



CITY OF FREMONT
OFFICE OF THE MAYOR

WILLIAM "BILL" BALL, MAYOR

July 24, 1993

Jack F. Smith, Jr.
President and CEO
General Motors Corporation
General Motors Building
3044 West Grand Boulevard
Detroit, MI 40202

*Letter
date should
be August
24, 1993*

Dear Mr. Smith:

The City of Fremont is deeply concerned by recent actions of General Motors Corporation which very directly affect our city. Please see the enclosed article from the August 20, 1993 issue of The Argus newspaper. The fact that GM has taken the option discussed in this article has shaken our confidence in GM, because of promises and commitments made to us by GM officials over the last two years. If the option is exercised and processed to completion, our local economy will suffer. Both the Fremont City government and the Fremont community are so upset by the present situation that I thought it important to share the details with you and to seek your intervention.

Fremont, California (a growing city of 185,000 people) is the home of GM's San Francisco regional offices, and of New United Motors Manufacturing, Inc., the very successful joint venture of General Motors and Toyota. In addition, GM has large land holdings in Fremont adjacent to the NUMMI plant. For many years, General Motors has been an important corporate citizen of Fremont, and the City has enjoyed a good working relationship with GM. While NUMMI and the City of Fremont continue to work closely together, the failure of GM representatives to honor important commitments made to Fremont has been most disappointing.

Following is some brief background information, followed by a series of points documenting the City's relationship with General Motors regarding the Fremont Auto Mall.

In 1988, the City of Fremont and Catellus Development Corporation began planning for a new 88-acre auto mall, to be built as the first phase of a major 700-acre mixed-use development. After the auto mall was approved by the City, most of Fremont's automobile dealers joined together to form Fremont Auto Mall Partnership, for the purpose of coordinating the move of dealerships from their current outdated stores in Fremont to new, larger and more modern facilities in the Fremont Auto Mall.

In March of 1990, Fremont dealers representing Buick, Cadillac, Pontiac, Oldsmobile, GMC, Chrysler, Dodge, Plymouth, Lincoln/Mercury, Jeep/Eagle, Lexus, Rolls-Royce, Mercedes Benz,

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Porsche, BMW, Nissan, Toyota, Honda, Volkswagen, Volvo, Hyundai, Acura, Mazda, Mitsubishi, Isuzu and Suzuki made commitments (in many cases, purchasing land in the auto mall) to move their dealerships to the auto mall over a three-year period. Construction of infrastructure and grading for the auto mall began in late 1990, and was completed in 1991. The first dealerships--Lexus, Rolls-Royce, Mercedes Benz, Porsche, and BMW--opened for business in 1993 and report healthy increases in sales. Although not fully occupied, the Fremont auto mall has been widely recognized in the trade as the only true auto mall in the San Francisco Bay Area, and sure to be as successful as the Roseville Auto Mall, after which ours was modeled.

The City, Catellus, and our local auto dealers have all made significant investments in the Fremont Auto Mall, with the reasonable expectation that some GM franchises would locate there. To date, local auto dealers have invested over \$13 million in land and over \$12 million in construction of the new stores now in place. Catellus has spent in excess of \$5 million for various infrastructure and processing costs. The City of Fremont renamed a major street which connects the auto mall with two major interstate freeways to Auto Mall Parkway. The City paid for new freeway and street signs for Auto Mall Parkway, and has covered many soft costs, for a total of about \$500,000. Of major significance, the City is committed to financing a \$18 million new freeway interchange on Interstate 880 at Auto Mall Parkway, which will assure exceptional customer access to the auto mall. Construction is scheduled to begin in February 1994.

All the investments described above were made by the various parties in the belief that the auto mall was of adequate size and was correctly positioned to achieve success. The auto mall plan was based on the ability both to achieve critical mass, which dictated the overall size of the mall, and at the same time to price the property so that rent factors would be reasonable and affordable for auto dealers. The project is also centrally located to major transportation corridors, but without the attendant traffic problems usually associated with high volume retail located adjacent to a freeway interchange.

Unfortunately, the national economic recession began to take a heavy toll on the automobile business at the same time Fremont's dealers had planned to build new facilities in the Fremont auto mall. The City and Catellus have done virtually everything possible to reduce the financial burden on dealers who moved or will move to the auto mall, but most of the dealers still need favorable financing, which has been hard to find.

A few major dealers have the financial capacity to relocate, but we understand that dealers with a current or potential interest in GM products have been strongly discouraged by General Motors from moving to the Fremont Auto Mall. At the same time, General Motors representatives have

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failed repeatedly to give the City of Fremont information, which has been promised on numerous occasions, regarding GM's potential interest in the Fremont Auto Mall.

We are convinced that all the necessary financing would have been arranged and most of our dealers would now be moving to the auto mall and shortly enjoying significant increases in sales, but for GM's inexplicable decision to turn its back on the Fremont Auto Mall. We understand that GM dealers are now effectively prohibited from locating in our auto mall under the recently-completed "Project 2000." Instead, dealers are being directed to relocate their sales points to a 14-acre site in Newark, a small neighboring city which is surrounded by Fremont.

We feel certain that GM's decision to option land in Newark, instead of in the Fremont Auto Mall, must have been made by individuals who are not familiar with Fremont, or who may have unintentionally developed a bias against the Fremont Auto Mall even before the mall received final approval from the City.

The following chronology of facts should help you see the basis for our concerns:

- In 1989, Roch X. McClain, representing Argonaut Realty Co., visited Fremont and met both with City staff and with Catellus representatives concerning the planned Fremont Auto Mall. He left the impression that he, personally, did not like our planned auto mall but never gave any explanation for his opinion.

- Subsequently, our City Manager made a very thorough presentation of the auto mall plans, including the City's commitments, to a large group of zone managers, representatives of GMAC, Motors Holding, Argonaut Realty, and GM corporate. We never received any direct feedback from this meeting. Informally, we were told that the project was well-received at first but that Roch McClain had swayed the group to a generally negative stance.

- In 1990, six Fremont dealers representing 20 brands signed a Tri-Party Auto Mall Development Agreement with the City of Fremont and Catellus Development Corporation, committing to relocate to the auto mall. In fact, Don Signer, our Buick dealer, was awarded a Cadillac franchise by GM on the specific condition that he must move to the auto mall. At that time, the Oldsmobile, Pontiac and GMC dealerships were in the process of being sold because the owners wished to retire. This put these dealerships "in play," which (as explained below) gave GM considerable leverage. The Chevrolet/Geo dealer located in Fremont has had no interest at all in moving.

- By Fall of 1991, we had heard nothing from GM since the 1989 meeting with Mr. McClain. However, rumors surfaced and persisted (and appeared in the press) that GM wanted

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its dealers to relocate to Newark or Milpitas (another neighboring city), but not to the Fremont Auto Mall. We were unable to obtain any confirmation or other explanation, but the name Roch X. McClain often came up in our inquiries as a source of information.

- On October 14, 1991, our City Manager wrote to the zone managers of all the GM brands (their offices are in Fremont), asking them to share any information related to the rumors noted above. Only C. A. Wolf, Zone Manager for Buick, responded. He advised that we would be hearing from Roch McClain.

- On November 1, 1991, Roch McClain and a Pontiac representative met with us. They told us that they are "exploring their options," examining the Fremont Auto Mall and locations in Newark and Milpitas as possible relocation sites for Fremont's GM dealers. They said we should take lightly the rumors we hear and that there is no timetable or deadline for action of any kind. At the end of the meeting, we were assured that the Fremont Auto Mall was "definitely in the running" as a site for relocation of Fremont auto dealers. Mr. McClain agreed to keep us informed of progress on their studies and to advise us before GM makes any final decisions, so we might either help implement GM's decision or have "one last shot" should this be necessary. Once again, no one from GM ever initiated any contact with us following this meeting.

- Between November 1991 and April 1992, rumors again flew that GM was closing a land deal in Newark and that Fremont GM dealers would relocate there. Because it had proved so difficult to maintain communication with anyone at GM, we asked NUMMI officials to help facilitate a meeting with appropriate GM officials so we could find out what was going on. (We appreciate that NUMMI is not involved in this matter, but we knew of no other way to contact appropriate representatives of General Motors.)

- A meeting was arranged for April 14, 1992 with Roch McClain of Argonaut Realty and Keith Landenberger, General Marketing Director from GM, based in Southern California. Mr. Landenberger explained, in very general terms, that a nation-wide study was underway (Project 2000, we later learned) and that the question of Fremont vs. Newark is part of that study. Mr. Landenberger agreed to keep us informed of any decisions or actions by GM that would affect Fremont. Again, despite this promise, there was never any follow-up contact with the City by GM.

- The City and Catellus continued to try to work with dealers to get them located in the Auto Mall. There was increasing mention of "pressure" from GM that was working against us. At least two large and experienced dealers attempted (independently) to purchase the

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Oldsmobile, Pontiac and GMC franchises, with the intent of moving them to the Fremont Auto Mall. Both reported to us that they were unable to make an economically feasible deal with GM, because GM insisted these dealers pay almost \$1,000,000 more for land in Newark than they would pay in the Fremont Auto Mall.

■ Once again, we contacted GM, because no-one had contacted us. On October 9, 1992, we spoke with Raymond D. Buttacavoli, GM Regional Manager, based in Los Angeles. He confirmed that the owner of Fremont Ford (located in Newark) had purchased the Oldsmobile, Pontiac, and GMC franchises and was negotiating with GM for financing to relocate these points to Newark. He did not reveal that this negotiation implemented General Motors new anti-Fremont policy, which would have major significance for the future of the Fremont Auto Mall. Mr. Buttacavoli did promise to call us back to arrange a meeting with us, but he never contacted us.

■ Because we could not verify reports that the Fremont Auto Mall was simply out of consideration by GM, the City and Catellus continued their efforts to negotiate with the Fremont GM dealers to relocate to the Fremont Auto Mall. Then, in June 1993, we were told by various dealers that GM had made a final decision not to allow any of their dealers to relocate to the Fremont Auto Mall; instead, all relocations would be to Newark on a 14-acre site next to Fremont Ford.

■ Having still heard nothing directly from General Motors, we once again asked NUMMI to facilitate a meeting. Mr. Buttacavoli met with us on July 7, 1993. This time, he finally revealed the findings of the Project 2000 study, and said very directly that "GM people" had advised Motors Holding and GMAC not to finance any moves to the Fremont Auto Mall and that we will not see any GM dealers in our auto mall. He apologized for not contacting us sooner.

We are grateful that finally, on July 7, 1993, a General Motors representative explained to us what had been mysteriously going on at GM for several years, which was clearly having an adverse effect on our auto mall project. We appreciated Mr. Buttacavoli's candor. Of course, it came much too late for us to have any input into GM's decision or for us to moderate the costs and efforts that both the City of Fremont and Catellus Development Corporation had put into the auto mall. Despite repeated promises of information and cooperation, no-one from GM ever initiated a contact with the City of Fremont after 1989, and we were never given the opportunity we were promised to provide input to the final decision.

The City of Fremont has aggressively pursued and supported the Fremont Auto Mall for two years, in the expectation that GM dealers would locate there. This was based on the strength of the many representations GM officials had made to us, which we accepted in good faith.

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How could we have known that General Motors would (apparently) not give any weight to its long-standing good relationship with Fremont or to the significant advantages of our auto mall before making business decisions which would hurt Fremont?

Without going into great detail here, we firmly believe that the conclusion reached by General Motors that it should not invest in the Fremont Auto Mall does not take account of all the relevant facts and may reflect the unexplained bias of one person, as discussed above. Just to illustrate our concern about the facts, the following points arise from statements made by Mr. Buttacavoli when we met with him on July 7:

- Mr. Buttacavoli said auto malls are not necessarily attractive any more. He pointed to the Cerritos and Thousand Oaks auto malls in Southern California and to the Roseville Auto Mall in Northern California as exceptions. He said Fremont's Auto Mall did not compare with any of these. In fact, the location relative to a major freeway, the generally undeveloped nature of the surroundings, and other key features of the Roseville mall are virtually identical to the Fremont Auto Mall, except (unlike the Roseville Auto Mall) the Fremont Auto Mall is visible from the freeway!

- Mr. Buttacavoli acknowledged the importance of synergy and critical mass of dealers to the effective marketing of cars, but GM's direction seems contradictory. The 88-acre Fremont Auto Mall offers far greater potential for synergy and critical mass than the 14-acre parcel in Newark reportedly optioned by GM. It seems axiomatic that having two partial auto malls a few miles apart (in Fremont and Newark) will mean that neither will be fully successful. On the other hand, the 88-acre Fremont Auto Mall, when built out with the full range of domestic and foreign franchises, will have ideal synergy and critical mass and is certain to succeed.

- Mr. Buttacavoli said land price is a factor, but that GM is not interested in the economic incentives which Fremont and Catellus have to offer. This is strange to hear, because Newark is offering a sales tax rebate as part of its deal with GM; but even with the tax rebate, the Newark land price will be about twice the price of land in the Fremont Auto Mall!

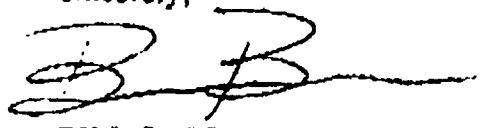
In conclusion, I have just one request: Before General Motors irrevocably turns its back on the Fremont Auto Mall, we respectfully ask you to review the process and the facts which led GM to this decision. If you are willing, we believe we can show you that investment by General Motors in the Fremont Auto Mall would make good business sense. At your request, we would be most pleased to submit a statement of facts concerning the Fremont Auto Mall which we believe must not have been adequately considered in the Project 2000 work. We ask this in light of all the promises which were made to us, but never kept, by General Motors representatives

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over the past two years and our solid belief that the Fremont Auto Mall will be a notable economic success.

Thank you for your consideration. I look forward to hearing from you in the near future.

Sincerely,



BILL BALL
Mayor

Enclosure