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Real Estate and Economic Advisory

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Funding Solutions for Public-Private Deals



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ICSC Central California



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**UNDER 17 REQUIRES ACCOMPANYING
PARENT OR ADULT GUARDIAN**

**WARNING: THE FOLLOWING
PRESENTATION INCLUDES GRAPHIC
DEPICTIONS OF TAXES, POLITICAL
DYSFUNCTION, AND GRATUITOUS
IMAGES OF FISCAL UNCERTAINTY.**

**VIEWER DISCRETION ADVISED FOR
ANYONE WITH A WALLET**

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- **The State of the State**
- **Retail and Real Estate Take the Heat**
- **Opportunities for Retail in the Central Valley**
- **Forecast**



The State of the State



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

- 1.3M jobs lost with long recovery
- Unemployment Rate – 12.3% Statewide, but Central Valley ranges from **12.9% in Sacramento County to 21.5% in Sutter County.**
- Housing – values have dropped over 40% in some areas

Governor Brown's Second Act

- **\$12.5 billion in cuts** and about \$12 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**
 - Outstanding Tax Increment will mostly go to State to backfill programs and costs
 - The housing set-aside will be shifted to local housing authorities.

Impact of Budget Proposal on Central Valley

- **Enterprise Zones at Risk** – Eureka, Fresno, Kings, Merced, Oroville, Sacramento, San Joaquin, Shasta, Siskiyou, Stanislaus, Taft, Tulare, West Sacramento, Yuba-Sutter
- **Loss of Redevelopment could endanger critical retail projects throughout the Central Valley**

Retail Project	RDA	Highlights	Status
Downtown Railyards Mixed-Use TOD	Sacramento	19,200 jobs \$50m	In Progress
Multiple Project Area Business Revitalization and Attraction Plan	Fresno	\$6.3m	In Progress
Central Visalia Downtown Parking Project	Visalia	\$2.5m	In Progress
Downtown Town Square Project	Roseville	\$2.4m	In Progress
Downtown Mall Mixed-Use Parking / Retail / Housing Project	Redding	\$1m	In Progress
Baker Street – Old Town Kern Mixed-Use Project	Bakersfield	\$750k	In Progress



How did we get this far?



Business & Real Estate take the Heat



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)**
- **Sales Tax:** 6% of 8.25%* goes to State's General Fund
- **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%

2010 Kosmont-Rose Institute Cost of Doing Business Survey

Cost Rating Distribution

LA Basin

Partial list

Source: Kosmont-Rose Institute
Cost of Doing Business Survey 2010

Skewed to
HIGHER Cost

\$\$\$\$\$

\$\$\$\$\$

Bell
Beverly Hills
Cerritos
Compton
Culver City
Hawthorne
Inglewood
Los Angeles
Lynwood
Pasadena
Santa Monica
Torrance

Alhambra
Arcadia
Azusa
Burbank
Covina
Downey
Gardena
Glendale
La Verne
Long Beach
Norwalk
Redondo Beach
South Gate
Whittier

\$\$\$

Calabasas
Carson
Lakewood
Montebello
Paramount

\$\$

Commerce
Rosemead
San Dimas
Signal Hill
Temple City
Vernon
Walnut
West Covina

\$

Agoura Hills
Westlake V.

29%

34%

12%

20%

5%

2010 Kosmont-Rose Institute Cost of Doing Business Survey

Cost Rating Distribution Central Valley



Partial list

Source: Kosmont-Rose Institute
Cost of Doing Business Survey 2010

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Monterey
Sacramento
Salinas
Stockton

14%

\$\$\$\$

Davis
Porterville
S. L. Obispo
Tulare
Woodlake

18%

\$\$\$

Chico
Citrus Hts.
Clovis
Elk Grove
Eureka
Fresno
Lodi
Merced
Modesto
Rocklin
Turlock

39%

\$\$

Bakersfield
Folsom
Madera
Tracy
Visalia

18%

\$

Dos Palos
Redding
Roseville

11%

Opportunities for Central Valley Retail



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":

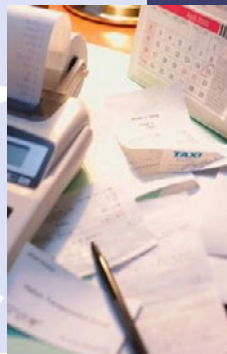
REAL ESTATE DEVELOPMENT – New Prop Tax Assessment or Tax Increment in Redevelopment

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 Retail & Job-Attracting Business

- 1. EB 5 Visa Program**
- 2. Public-Private Partnerships**
- 3. Small Business Jobs Act**
- 4. High Speed Rail Project**
- 5. Changing Demographics**



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)

P3 Deal Structures for Projects with Retail

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

Ground Leases (government owned land)

- No initial capital outlay for property acquisition
- May be subordinated
- Ownership of property/development after lease term is over

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

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

Small Businesses Jobs Act

- **\$12B 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.



High Speed Rail

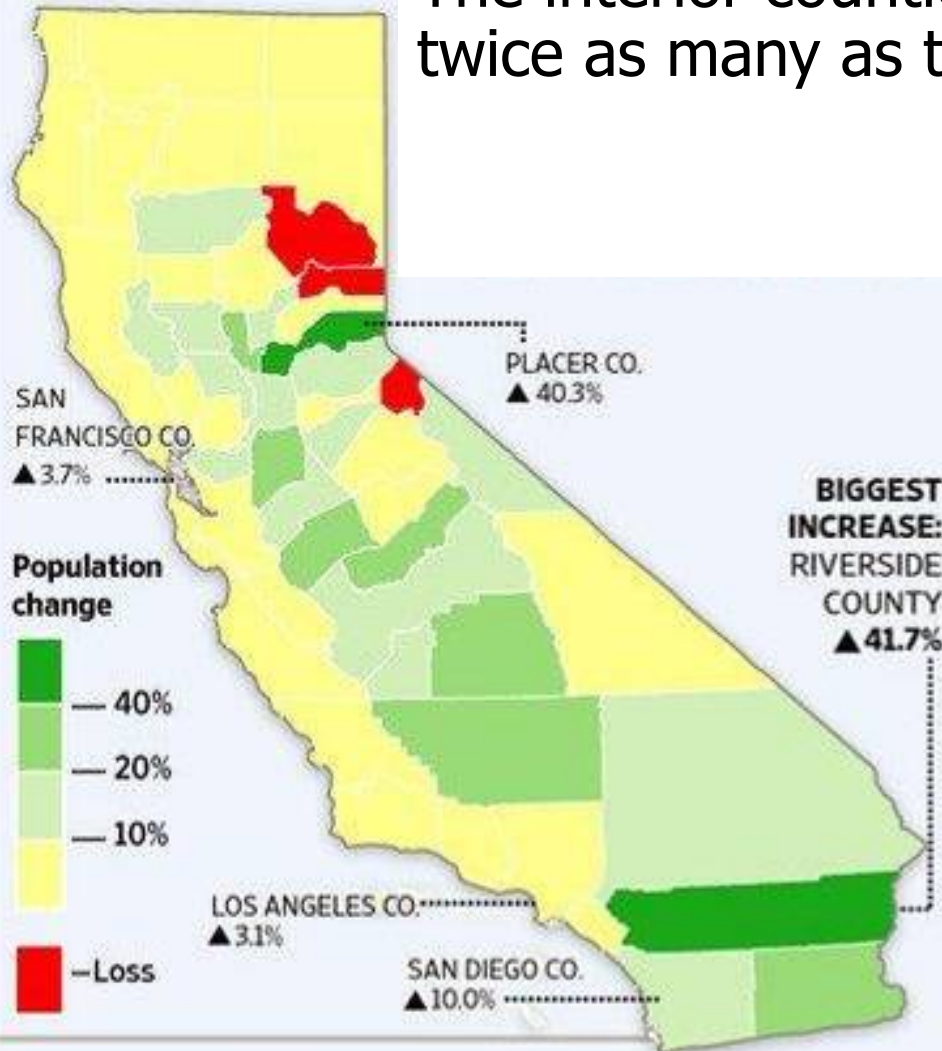
- **Plan includes:** 790 miles of track and 26 stations – 7 in the Central Valley
- **Funding:** \$42 Bil approx = \$9 Bil (Prop 1A-2008) + Fed \$?*
- **Projected completion:** 2020-2030, providing all funding is established
- **TODs:** Local governments and COG's working on transit-oriented development plans at HSR stations
- **P3 Opportunities** throughout the State



*Fed cut \$1.5 Bil from high speed and intercity rail funding

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%
Fresno	+ 15.7%
Riverside	+ 41.7%

Generation Shift to Impact Customer Base

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

Generation Shift to Downtowns

- Educated '20' and '30' somethings are moving downtown in the USA's largest cities — even to urban centers losing population.
- Detroit, population shrank by 25% since 2000; its downtown added 2,000 (59% more) young and educated residents.
- In two-thirds of the nation's 51 largest cities, the young, college-educated population grew twice as fast within 3 miles of the urban center as in the rest of the metropolitan area
- In 2000, young adults with a four-year degree were about 61% more likely to live in close-in urban neighborhoods than less-educated counterparts. Now, about 94% more likely.

New Retail 'Communities'



River Park, Fresno

Fancher Creek, Fresno



Conclusions



Will this Sequel
be better?

Attracting Retail – Tips for Agencies

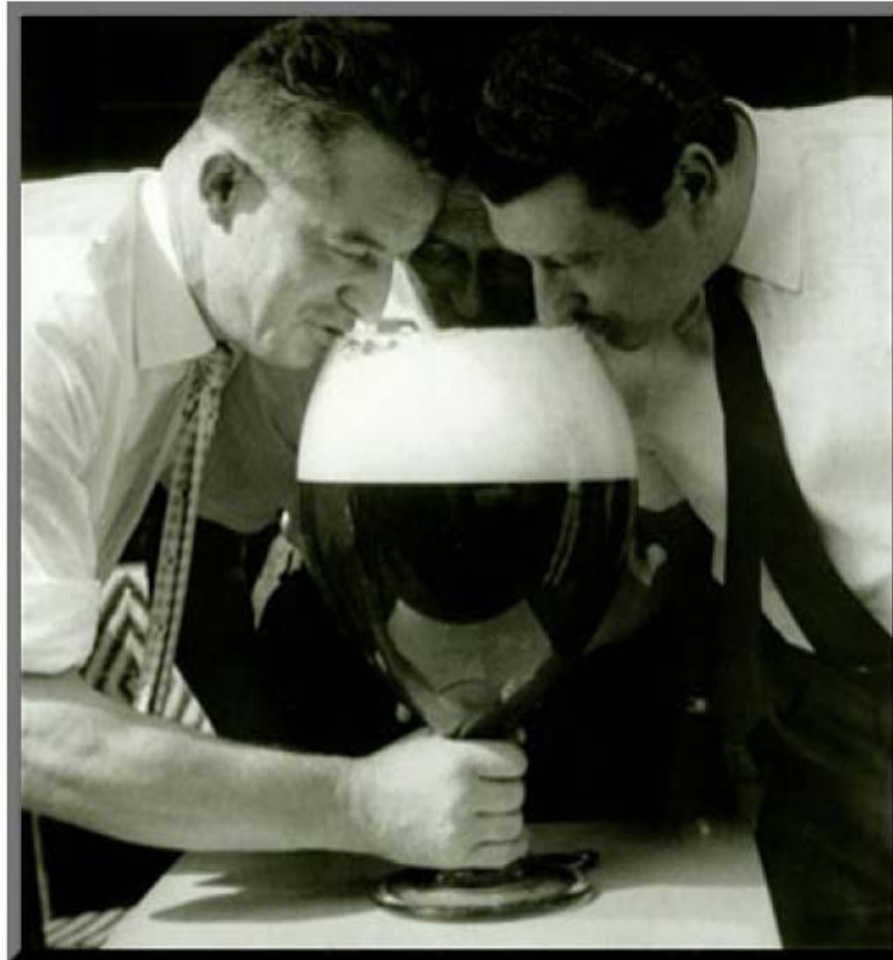
1. **MAKE A CASE FOR RETAIL.** Find out what major retailers want in their trade areas. Hire a strategic retail consultant to evaluate / poll interest in specific retailers and then pitch the numbers.
2. **ASSEMBLE A MENU OF INCENTIVES** to make it easier for fence-sitting retailers to make a decision to locate.
3. **USE P3 TO FINANCE DEVELOPMENT.** Beyond Redevelopment, consider lease-leaseback structures with private sector investment funds for retail, mixed use and revenue generators.
4. **PLACEMAKING.** Brick & Mortar retailers have a better outlook for success when patrons are attracted to shopping and entertainment environments.



The Central Valley of the Future

1. **THE CENTRAL VALLEY AND INLAND CITIES 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: retail/entertainment, infrastructure, hotels, mixed use, lease-leasebacks, etc. City Hall open for business; limited resources
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.** Changing tastes of “Gen Y” should in part dictate how Central Valley cities plan for 21st Century.

The End



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