



## Kosmont Companies

Real Estate and Economic Advisory

## Renaissance Community Fund

Revitalization & Development Projects



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An aerial night view of a city, likely Kosmos, with a large sign in the foreground. The city lights are visible in the background, and the sign in the foreground is partially obscured by the text.

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**12<sup>th</sup> ANNUAL GENERAL ASSEMBLY**

**PRESENTING:**  
**The South Bay in 2040:**  
**Out of the Box**  
**And Into the Future**  
**Real Estate Development & Land Use**



Premiering 2-25-11 and hosted by:

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# The Nominations Are...

- **Developing in California**

*"TRUE GRIT"*

- **The State of the State**

*"TOY STORY 3"*

- **The Future?**

*"THE SOCIAL NETWORK"*

- **What Cities Can Do to Prepare**

*"HOW TO TRAIN YOUR DRAGON"*



# Developing in California



**TRUE  
GRIT**

# Story of a Development Project

**Finding and securing the deal**

**Timing, Tying-up, Toxins and Title Reports**

**Getting it Entitled**

**The Politics, The Public & The Permits**

**Juggling Jurisdictions; CEQA & Coastal**

**Funding and Completing Construction**

**Lenders, Labor and Liability**

*...3-7 years later... or more:*

**Selling or Operating the Completed Project**

*In what economy?*



# The State of the State



Toy Story 3



# California Real Estate, 2006



2009



*BORROWERS*

*REDEVELOPMENT  
AGENCIES*

*JOBS LENDERS*

*CITIES*

*FIRST-TIME  
BUYERS*

## The Governor's Distress-Buster Budget:

- \$12 billion in cuts and about \$12.5 billion in revenue extensions
- To ask voters in June to decide on extending various taxes:
- Realignment – Tinker with Prop 13 by modifying taxation powers and distribution of services between state and local governments.
- Eliminate Redevelopment Agencies & Enterprise Zones

*"A Tough Budget for Tough Times" – Governor Brown*

## **Budget Proposal promises to eliminate all 397 Redevelopment Agencies by July 1 of this year:**

1. Only existing projects and debt to be paid until retired
2. Diverting \$1.7 billion to the State's General Fund in 2011-12.
3. Distributing the remaining tax increment to schools, cities, and counties.
4. The housing set-aside funds will be shifted to local housing authorities.
5. Requiring 55% voter approval for economic development projects similar to those currently funded through redevelopment.

# Where are we going?



k

# The Future?



the social network



## Between NOW and 2040:

- **California will add 40% more people or 15 million new residents.**
- **Los Angeles County will add 2 million new residents.**

# Generation Shift

<b>GENERATION</b>	<b>YEARS BORN</b>	<b>% of POP. NATIONWIDE</b>	<b>% of POP. CALIFORNIA</b>
<b>Gen Z</b>	<b>2000 – present</b>	<b>14%</b>	<b>14%</b>
<b>Gen Y</b>	<b>1981 – 1999</b>	<b>28%</b>	<b>29%</b> <b>10.7 million</b>
<b>Gen X</b>	<b>1965-1980</b>	<b>20%</b>	<b>21%</b>
<b>Baby Boomers</b>	<b>1946-1964</b>	<b>26%</b>	<b>24%</b>
<b>Silent Generation</b>	<b>Before 1946</b>	<b>13%</b>	<b>11%</b>

## **Cities Now Compete for Generation “Y” that:**

- **Prefers urban living over suburban neighborhoods**
- **Is more likely to Rent than Buy versus Gen X (Gen Y also less financially able to buy)**
- **Has a “mobile mindset” about work and home**
- **Prefers neighborhood amenities to private amenities**
- **Seeks diversity**
- **Prefers creative and energetic cities**
- **Lives High-tech, both in work and home**
- **Prefers environmental quality & sustainability**
- **Desires a sense of place**

**In 2040, Cities will be run by Gen Y and some Gen X'ers**

**The Voting base will be ethnically diverse, and most will:**

- **have been born after the Internet was made available to the public**
- **not remember when the last freeway was built**
- **not recall a time when LA did not have a subway and an extensive light rail system.**

*The "Political Will" to transform the urban fabric will come from next generation.*

# Land Use Shifts – Coastline & Open Space

- **PALOS VERDES PENNINSULA TO REMAIN A REGIONAL AMENITY FOR A REGION INCREASINGLY LIMITED IN OPEN SPACE. YET AMID GROWING POLITICAL AND FINANCIAL PRESSURES TO DENSIFY.**
- **WATERFRONT REVITALIZATION WILL TAKE CENTER STAGE FOR BEACH CITIES**

## EXAMPLE – REDONDO BEACH:

City of Redondo Beach recently entered into a 55-yr ground lease with Zislis Boutique Hotels for development of 52-room Shade Hotel, restaurant and roof-top pool

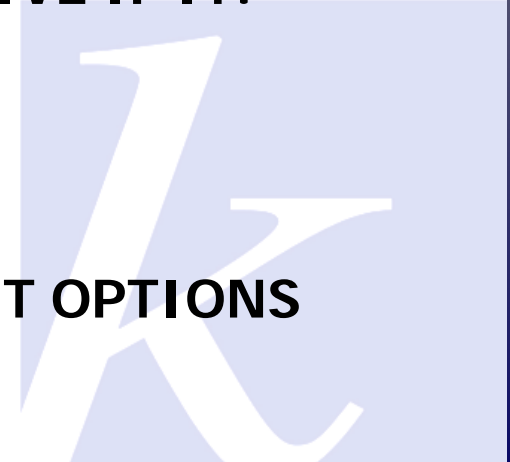
Shade Hotel, is positioned to enhance the Redondo Beach waterfront, attract more tourists and act as a catalyst for future upscale development in the area, similar to the original hotel & Metlox Center in Manhattan Beach (opened Dec, 2005).





# Land Use Shifts – Commercial/Mixed-Use

- **BOULEVARDS WILL TEND TOWARD MIXED-USE AND BECOME MORE PEDESTRIAN FRIENDLY**
- **UNLIKELY THAT ALL CAR DEALERS WILL ABANDON SOUTH BAY CUSTOMER BASE FOR CHEAPER LAND. INSTEAD, AUTO DEALERS MAY GO VERTICAL AS CAR SIZE AND WEIGHT CONTINUE TO DIMINISH.**
- **“BRICK & MORTAR” RETAIL MAY STILL THRIVE IF IT:**
  - **CREATES A SENSE OF PLACE**
  - **OR**
  - **IS COMBINED WITH ENTERTAINMENT OPTIONS**



# Land Use Shifts – Mass Transit

## Extension of Green and Crenshaw Lines Likely

**Measure R** provides \$272 million for the South Bay Metro Green Line Extension, partial funding for a rail extension to Redondo Beach with a possible connection to Torrance.

Real estate markets will raise value of land near transit stations.



# Land Use Shifts – Residential



- **Rising long-term oil prices, security concerns, and renewed craving for communities will encourage development of more compact and less car-dependent neighborhoods.**
- **As less-expensive alternative fuels become more standard, cities will continue to concentrate but at a slower rate.**
- **Multi-family will dominate and single family will become more of a luxury in 2040. We may also see new innovative housing types.**

# Land Use Shifts – Residential

## Housing choice will form from two distinct groups:

- **Commuters.** This group will choose to live, in part, where they can find a balance between commuting cost and housing cost. This group will seek out:
  - multi-family housing near jobs
  - Single-family housing in the outskirts
- **Telecommuters, Self-Employed, and those whose work is otherwise independent of location.** This group has relatively more disposable income, enabling more flexibility in location – *proximity to amenities as or important than proximity to work.*
  - This group will pay a premium to live in walkable areas, beach communities, and resort areas.





# Land Use Shifts – Office

- **Gen Y's preferences for flexible, shared space, decentralized business models, & portable workstations will diversify office space and further blur office and home uses.**

Traditional “Euclidian Zoning” that separates uses will become less relevant and less useful in the year 2040.

- **Conventional office space will remain but no longer dominate. Rather, offices will diversify & specialize.**

Example – The Trophy “Class A” market will become a focused niche rather than a dominant goal for many white-collar companies.

# Land Use Shifts – Industrial & Transport

- **LARGE INDUSTRIAL PARCELS WILL BECOME TARGETS FOR REUSE, BUT LOCAL MANUFACTURING SHOULD STAY STRONG AS SUSTAINABLE PRODUCTS AND PROCESSES EVOLVE**
- **INDUSTRIAL AREAS LIKELY TO INVEST IN ONSITE ENERGY GENERATION REDUCING RELIANCE AND IMPACT ON GRID.**
- **THERE WILL BE A RESHUFFLING OF COMMUTER SERVICES BETWEEN HIGH SPEED RAIL AND COMMUTER AIRLINES**



# Too Visionary for 30 years from now?

## Consider this:

- In 1985, Beverly Hills residents were adamantly opposed to a subway. Today, the City largely supports it.
- People have been living in mixed-use settings for 5000 years, but living in separate uses for only 50 years.
- Downtown LA has exceeded expectations after 50 years of false starts and failed attempts to revive the core:

"[This is my] note on Downtown... because that is all Downtown Los Angeles deserves."

- Reyner Banham, 1971

"New York-like in its density and mishmash, the long-blighted center has become an accessible, pedestrian-friendly destination in recent years."

– NY Times, February 20, 2011 article on Downtown Los Angeles

# What South Bay Cities Can Do To Prepare



# Tools to Prepare for the Future

1. **A Zoning Code for Tomorrow, not just Today**
2. **Public-Private Partnerships**
3. **Federal Programs**



# Adapt Zoning

## Flexible Use Zoning

Establish zoning that allows by-right changes of use provided environmental thresholds are not exceeded

## Form-Based Zoning

Use form-based code for boulevard specific plans, commercial districts, and community centers to ensure that urban design is given priority

## Transit-Oriented Districts

Accommodate projected light rail extensions – assume they will be built

## Sign Districts

Signage is becoming a bigger issue each year. Plan ahead and establish sign districts in commercial areas where it makes sense.

# P3 Deal Structures

## Ground Leases

- Sources for stable cash flow
- Financing for capital projects
- Ownership of property/development after lease term is over

## Lease-Leaseback (financing public assets & revenue)

- Frees up equity from existing properties
- Allows continued use of assets
- Ownership of property/development after lease term is over
- Capitalizes public agency revenue streams

**P3's can be augmented by Revenue Bonds, CFD's  
Redevelopment Bonds (gas tax, sales tax, tax increment)**

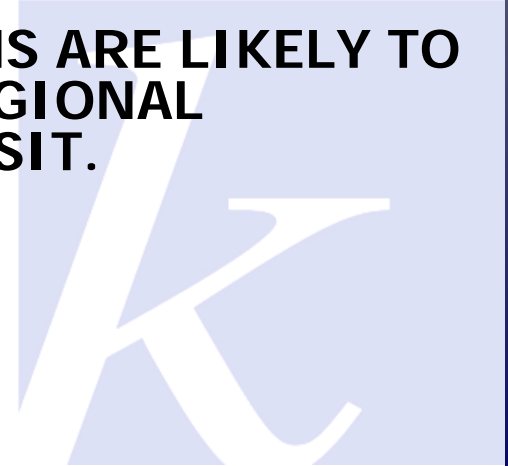
**Project Delivery Methods: At-Risk & Design-Build** coupled with public financing

# Federal Programs - EB5 Program

- **EB-5 Immigrant investor visa category created in 1990 to attract foreign capital and create jobs for American workers.**
  - Investments placed through Regional Centers \$1 million investment in a new or existing business
  - \$500,000 if in a Regional Center or Targeted Employment Area
  - Investment must create full-time employment for  $\geq 10$  US workers
  - 10,000 EB5 visas available every year
- **California houses 25% of U.S. Regional Centers. (31 of 123)**
  - Eligible Categories – Hotels, Retail, Restaurants, Food, Apparel, Transportation, Warehousing, Furnishings, Printing & Paper, Health Care, and many others.
  - Can be used for real estate projects (new and existing)

# Putting it All Together – A New Urban Form

- **THE SOUTH BAY WILL EXPERIENCE DEMAND FOR MORE CENTERS OF CONCENTRATED DEVELOPMENT WITH DIVERSE AMENITIES AND OPEN SPACE.**
- **CENTRAL BUSINESS DISTRICTS (CBDs) WILL TRANSITION TO “CENTRAL COMMUNITY DISTRICTS” AS LIVE-WORK-PLAY ARE INTEGRATED ACROSS MIXED USES, AND REAL ESTATE PRODUCT TYPES REALIGN.**
- **CAPITAL-INTENSIVE CULTURAL ATTRACTIONS ARE LIKELY TO REMAIN IN FEW LOCATIONS SERVING AS REGIONAL AMENITIES AND CONNECTED BY MASS TRANSIT.**



*The End*



A long pier extends into the ocean at sunset. The sky is a mix of blue, purple, and orange. The pier has a pavilion at the end and several lights along its length. The water reflects the colors of the sunset.

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