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NOW SHOWING:
THE AVENGERS

vs.

THE EXPENDABLES!

STARRING LARRY J. KOSMONT, CRE

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1. The State of the State

Recap of Last Year's Hits

2. State & Local Gov't: A VIP Tour of the Set

Jerry Brown and the California Sausage Factory

3. What's **Hot!** What's **Not!**

Oscars and Razzies

4. Kosmont's Countdown to the Oscars

Road to the Real Estate Academy Awards

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The State of the State



California in 2013 – Critic's Review

The Avengers – The Heroes California Wanted

- **Much like Miley Cyrus's tongue, CA legislature is left-leaning, but passed some business / real estate-friendly laws in 2013**
- **Home prices had double digit growth statewide**
 - **New single family home development and sales likely to increase based on continued increase in jobs.**
- **Development of apartments kicked up in 2012-2013**
- **Local property and sales tax revenues coming back**
- **CA Unemployment Rate dropped in 2012:**
 - **9.8% to 8.7%**

California in 2013 – Critic's Review

The Expendables – The "Heroes" CA Didn't Need

- **Unemployment still 5th highest in U.S. with 1.6M out of work**
- **State unemployment very uneven: 5% in Marin Co; 26% Imperial**
- **Close to 25% of Californians live below the poverty line**
- **Cities distracted by RDA dissolution activity**
- **Enterprise Zones terminated, replaced by new tax credits (AB 93)**
- **California remains high cost & unfriendly to business**
- **State gas tax increased to 39.5 cents per gallon (highest in US)**
- **Pensions remain underfunded with no practical solution in sight**

On the Set of The Brown Budget: Good for Now; Not Built to Last

- **State expects surplus 1st time in decade**
 - \$2.4 billion by June 2014
- **S & P raised CA's credit rating to 'A'**
- **Temporarily balanced by Prop 30 income & sales taxes**
 - increases expire in 2018
- **Cities still in trouble:**
 - Stockton, Mammoth Lakes, San Bernardino filed for BK in 2012-13
 - BK looming for Desert Hot Springs, Compton and others
 - Multiple School Districts facing serious cash flow issues & possible BK
- **Brown's 2014-15 proposed budget of \$155-billion includes general fund hike of 8%; repay \$11B in debt, and \$1.6B in a reserve fund**



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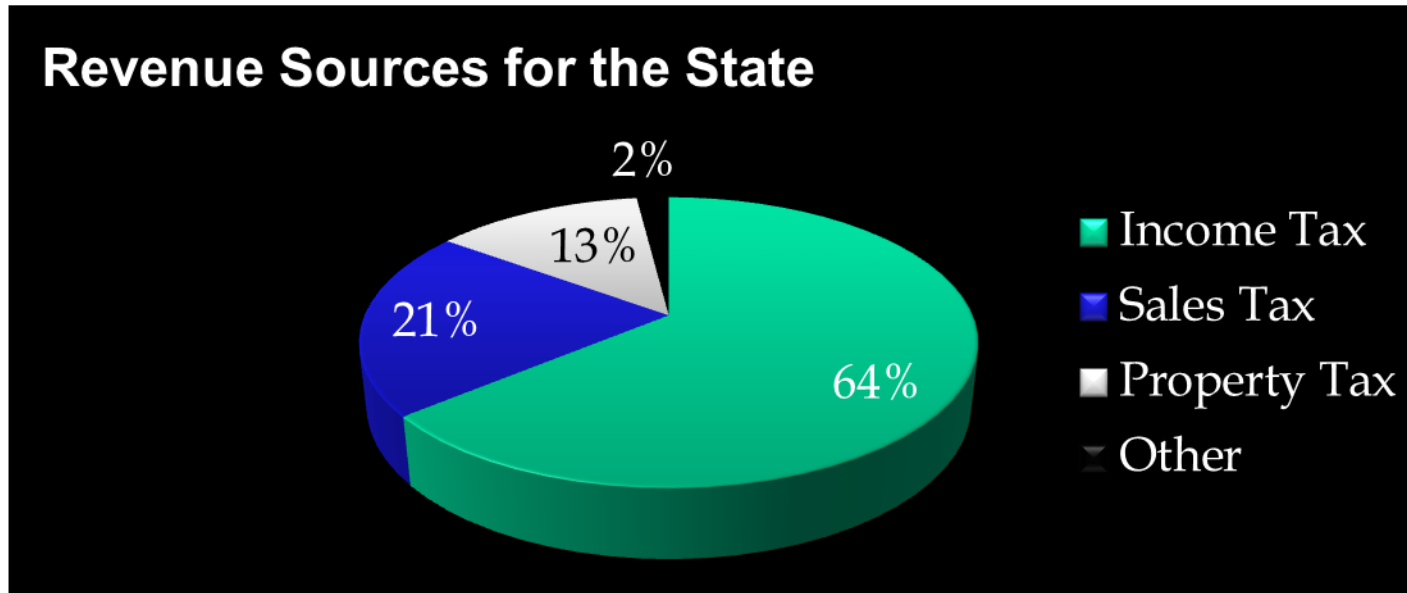
State and Local Gov't

A VIP Tour of Public-Private Real Estate



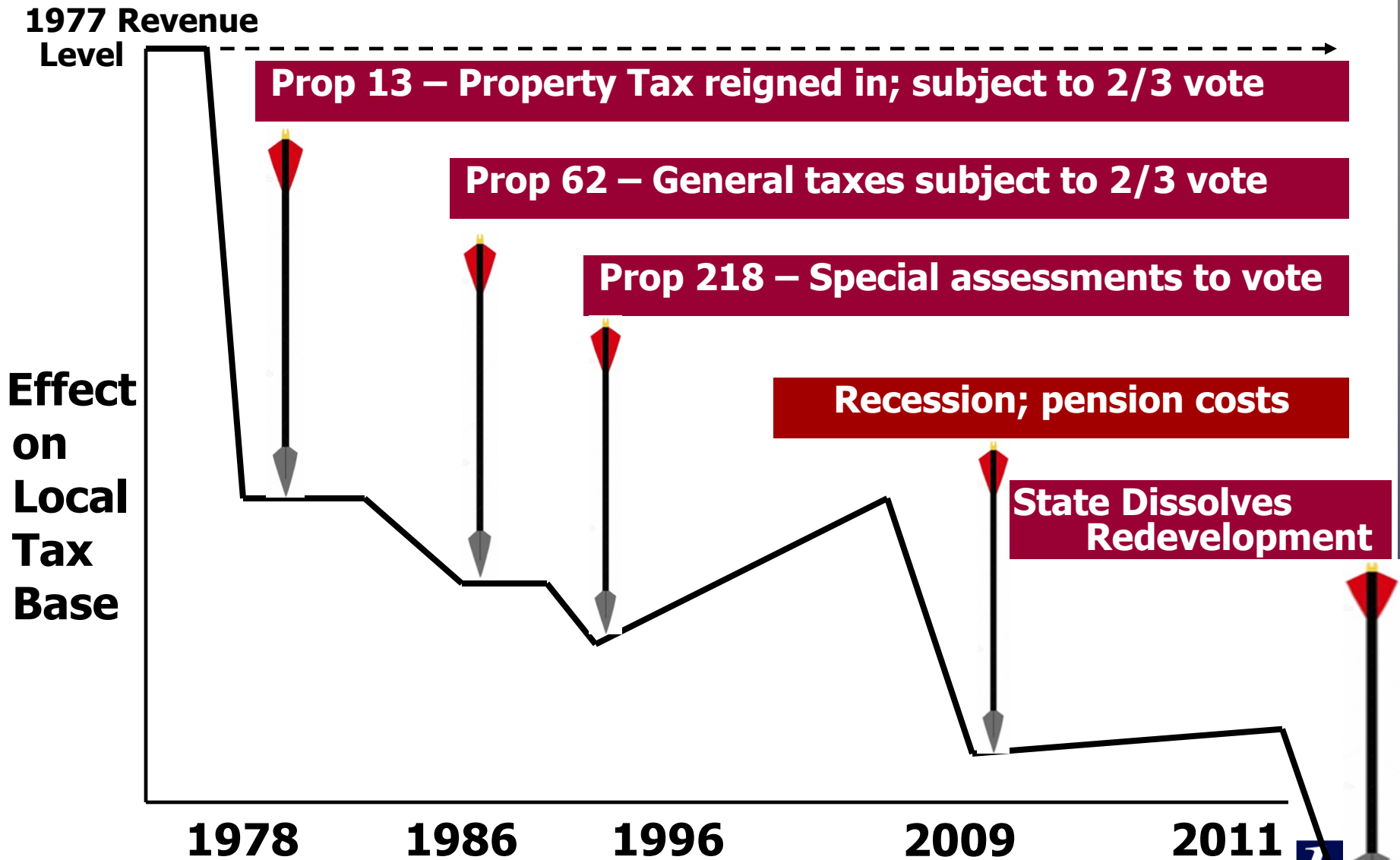
SACRAMENTO UNCHAINED

Budget too dependent on top 2 (highly unstable) sources



- **Top 1% earners provide 40.9% of income tax \$\$**
- **Sales tax prone to dramatic shifts in customer spending**
- **Property Tax, the most stable source, is distant third**

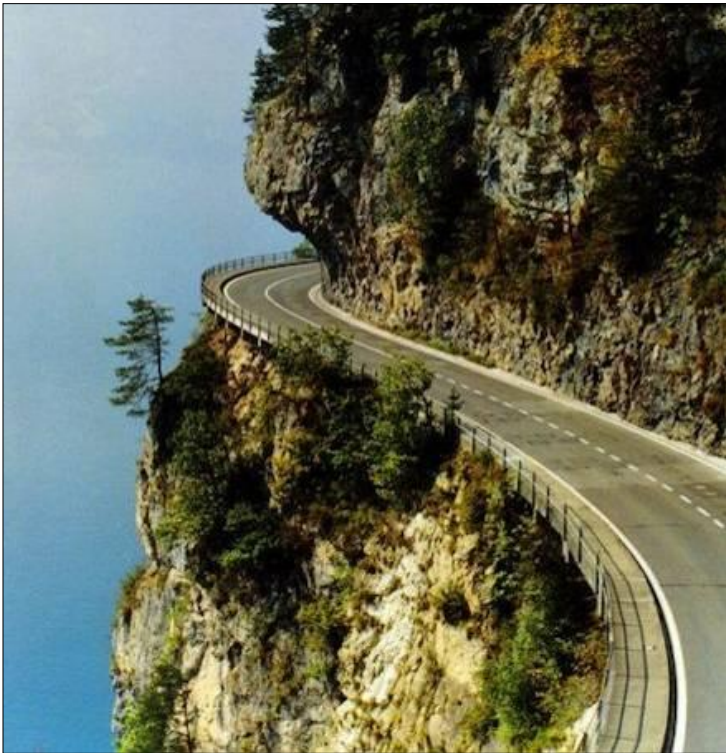
Econ Dev. Needed after 34 yrs of Hunger Games



Note: Not to Scale

Now The Cities Have the Bill

Choose Your Stunt...



Continue Raising Taxes?



**Find Way to Economic Development
without a Map?**

Taxes vs. Economic Development

- **INSIDIOUS SEQUELS OF TAXES: Higher taxes are part of the “fixed cost” equation that business must control to compete favorably**
 - California consistently rated least biz friendly by the CEO Roundtable
 - Without incentives, growth companies may look elsewhere
 - Over 175 cities & 32 counties at >9% unemployment, so we need jobs
 - Nearly 400 communities have raised taxes in last 2 elections
- **SILVER LININGS PLAYBOOK of ED: Economic Development is a better solution for California than taxes:**
 - Cities help themselves & State by helping companies to invest
 - Private investment = growth in real estate values and economic activity (local business spending, new wages, retail sales)
 - ED funding sources are very limited in California

Cities still in the Real Estate Business

Cities are left with the “Four R’s” to raise revenue:

- **Retail** – sales tax & jobs (entry level)
- **Relocation/Expansion** – business tax & jobs
- **Rooms** – hotel transient occupancy tax (TOT)
- **Real Estate Development** – property taxes & jobs

Cities desire private sector partners that generate taxes & jobs

TIF – “FROZEN” Stiff

Tax Increment Financing is the “Gold Standard” public financing tool for real estate projects and economic development nationwide

- **TIF allowed RDAs access to significant & long-term source of funds**
- **Typically uses property tax, a stable funding source**
- **TIF grows for decades over a base year, providing leverage over time**
- **RDA Projects created millions of dollars & thousands of new jobs; benefits were not well promoted & RDAs had many detractors**

When the State tossed Redevelopment it also discarded TIF

- **California is now one of only 3 states without this vital tool**
- ***Without TIF, CA does not compete effectively for business and jobs, AND cannot enter into productive Public Private Real Estate Projects.***
- **Gov’s ‘14-’15 Budget proposes minimal TIF reform with less restriction on Infrastructure Financing Districts; not likely to be effective**

What's *Hot*?

What's *Not*?

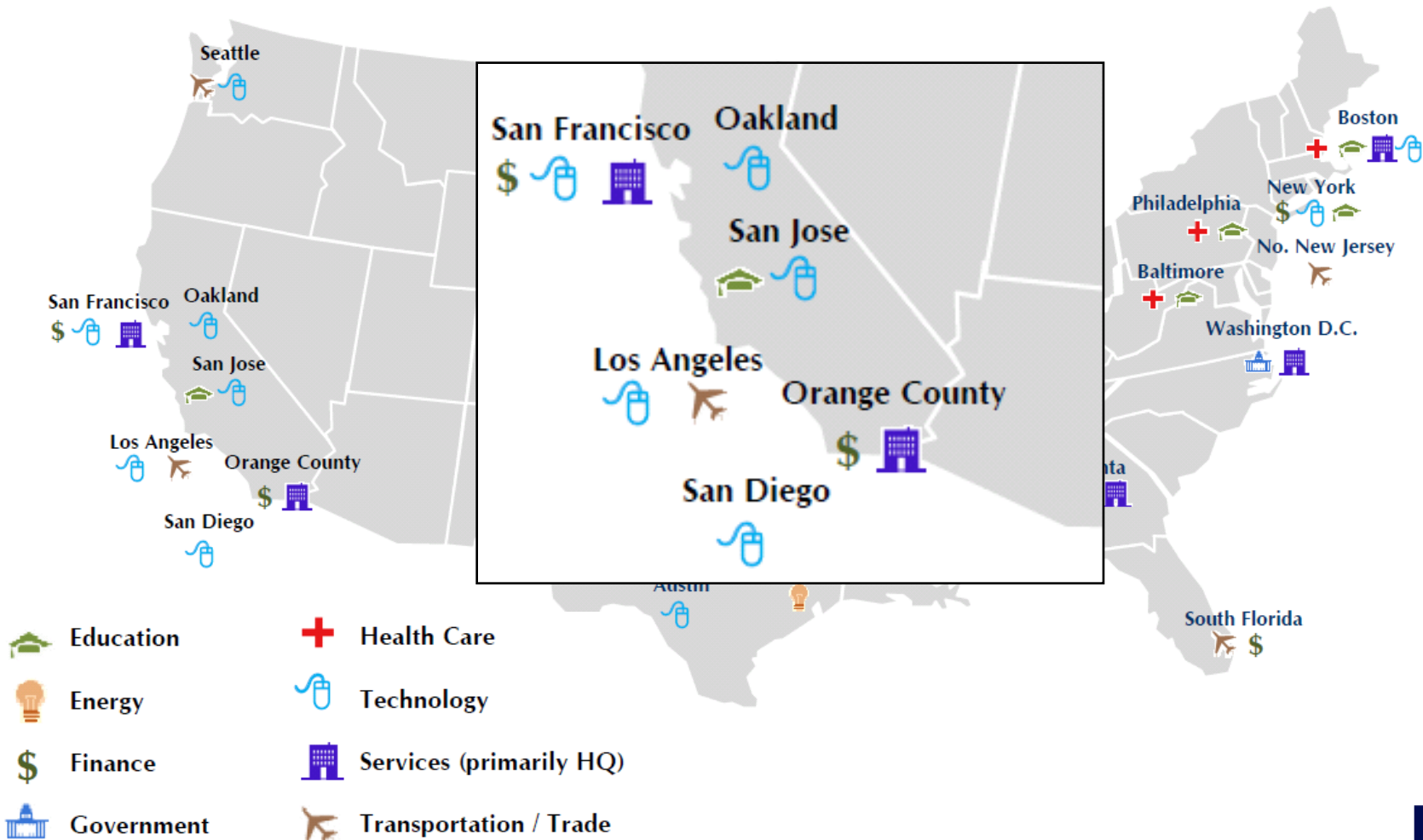


STAY CLASSY SAN DIEGO

What's Hot?

What's Not?

What are the Opportunities for Business & Real Estate in California & Los Angeles?



Former RDA Properties – **HOT**

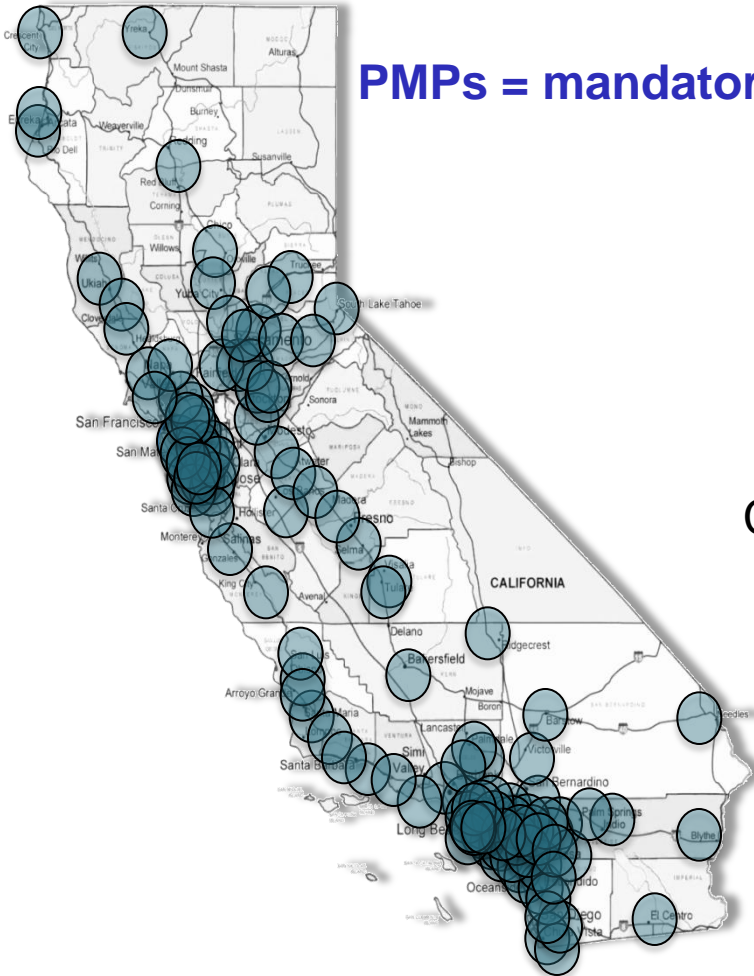
427 former Agencies must complete Property Management Plans (PMPs) before January 1, 2015

PMPs = mandatory liquidation of RDA owned property (AB1484)

~Over 3,000 RDA properties must be disposed of starting in Q2 2014

Thousands of sizable properties located in California's **primary urban & suburban** markets

The Private Sector (investors, developers) positioning to take advantage of these properties



Public Private Projects – **HOT**

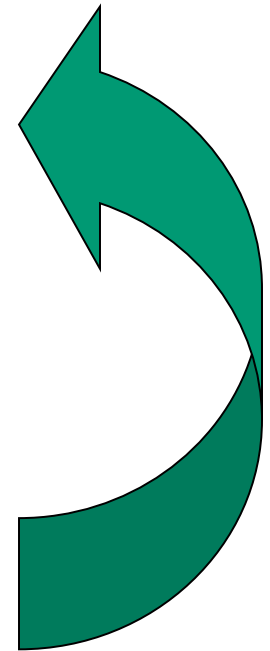
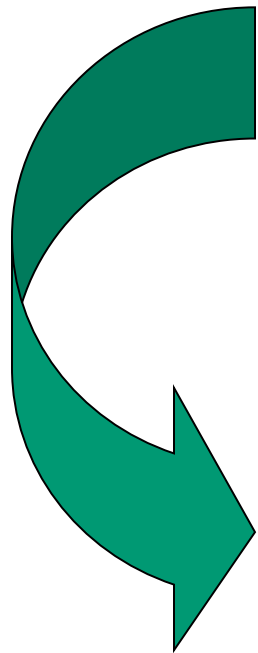
Cities need new jobs and taxes more than ever:

Public Entity provides:

- Land
- Public Funds
- Lower Cost Financing
- Project Incentives (density bonus)

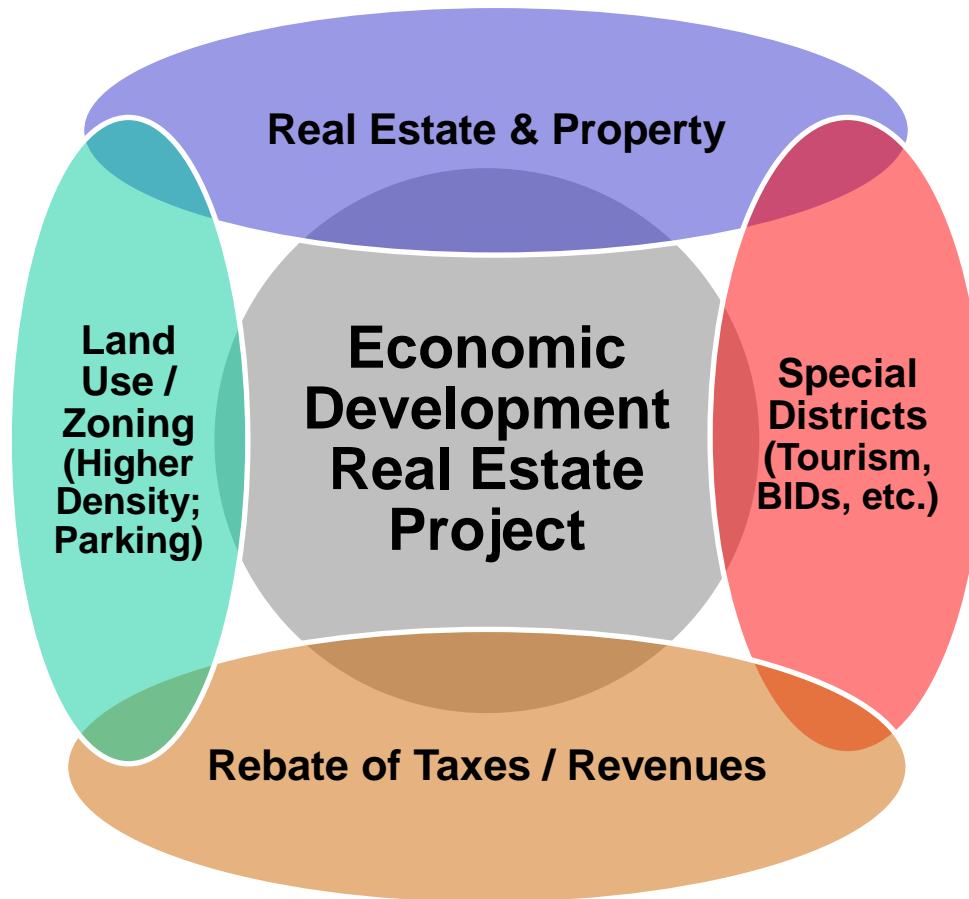
Private Developer/Owner/Tenant provides:

- Development expertise
- Preferred Tenants/Uses
- Private financing
- Risk Assumption/Management



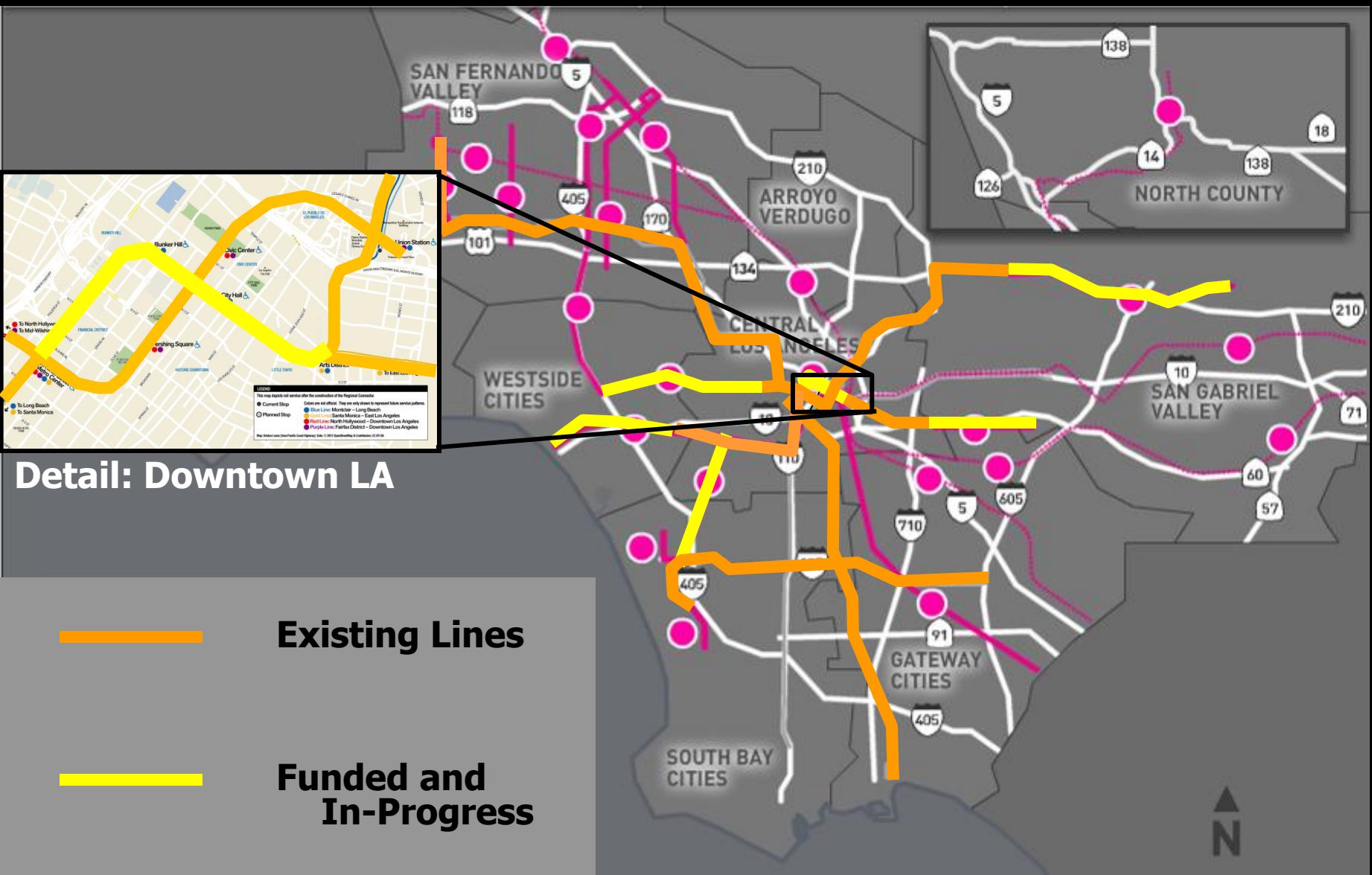
Post-RDA Financing Tools – **HOT**

Cities have 4 BASIC TOOLS for Public Private Projects



Theses tools often work best when used together

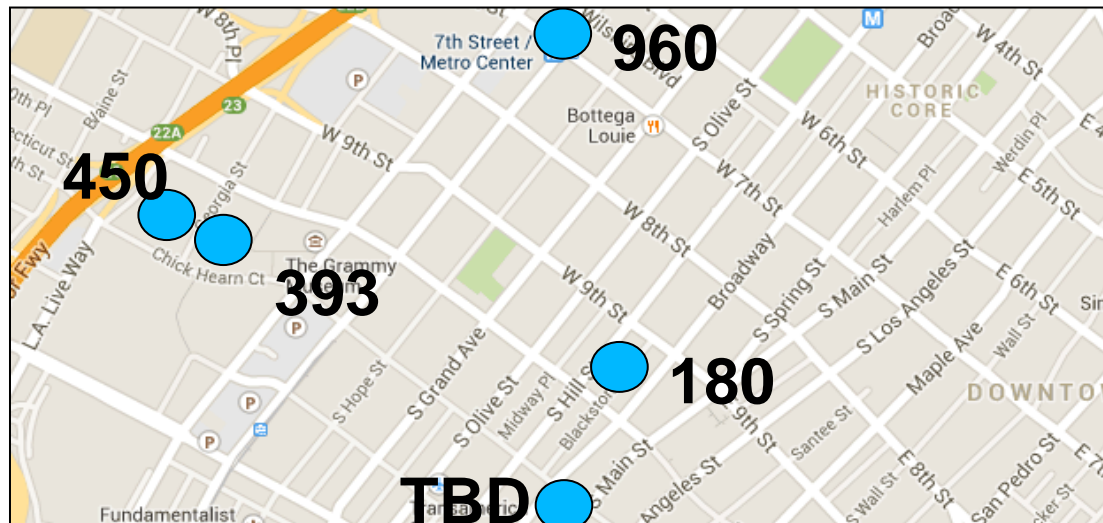
HOT – Urban Rail & Mass Transit



HOT – Downtown LA

TRENDS – HOTELS & TOURISM

- **Boutique Hotels coming to DTLA – many are adaptive reuse**
 - Boutique “ACE Hotel” opened January 6 on Broadway (**180 rooms**)
 - Historic Case Hotel at 11th & Broadway to be revived (TBD)
 - Ground-up SLS Hotel near Disney Concert Hall (TBD)
- **Convention Center –serving Hotel Development**
 - Courtyard Marriott/Residence Inn (2014 – **393 rooms**)
 - Renaissance Hotel just north of JW Marriott – (2016 - **450 rooms**)
 - Wilshire Grand Hotel (2017 – **~960 rooms**)



HOT – Downtown LA

TRENDS - MULTIFAMILY & MIXED-USE DEVELOPMENT

- **Downtown maturing into a “core” real estate market**
 - “PHASE 1” – Pioneers and family & private developers
 - Shomof family; Delijani family; Barry Shy
 - “PHASE 2” – Established developers with institutional money
 - Rising Realty Partners (Nelson Rising and co.)
 - Ratkovich Co. (Wayne Ratkovich)
 - “PHASE 3” – Institutional owners / developers; NEW owners
 - Equity Residential
 - Essex Property Trust
- **Apartment Development: ~11,300 units in the works**
- **Properties have changed hands since the recession**
- **Many of the Developers are new to Downtown**
(e.g. Wood Partners-GA, Carmel Partners-SF)

Retail – **HOT SPOTS**

- **2013 Holiday sales indicated that internet was the driver of changes in shopper patterns and increase in sales volume**
- **But Brick and Mortar will continue to be in demand** in underserved and urban markets and in more urban formats
- **Internet + Brick & Mortar blending**, “staying together for the kids”
- **Tech Manufacturers creating Hip Lounge-type retail experiences for shoppers** – so called “emporiums of cool”
- **Competition for tenants is increasing** given loss of tenants and surviving tenants that are downsizing formats
- **Outlet Format (Nordstrom Rack)** - Most major retailers will get one
- **Coffee Wars – Starbucks in expansion mode (+1000 in 5 years).**
McDonalds & Dunkin’ Donuts remain chief national foes

Surplus School Property— **WARMING**

- **Despite passage of Prop 30, school districts face financial hurdles to undo impact of 5+ years of budget cuts from recession**
- **School districts have opportunity to dispose of surplus property using sale, lease, exchange, or P3**

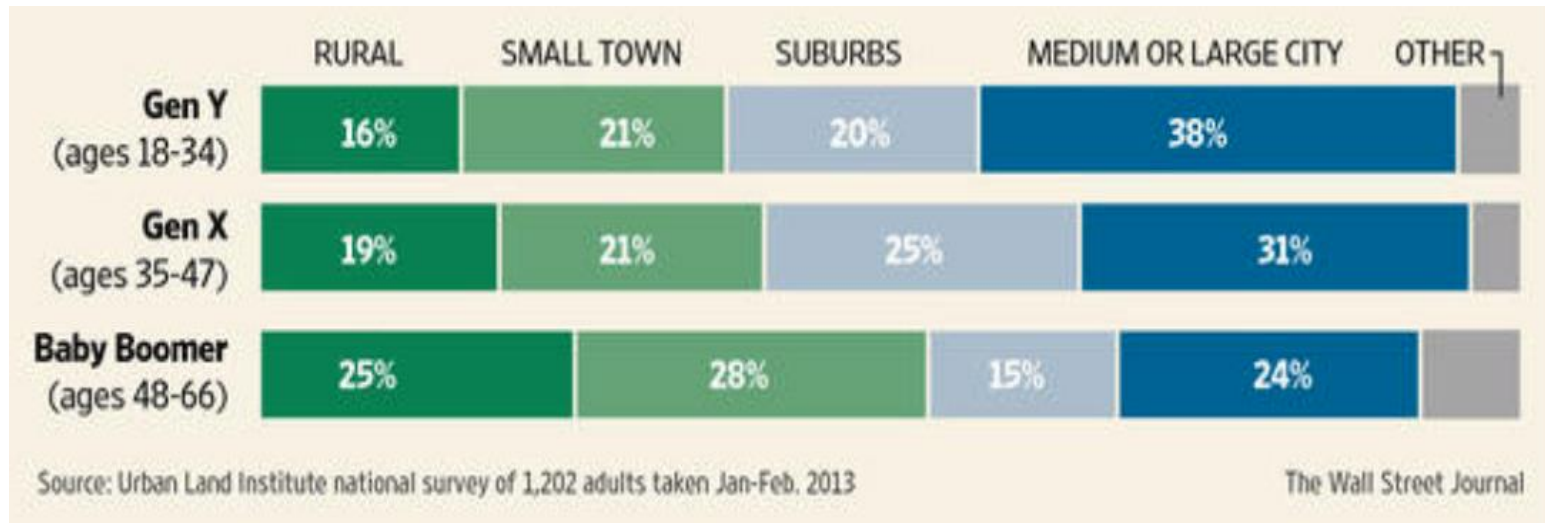


HEATING UP – Offices with Walkability

Companies following Millennials back into the City

“White Flight” → “Diverse Downtowns”

“Extreme Commuting” → “Corporate Urbanism”



- Silicon Valley shifting from Santa Clara to San Francisco
- DTLA’s walkable Financial District now favored over Bunker Hill

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Kosmont's Countdown to the Oscars



AFTER EARTH

Kosmont's Top 4 Oscar Picks

1. "BRIGHT LIGHTS, BIG DEALS" – DOWNTOWN LA MATURING

APARTMENT DEVELOPMENT PICKING UP; RETAIL SWELLING; MORE INSTITUTIONAL PLAYERS, BUT NICHE BUYS REMAIN

2. "RETAIL ADAPTATION" - SMALLER, VIRTUAL & DISCOUNT FORMATS

"BRICKS" AND "CLICKS" LEARNING TO CO-EXIST

3. "CITY OF ANGELS" - CITY HALL IS OPEN FOR BUSINESS

CITIES HAVE THE FOUR "POST-RDA TOOLS" FOR PUBLIC-PRIVATE DEALS - REAL ESTATE, TAXES, ZONING AND SPECIAL DISTRICTS

4. "THE P.M.P.s" – PROPERTY MGMT PLANS MEAN REAL ESTATE DEALS

~3000 FORMER RDA PROPERTIES TO GO ON MARKET STARTING 2Q14

In Development for 2014

- **Pension Reform Initiative led by Mayor of San Jose**
- **Jobs & Education District Initiative (JEDI)- Will TIF be back?**
- **Additional Economic Development Props may surface**
- **Expect more CEQA Reform but focused on Transit /Infill**
- **November Elections: more Republican seats up for grabs**

Not to be out done:

Attorney John Cox proposes shrinking size of State Legislature Districts; increasing the number of legislators from 120...

In Development for 2014

...to 12,000 State Legislators



"We're here to help"



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