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Kosmont Companies Real Estate and Economic Advisory

Kosmont Realty Corporation Funding Sources for Public/Private Transactions



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Real Estate Law and Business Forum

USC LAW UNIVERSITY of SOUTHERN CALIFORNIA

Southern California Development Reform

Presented 3-2-11 by:

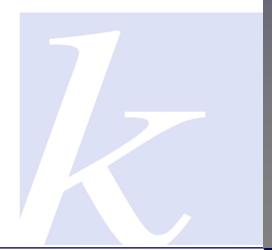
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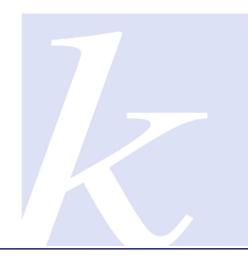
- Development is Tough Enough
- A Difficult State for Real Estate

Trends & Recommendations



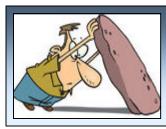


Development is Tough Enough



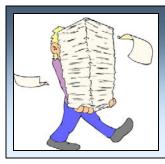


Challenges of a Development Project



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?



Cities Often Make Development Tougher

- Processing Time
- Surprises uncovered late in the process
- Uncertainty of approvals
- Red Tape

Economic Cycles will always be there to compound the challenge



Project Processing Outside Los Angeles

- Small Medium size Cities in our Region tend to have the following characteristics:
- Less bureaucratic than larger cities
- More centralized in policy direction
- Inter-departmental coordination more consistent
- Inclined to approve development agreements for large projects that aggregate and vest approvals
- More likely to incentivize and expedite key projects
 - Will enter into reimbursement agreements with developers to cover project mgmt and processing cost – leading to less time, red tape & uncertainty
- Will put major land use decisions to a public vote



Project Processing Outside Los Angeles

How have these cities kept processes streamlined?

- City Manager driven rather than Mayor-Council driven
- Fewer politicians involved typically means less politics in the approval process
 - Recognized their dependence on RE for fiscal survival early on – and have closely aligned project processing with economic development
 - Fewer departments with fewer inter-departmental conflicts
 - Often usher projects through with pre-development meetings and case management



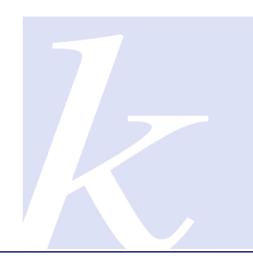
Project Processing Outside Los Angeles

Redevelopment has been the primary economic development program in smaller cities

- RDA funds typically pay for planners and engineers and specialized consultants.
 - Same political body: City Council = RDA Board
 - City Manager serves as the Executive Director for the RDA



A Difficult State for Real Estate





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.



Governor Brown's Budget Proposal

- \$12 billion in cuts and about \$12.5 billion in revenue extensions
- Realignment Tinker with Prop 13 by modifying taxation powers and distribution of services between state and local governments.
- Eliminate Enterprise Zones
 - Eliminate All 397 Redevelopment Agencies by July 1
 - The housing set-aside funds will be shifted to local housing authorities.
- Outstanding Tax Increment (\$1.7 Billion) will mostly go to State to backfill programs and costs



Cities Will Be Adversely Affected

- State budget is already impacting local government services
 - Redevelopment funds pay for economic development, planning, engineering staff in CA cities.
 - Redevelopment pays for key consultants –plan checkers, environmental specialists, historical, housing others
 - There will be less "hands-on" and skilled leadership to work and process public-private transactions
- Development landscape may change significantly fewer public private transactions and less capacity to process overall



"Tax Revolts" Have Impacted City Revenues

- <u>1978 PROP 13</u> Limits prop tax valuations to 1% and escalation to 2%
- <u>1986 Prop 62:</u> Requires general tax approval by 2/3rd of the governing body and a majority of the voters.
- <u>1996 Prop 218</u> Limits authority to impose property-related assessments, fees, and charges.
 Majority of voters approve increases in general taxes and 2/3rd must approve special tax.



- <u>2010 Prop 22</u>: Protect city, county and redevelopment funds
 from State re-appropriation
- <u>2010 Prop 26</u>: Many local fees now subject to 2/3rd public vote.



Cities Are in the Real Estate Business

The primary tools for <u>local</u> 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)

<u>ROOMS</u> – Hotel transient occupancy tax (TOT)



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

Trends & Recommendations





How Cities Will Serve Development

- 1. Combine Departments. Cities will be forced to trim and consolidate functions and services.
 - a) Planning combined with Economic Development
 - b) Economic Development rolled into the City Mgr's Office
- 2. Pass processing fees to developers. More than ever, development will be required to "pay for itself".
- 3. Look for ways around Prop 26 and raise taxes on businesses. Businesses don't vote, constituents do, leaving the former vulnerable to shouldering the burden
- 4. But Cities will still be in the development business. Local Governments will continue to seek out development and public-private deals despite a process that bodes to perpetually toughen.



How Cities Can Serve Development

- 1. Use the Predevelopment Meeting as a streamlining tool early in the process.
- 2. Use Case Management to ensure projects are carried through and given attention
- 3. Consolidated departments will have less staff but also with fewer conflicting requirements for projects



Generation Shift to Impact Planning Processes

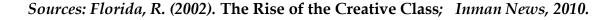
GENERATION	YEARS BORN	AGE IN 2011	% of POP. NATIONWIDE	% of POP. CALIFORNI A
Gen Z	2000 – present	0-11	14%	14%
Gen Y	1981 – 1999	12-30	28%	29% 10.7 million
Gen X	1965-1980	31-46	20%	21%
Baby Boomers	1946-1964	47-65	26%	24%
Silent Generation	Before 1946	66+	~12%	~12%



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



Cities are considering Alternative Zoning Processes

Generational Change will push cities toward more Adaptive Zoning, such as:

Tying Specific Plans to Zoning code

May help reduce the number of entitlements on projects in specific plan areas.

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



Development Processing in 2012

- Smaller cities tend to process projects more efficiently
- Redevelopment cutbacks will reduce project staff and consultant resources
- Expect less service at the planning and economic development counters as a result of staffing cuts
- Reimbursement Agreements for project services will be the norm
- Cities are looking at flexible zoning formats to be more compatible with changing demographics.



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