



Kosmont Companies
Real Estate and Economic Advisory

Kosmont Realty Corporation
Funding Solutions for Public-Private Deals



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**American
Red Cross**

High Desert Chapter

High Desert Leaders Economic Summit

PRESENTING:
Corporate Recovery!
Consumer Caution!
Political Confusion!
Hold on to your seats! (and your money)

Premiering 3-24-11 and hosted by:

Larry J. Kosmont, CRE: Pres., Kosmont Companies

Research and Production: **Matt Goulet**

- **The State of the State**
- **Business and Real Estate Take the Heat**
- **Opportunities for the High Desert**
- **Forecast**



The State of the State

A Critic's Review



California, 2006



2011



California Waking Up In Vegas...Broke

STATE FINANCIAL DISTRESS

- California has a **\$25.4 billion** budget deficit and \$89 billion in long-term bond debt.
- Economic distress hitting all tax categories

LOCAL GOVERNMENT DISTRESS

- Three straight years of tax-base reductions
- Increased unfunded pension obligations pitting management vs. unions

ECONOMIC DISTRESS

- Unemployment --1.3M jobs lost with long recovery
- Unemployment Rate – 12.7% Statewide, **14.3% in Riverside Co and 14.1% in San Bernardino County**
- Housing – values have dropped over 40% in some areas

Governor Brown's Second Act

- **\$12 billion in cuts** and about \$12.5 billion in revenue extensions
- **Realignment** – modify taxation powers and distribution of services between state and local governments.
- **Eliminate Enterprise Zones**
- **Eliminate 425 Redevelopment Agencies by July 1**
 - The housing set-aside funds will be shifted to regional COGS or housing authorities.
 - Outstanding Tax Increment will mostly go to State to backfill programs and costs

Impact of Budget Proposal on High Desert

- **Enterprise Zones at Risk** – Hesperia, Barstow, San Bernardino, Antelope Valley (Palmdale)
- **Loss of Redevelopment could endanger critical projects throughout the High Desert**

Project	RDA	Highlights	Status
Southern California Logistics Airport	Victor Valley	30,000 jobs projected	In Progress
North Apple Valley Industrial Specific Plan	Apple Valley	38,000 jobs projected	In Progress
Ranchero Road Undercrossing	Hesperia	\$27m in funds	In Progress
Mortgage Assistance Program / Project FACELIFT	Barstow	\$4m	In Progress



How did we get this far?



Business & Real Estate take the Heat



A Celebrity
State with
“Issues”

California's Triple Threat



CALIFORNIA REPUBLIC



UNEMPLOYMENT



HOUSING



GOVERNMENT

State Turning to Local Government for \$\$\$

The Legislature dips into local revenues:

- Took \$2.05 B for schools from Redevelopment (2009)**
- Has attempted to redirect gas tax back to State budget**

Despite the following voter-approved protections:

- Prop 1A (2004)**: Protects local prop & sales tax from State
- Prop 1A (2006)**: Ensures that gas taxes can only be spent on transportation projects
- Prop 22: (2010)**: Protects local government and redevelopment funds from appropriation by the State – Gov. Brown would seek to repeal this law in 2011.

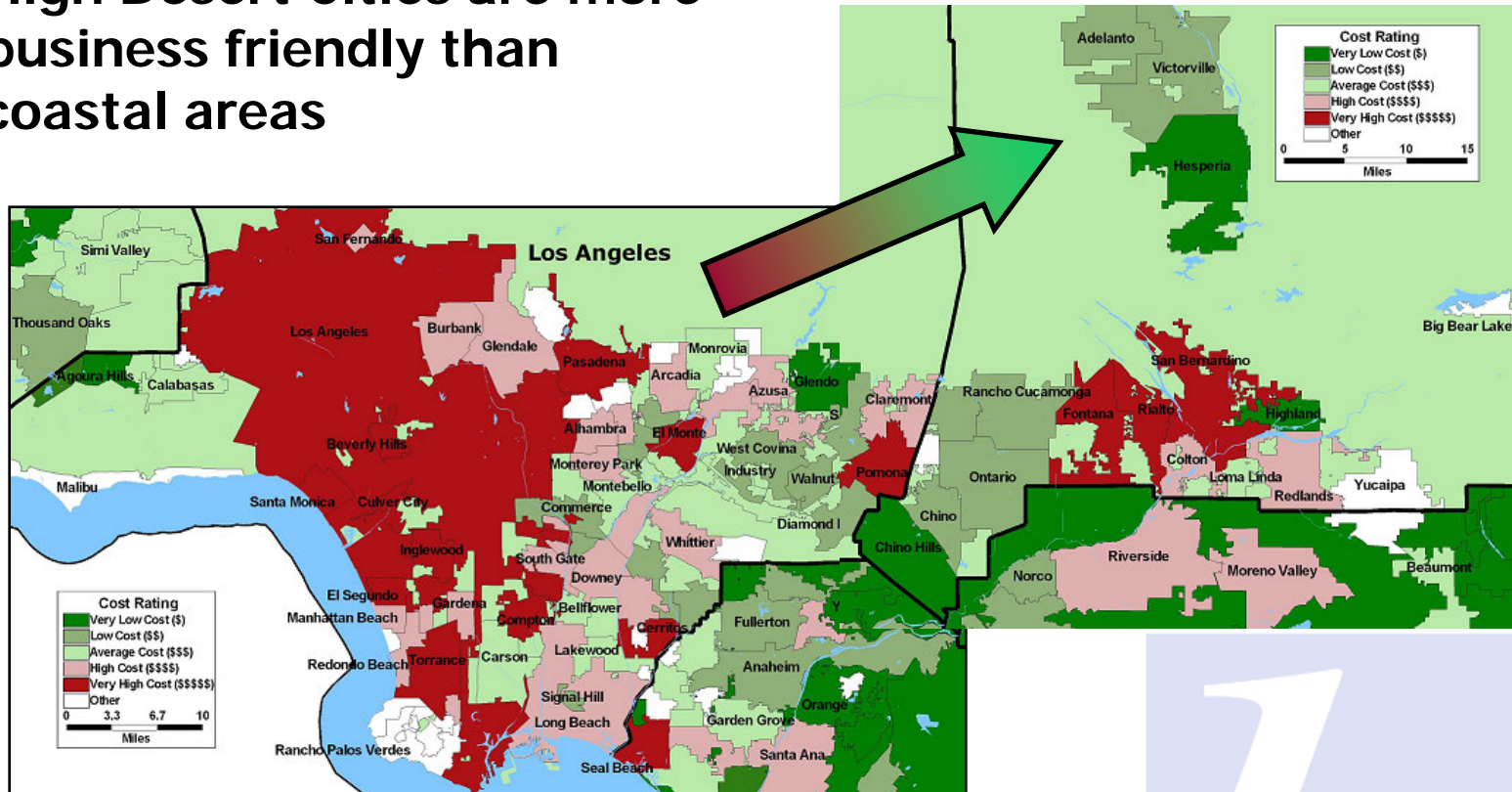
Business Picks up the Tab

- **Businesses are more politically vulnerable than citizens.**
- **California continues to be a high cost state.**
 - Sales tax in California is 9.75% to 10% in most places and 10.5% in some cities such as South Gate and Pico Rivera.
 - As California raises its taxes, it continues to lose businesses to nearby Nevada, Arizona and Texas.
- **Sample of tax rates - California and a few competitors:**

	California	Nevada	Arizona	Texas
Income Tax	8.84%	0.00%	4.63%	0.00%
Sales Tax	8.25%	6.85%	5.60%	8.00%

High Desert Business Climate

- High Desert Cities are more business friendly than coastal areas



- Inland Economy still driven by activity at the ports. High Desert logistics/warehousing facilitates SoCal biz growth

So where's the "Stimulus" for the High Desert ?

Opportunities for the High Desert



Lights!

Camera!

Action!

Cities Are *Still* in the Real Estate Business

The primary tools for local government in California to generate revenue and gain jobs are "THE 4 R's":

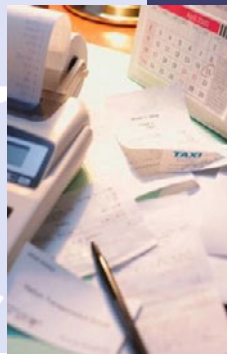
REAL ESTATE DEVELOPMENT – New Prop Tax Assessment or Tax Increment in Redevelopment

RETAIL – Sales Tax & Jobs (entry level)

RELOCATION -- Business Tax & Jobs (from Expansion)

ROOMS – Hotel transient occupancy tax (TOT)

Redevelopment has been the tool used to compete for Jobs and Taxes



Opportunities for Cities, Business & Real Estate

1. **Tax Relief Act of 2010**
2. **Small Business Jobs Act**
3. **EB 5 Visa Program**
4. **SAFETEA-LU - Transportation Act Extended**
5. **High Speed Rail Project**
6. **Changing Demographics**



Tax Relief Act of 2010

- **Income Tax** - Current rates ordinary income retained for two years, including capital gains @ 15%
- **Bonus Depreciation** - 100% of investment in new equipment for 2011; 50% for 2012
- **Research and Development Tax Credits** thru 2011
- **Social Security Tax** - Employees & self-employed workers get reduction of 2 percentage points in 2011
- **Estate Tax** - Reinstated with a top rate of 35% with lifetime exclusion to \$5M per person

Small Businesses Jobs Act

- **\$12 B in Tax Relief to Small Business (effective Sept 27, 2010)**
- **Expansion and enhancement of SBA loan programs, including:**
 - **More funds and expanded eligibility for businesses:** Jobs Act loans will support about \$12 billion in small business lending
 - **Higher Loan Limits:** Permanently increases SBA 7(a) and 504 from \$2M to \$5M (up to \$5.5M for manufacturers in 504 program).
“Microloans” for underserved communities increased \$35K to \$50K.
 - **Working Capital and Commercial Real Estate Refinancing:** Increases “SBA Express” loans from \$350K to \$1M through 9/27/11 and allows CRE refinancing for 504 program through 9/27/12.
 - **Specific assistance for businesses that sell inventory with title** (cars, RVs, boats, etc.).

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 TEA or deemed a “Troubled Business”
 - Investment must create full-time work for 10+ US workers
 - 10,000 EB5 visas available each year
- **California houses 25% of U.S. Regional Centers. (33 of 125)**
 - **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)**

SAFETEA-LU Transportation Act

- **“Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users” (SAFETEA-LU)**
- **US DOT provides guaranteed funding for highways, highway safety, and public transportation totaling \$284B.**
- **Program initially expired on Sept 30, 2009.**
- **Extended on March 4, 2011 until September 30, 2011 under H.R. 662 “Surface Transportation Extension Act”:**

\$42.46B for highway

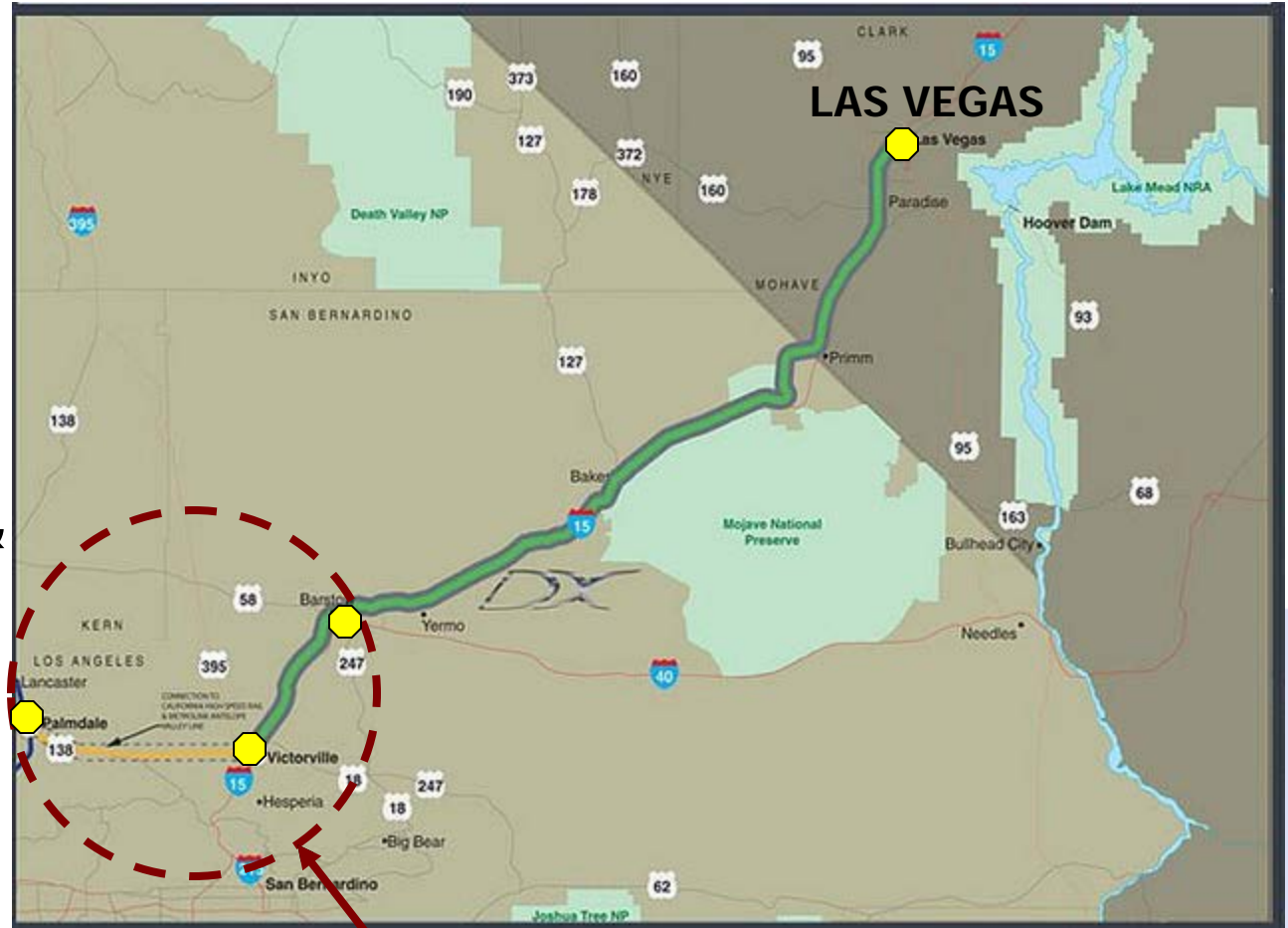
\$10.33B for mass transit





High Speed Rail – “DesertXpress”

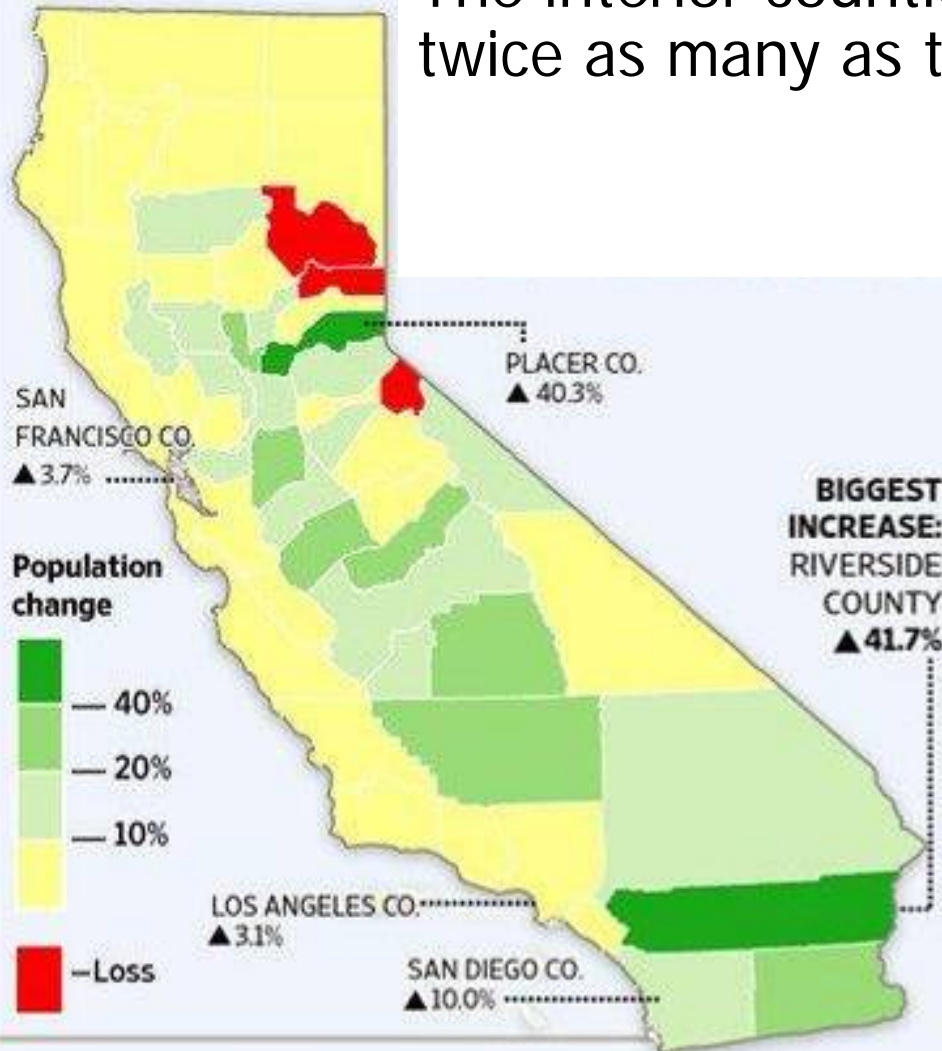
- Victorville would become hub of Nation’s first High Speed Rail
- Privately funded
- May be operable by 2014
- High Desert TOD & P3 Opportunities
- MAGLEV alternative would sidestep region from Ontario to Barstow (but public funding more uncertain)



**STATIONS IN BARSTOW,
VICTORVILLE AND PALMDALE**

Population Growth Shifting Eastward

The interior counties gained 2 million residents - twice as many as the combined coastal metros.



The Bay Area and Los Angeles are growing at their slowest rate in over 160 years.

Los Angeles	+ 3.1%
Orange	+ 5.8%
San Bernardino	+ 19.0%
Riverside	+ 41.7%

Generation Shift to Impact Planning Processes

GENERATION	YEARS BORN	AGE IN 2011	% of POP. NATIONWIDE	% of POP. CALIFORNIA
Gen Z	2000 – present	0-11	14%	14%
Gen Y	1981 – 1999	12-30	28%	29% 10.7 million
Gen X	1965-1980	31-46	20%	21%
Baby Boomers	1946-1964	47-65	26%	24%
Silent Generation	Before 1946	66+	~12%	~12%

Generation Shift Changing Definition of Vital Communities

Cities Now Planning 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

Trends



Will this Sequel
be better?

The High Desert of the Future

1. **THE HIGH DESERT AND INLAND EMPIRE GAINING POLITICAL CLOUT DUE TO EASTWARD SHIFT OF POPULATION**
2. **A RETURN TO THE BASICS FOR REAL ESTATE – “Real estate is not the driver of real estate” in 2011. Business demand and jobs will influence RE more than speculation or capital markets.**
3. **PUBLIC-PRIVATE DEALS.** Deals with public assistance: transportation, infrastructure, hotels, mixed use, lease-leasebacks, etc. City Hall open for business but not a very flush player.
4. **TOWN CENTERS AND TRANSIT HUBS WILL INCREASE IN IMPORTANCE.** Rising long term energy prices and changing tastes will incentivize denser communities.
5. **TODAY’S COLLEGE STUDENTS WILL BECOME OUR POLITICAL LEADERS IN 20+ YEARS.** The changing tastes of “Gen Y” should in part dictate how High Desert cities plan as the 21st Century matures.

The End



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