Kosmont Companies
Real Estate and Economic Advisory

Kosmont Realty Corporation
Project Financing & Brokerage

California Golden Fund
Approved EB-5 Regional Center

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This presentation is available online

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Reviving Economic Development in California

Economic Development *Without* Redevelopment

Presented by:

Ken K. Hira
Senior Vice President, Kosmont Companies
• California in Critical Condition

• Redevelopment Dissolution – Till Death Do Us Part

• Patient Success Stories – Case Studies

• Retail Trends in 2013

• Prescription for Economic Development
1. Recession lingered; recovery has been slow

2. Cities lost RDAs; now busy unwinding

3. Local budgets are out of balance due to pension costs, reduced revenues and lost tax-increment

4. Local government credit has been damaged; Cities finding it difficult to borrow

5. State is just coming out of ~$20 B budget gap, saved by Prop 30, but not in position to help cities
California’s Unhealthy Budget

Lab Results:
- Top 1% earners = 40.9% of income tax $$
- Sales tax prone to major shifts
- Deficit improved but still ~$1.9 B. in 2013
- Fitch GO bond rating lowest in USA (A-)

Source: California Legislative Analyst; CA Dept of Finance
33 Years of Tax Diets

Effect on Local Tax Base

1977 Revenue Level

- Prop 13 - Property Tax reigned in; subject to 2/3 vote
- Prop 62 - General taxes subject to 2/3 vote
- Prop 218 - Special assessments to vote
- Prop 22 - Protected local taxes from State
- AB1x26; AB1484 - RDAs dissolved

Note: Not to Scale
TODAY’S APPOINTMENTS

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• **Redevelopment Dissolution - Till Death Do Us Part**

• Patient Success Stories - Case Studies

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Successor Agencies - The Four Stages of Grief

“Shock & Awe”
Due Diligence Reviews 1 & 2
AB1484 required two (2) audits:
Housing Assets were due 10/1/2012;
All Other Assets were due 12/15/12.

“Bargaining & Acceptance”
Finding of Completion
If Dept. of Finance (DOF) accepts the audits, it issues a Finding of Completion (FOC).

“Moving On”
Ongoing winding down of assets
Successor Agencies continue paying enforceable obligations until all RDA assets are liquidated

“The Yard Sale”
Property Management Plans (PMP)
Within 6 months of receipt of FOC, Successor Agency must submit a PMP to dispose of or keep any real property.
Benefits of PMPs: The Inheritance

1. Per AB1484, some assets may be kept and used:
   a. Real Estate transferred to Cities for governmental use
   b. RE transferred to Cities for future development
   c. Rest of properties sold; proceeds returned to taxing authorities (net of obligations)

2. Bond proceeds from bonds issued before 12/31/10 can be used for original purpose (refunding opportunities)

3. Loan agreements between City and former RDA may now be enforceable obligations (worth arguing for)
Jumpstart Economic Development – CLEAR!

STEP 1 – “THE ASSET”:
Cities are starting the AB 1484 required Property Management Plans (PMP) now.

STEP 2 – “THE MONEY”:
Cities will be evaluating credit & cash flow capacity to use non-RDA economic development financing tools.

STEP 3 – “THE PLAN”:
Cities need funding and zoning strategy for investment into properties that can be retained by City for public use & development.
California now only one of 2 states w/o tax increment, THE most powerful tool for economic development

- Based upon property tax which is a stable funding source
- RDA Tax-Increment Financing (TIF) model allowed local agencies access to significant & long-term source of funds
  - Tax increment grows for decades beyond a flat base year, capturing significant leverageable value over time
  - The economic multiplier effect of new projects meant that “pass-through” taxing entities also benefit from TIF

So what’s left after Redevelopment?
#1 Site-Specific Tax Revenue ("SSTR") Pledge or Rebates
#2 Ground Lease
#3 Lease-Leaseback of City Assets
#4 Tax-Exempt Revenue & Utility Bonds
#5 Parking Authorities
#6 Other Special Districts (CFDs, BIDs)
#7 EB-5: Immigrant Investor Program (Green Cards for Jobs)
#8 Competitive Federal & State Grants (EDA/CDBG)
#9 New Market Tax Credits (NMTC)
#10 Infrastructure Financing Districts (IFDs)*

*not ready for prime time without legislative fix
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City of Redondo Beach - *Waterfront Revitalization*

- City’s Waterfront struggles to compete with other South Bay cities
- **HAND TOOLS USED:** Kosmont structured Lease-leaseback financing for 15 acres of land acquisition to be paid back from property cash flow
- RFQ issued for 15+ Acres of Waterside Development
- Centercal Development (CalSTRS) selected - ENA negotiation started
Recent Non-RDA Deals by Kosmont

These deals are under construction and will generate $500K to $2.6M annually (projected) in local tax revenues:

<table>
<thead>
<tr>
<th>City of Redondo Beach</th>
<th>Courtyard Marriott &amp; Hilton Garden Inn</th>
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<td>$2.0 million / year (TOT &amp; prop tax)</td>
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<tr>
<th>City of Norco</th>
<th>Silverlakes Equestrian Sports Park</th>
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<td>$500K / year (lease rent &amp; sales)</td>
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<tr>
<th>City of Victorville</th>
<th>Major Rehab of Victor Valley Mall</th>
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<td>$1 million / year (sales &amp; prop tax)</td>
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<th>City of South Gate</th>
<th>“azalea” Retail Center</th>
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<td>$2.6 million / year (sales &amp; prop tax)</td>
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City of Redondo Beach – Marine Ave. Hotels

**The Project:**

- 147 room Hilton Garden Inn & a 172-room Marriott Residence Inn located adjacent to a Metro station
- ESCROW SCHEDULED TO CLOSE AND BREAK GROUND Jan. 2013
- Community use of meeting rooms, Fwy. Billboard use for City

**Hand Tools Used:**

- Ground Lease
- Lease-Leaseback
- Site-Specific Tax Revenue Pledge (prop & TOT)
- Mezzanine Reserve Fund
The Project

• 122-acre Equestrian, Events & Sports center
• Public park leased & operated by private sector
• Over $500K per year in ground lease & tax revenues plus community use agreement for park facility
• UNDER CONSTRUCTION; OPENS Q1 2014

Hand Tools Used:

• Ground Lease
• Utility Bond Issuance
• P3 Project Delivery
Macerich – Mall of Victor Valley

The Project

• Extreme Mall Makeover: Net increase of 47,000 retail SF (531,000 total SF)

• New Macy’s and J C Penney (replacing shuttered Gottschalks and Mervyns)

• JCP OPENED IN OCT. MACY’S BY Q2 2013

Hand Tools Used:

• Site-Specific Tax Revenue (SSTR)

• Development Agreement
City of South Gate – “azalea” Retail Center

The Project:

- 372,000 sf regional retail destination (Wal-Mart, Ross, Marshals)
- Public Plaza & Events Center, City Hall/Police Annex
- UNDER CONSTRUCTION; OPENING MID 2014

Hand Tools Used:

- Utility Bonds for related off-site improvements
- Site-Specific Tax Revenue (SSTR)
- EDA Grant
- New Market Tax Credits (NMTC)
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• **Retail Trends in 2013**

• Prescription for Economic Development
Retail Trends

1. Large Scale Ground up Development less prolific
2. Brick and Mortar will continue to be in demand in underserved and urban markets and in more urban formats
3. 300+ years of retailing at a fork in the road
   JC Penney, Sears, and Radio Shack suffering identity crisis
4. Big Box Retailers with small formats to penetrate urban markets
   City Target; Wal-Mart Neighborhood Market; Best Buy Mobile
5. “Discount” & Dollar stores are taking over – 4 biggest dollar chains operate more locations than 3 biggest drugstore chains.
6. Outlet Format (Nordstrom Rack) - All major retailers will get one
7. Non-Retail Reuse: Gyms & medical offices in vacated big boxes
8. Coffee Wars – Starbucks in expansion mode (1000 in 5 years).
   McDonalds & Dunkin’ Donuts remain chief national foes
9. Brick and Mortar stores open on Thanksgiving!! What’s next, Christmas?!

10. Virtual 365 day a year shopping opportunities

11. Online Retailing
   • Brick & Mortar electronic retailers increasingly vulnerable
   • Fulfillment Centers expanding

12. “Showrooming”

13. “Omnichannel” Shopping, both on and offline.

14. Anti Credit Card sentiment - Debit Cards are IN VOGUE and Layaway is BACK

15. Gift Cards and Self-Gifting
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- **Prescription for Economic Development**
1. Fitch rating for State is lowest in USA; many cities worse

2. Former Redevelopment Agencies required to prepare Property Management Plans to sell or reuse real estate

3. There are a variety of financing tools in the wake of redevelopment; none were as effective as Tax Increment.

4. Internet retailing rising fast, but still market for “bricks”, especially in underserved and urban markets (South Gate)

5. Public-private deals need to be incentivized on a local level to maintain and pay for quality of life and services

6. Ultimately, the public sector and private sector need a heavy dose of each other to thrive.
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