



Kosmont Companies
Real Estate and Economic Advisory

Kosmont Realty Corporation
*Funding Sources for Public/Private
Transactions*



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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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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

- **1978 – PROP 13** Limits prop tax valuations to 1% and escalation to 2%
- **1986 – Prop 62**: Requires general tax approval by 2/3rd of the governing body and a majority of the voters.
- **1996 – Prop 218**: 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.



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

Cities Are 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



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. 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

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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