

Summary of PVNC Meeting with Westcor March 30, 2006

Location: Westcor offices: 11411 N. Tatum, Phoenix, Arizona

Westcor Attendees: Dave Scholl (Sr. V.P. - Mall Expansions), Thomas Randall (Sr. Property Manager), Michael Treadwell (Sr. V.P. Development), Randy Scheel (Asst.V.P. Development), Ben Kaplan (Restaurant Leasing), Greg Cochran (Leasing), Matt Coulam (Associate, Property Manger), Anita Walker (Public Relations), Julia Zajdzinski (Marketing Manager).

P.V.N.C. Attendees: Dan Hinkson, Harry Rubinoff, Jody Rhodes, Larry Langford, Mike Shano, Denise Batistelli.

The following is a brief history of the Westcor development of the Paradise Valley Mall and surrounding area. In 1979, Westcor was a much smaller company, which had just finished successful development of the Metro Center Mall. During that period, the area included the Paradise Village office component for build out of office space. While business was good, to attract some of the bigger stores, some sales were made that, in hindsight, were not what Westcor would choose to do today. An example is Westcor's ownership of only certain portions of their properties - for example, the Montgomery Ward owned the larger portion of the building (currently occupied by Burlington Coat Factory) and Westcor owns the portion of the building occupied by Michael's and the western most stores. Meanwhile, Westcor owns the land and has control of the parking, but does not control the building. Many of the stores around the perimeter of the mall (such as TJ Maxx, Borders, the bank by Mervyn's, Osco) and even some inside the mall are owned by the store instead of Westcor, and in some cases, the parking lot is also owned by the store, not Westcor. These free standing pads with long term leases can present a problem when working on planning. They certainly don't want to alienate a good tenant, but trying to get all tenants to buy into some desired changes can be daunting.

Westcor developed and successfully had the property rezoned in 1993, with Montgomery Ward opening in 1994. During that rezoning, when the neighborhood insisted on it, they added office space on the East side of the property, added the park area buffering Paradise Village Parkway and the neighborhood to the Southeast, and moved the loading dock area to the western end of the buildings away from the residential neighborhood.

When Montgomery Ward was placed in bankruptcy, Westcor attempted to purchase the building from the Trustee, but the successful bidder was Burlington Coat Factory who acquired several Montgomery Ward sites around the country. Montgomery Ward had established a long term land lease with Westcor (Montgomery Ward Lease was 60 years) and as long as they were not in default on their lease agreement for land use, Westcor could not do much. Recently, when they knew Burlington wanted to move out, Westcor again tried to purchase the building back, but Wal-Mart was the higher bidder. Westcor does still have control of the land and negotiated a new land lease with Wal-Mart, which will be subject to Burlington's agreement but takes Burlington out of the picture so that Westcor can deal direct with Wal-Mart and not have to go through Burlington if any issue ever arises. Burlington appears to be turning over the building at the end of April 2006. The building purchase includes both the Burlington space and the out building which was a Montgomery Ward tire center.

About a year ago, Westcor did put together a team to work on the planning for the PV area - and they've decided to focus on those areas they do control. As certain stores vacate, they are trying to buy back properties - such as the Macy's site. The 99-cent store was another recent sublease that was outside of Westcor's control. Even though they are working on this grander plan, they do have constraints, not

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only on parcel ownership, but the shrinking trade area. The company is committed to this long term planning for PV Mall and welcomes the neighborhood's ongoing involvement in what we'd like to see brought in. They were adamant they are very bullish on the PV mall - using it to leverage their tenants that have stores in other Westcor malls. This mall is very productive for Westcor and they are trying to attract the middle to upper level shoppers.

When PV Mall was originally built, it was pretty much the edge of town - until the Hwy 51 and Hwy 101 Freeways were committed to paper. Long before they were built, offices that were originally planned in the PV area were now looking further north where they anticipated bigger growth - and the PV Office Component got passed over. The lack of office space makes it difficult for restaurants that also need the day time lunch crowd. Next, Rob and Stuckey moved to the north Scottsdale area which began the creation of the largest furniture design area out near Scottsdale and Bell, causing a mass exodus of the mall furniture stores and the Design Expo became empty overnight. With the expansion of the north east section of Scottsdale, Robb & Stuckey sold \$50 million right away, and word got around that the furniture market was hot in the Scottsdale/Bell area. Followed by the loss of the furniture stores came the loss of better Women's clothing stores and Children's clothing stores at the mall. As the trade area surrounding PV mall continues to shrink, Westcor is trying to become more things to all people to keep the neighbors shopping in the area instead of at these newer malls.

While the neighborhood may want upscale restaurants like Flemings and Morton's, these national chains want to be on Scottsdale Road or on Camelback Road because their perception is a bigger bang for the buck in those markets. Statistics show that 25-30% of the Scottsdale Fashion Square, Kierland, Desert Ridge and Biltmore sales are from tourism. It's difficult to attract these upscale restaurants and high end stores to the PV Mall area where tourists are not likely to visit. The next tier of stores and restaurants are who Westcor is trying to attract. In many cases, they successfully get the store in only to have it not supported by the surrounding neighborhoods (Ruby Tuesday, Talbot's).

Additionally, stores like Macy's and Dillard's have actively reduced their Name Brand clothes at PV Mall because the neighborhood surrounding the mall doesn't purchase these types of goods. Demographically speaking, while the neighborhood south of the mall and east of Tatum is a higher income bracket, the total area surrounding the mall is not as upscale as many merchants are looking for when they consider a five-mile surrounding area. There is a sharp decline in income just west and north of the mall that are attractive to stores like Wal-Mart. The merchants know who their customers are and the lower income customers are significant within the stores' five-mile target zone. The median income in the five mile radius surrounding the mall is \$72,000 (meaning that half the residents make more than \$72,000 per year while half the residential households make less than \$72,000 of annual income). Many of the homes east of Tatum start to become closer to the Scottsdale Road shopping areas and a lot of the higher end stores anticipate those consumers from the half way point between PV mall and the Scottsdale Road center (which would be about 60th) will shop at the Kierland Commons or the other stores that align themselves on or near Scottsdale Road.

Westcor's current plans for the neighborhood - they are trying to get a theater back in the neighborhood - not sure where, but certainly the Macy's store is a possibility. Westcor doesn't currently have control of the Macy's building but are working on obtaining it. They would also look forward to our input on the development of the Macy's space should Westcor be successful in the purchase of this piece of property. Sears/Penney's are doing well at the PV mall locations and they've both indicated that they are not planning on moving. Westcor has recently signed a lease with Chompie's Restaurant to go in the space vacated by Luby's (east side of the mall by Dillard's). Westcor is working on a facelift for the

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surrounding shopping centers as well as parts of the mall area. The first phase of this work would be to address the landscaping which includes some hardscape and softscape elements, signage followed by facelifts to some of the perimeter shopping centers. Westcor's first line of customers are their tenants who are asking for better signage and modernized landscaping which will become the first phase of this revitalization plan. By sprucing up these areas they hope to continue to attract retailers such as theaters and other restaurants into the area. Westcor is currently working on a plan to reinvigorate their security plans at and around the mall.

The nation's shopping centers are moving away from the enclosed malls but PV Mall will always remain an enclosed mall. Westcor may look at stores having front entrance and mall entrances - to attract more people that would be driving by. They are looking at bringing in Hollister, and Ann Taylor Loft. Westcor is glad to brainstorm with us and they are not willingly giving up on the area. They very much want a continued association with our neighborhood, feeling that regular contact can only lead to common good for all - better to get the facts and be up front with the community. They volunteered to meet with our entire group, if desired. Thomas Randall (Sr. Manager Property Management) will be Westcor's contact person to coordinate this. We discussed strategies such as starting a neighborhood campaign. Shop PV when it's something you can get there locally. Westcor suggested that if there were a store we truly wanted in the neighborhood, certainly let them know, but many of the national chains have websites where we can send correspondence of the desire to have them in your neighborhood - 100 letters might not do it, but several hundred would catch the eye of a national chain.

General comments from the Westcor team on Wal-Mart - in general, a tenant that has some traffic (Wal-Mart) is better than a tenant with no traffic (Burlington). The Wal-Mart people seem sincere about their attempt to change their image - they seem to be making a conscious effort when they go into the nicer neighborhoods - including organic groceries, elevated toy choices, notable clothing brands such as Levis.....but they are business people, and if the neighbors don't support shopping there, Wal-Mart would probably revert back to the lower discount item plans instead of the upscale Wal-Mart they're now trying to start. The Tatum/Bell Wal-Mart is a more traditional store that the neighborhood would reject, but if you go to the Northsight Wal-Mart - you'll see a more upscale merchandising and probably higher pricing.

Westcor, because they own the surrounding property and parking lot, they can enforce the no RV parking overnight plan. Westcor is of the opinion that this Wal-Mart store will be a 24-hour store at this time. If Montgomery Ward's original zoning permission is silent on this issue, it may be automatically acceptable - we'd need to check with Jane Bixler with the City of Phoenix for this information. Westcor has negotiated a land lease for the Wal-Mart building directly with Wal-Mart in an effort to eliminate the need to work through Burlington in the event of a site related problem. This lease will go into effect upon the closing of the building between Burlington and Wal-Mart.

Wal-Mart's current plan is to occupy the Burlington's 100,000 sq. ft store and the freestanding auto center building located north and west of the Burlington space. Any changes to either of the buildings must go through Westcor who has architectural review. Wal-Mart is required to continue maintenance of the park area buffering Paradise Village Parkway at its sole expense. If Wal-Mart wanted to expand at a later date, the only option they have is to take the Michael's space which is controlled by Westcor. Westcor could push Wal-Mart's compliance on neighborhood issues if some develop and again, if Wal-Mart requests to expand their square footage in the future. Additionally, Peggy Bilsten has made it known that Wal-Mart would also have to work with development services for any requested changes. Westcor has been advised by Wal-Mart they are NOT planning on closing the Bell & Tatum store. Those

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that currently shop at the Tatum and Bell store more than likely will continue to shop there. Those that find themselves halfway between the existing store and the proposed new store would more than likely go to the new store. The drawing power for this Wal-Mart is hopefully just the general surrounding area. In a five-mile radius surrounding the mall there are about 250,000 people which are the target area for all the bigger stores in the mall. Westcor will be passing on the original ICSC trade show article about Wal-Mart's proposed plan for their upscale sites. Some of the elements of the Plano, Texas store will become part of this project but Wal-Mart does not plan on having this store mirror that of Plano, Texas. This store is the prototype of their design for future stores. This store will have both groceries as well as merchandise.