

(R-92-360)

RESOLUTION NUMBER R- 278755


ADOPTED ON OCT 07 1991

BE IT RESOLVED, by the Council of The City of San Diego, that the City Manager's recommendation regarding marketing of the Eastgate Technology Park, as set forth in Manager's Report No. 91-400, a copy of which is attached hereto, is hereby approved.

BE IT FURTHER RESOLVED, that the City Manager is hereby authorized to negotiate, and the Council hereby approves in concept, the sale of a 3 to 4-acre parcel within either Lots 3, 4 or 5, Eastgate Technology Park, to TANABE RESEARCH LABORATORIES U.S.A., INC.

APPROVED: JOHN W. WITT, City Attorney

By

  
Harold O. Valderhaug  
Deputy City Attorney

HOV:ps  
09/09/91  
Or.Dept:Prop.  
Job:921247  
R-92-360  
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The City of San Diego

# MANAGER'S REPORT

DATE ISSUED: September 6, 1991

REPORT NO: 91-400

ATTENTION: PF&R Committee, Agenda of September 11, 1991

SUBJECT: Eastgate Technology Park/Tanabe Research Laboratories

REFERENCES: City Manager's Report 84-156, issued April 4, 1989, and  
Council Policy 900-3

SUMMARY:

Issue: (1) Should the City alter the policy of only leasing lots in the Eastgate Technology Park to permit either a lease or sale?  
and, (2) Should the City Manager be given approval to negotiate the sale of a lot in the Eastgate Technology Park to Tanabe Research Laboratories?

Manager's Recommendation: (1) Authorize both leases and sales of the subject property, and (2) Give the Manager approval to negotiate with Tanabe.

Other Recommendations - The Real Estate Advisory Committee recommends the following:

- (1) That the City adopt a sale or lease posture for the Eastgate Technology Park.
- (2) That the City Manager be authorized to negotiate the sale of a lot to Tanabe Research.
- (3) That the City minimize restrictions on the sale or lease of Eastgate lots and provide further incentives in order to remain competitive with other regions.

Fiscal Impact - The net effect of changing the policy for marketing the Eastgate Technology Park from "lease only" to "lease or sale" will probably be that more revenues will be deposited in the Police Decentralization Fund in the next few years, but the City will give up ownership of lots which are sold. The proceeds from the sale of a lot to Tanabe Research Laboratories are expected to be in the order of \$2.0 to \$2.5 million. In addition, Tanabe will contribute \$250,000 towards development of the Eastgate Child Care Center.

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## BACKGROUND

Approximately two and one-half years ago, the City Manager recommended that the Eastgate Technology Park be resubdivided into smaller lots and that the lots be marketed on a "lease only" basis. Council approved the recommendation in January 1990. Since the presentation of that plan, one sale (which was previously in negotiation) and one prepaid lease have been approved by Council. During the interim, the economy has experienced serious setbacks, real estate financing has become very difficult to obtain, and San Diego has been faced with the threat of outmigration by a number of biotechnological and other high technology firms seeking a more favorable business climate.

## MARKETING PLAN

At this point, it is extremely difficult to promote leases of vacant industrial land. Furthermore, it has always been difficult to finance industrial development on leased land, and this situation is aggravated by the current economic and market conditions. It seems unlikely that this overall situation will change for the better in the near future.

The subdivision work on Eastgate has continued, and the final map is expected to be approved next month. The Eastgate Technology Park will contain 35 lots. Two of the lots are mini parks, two have been sold, three have been leased, and one is under option to be sold to the adjacent owner. Approximately 90 usable acres remain with a value on the order of \$60 million. The City has received only very limited interest in the leasing of the remaining lots, largely due to economic conditions and, also in part, to the availability of private property which can be purchased.

Recognizing the situation cited above, and the special desire to support biotechnology and other high technology activities, the City Manager recommends that the City change from its January 1990 position of "lease only" and authorize either lease or sale of Eastgate Technology Park land. Furthermore, the following guidelines are suggested:

1. The prospective lessee or purchaser must meet the following criteria:
  - a. For the time being, the business must be of a biotechnology or high technology nature. Later this year, the City Manager's Economic Development Task Force is expected to present recommendations to the City Council which might ultimately lead to the targeting of specific industries that will enhance the City's economic base, and the criteria can be modified.
  - b. The business will retain jobs and has the potential to create additional jobs for San Diegans.
  - c. The business intends to make a significant capital investment of high quality in the property.
  - d. The business will pledge to make a good faith effort to put manufacturing activities in or near to this community.

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2. Leases are preferred and may be negotiated at a rate of return which reflect market conditions. Lease agreements must include provisions for appropriate periodic rent adjustments. Below market rents will be considered if the below market portion can be recovered through financial arrangements that will apply in the future, or if other offsetting nonfinancial benefits exist. Financial arrangements could include provision to share in future earnings through arrangements such as promissory notes, equity sharing, royalty agreements, percentage rents, or other methods. Here again, the work of the Economic Development Task Force may result in identification of other offsetting considerations.

3. Sales are authorized at the fair market value if the purchaser will agree to immediately develop the property and provide employment opportunities for San Diegans.

#### TANABE RESEARCH LABORATORIES

As these recommendations were being formulated, the City Manager received a proposal from a biotechnological company, Tanabe Research Laboratories (TRL) to acquire an unspecified parcel in the Eastgate Technology Park. TRL proposes to build a 40,000-square-foot research and office facility on a three-to-four-acre parcel following Council authorization. TRL is a fully owned subsidiary of Tanabe Seiyako Co., Ltd., one of the ten largest pharmaceutical companies in Japan, with 1990 revenues of \$1.4 billion. TRL conducts biomedical research in the areas of immunology and cell biology (see attached letter and background information on the Company).

TRL's proposal is based on its desire to locate in a well established biomedical and biochemical research community. It plans a state-of-the-art facility of a combined office and laboratory building. It is particularly attracted to the location and amenities of the Eastgate Technology Park. TRL intends to install an extensive amenity package for its employees, including various recreational facilities and open space. TRL presently has 32 employees and plans a maximum of 60 employees for this 40,000-square-foot building. Therefore, density and traffic generation will be minimal for the space taken, and the property will offer a park-like setting for research.

TRL has proposed to pay fair market value for the selected lot under an all cash transaction with escrow to close by the end of this calendar year. It is not interested in leasing the site. John Burnham Co. Realtors is representing TRL in the transaction. When the sale is approved, Burnham will be entitled to a broker's commission which ranges from one percent to three percent, depending on the total amount of the sales price.

To minimize the possibility of speculation on City property, TRL is willing to incorporate a provision in the purchase agreement in the event there is any resale of the property. This agreement will provide for the City to receive 80 percent of the increase in land value if resale occurs within the first five years or 60 percent of the increase in land value if resale occurs in the sixth to tenth years. In addition, TRL has offered to provide a \$250,000 contribution to the Eastgate Child Care Center as well as participate in providing annual fees to support the Center.

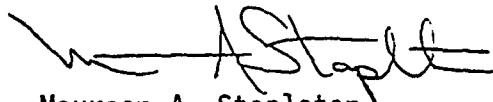
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In light of the lack of recent activity in ETP, the attractiveness of the offer presented and the desire to encourage biotech firms in San Diego, it is recommended that the sale to Tanabe be negotiated. It is believed that Tanabe will be a valuable asset to further development of the park, whether marketed for sale or lease.

ALTERNATIVES

1. Do not change the marketing plan for the Eastgate Technology Park and disapprove the proposed sale to Tanabe. This would mean that the City would maintain the "lease only" position, and it is unlikely that many transactions will occur in the near future.
2. Defer consideration of a change in the marketing plan to a later date, but approve the sale of a lot to Tanabe as an exception to policy. Tanabe has indicated they must have a decision from the City by September 15th, or they will be obliged to go elsewhere to buy land.

Respectfully submitted,



Maureen A. Stapleton  
Assistant City Manager

SPOTTS:JEV:st(13)  
9-5-91

Attachment:

Copy of Letter From Tanabe Research, Dated 8-27-91, and information about the company.

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**TANABE RESEARCH**  
Laboratories, USA, Inc.

August 27, 1991

Mr. Jack McGrory, City Manager  
City of San Diego  
202 C Street, Suite 9A  
San Diego, CA 92101

Dear Mr. McGrory:

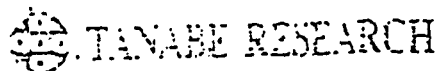
Tanabe Research Laboratories USA, Inc. (TRL) wishes to purchase land in Eastgate Technology Park (ETP) for its corporate headquarters and research laboratories. TRL will build a 40,000 sq. ft. research and office facility on the property to accommodate a maximum of approximately 60 employees. We are attracted to ETP for both its tranquil, uncrowded environment as well as its proximity to academic and industrial research institutions related to our drug discovery efforts. We desire to purchase a site outright and are not interested in a leasehold arrangement.

*Applicant.* TRL is a fully owned subsidiary of Tanabe Seiyaku Co. Ltd., one of the ten largest pharmaceutical companies in Japan. TRL was incorporated as a California Corporation in November, 1990 and conducts biomedical research in the areas of immunology and cell biology. TRL's mission is to discover new pharmaceuticals for the treatment of asthma, allergy, and inflammatory diseases such as arthritis. TRL is one of eight research laboratories of the parent firm but is the first such laboratory in the United States. Tanabe Seiyaku chose to locate TRL in San Diego because the City is a major center of biotechnology replete with internationally renowned biomedical scientific research institutions, a highly educated and motivated workforce, and a wonderful climate that contributes to the area's high quality of life. Currently, TRL has 29 employees, the majority of which are scientific and management professionals. Twelve TRL employees have Ph.D. degrees. TRL plans to grow to approximately 35 employees by the end of this year.

*Facility Plans: Philosophy.* The purpose of TRL's proposed facility is to provide our employees with an environment that is both conducive to scientific excellence and facilitates achieving TRL's research objectives. There will be state-of-the-art laboratory facilities for biomedical and biochemical research. Offices and laboratories will be designed to promote effective communications among scientists. For the building's exterior architecture, we desire to have a design that is distinctive yet aesthetic and is expressive of the cutting-edge research occurring within the building's walls. The landscape architecture shall complement the building and will include greenery and open spaces to preserve the planned sensitive ambience of ETP. Walking paths, a tennis court, and a basketball court on the facility grounds will contribute to a park-like environment and will constitute special and appreciated amenities for TRL's employees.

*Facility: general.* Our facility will be a corporate headquarters as well as be a center for biomedical research. We plan to remain a small research-intensive organization and our proposed facility will be designed to accommodate approximately 60

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scientific and technical personnel. With this occupancy rate, we will have minimal impact on the crowding and traffic congestion in the area. TRL's facility will have the following approximate space allocations:

<u>Space Category</u>	<u>% of Total Area</u>
Laboratory:	
Chemistry	22.5%
Biology	22.5%
Vivarium	15.0%
Offices	35.0%
<u>Reserve</u>	<u>5.0%</u>
Total	100.0%

The reserve areas will be stubbed for utilities but not built out. The decision to convert the reserve areas to laboratory or office use will come at a later date.

*Proposal.* We will agree to buy the land at its latest appraised value, all cash, with escrow to close by the end of 1991. Because TRL has a long term commitment to this project and is without any intentions of reselling the property, we have no objections to incorporating an equity sharing provision in the purchase agreement. As part of the purchase agreement, TRL is willing to make a \$250,000 contribution to the Eastgate Child Care Center as well as participate in a reasonable manner with annual fees in the support of the Center. In addition, because of my experience in establishing a child care center at the University of Florida, I shall be happy to volunteer my services to the Center in an advisory capacity.

Dr. Ichiro Chibata, President of Tanabe Seiyaku Co., Ltd., will be here on September 15, 1991 to select the site for TRL's new facility. Before Dr. Chibata arrives, we must have a clear understanding from the City that a purchase of ETP property is feasible. At your earliest opportunity, we shall be happy to answer any questions regarding the shared objectives and mutual benefits of our proposal.

We hope you will agree that TRL is exactly the type of company the City should recruit to Eastgate Technology Park and we look forward to a favorable response to our proposal.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gerald J. Yakatan".

Gerald J. Yakatan, Ph.D.  
President and CEO

cc: Dr. Ichiro Chibata, President and Representative Director  
Dr. Seiichi Saito, Senior Managing Director and R&D Executive  
Tanabe Seiyaku Co., Ltd.

**Headquarters**

2-10 Doshomachi 3-chome, Chuo-ku, Osaka, 541 Japan  
Phone:(06)205-5555  
(International Business Div.)  
Facsimile:(06)222-0470  
(International Licensing & Development Div.)  
Facsimile:(06)202-5040

**Tokyo Office Headquarters**

26 Sanban-cho, Chiyoda-ku, Tokyo, 102 Japan  
Phone:(03)230-6611  
Facsimile:(03)230-6605

**(Domestic Branches)**

Sapporo, Sendai, Tokyo, Nagoya, Osaka, Hiroshima,  
Takamatsu, Fukuoka

**(Plants)**

Tokyo, Osaka, Yamaguchi

**(Research Laboratories)**

Tokyo:  
Organic Chemistry Research Laboratory  
Biological Research Laboratory  
Osaka:  
Safety Research Laboratory  
Biological Science Laboratory  
Research Laboratories of Applied Biochemistry  
Products Formulation Research Laboratory  
Analytical Chemistry Research Laboratory

**(Overseas Affiliated Companies & Representative Offices)**

Taiwan Tanabe Seiyaku Co., Ltd.  
4F No.6 Tun Hua N. Road, Taipei, Taiwan  
Phone:2-751-8195  
Facsimile:2-751-8634

**Tanabe U.S.A., Inc.**

Headquarters:  
50 Tice Boulevard, Woodcliff Lake, New Jersey 07675,  
U.S.A.  
Phone:201-391-7300  
Facsimile:201-391-6748

**San Diego Office**

7930 Convoy Court San Diego, California 92111, U. S. A.  
Phone:619-571-8410  
Facsimile:619-571-3476

**P. T. Tanabe-Abadi**

Headquarters:  
Jl. Gedebage, Ujungberung, Bandung, Indonesia  
Phone:22-75897  
Facsimile:22-440142

**Jakarta Office**

Jl. Tanah Abang III/8, Jakarta Pusat(110160), Indonesia  
Phone:21-372630  
Facsimile:21-3807550

**Tanabe do Brasil Quimica e Farmaceutica Ltda.**

Rua Frederico Von Martius 342,  
Vila Monumento 01548, São Paulo, SP, Brasil  
Phone:11-914-5033  
Facsimile:11-273-8995

**Tanabe Europe S.A.**

Boulevard du Souverain 191, Boite 1,  
1160 Bruxelles, Belgium  
Phone:2-660-6934  
Facsimile:2-660-5574

**Tanabe-Marion Laboratories**

9300 Ward Parkway, Kansas City, Missouri 64114, U. S. A.  
Phone:816-966-4000  
Facsimile:816-966-4220

**Tanabe-Glaxo S.A.**

Gotthardstrasse 3, CH-6301 Zug, Switzerland  
Phone:042-222566  
Facsimile:042-222159

**Singapore Representative Office**

c/o Osaka Merchandise Center  
No.09-30 World Trade Centre, 1 Maritime Square,  
Singapore 0409  
Phone:2734892  
Facsimile:2740124

**Synthelabo-Tanabe Chimie S.A.**

22 Avenue Gaillie, B.P.72, 92352 La Plessis  
Robinson, Paris, France  
Phone:1-45-37-55-55  
Facsimile:1-46-30-01-44

**Tai Tien Pharmaceuticals Co., Ltd.**

4F, No.6 Tun Hua N. Road, Taipei, Taiwan  
Phone:2-751-8195  
Facsimile:2-751-8634

**RP Tanabe**

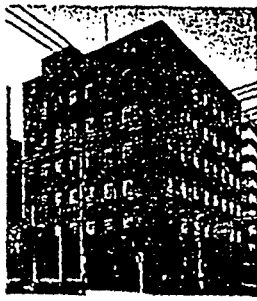
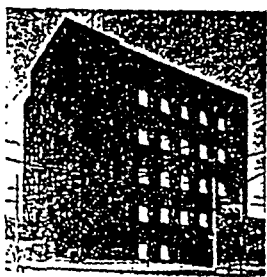
20, Avenue Raymond Aron, 92165 Antony Cedex, France  
Phone:1-40-91-64-54  
Facsimile:1-40-91-66-00

**European R & D Center**

Boulevard du Souverain 191, Boite 5, 1160 Bruxelles,  
Belgium  
Phone:2-672-8789  
Facsimile:2-675-0733



東京支社  
Tokyo Office Headquarters

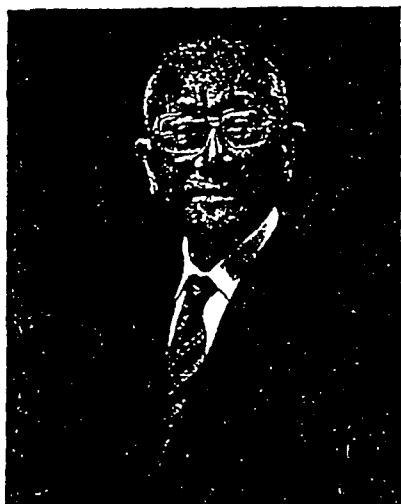


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# Board of Directors

(As of June 28, 1990)



Keijiro Adachi,  
Chairman and Representative Director



Ichiro Chibata,  
President and Representative Director



Hachiro Kinoshita,  
Executive Vice President and  
Representative Director

**Chairman and  
Representative Director**  
Keijiro Adachi

**President and  
Representative Director**  
Ichiro Chibata

**Executive Vice President and  
Representative Director**  
Hachiro Kinoshita

**Director and Executive  
Management Counselor**  
Takeshi Tominaga

**Senior Managing Directors**  
Seiichi Saito  
Hiroo Tanaka

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Minoru Fujimura  
Kenji Takemura  
Akira Yanagi  
Shosuke Nagao

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Jyunichiro Tanabe  
Hiroshi Kobayashi  
Shigeki Yamada  
Kazukuni Yoshikawa  
Masao Tanaka  
Yorito Kobayashi  
Setsuo Mouri  
Kyoichi Shinoda  
Tsunetaro Shinohara  
Mikio Takeda  
Tetsuya Tosa

**Statutory Auditors**  
Tetsuhiro Ishikane  
Morio Takahashi  
Kahichirou Inoue

**Board Members of TANABE RESEARCH Laboratories USA, Inc.**

Dr. Yoshio Iwasawa  
General Manager  
Basic Biological Research Laboratory  
Tanabe Seiyaku Co., Ltd.  
16-89, Kashima 3-chome  
Yodogawa-ku  
Osaka, 532 JAPAN

Dr. Tetsuya Tosa  
Director  
Research Laboratory of Applied Biochemistry  
Tanabe Seiyaku Co., Ltd.  
16-89, Kashima 3-chome  
Yodogawa-ku  
Osaka, 532 JAPAN

Dr. Gerald J. Yakatan  
President and CEO  
Tanabe Research Laboratories USA, Inc.  
11045 Roselle Street  
San Diego, CA 92121

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Passed and adopted by the Council of The City of San Diego on OCT 07 1991,  
by the following vote:

Council Members	Yeas	Nays	Not Present	Ineligible
Abbe Wolfsheimer	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ron Roberts	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
John Hartley	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
H. Wes Pratt	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tom Behr	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
J. Bruce Henderson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Judy McCarty	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bob Filner	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mayor Maureen O'Connor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

AUTHENTICATED BY:

MAUREEN O'CONNOR  
Mayor of The City of San Diego, California.

(Seal)

CHARLES G. ABDELNOUR  
City Clerk of The City of San Diego, California.

By Mary Lepeda, Deputy.

Office of the City Clerk, San Diego, California	
Resolution Number <u>R-278755</u>	Adopted <u>OCT 07 1991</u>

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