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Neighbors & the mall

Nonprofit Market Creek Plaza offers Diamond district residents up to a 20% investment stake

By Frank Green, April 9, 2006

Neighbors of the 10-acre Market Creek Plaza in southeast San Diego are being offered a piece of the action.

The nonprofit owner of the shopping center on Euclid Avenue, just south of Market Street, has developed an investment plan that will give nearby residents up to a 20 percent stake in the enterprise – with the goal of transferring complete ownership and control within 12 years.

“We want to keep profits circulating inside the neighborhood instead of going outside,” said Ardelle Matthews, a retired schoolteacher and longtime neighborhood resident who plans to invest a “large amount” in the 5-year-old mall. “With Market Creek Plaza, we can invest in ourselves now.”

The investment opportunity at Market Creek Plaza is thought to be a first of its kind in retail, and some worry that it could pose a risk for small investors.

The shopping center, located in one of the city's poorest neighborhoods, is operated by Market Creek Partners under the auspices of the nonprofit Jacobs Center for Neighborhood Innovation.

It's anchored by grocer Food 4 Less and contains a Starbucks shop, Wells Fargo bank, a Cold Stone Creamery and other smaller businesses.

Jacobs also is developing a 1.5-acre retail tract at Market Street and 47th Street that will be included in the investment offering and likely will house a drugstore.

“For community revitalization to be effective, residents must own their own change, including planning, implementation and ultimately the assets,” said Jennifer Vanica, president and chief executive of the Jacobs Center and of the Jacobs Family Foundation, both founded by late philanthropist Joseph Jacobs and his family.

The investment plan, approved by the state Department of Corporations, will not be a public stock offering in the traditional Fortune 500 sense.

Ownership “units” in the shopping center will be available to a maximum of 450 people who live, work, volunteer or own a business in the so-called Diamond Neighborhoods: 10 contiguous areas designated by the city of San Diego as the Diamond Business Improvement District.

Potential investors will be required to buy at least 20 shares at \$10 apiece and must demonstrate that they have contributed in some way to the overall health of the community.

When the sale is complete, residents could control as much as \$500,000, or 20 percent ownership in the mall. Jacobs Center and its management company will retain \$1.5 million in units, or 60

percent ownership, while the Neighborhood Unity Foundation – a community charitable group fostered by Jacobs – will keep \$500,000 in units, or 20 percent.

Ownership units can be passed on to heirs, or they can be sold if the heirs and buyers meet the plan's original investment requirements. Management must approve the transactions.

If the plaza makes a profit, annual dividends will be paid under a formula that gives residents preferred claim to the first \$50,000 in profits.

Profits between \$50,000 and \$205,000 will be distributed to the Jacobs Center and the Neighborhood Unity Foundation and any profits above that amount disbursed equally among unit holders.

Market Creek Plaza turned a \$128,000 profit last year, prior to being fully leased. Rental income at the center – now completely leased – is expected to be \$1.3 million this year.

“Our ultimate goal is to turn over complete ownership (of Market Creek Plaza) to the community by 2018,” Vanica said.

Some retail consultants have concerns that a bad holiday shopping season or other retail disaster could cause merchants to move out and leave investors without any return on their money.

“When you look at any shopping center these days, the risk issue is significant,” said George Whalin, president of Retail Management Consultants in San Marcos. “Except maybe at Fashion Valley.”

On a recent weekday afternoon, Market Creek Plaza's parking lot was full, and many drivers idled waiting for an available space.

Most shoppers were buying groceries at the Food 4 Less, picking up coffee at the Starbucks or paying utility bills at the San Diego Gas & Electric office, which alone draws 30,000 people to the mall every month.

Market Creek Plaza is in one of the county's poorest areas, with a median household income of \$32,000 for the 88,000 residents in the Diamond district, compared with a median income of \$46,000 for the city as a whole, according to the 2000 U.S. Census.

Moreover, about 30 percent of district households live on less than \$20,000 annually.

There are some positives for retailers: 20 percent of households earn more than \$45,000 a year, and a majority of residents – 52 percent – own their own homes.

Urban developers and activists say that well-placed supermarkets, drugstores and other shops built to draw from a large area can prosper in poorer city neighborhoods.

“As long as the community not only invests its money in Market Creek but goes there to shop, the center will be successful,” said Linda Guzzo, director of San Diego State University's Center for Community Economic Development.

The Food 4 Less at the center has attracted more than 4 million customers since it opened in January 2001, making it one of the top-performing stores in the discount grocery chain owned by Kroger.

“People have to eat,” said Food 4 Less spokesman Terry O'Neil, noting that 130 of its 143 supermarkets are located in urban areas. “The grocery store is an important part of every neighborhood.”

Starbucks, which evenly splits ownership of the Market Creek outlet with Magic Johnson Enterprises, said it doesn't comment on performance at specific stores.

Cold Stone Creamery spokeswoman Jami Clark said its store has “met expectations” with “steady sales.” Although she would not disclose sales figures, she said the company expects business to grow.

At Batter Up!, a fast-casual restaurant that opened two months ago, owner Melvin Johnson said business has been cooking beyond expectations. The eatery specializes in Philadelphia-style sandwiches and batter-fried dishes like “chicken sluggers” and “shortstop shrimp.”

“This neighborhood needs something like Market Creek Plaza,” said Johnson, whose parents attended Lincoln High School and whose grandmother lives in nearby Emerald Hills.

Johnson spent \$175,000 to open the restaurant and said he is looking at possibly financing a breakfast shop in the mall. “There are elements still missing (at the plaza), like a place people can go and have a breakfast meeting,” he said.

David Rubin, director of research for the Oakland-based nonprofit PolicyLink, noted that Market Creek Plaza investors will not be putting their money directly into businesses, but into the mall infrastructure.

“It's not an insured bank account, that's true,” said Rubin. “But if property values hold, it's very unlikely” individual investors will be hurt, he said.

Market Creek Plaza sits on the former headquarters of the Langley Corp., an aerospace contractor that vacated the site in the 1990s.

In 1998, Joseph Jacobs bought the property for \$3.5 million with the intent of building a mall and plowing all profits back into the community. The shopping center cost \$23.5 million to develop.

Jacobs, who built his fortune after taking Jacobs Engineering Group public in the 1970s, had poured millions into social-service organizations and programs, but harbored doubts about the effectiveness of direct contributions.

“It has been a gradual process of proving to retailers (who might want to locate in Market Creek Plaza) that the center is viable,” said Vanica of the Jacobs Center.

When the investor offering is completed in six months, each investor will have a vote in electing the nine-member Diamond Advisory committee that will help oversee day-to-day operations. Bigger issues will be decided by one vote per ownership unit.

The planned ownership transition to investors in 2018 would revolve around a vote on whether to authorize the buyout of Jacobs' stake in the center.

For area businesswoman Kelly Steppe, neighborhood investment is the best chance the community has to wrest some control from absentee business owners and keep profits close to home.

Steppe, who owns K-Tech Security on Market Street, has lived in the area for 40 years.

“Landlords and corporations have taken out, but haven't put back,” said Steppe, who plans to invest in Market Creek Plaza. “This will give us pride in our community and pride in ownership.”