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The Orchard Blooms as Part of El Toro Road Redevelopment

By JULIE NAKASHIMA, CREJ Staff Writer

Five years ago, **Westrust** took on the difficult task of redeveloping Saddleback Valley Plaza, a one-time retail star whose spark had gone out years ago.

Located on a faded commercial corridor in the south Orange County city of Lake Forest, the 25.1-acre site's revitalization was complicated by multiple owners, each of whom had different plans or objectives for the property. Westrust recently completed the development project, a 279,000-square-foot community shopping center called The Orchard at Saddleback. Located at the intersection of El Toro Road and Rockfield Boulevard in Lake Forest, the open-air center features Craftsman-style architecture, a central Main Street, and a large plaza and other gathering places.

The Orchard was a key component of Lake Forest's \$33 million revitalization effort for El Toro Road. Now completed, the city's largest capital project to date coordinated traffic signals and added new travel and turn lanes, new landscaping, and new street furniture, such as bus shelters, pedestrian seating niches and lighting fixtures. Banners identifying The Arbor on El Toro, the city's revamped commercial and shopping district, also went up.

The city wanted to bring retail vitality back to El Toro Road, according to Charles Smith, a co-managing partner of Westrust.

"They put together the bond initiatives and the other government funding vehicles they needed to expand El Toro Road, and at the same time had set guidelines for the kind of development they envisioned," Smith said. "We essentially worked with the city and created The Orchard out of those design guidelines."

Their efforts have come to fruition with the recent openings of The Orchard's final two anchor tenants, a 55,000-square-foot Ralphs supermarket and a 7,500-square-foot Carino's Italian Grill restaurant. They joined Staples, HomeGoods, PetSmart, Shoe Pavilion, Pier 1 Imports, Lucille's Smokehouse BBQ, Johnny Rockets and Corner Bakery, among the project's other businesses.

Smith said the Craftsman architecture, with the wood trusses and stone columns, is very appealing and unique, setting The Orchard apart from the Mediterranean-style centers that dominate Southern California.

"The design is really special, with a Main Street that really feels like a Main Street, that terminates at a plaza with a nice fountain and outdoor living furniture," he said.

Smith owns Westrust, a leading retail and mixed-use developer with offices in Calabasas Hills, San Francisco and Irvine, with his partner, Ricardo Capretta.

The Arbor, which encompasses Westrust's new center, extends along El Toro Road from Interstate 5 to Muirlands Boulevard in the city's redevelopment project area. Besides The Orchard, developments include the new Home Depot Center on a 15-acre former Kmart site as well as some smaller projects that are planned.

Troublesome Transformation

These developments, along with the work the city has done on El Toro, have transformed the area, according to David Belmer, assistant city manager and redevelopment agency director for Lake Forest.

He said The Arbor emphasizes the city's agricultural history, and the Craftsman style was established as the central architectural theme throughout the area for all new development and landscaping improvements.

The old Saddleback Valley Plaza was a town and country-style shopping center developed by Alexander Haagen in 1968.

"When the Saddleback Valley Plaza was developed, El Toro was the only established commercial corridor in south Orange County," Belmer said. "So, frankly, shoppers had no choice but to shop on El Toro."

But as the years went by, additional centers such as Laguna Hills Mall and Mission Viejo Mall sprang up. Those centers were well designed and offered a better mix of tenants.

Shoppers became less bullish about El Toro Road.

"Over time, our centers were only being supported by the immediate neighborhood," Belmer said. "They began to go into decline. When Westrust stepped in and acquired the Saddleback Valley Plaza, the center was in dire straits [and had] a ton of vacancies.

"It really had lost its retail vibrancy, and that's putting it mildly."

But the local residents didn't lose their interest in having viable new shopping and dining experiences, he added. They wanted to see something new at Saddleback Valley Plaza, but the multiple ownerships complicated that.

The property also had a long-term ground lease that had 37 years left to go.

Indeed, the project could serve as a case study in challenging land assemblage deals.

Like most old properties in Southern California at one point or another, the 25 acres of land originally were in the ownership of a single farming family.

"Through time, the land was transferred," Smith said, "first to a lady by the name of Grace Kile, who later transferred 15 acres to two nieces and two nephews, each of whom owned an undivided interest."

That meant no one could sell or develop the site without the consent of the others. And each had different ideas about what to do with the property. Some wanted to sell, some didn't. Some wanted to sell and be a part of the development. There also were the inevitable disagreements about the sales price.

Meanwhile, the ground lease was owned by Westrust's partners in The Orchard, **Apollo Real Estate Advisors** and **Walton Street Capital**. According to Smith, the ground lease interest had been in and out of escrow a number of times, but none of the potential developers had ever been able to close.

Apollo, which has been a partner with Westrust on the retail side since 1997, asked the company to take a look. What the company saw was a "disconnected" piece of real estate with a 37-year ground lease, which really wasn't enough time to invest the kind of money one would need in order to do a major redevelopment project.

Smith said the company underwrote a business plan to converge the ground lease and fee. About five years ago, he negotiated a deal to buy a 9 ½-acre parcel from Kile. Then, while formulating plans for the first phase of The Orchard, Westrust set about pruning away the owners of the undivided interests - the nieces and nephews - in the remaining 16 acres, which ultimately were acquired in 2005.

During this time, however, a competitor had bought one undivided interest from one of the nephews. Westrust then acquired an undivided interest from one of the nieces, who had some tax problems and was looking for an exchange property.

Belmer pointed out that the redevelopment agency was not involved in the actual land assemblage.

However, he said, "The city certainly made it known that its preference was that this site be developed uniformly with one ownership."

But the city had two competing land owners who wanted to redevelop the site. The solution, Smith said, was to file a partition action, or a forced sale by the court.

"That litigation was settled through various negotiations, which ended up with Westrust, Apollo and Walton Street owning 25 acres of retail land in Southern California," he said.

The partners also collapsed the ground lease, which essentially was now a ground lease with themselves.

Smith said Westrust intends to own and operate The Orchard for the foreseeable future. The company put long-term financing on the project at the end of last year, and is in the process of building another feature fountain for the center's restaurant customers.

"It's a pride-of-ownership asset," he said.

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