No Hotels? Less Retail? What’s a City Manager to do?
Larry J. Kosmont, CRE® is Chairman & CEO of Kosmont Companies, which he founded in 1986. Kosmont Companies is an industry leader in public/private real estate transactions and economic development. In 1990, he founded Kosmont Realty, a real estate brokerage firm to transact property and ground leases for public private deals. In 2015, in compliance with licensing regulations, he launched Kosmont Transactions Services, Inc. (KTS) as an SEC/MSRB registered Municipal Financial Advisory firm. KTS sources financing for public agencies, public/private projects, P3 initiatives, and infrastructure funding. He is a co-principal of California Golden Fund, a USCIS approved EB-5 Regional Center.

Jim Dillavou is co-founder and principal of Paragon Commercial Group where he focuses on corporate strategy, acquisitions and capital structuring. Jim’s background in development, law and capital markets has contributed to Paragon’s steady growth and reputation as one of the preeminent retail development firms in California. Jim is formerly a real estate and finance attorney with Latham & Watkins LLP where he represented developers, equity providers and lenders in capital structuring, acquisitions, dispositions, leasing and entitlements. In addition, Jim’s practice included the representation of institutional clients including Credit Suisse, Goldman Sachs and Deutche Bank in the acquisition, financing and development of large-scale real estate projects.

Bob Aptaker has 35 years of experience in developing, expanding and re-positioning assets. He is experienced in all aspects of development and project management, including conceptualization, feasibility, financial analysis, entitlements, public/private partnerships, anchor negotiations, merchandising, design, and construction. Bob has built relationships with City officials, consultants, designers, engineers, contractors, tenants, and institutional partners. Bob has piloted projects valued at over $1 billion. Key projects include Santa Monica Place, Los Cerritos Center, Oaks Mall, and Westside Pavilion.

Sharon Landers is the City Manager of the City of Carson in Los Angeles County. Sharon is an executive-level strategist and project manager in the private and public sectors. She has a track record of successfully advancing high profile and complex projects by working collaboratively with both government and private sector stakeholders. She has broad experience managing policy development and public relations in dynamic environments. She has extensive experience overseeing professional and technical disciplines while managing multiple functions and has a passion for innovation and improving organizational effectiveness.
| **Larry Kosmont**  
| **Chairman & CEO**  
| **Kosmont Companies**  
| **Introduction & Overview**  |
| **Jim Dillavou**  
| **Co-founder & Principal**  
| **Paragon Commercial Group**  
| **Developer perspective of how the retail landscape is changing, how shopping center / regional mall land uses are changing, how expectations are resetting & how cities can work with developers**  |
| **Bob Aptaker**  
| **National Development Advisors**  
| **Sharon Landers**  
| **City Manager**  
| **City of Carson**  
| **City government perspective of economic recovery & economic development tools Carson is pursuing**  |
| **Questions and Discussion**  |
| **Larry Kosmont**  
| **Conclusion & wrap-up**  |
CORONA VIRUS CRIPPLES CITIES!
Cities across the nation are grappling with the fallout from COVID-19... revenues need resolution.

MALLS MAY BE OPENING...
How will reopening work? Outside and open space are key amenities.

...BUT STORES CLOSING / SHRINKING
Some survive, some won’t ... anchors in turmoil, store closures expected to reach 25,000 in 2020; 25% of malls expected to close/re-set in next 5 years.

Retail downsizing driving reuse: fulfillment, office, parks, and residential. #RetailReimagination

HOTELS SUFFERING
2-3 year recovery; safety and cleanliness issues concern consumers.

DOORSTEP / DRIVEUP ECONOMY
Walmart intros Express Delivery... Amazon hiring 175,000 workers & Prime Now quick delivery... Instacart and Doordash expand food delivery... Ralph’s introducing one-hour delivery

THE NEW NORMAL: indoors & outside... curbside pickup & doorstep delivery. #KosmontRetailNOW!

WE’VE BEEN SOCIAL DISTANCING FROM EARNINGS.

NOW SPEAKING
Larry Kosmont
Winners & Losers

Market Performance Shows COVID-19 Resiliency

US Public REIT Performance by Sector, Total Return (%), 2019 & 2020


The COVID-19 Economy
## Land Use Revolution

### Everything’s Changing

<table>
<thead>
<tr>
<th>Hotel</th>
<th>Resetting; Business vs. Leisure; Conversions to other uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>Online accelerates; Malls = blended uses, less retail; Essentials &amp; Experience drive trips; Outdoor anchors</td>
</tr>
<tr>
<td>Office</td>
<td>Work-from-Home factor; Six Foot Office; Co-working challenged</td>
</tr>
<tr>
<td>Residential</td>
<td>Demand Strong; Redesigning for workspace &amp; amenities; “Surban”/ medium-density more appealing for now</td>
</tr>
<tr>
<td>Industrial</td>
<td>Leader of the pack: Warehouse &amp; Logistics; Last-mile delivery; Onshore manufacturing</td>
</tr>
</tbody>
</table>
The New Vocabulary of Innovation

Resuscitate | Elevate | Reimagine with Blending Uses

“Surban” Living | Six-Foot-Office | Mall Reimagining | BOPIS & Pickup

Frictionless Retail | Driverless Delivery | Omnichannel | Re-dustrial

The COVID-19 Economy
Private Sector Loss = Public Sector Loss
The Median California City Collects >1/3 of Tax Revenue from Sales + TOT

California City Tax Revenues
- Property, 41%
- Sales and Use, 22%
- BLT, 6%
- Hotel / TOT, 8%
- Utility User, 6%
- Franchise, 4%
- Other, 11%
- Prop. Transfer, 3%

Private Sector Loss = Public Sector Loss
The Median California City Collects >1/3 of Tax Revenue from Sales + TOT

Buena Park

Risk from Hotel Tax Exposure (TOT > 10%)
Risk from Sales & Hotel Tax Exposure
Risk from Sales Tax Exposure (Sales Tax >25%)


NOW SPEAKING
Larry Kosmont

PROPRIETARY
DO NOT DUPLICATE
# Emerging with Strength

<table>
<thead>
<tr>
<th><strong>Today</strong></th>
<th><strong>Tomorrow</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow control; maximize revenue, minimize outflow</td>
<td>Leverage grant funds and public assets to induce private sector investment</td>
</tr>
<tr>
<td>Flexible zoning / permitting</td>
<td>Reprioritize capital and technology projects based Federal and State recovery funding programs ($1.9T)</td>
</tr>
<tr>
<td>Work with local stakeholders on operating and health needs (tests/vaccines)</td>
<td>Use low interest rates for value-add refunding / refinancing for econ development and pension fund liabilities</td>
</tr>
<tr>
<td>Go after state / federal / nonprofit funds</td>
<td>Land Use Revolution – adopt local policies to changes in consumer activity; impact on residential &amp; commercial zoning/economic development priorities</td>
</tr>
</tbody>
</table>

**Preserve Cash and Keep Projects Moving**

**Invest in Achievable Sustained Recovery / Resiliency**
Public Sector Innovation
Finding and Using New “Currency” for Economic Development

Cities spent decades building local economies on brick-and-mortar retail and sales tax revenue. Public Agency leaders need to consider new sources of “currency” to reposition their communities for a sustainable & resilient future.

Land Use Currency
Zoning Currency
Economic Development Currency
Entitlements Currency
Financing Currency
The future of retail is **Mall Reimagination Projects**, **Downtown Retail Districts**, and **Financing Districts**.
Laguna Hills Mall Case Study

- Struggling regional mall – 60 Acres, Opened in 1973, anchored by Sears / JC Penney / Macy’s
- A Vision Unfolding: what started as a rezone developed into a blended use project featuring 1,500 apartments, office, hotel, movie theater, fitness, retail, restaurant, and park; plans evolved and shaped by market changes
THE RETAIL APOCALYPSE RENAISSANCE?

- Once-in-a-generation opportunity to re-think land use
- Retail was slowly changing pre-COVID; this has been exacerbated
- Retail footprints shrinking = retail land shrinking
- Significant high quality retail land will become “available” over the next decade
- Historical retail land use designations & zoning language is increasingly obsolete
- Creativity & flexibility are key as codes largely outdated
- Cities that “lean in” to the renaissance will attract more private investment
• Consumer behavior is forever changed by post-COVID “PTSD” and the shopping pattern / habit changes

• Pre-COVID: retail as product type was victim to the negative headline narrative fueled by rising e-commerce sales

• Post-COVID: the negativity is more pronounced as tenant bankruptcies accelerate, rents reset downward (supply & demand), NOIs decease (occupancy and rents) and cap rates increase, severely reducing values

• “C” retail assets will be the first to die; followed by “B”

• Private owners will be first to sell; institutions will lag
THE NEW (MUNICIPAL) RETAIL MENTALITY

- Definition of “retail” is changing as historically distinct land uses are increasingly combined
  
  - Medical as retail?
  - Creative office as retail?
  - Biotech as retail?
  - Industrial park with coffee shops and outdoor areas as retail?
  - Day care, education and dance studios as retail?

- Retail sales tax will continue to decline and cities will need to be creative in identifying alternative and/or replacement tax base income streams

- Retail is more local now than ever; this will continue as some of the work-from-home mentality remains (in-part) post pandemic

- Cities are in a different type of retail business now
MUNICIPAL CREATIVITY & ADAPTABILITY

- Ghost kitchens / last mile distribution
- Hybrid distribution & point-of-sale
- Vehicle-centric retail (i.e. curbside pick up)
- Drive-thru / Drive-in
- Reduced retail parking requirements
- Enhanced outdoor retail
- Permanent relaxation of alcohol restrictions
- Pop ups / mobile displays
URBAN PLANNING CHALLENGE OF CHANGING RETAIL

Consumer & retailer behavior changes *quickly* ........

- Deliveries (e.g., 1.5 million daily package deliveries in NYC)
- Buy online pick up in store
- Increased suburban distribution centers servicing urban neighborhoods
- Increased shipping from stores & to stores
- Increased need for infrastructure
- Increased need for technology

Whereas infrastructure changes *slowly* ........

- Streets and sidewalks design are based on a century old model
- Delivery vans (with multiple stops) on residential streets
- Lack of (or excess) parking
- Street configuration (narrow; one-way; etc)
- Urban micro distribution centers
- Existing physical retailer partnerships to reduce trip count
MALL RETAIL – PAST AND PRESENT

• Mall “Heyday” - 70’s & 80’s.  
• Dept. Store migration from DOWNTOWNS to suburbs.  
• Major Dept. stores had been around for a century! (Sears, Wards, JCP).  
• Malls were “not going away!” Another 100 years!  
• If you build it (& bring anchors) they will come!  
• REAs were the glue that allowed Malls to be financed and developed.  

If you build it, they will come!
DEAD MALLS

Or Not!
DEVELOPER’S OPTIONS

• Ride it out
• Redevelop
• Sell
• Turn over keys to the bank
RE-DEVELOPMENT POSSIBILITIES

- Right size
- Anchors box re-deployment
- Mixed or Blended use
  - Residential
  - Hospitality
  - Office
  - Medical
  - Grocery
  - Unconventional uses (e.g. education)
- PPP’S (e.g. Victor Valley, Cerritos)

Westside Pavilion - LA
WHAT’S HOLDING US BACK?

• Capital
• REAs
• Entitlements
• High Land basis
• Mixed/Blended-use expertise
REo – the glue that needs ungluing

- Premise is that entire site will always be an enclosed mall.
- Parking fields configured to meet “Christmas week” ratios and provide ingress/egress.
- Hard to assemble.
REA RESTRICTIONS

- Approval rights (unanimous)
- Use
- Parking
- Bldg. design
- Bldg. configuration
- Circulation
- Signage
- Construction
- “Negotiation”

Let the negotiations begin!
EXAMPLES OF SUCCESSFUL MALL MIXED-USE RE-DEVELOPMENTS

- Westside Pavilion – Los Angeles
- Rectangular parcel
- Control of RE
- Urban environment
- Google BTS
Tysons Corner – Fairfax, VA
• Residential, office, hotel
• Transit hub
• Proximity to Washington DC & Dulles airport
Problems on all fronts:

- Unfunded pension liability
- Loss of tax increment tool
- Businesses unable to operate
- Declining sales tax revenue
- Projected drop in property tax revenue
Tools to consider:

- Pension Obligation Bond (POB)
- Enhanced Infrastructure Finance District (EIFD)
- Capture Sales Tax up to Cap (10 %)
- Re-envision City landscape to enable more mixed uses (General Plan Update)
- Require Community Benefits contribution as part of new development (Development Agreement)
Pension Obligation Bond

- Stabilizes amounts owed each year to pre-set amount
- Potentially can enable lower payments first two years (thru payment of principal only) to counter lower sales taxes during pandemic
- Doesn’t add money into your pocket but does reduce overall expenditure for life of bond
POB Debt Service Compared to Current UAL Payments (July 2021)

- $1,000,000
- $2,000,000
- $3,000,000
- $4,000,000
- $5,000,000
- $6,000,000
- $7,000,000
- $8,000,000
- $9,000,000
- $10,000,000
- $11,000,000
- $12,000,000

2021 2023 2025 2027 2029 2031 2033 2035 2037 2039 2041 2043 2045

- Scheduled PERS Payments
- $204.1 Million
- $156.8 Million
- $47.3 Million
- 23% Reduction

UAL Budget Relief

Pension Obligation Bond Debt Service
Enhanced Infrastructure Finance District (EIFD)

- Collects tax increment like redevelopment districts (based upon increased land value not new tax)
- Limited benefit unless you partner with County since only would collect City property tax share
- Provides a source of funds for identified infrastructure projects
## EIFD Fundamentals

<table>
<thead>
<tr>
<th>Term</th>
<th>45 years from first bond issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Public Financing Authority (PFA) led by city or county implements Infrastructure Financing Plan (IFP) – IFP is the investment plan of the EIFD, managed by the PFA</td>
</tr>
<tr>
<td>Eligibility</td>
<td>City, County, Special District; school district increment exempt</td>
</tr>
<tr>
<td>Approvals</td>
<td>No public vote to create district or to issue debt (majority protest opportunity during formation hearings for landowners and registered voters)</td>
</tr>
<tr>
<td>Eligible Projects</td>
<td>Any property with useful life of 15+ years &amp; of communitywide significance; purchase, construction, expansion, improvement, seismic retrofit, rehabilitation, and maintenance</td>
</tr>
</tbody>
</table>

Does NOT increase property taxes
City of Carson EIFD Study Area
Approx. 2,800 Acres

- **6 POTENTIAL DISTRICTS**: 2,842 acres (~23% of City acreage)
- **$1.1 billion** in existing assessed value (~7% of City total value)
- **$3 billion+** in potential new value from proposed projects
Maximize Sales Tax Collection

- Requires a public measure with a majority vote
- Regressive tax; can be very controversial
- Possible selling points include:
  - High % contributed by non-residents who make purchases within your city
  - If your city doesn’t claim it, another special district may
Promote Blended-Uses Rather Than One Category of Use

- Allow blend of uses where compatible with adjacent uses
- Adds more vibrant neighborhoods with retail, commercial, housing, hotel on one property
- Reduces vehicular traffic
- Provides more flexibility for developer
- May provide greater revenue for City to support services
Require Community Benefits As Part of New Development (Value Capture)

- Maintain current densities in General Plan Update
- For developer to increase densities, Council approval is required, creating opportunity to negotiate a Development Agreement (DA)
- DA may include "value capture" benefits to the area like payment for infrastructure, features to soften edges between adjacent uses, neighborhood beautification
- Can cities assist in vacation of the REAs that have Regional Centers in a headlock?
NO CRISIS SHOULD GO TO WASTE
### Kosm Mont’s Economic Development Toolkit

<table>
<thead>
<tr>
<th>Land Use as Currency</th>
<th>Zoning as Currency</th>
<th>Tax Increment as Currency</th>
<th>Entitlements as Currency</th>
<th>Low Interest Rates as Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Reimagination: Revenue &amp; vitality from blending land uses</td>
<td>Development Opportunity Reserve (D.O.R.)®: Community benefits for new density</td>
<td>EIFDs / CFDs: Fund infrastructure with value capture and district financing</td>
<td>Community benefits and equivalent tax revenues from PPPs and DA negotiation</td>
<td>Leverage low rates to reduce debt costs with POBs, refunding, and P3</td>
</tr>
</tbody>
</table>

Look to the Future
Recovery Driven by When Consumers Return

Consumers Predict When They’ll Feel Comfortable…

- Going Out to Eat
- Going to a Shopping Mall
- Going on Vacation
- Going to the Movies
- Going to the Gym
- Going to a Museum
- Going to an Amusement Park
- Going to a Concert
- Travelling Abroad

Source: Morning Consult, “When Will Consumers Feel Safe Again?” Poll conducted January 8-10; published January 11, 2020
Once-in-a-generation chance to reimagine retail into a blend of uses

U.S. has the highest amount of retail space per capita... *in the world*

So what's next? Consider placing regional retail centers and commercial corridors in an EIFD supported by zoning policy.
Legislation Needed to Unlock Retail Centers

Reimagining retail centers are a major opportunity, but face a major obstacle: Commercial Reciprocal Easement Agreements (COREAs or REAs)

• Many retail reimagination projects face significant challenges due to the financial & legal resources, time, and uncertainty required to negotiate REAs with national anchor retailers.

• Kosmont is working with public and private associations to craft state legislation that allows modifications to these REAs—opening the market to many investors / developers and bringing sizable investment to our communities.

• The legislation aims to allow certain public entities (cities, counties, or certain special districts such as EIFDs or CRIAs) to acquire COREAs via a condemnation process—this would compel pricing based on the existing use (retail), rather than the exit uses with higher values (residential).

• With hundreds of centers representing tens-of-thousands of acres in prime locations across the state, this legislation can help cities maximize this unique opportunity and recapture value in a post-COVID economy.
Recovery Inventory Checklist
Kosmont’s Five Step Action Plan for Recovery

- Confirm preferred opportunities to pursue
- Select zoning / financing tools to be used
- Identify revenue / funding opportunities (e.g., federal / state COVID funding sources & programs)
- Work with owners / developers on specific project implementation
- Ongoing Updates to City Council and community
Key COVID Recovery Strategies

Unstick Stuck Deals
Be flexible, understand changes to the market, keep the conversations going, and keep projects moving

Focus on Projects
Identify the actionable projects and key sites that are vital to your community.

Pursue the Right Opportunities
Seek out cooperative investors/developers & facilitate projects that are accretive to your community.
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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.