Lighting Scheme
 - New Men's and Women's Restrooms
 - New Amenities, Food Court Furniture, Planter Pots, etc.
 - New or Remodeled Food Operators upon existing lease expiration
 - Expanded Seating Areas
 - Remodeled Outdoor Patio Dining Area
- **New Restaurant Pad on Via Rancho Parkway**
- **Parking Lot Pavement Rehabilitation (over 2 years)**
- **Target Store**
 - Exterior Elevation Upgrades
 - New Mall Storefront on Level 1 and Level 2
 - Gut and Re-build Interior Store Area
- **Duck Pond & Adjacent Buildings Conversion to Parking / Rob-May North**

Westfield Project - \$55,800,000

(Including department store box costs and historical pre-development costs)

EXHIBIT B

Amendment to May Tract Ground Lease

This AMENDMENT NO. 1 TO GROUND LEASE ("**Amendment**") is made and entered into as of the ____ day of _____, 201_, by and between the CITY OF ESCONDIDO ("**City**"), and CMF NCF SOUTH LLC, a Delaware limited liability company ("**Developer**").

R E C I T A L S :

A. This Amendment is made with respect to that certain Ground Lease dated as of October 5, 2011 (the "**Lease**") between Macy's West Stores, Inc., as landlord/lessor, and Macy's Escondido, Inc., as tenant/lessee, relating to certain premises described on Exhibit A attached hereto located within the Shopping Center currently known as Westfield North County, a memorandum of which was recorded on _____, 2011 as File No. 2011-_____ in the Office of the Recorder of San Diego County ("**Recorder's Office**"). City is the current "City" under the Lease and Developer is the current "Developer" under the Lease. Terms not otherwise defined in this Amendment are defined in the Lease.

B. City and Developer desire to amend the Lease as set forth herein.

A G R E E M E N T :

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Lease Term. The Lease Term is extended to June 30, 2053.
2. No Other Amendments. Except as amended hereby, all of the provisions of the Lease shall remain in full force and effect.
3. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.
4. Memorandum. At Developer's request, City and Developer shall execute, acknowledge and record in the Recorder's Office a memorandum of this Amendment.

[Signatures continue on following pages]

IN WITNESS WHEREOF, the parties hereto have entered into this Amendment as of the date first above written.

"City"

CITY OF ESCONDIDO

By: _____

Name: _____

Title: _____

"Developer"

NCF CMF SOUTH, LLC, a Delaware limited liability company

By: Westfield America Limited Partnership,
a Delaware limited liability company, its sole member

By: Westfield U.S. Holdings, LLC, a
Delaware limited liability company, its general partner

By: _____

Name: _____

Title: _____

EXHIBIT A

Legal Description of Demised Premises

PARCEL 5 OF ESCONDIDO MAP NO. 85-08, IN THE CITY OF ESCONDIDO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO PARCEL MAP NO. 14270, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, MAY 1, 1986.

AMENDMENT NO. 1 TO GROUND LEASE
(CMF NCF North LLC)

This AMENDMENT NO. 1 TO GROUND LEASE ("**Amendment**") is made and entered into as of the ____ day of _____, 2011, by and between the CITY OF ESCONDIDO ("**Lessor**"), and CMF NCF NORTH LLC, a Delaware limited liability company, ("**Lessee**").

R E C I T A L S :

A. This Amendment is made with respect to that certain Ground Lease dated as of November 26, 1986 (the "**Lease**") between the City of Escondido, as landlord/lessor, and Adcor Realty Corporation, as tenant/lessee, relating to certain premises described in Exhibit A attached hereto located with the shopping center currently known as Westfield North County, a memorandum of which was recorded on November 26, 1986 as File No. 86-549263 in the Office of the Recorder of San Diego County ("**Recorder's Office**"). Lessee is the current "Lessee" under the Lease. Terms not otherwise defined in this Amendment are defined in the Lease.

B. Lessor and Lessee desire to amend the Lease as set forth herein.

A G R E E M E N T :

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Lease Term. The Lease Term is extended to June 30, 2053.
2. No Other Amendments. Except as amended hereby, all of the provisions of the Lease shall remain in full force and effect.
3. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.
4. Memorandum. At Lessee's request, Lessor and Lessee shall execute, acknowledge and record in the Recorder's Office a memorandum of this Amendment.

[Signatures continue on following pages]

IN WITNESS WHEREOF, the parties hereto have entered into this Amendment as of the date first above written.

"Lessor"

CITY OF ESCONDIDO

By: _____
Name: _____
Title: _____

"Lessee"

CMF NCF NORTH, LLC, a Delaware limited liability company

By: Westfield America Limited Partnership,
a Delaware limited liability company, its sole member

By: Westfield U.S. Holdings, LLC, a
Delaware limited liability company, its general partner

By: _____
Name: _____
Title: _____

EXHIBIT A

Legal Description of Demised Premises

PARCEL 2 OF ESCONDIDO MAP NO. 85-08, IN THE CITY OF ESCONDIDO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO PARCEL MAP NO. 14270, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, MAY 1, 1986.

AMENDMENT NO. 1 TO GROUND LEASE
(CMF NCF South LLC)

This AMENDMENT NO. 1 TO GROUND LEASE ("**Amendment**") is made and entered into as of the ____ day of _____, 2011, by and between the CITY OF ESCONDIDO ("**Lessor**"), and CMF NCF SOUTH LLC, a Delaware limited liability company ("**Lessee**").

R E C I T A L S :

A. This Amendment is made with respect to that certain Ground Lease dated as of November 26, 1986 (the "**Lease**") between the City of Escondido, as landlord/lessor, and Carter Hawley Hale Stores, Inc., as tenant/lessee, relating to certain premises described on Exhibit A attached hereto located within the shopping center currently known as Westfield North County, a memorandum of which was recorded on November 26, 1986 as File No. 86-549266 in the Office of the Recorder of San Diego County ("**Recorder's Office**"). Lessee is the current "Lessee" under the Lease. Terms not otherwise defined in this Amendment are defined in the Lease.

B. Lessor and Lessee desire to amend the Lease as set forth herein.

A G R E E M E N T :

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Lease Term. The Lease Term is extended to June 30, 2053.
2. No Other Amendments. Except as amended hereby, all of the provisions of the Lease shall remain in full force and effect.
3. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.
4. Memorandum. At Lessee's request, Lessor and Lessee shall execute, acknowledge and record in the Recorder's Office a memorandum of this Amendment.

[Signatures continue on following pages]

IN WITNESS WHEREOF, the parties hereto have entered into this Amendment as of the date first above written.

"Lessor"

CITY OF ESCONDIDO

By: _____
Name: _____
Title: _____

"Lessee"

NCF CMF SOUTH, LLC, a Delaware limited liability company

By: Westfield America Limited Partnership,
a Delaware limited liability company, its sole member

By: Westfield U.S. Holdings, LLC, a
Delaware limited liability company, its general partner

By: _____
Name: _____
Title: _____

EXHIBIT A

Legal Description of Demised Premises

PARCEL 6 OF ESCONDIDO MAP NO. 85-08, IN THE CITY OF ESCONDIDO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO PARCEL MAP NO. 14270, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, MAY 1, 1986.