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**San Gabriel Valley City Manager's
Association: Annual Spring Workshop**

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

Premiering 6-15-11 and hosted by:

Larry J. Kosmont, CRE: President, Kosmont Companies

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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 San Gabriel Valley**
- **Forecast**



The State of the State



California, 2006



2011



California Waking Up In Vegas...Broke

STATE FINANCIAL DISTRESS CONTINUES

- California STILL has a **\$9 to 10 billion** budget deficit and \$89 billion in long-term bond debt with a plan to adopt a Budget TODAY that could grab 1.7B in RDA funds, add ¼ cent to sales tax, tax internet sales, with further cuts to education & courts
- Economic distress hitting all tax categories but momentum for a public vote in to extend income, sales and vehicle taxes is subsiding

LOCAL GOVERNMENT DISTRESS

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

ECONOMIC DISTRESS

- 1.3M jobs lost with long recovery
- Unemployment Rate – 11.7% Statewide, 11.8% in Los Angeles County
- Housing – values have dropped over 40% in some areas

Governor Brown's Second Act

- **Realignment** – modify taxation powers and distribution of services between state and local governments
- **Eliminate 425 Redevelopment Agencies by “forcing “voluntary T.I. shifts**
 - Tax Increment will mostly go to education
 - The housing set-aside shifted to other entities
 - Loss of Redevelopment could impact/endanger various SGV redevelopment projects underway
- **Deadline TODAY (6/15/11) for sending a budget to the governor** – “Two bill” redevelopment elimination strategy being considered by legislators



How did we get this far?

Business & Real Estate Take the Heat



California's Triple Threat



CALIFORNIA REPUBLIC



UNEMPLOYMENT



HOUSING



GOVERNMENT

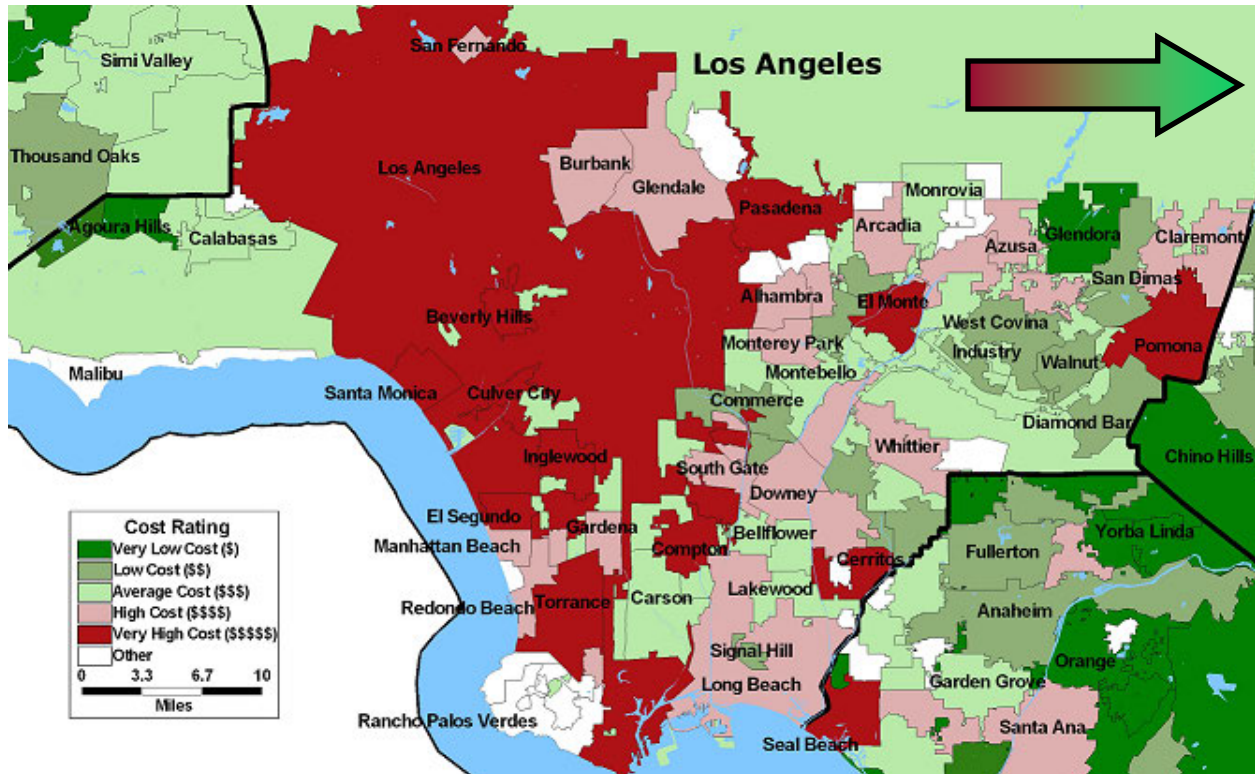
Business Picks up the Tab

- **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 of South Gate and Pico Rivera. More to come...
 - 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%

San Gabriel Valley Business Climate

- San Gabriel Valley Cities are more business friendly than coastal areas



So where's the "Stimulus" for the San Gabriel Valley?

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 San Gabriel Valley Retail



Consumer & Investor Sentiment

- Consumers are focusing on basic necessities and value propositions; not yet feeling secure about economic recovery
- National retail sales down 0.2% between April and May, but excluding autos up 0.3%; LA County forecast +5.7% taxable retail sales in 2011
- Investor concerns include
 - Gasoline & food prices
 - Legacy commercial debt
 - Federal deficit and spending
 - Wavering consumer confidence
- ~30,000 attendees at ICSC RECon in Las Vegas; mood upbeat

Retail Environment Observations

Expansion and lack of development boost occupancy

- **Store openings staging a comeback** – 66,000 projected for 2011, up about 40 percent from last year; contraction subsiding, with only 700 stores closing in the Q4 2010, down 53% from Q4 2009
- **Lack of ground-up development** (36M SF over last 12 months compared to 235M in 2005); Retailers looking at existing spaces, however pipeline is needed for 2013 deals
- **Discount retailers** (e.g. T.J.Maxx, Kohl's, Ross) absorbing existing vacancies from Circuit City, Linens 'n Things, Mervyns, Gottschalks and others; Nearly 65M SF of retail absorbed in the U.S. over the past year, net absorption positive for past 7 quarters
- **Retail vacancies down slightly** from 7.2% to 7.1% nationally in Q1 2011; LA County down to 6.2% in 2010 from 6.3% in 2009
- **Small-shop vacancies prevalent**; properties <5k SF ~80% occupancy vs. ~95% for properties >10k SF for landlords like Kimco Realty & Equity One
- **Class A malls and centers** are faring best; B and C not so well
- **Urban/infill projects** attracting top tenants – Vacant stores in more densely populated areas re-leased 3 months sooner on average
- **Store sizes are contracting**

San Gabriel Valley well-positioned to take advantage of urban/infill appeal

Resilient Retailers in SGV Region

- **National retailers** have recovered most quickly due to robust sales & reduced inventory and rent (e.g. T.J.Maxx, Ross, Forever 21, Burlington Coat Factory)
- **“Healthy” / expanding restaurant chains** (e.g. In-N-Out, Habit Burger Grill, Chipotle, Panera Bread, Buffalo Wild Wings, Chick-fil-A)
- **“Active” health & fitness tenants** (e.g. L.A. Fitness, 24 Hour Fitness, Dick’s Sporting Goods)
- **Retailer shrinkage** across industries – Store formats becoming smaller/more efficient as online sales are promoted, e.g.:
 - ✓ **Best Buy** – 45k SF to 30k SF
 - ✓ **T.J.Maxx** – 25-30k SF to ~20k SF
 - ✓ **JCPenney** – Seeking urban infill 60k SF down from 100k SF, recruited Apple Chief / expert in retail store design
 - ✓ **PetSmart** – Considering 18k SF down from ~25k SF
 - ✓ **Fresh & Easy** – Considering 4k SF in addition to standard 10-14k SF
 - ✓ **Save-A-Lot** – Actively seeking ~15k SF grocery opportunities
 - ✓ **Walmart** – “Largest” retailer in the world – Plans to test 40 locations at 14k SF compared to average of 108k SF

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**



EB-5 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)

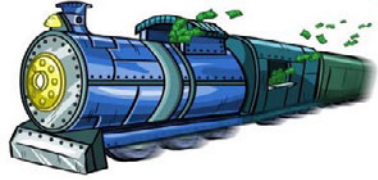
- No initial capital outlay for property acquisition
- May be subordinated
- Ownership of property/development after lease term is over

**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.



Transportation & High Speed Rail

- **Plan includes:** 790 miles of track and 26 stations – incl. **City of Industry**
- **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



*Feds cut \$1.5 B from high speed and intercity rail funding but will be back at some point PLUS ~\$56 Billion Transportation Act looming

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.

Conclusions



Will this Sequel
be better?

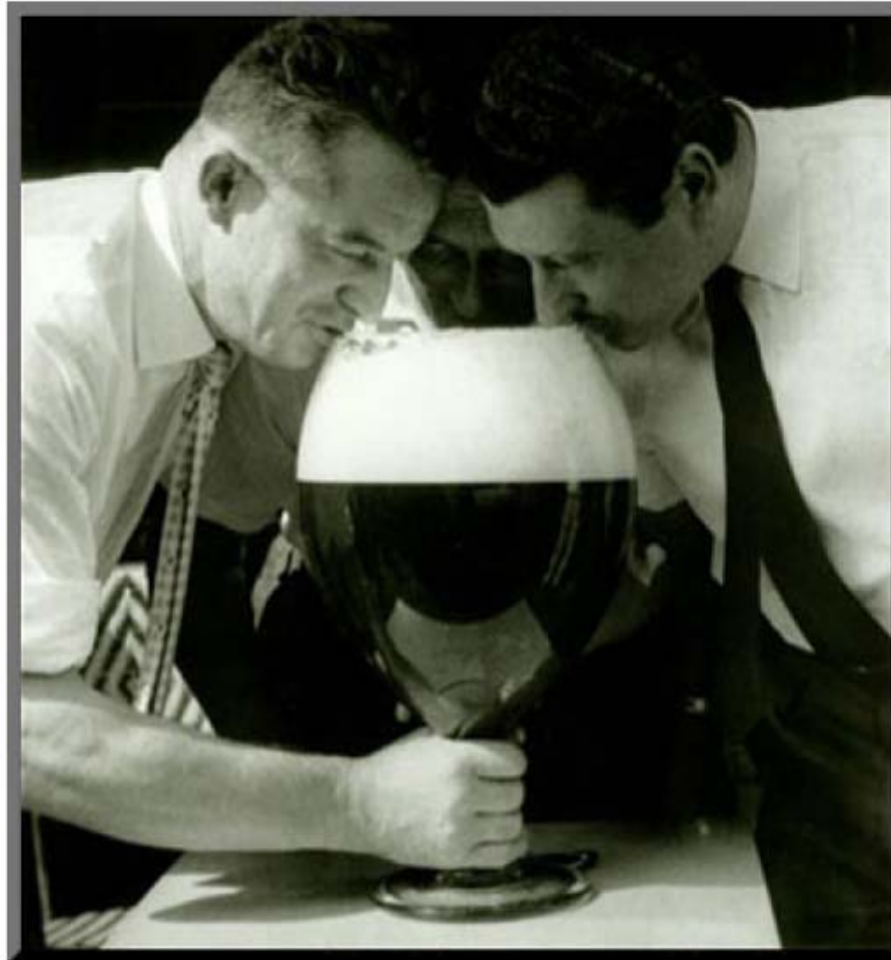
Attracting Retail – Tips for Agencies

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 San Gabriel Valley of the Future

1. **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.
2. **PUBLIC-PRIVATE DEALS.** Deals with public assistance: retail/entertainment, infrastructure, hotels, mixed use, lease-leasebacks, etc. City Hall open for business; limited resources
3. **TOWN CENTERS AND TRANSIT HUBS WILL INCREASE IN IMPORTANCE.** Rising long term energy prices and changing tastes will incentivize denser communities.
4. **TODAY’S COLLEGE STUDENTS WILL BECOME OUR POLITICAL LEADERS IN 20+ YEARS.** Changing tastes of the “Gen Y consumer/constituent should in part guide how San Gabriel Valley cities target future economic development & planning strategies for 21st Century.

The End



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