Post-Covid Zoning Playbook: Value Capture Meets Quality of Life

Planning Commissioner’s Academy
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The Great Reconfiguration
A New Mindset for a Changing Economy

Consumers driven by quality of life, cost of living, amenities, essentials, and experiences

Investors driven by new technology, shifting demand, supply chain anomalies, and new live / work patterns

City Hall driven by resident and employer needs, new state policy / rules, federal / state funds
Everything is Changing

Hotel
Resetting

Retail
Reimagining

Office
Reconfiguring

Residential
Renaissance

Industrial
Redistribution

Land Use Revolution

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The Post-COVID Winners & Losers

LA County Rent / Value / ADR Change: 2019 Q1 to 2022 Q1

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential: Single-family Sale Price</td>
<td>138%</td>
</tr>
<tr>
<td>Industrial: Logistics</td>
<td>123%</td>
</tr>
<tr>
<td>Industrial: Specialized</td>
<td>119%</td>
</tr>
<tr>
<td>Industrial: Flex</td>
<td>113%</td>
</tr>
<tr>
<td>Multifamily</td>
<td>108%</td>
</tr>
<tr>
<td>Hotel: Midscale / Economy</td>
<td>106%</td>
</tr>
<tr>
<td>Retail: Strip</td>
<td>105%</td>
</tr>
<tr>
<td>Retail: Neighborhood</td>
<td>104%</td>
</tr>
<tr>
<td>Office: 3 Star</td>
<td>103%</td>
</tr>
<tr>
<td>Office: 4-5 Star</td>
<td>103%</td>
</tr>
<tr>
<td>Retail: Power Center</td>
<td>102%</td>
</tr>
<tr>
<td>Retail: Mall</td>
<td>100%</td>
</tr>
<tr>
<td>Hotel: Luxury / Upscale</td>
<td>97%</td>
</tr>
<tr>
<td>Hotel: Upscale &amp; Upper-Mid</td>
<td>95%</td>
</tr>
</tbody>
</table>

Source: Los Angeles County Market Metrics, CoStar, CRMLS, Accessed March 2022
Kosmont’s Three Principles for Economic Development

<table>
<thead>
<tr>
<th>1: Housing is Not a Loss Leader, it’s a Growth Driver</th>
<th>2: Retail is Not Just Retail Anymore</th>
<th>3: Industrial / Distribution is Critical for Your Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Creation as Economic Development</td>
<td>Retail Reimagination as Economic Development</td>
<td>Industrial &amp; Fulfillment as Economic Development</td>
</tr>
<tr>
<td>• New housing generates significant new tax revenues and supports local jobs</td>
<td>• US over-built on retail; ~25% of U.S. malls may close over next 3-5 years, COVID accelerates pre-covid</td>
<td>• Modern industrial is not your father’s industrial – not smokestacks</td>
</tr>
<tr>
<td>• Housing is not necessarily a net negative fiscal impact, especially at current property values</td>
<td>• e-commerce trends. City rezoning to residential can improve residual land values</td>
<td>• Booming demand for distribution, e-commerce, and data centers, blending for fulfillment/delivery, job creators</td>
</tr>
</tbody>
</table>

Source: Los Angeles County Market Metrics, CoStar, Accessed August 2021
Community Reimagination Post-COVID

- Residential
  - Pop-ups
  - Local Flavor
  - Flex / R&D
  - Transit
  - Entertainment
- CoWorking
  - Lab Space
  - Workforce Development
- Life Sciences
  - Food Halls
  - Fashion
  - Repeat Trips
- Medical Office
  - Authentic
  - Comfort
  - Attractive
  - Walkable
- Blended Use
  - Interactive
  - Charming
  - Fun
  - Streetery
  - Safety
- Distribution
  - Connectivity
  - Essentials
- Bio Tech
- Green Tech
- Ghost Kitchens
- Entertainment

NOW SPEAKING
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## Kosmont’s Approach to Planning and Economic Development in a post-Covid Digital World

<table>
<thead>
<tr>
<th>Capture Value</th>
<th>Create Currency</th>
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<tbody>
<tr>
<td>1 Zoning &amp; Land Use Tools: Development Opportunity Reserve (D.O.R.)®</td>
<td>4 Tax Revenue Replacement: Sales Tax Assessment Revenue (STAR*)®</td>
</tr>
<tr>
<td>2 Special Districts: EIFD, CRIA, CFD</td>
<td>5 Government Financing</td>
</tr>
<tr>
<td>3 Real Estate &amp; Leasing Strategies</td>
<td>6 Other Public Money (OPM)</td>
</tr>
</tbody>
</table>
Capture Value

   - Capture Value from Zoning for RHNA implementation: link new density to community benefits

2. Special Districts: EIFD, CRIA, CFD
   - Capture Value from Tax Increment and other district tools to fund catalytic projects

3. Real Estate & Lease Strategies
   - Capture Value by better utilizing city-owned properties

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Real Estate Finance/Economics Development Enrichment
Capture Value: Use New Zoning Value for Community Benefits

Zoning and entitlements create value. Don’t just give that value away – capture that value as currency to support your community.

Old Playbook: Rezone Areas for New Density and Expect New Development

Rezoning gives the value of the new density to current property owners: inflated land values, limited possibility of development.

New Playbook: Bank Density with Development Opportunity Reserve

DOR allows cities to create a “bank” of new density in zoning / specific plans – allowing them to give the density to projects that deliver community benefits & public amenities; can be very effective for parcels not zoned or rezoned for residential.
<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
<td>Conduct market / economic density analysis to understand development potential and RHNA. Identify sites and areas within community as areas targeted for new development.</td>
</tr>
<tr>
<td>Step 2</td>
<td>Use planning process to create a reserve bank of density to use in target areas and create an amenity list of desired community benefits and augment RHNA efforts while minimizing subsidies.</td>
</tr>
<tr>
<td>Step 3</td>
<td>Development Projects apply for density from the DOR in exchange for amenities and community benefits delivered.</td>
</tr>
<tr>
<td>Step 4</td>
<td>City &amp; Developer sign a Development Agreement, assigning DOR density to project with contractual commitment to deliver amenities or infrastructure.</td>
</tr>
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</table>

**Development Opportunity Reserve D.O.R.® Process**

*Create Value, Keep It, Use It*
**Case Studies: Development Opportunity Reserve D.O.R.®**

**Buellton Avenue of Flags**
- **Goal:** Induce housing development in downtown area
- **Benefits & Amenities:** public restrooms, off-site improvements, public parking, parking district, public art, parks, green buildings, other
- **Incentives:** Increase density up to 40 units / acre, increase heights, reduce on-site parking, reduced setbacks, reduced traffic and application fees

**El Monte Downtown Main St.**
- **Goal:** Increase downtown density along with community benefits and public improvements
- **Benefits & Amenities:** streets, bicycle facilities, parking, open space, beautification, transit, arts / cultural spaces, lot consolidation; developer can either install improvements or make payment into public improvement fund; value based on a portion of residual land value (~75%)
- **Incentives:** Increase density, heights, FAR, dwelling units per acre

**Implementation Steps**
1. Conduct market housing / economic study to match RHNA needs
2. Discuss new density and public amenities with community
3. Create DOR mechanism as new Zoning / Specific Plan provision
**Capture Value: Special Districts for Infrastructure Investments**

**EIFDs and CRIAs:**
State approved tax increment financing (TIF) districts
Cities can use these districts to motivate private investment, fund infrastructure, and attract grant funds.

- **Vision Plan Area**
- **University Area**
- **Regional Mall Area**
- **Technology Area**
- **Civic Center Area**
- **Industrial Area**

**Affordable Housing**

**Transit Projects**

**Civic Infrastructure**

**Broadband**

**Capturing Value:**
Special Districts for Infrastructure Investments

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**Econ. Dev. Playbook**

**Water / Sewer / Storm / Flood**

**Parks / Open Space**

**Small Business / Nonprofit**

**Brownfield Remediation**
Funding Infrastructure with Enhanced Infrastructure Financing Districts
Case Study: Placentia & Orange County EIFD Partnership

Placentia / Orange County EIFD Partnership
- Upgraded zoning, aligned with OZs and TOD
- Will fund streets, sewer, parking, transit connectivity
- >$460M expected in new AV from residential, retail, restaurant development
- Net Fiscal Benefit: $22M to City, $15M to County

Tax Increment Financing Districts
Leverage assessed value growth to fund infrastructure improvements
- No new taxes
- No public vote required
- Attract EDA, SCAG & other funds for startup

Tax Increment as Currency
Value Capture & Financing
EIFD Progress Statewide

Partial List

Source: Kosmont EIFD/CRIA website (https://www.kosmont.com/services/eifd-cria/)

Jurisdiction | Purpose
--- | ---
Azusa | Housing and transit-supportive infrastructure
Brentwood | Housing and transit-supportive infrastructure
Buena Park | Mall reimagination, housing-supportive infrastructure
Carson + L.A. County | Remediation, housing infrastructure, recreation
El Cajon | Housing and transit-supportive infrastructure
El Segundo + L.A. County | Various infrastructure, regional connectivity
Fairfield | Housing and transit-supportive infrastructure
**Fresno** | Housing and transit-supportive infrastructure
Fresno County | Industrial Supportive Infrastructure
Humboldt County | Mixed-use & energy supportive infrastructure
Indian Wells | Housing and tourism-supportive infrastructure
Imperial County | Housing and greenfield infrastructure
**La Verne + L.A. County** | Housing and transit-supportive infrastructure
Long Beach (Multiple Districts) | Housing and transit-supportive infrastructure
Los Angeles (Downtown, San Pedro) | Housing and transit-supportive infrastructure
**Los Angeles County West Carson** | Housing / bio-science / tech infrastructure
Los Angeles County – Uninc. East L.A. | Housing-supportive infrastructure, public amenities
Madera County (Two Districts) | Greenfield infrastructure (water / sewer)
Mount Shasta + Siskoyou County | Rural Brownfield site mixed-use infrastructure
Napa | Housing and transit-supportive infrastructure
Ontario | Housing and transit-supportive infrastructure
Palmdale + L.A. County | Housing and transit-supportive infrastructure
Pittsburg | Housing and transit-supportive infrastructure
**Placentia + Orange County** | Housing and transit-supportive infrastructure
Rancho Cucamonga | Housing and transit-supportive infrastructure
Redondo Beach + L.A. County | Parks / open space, recreation infrastructure
Riverside | Housing and transit-supportive infrastructure
Sacramento County | Industrial / commercial supportive infrastructure
San Jose | Housing and transit-supportive infrastructure
Sanger | Commercial / mixed-use supportive infrastructure
Santa Ana | Housing and transit-supportive infrastructure
South Gate | Housing and transit-supportive infrastructure

Red markers are EIFDs/CRIAs under evaluation
Cities can use a variety of strategies to better utilize the value of their properties:

- Performance-based leases / ground leases
- Monetizing assets (such as parking garages)
- Selling property to private sector – includes lease-back strategies, continued operation of existing use, redevelopment into new uses

**SELLER BEWARE –**
Cities must follow Surplus Land Act (SLA) requirements / procedures
Create Currency $$$

4 Sales Tax Replacement
Sales Tax Assessment Revenue (STAR*)®

Create Currency via tax revenue replacement through DA negotiation and partnerships

5 Government Financing

Create Currency by using lower interest rates and high investment earning

6 Other Public Money (OPM)

Create Currency by using ARPA, Infrastructure Funding, and State / Federal Grants
4 Create Currency: Replacing Tax Revenues via DAs & P3s

Replace Revenue with Sales Tax Assessment Revenue (STAR*)®

- Project would result in loss of sales tax revenue from non-sales tax uses
- Analyze expected sales tax loss from retail zoned properties
- Create equivalent General Fund revenue stream via development agreement [Tax equivalency as currency]

STAR* Case Study: Jurupa Valley – Agua Mansa Commerce Park Site
- ~280-acre site (originally planned for retail)
- Proposed 3.6 million SF industrial development project
- STAR analysis estimated annual sales tax in-lieu payment of ~$362,500
Current low interest rate environment is an opportunity to generate savings and create general fund resources for community reinvestment.

- **Revenue Bonds** to fund vital projects
- **Lease – Leaseback (P3) Structures** can cut costs and deliver public projects (no vote needed)
- **Pension Obligation Bonds** and other refinancing structures can generate savings (no vote needed)

Reducing debt payments can create capacity to pursue programs to reset local economy.

Invest City and New Federal Funds to generate enhanced revenues from cash resources:

- **Improved cash-flow management** is the other side of finance coin
- **Opportunities** to enhance short-term returns for cities and improve cashflow

![10-Year Treasury Constant Maturity Rate Chart]

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**PROPRIETARY DO NOT DUPLICATE**

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# Create Currency: Using Other "Public" Money

$8.2 Billion in ARPA Funds, $45.5 Billion in Federal Infrastructure Funds, Millions More in State Programs

<table>
<thead>
<tr>
<th>Federal Programs</th>
<th>State Programs</th>
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<tbody>
<tr>
<td><strong>American Rescue Plan Act (ARPA)</strong></td>
<td><strong>Congressional Infrastructure Bills (INVEST Act, IIJ Act)</strong></td>
</tr>
<tr>
<td>ARPA direct relief to cities is not just for COVID relief:</td>
<td>In process, likely to include:</td>
</tr>
<tr>
<td>Funds for water, sewer, and broadband, upgrading facilities and distribution systems, climate change upgrades, lead pipe replacement and more</td>
<td>Funds for roads, bridges, railroads, broadband, water, cyber security, climate resiliency, transit, brownfield cleanup, electric vehicles, affordable housing</td>
</tr>
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Planning & Economic Development Playbook

Capture Value and Create Currency

Special Districts: EIFD, CRIA, CFD

Government Financing

Development Opportunity Reserve (D.O.R.)

Sales Tax Assessment Revenue (STAR*)

Sales Tax Assessment Revenue (STAR*)

Create Value from DA Negotiation

OPM

Create Value from New Funding

Other Public Money: ARPA, Infrastructure

(PROPRIETARY) D.O.R.

EIFDs
Capture Value from Tax Increment

Capture Value from Zoning

(D.O.R.*)

Create Value with Low Interest Rates

Financing

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FINANCING

Real Estate Finance/Economics Development Entitlements
City Zoning Will Shift to “Blended Use”

Land Uses are Integrating and Blending Together

Residential
Experiential
Retail
Hospitality
Creative Office
Food / Grocery
Entertainment
Unique Restaurants
Co-working
Fitness
Medical Office

Vibrant destinations and places that generate trips—not just space & square footage.
Essentials, Experience, and Entertainment
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Chairman & CEO
Kosmont Companies

Economic Development, Finance and Real Estate Advisory since 1986

OUR MISSION

We are founded on the pursuit of four pillars of strength …
Innovation, Integration, Intelligence, and Integrity
We are on the cutting edge of products and services.
We achieve financial success for our public and private sector clients.
We are committed to community prosperity and quality of life.
Our professional standards are of the highest excellence.