CITY OF MANHATTAN BEACH

Economic and Market Summary Manhattan Village Shopping Center ("MVSC") Revitalization

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Prepared By:

Kosmont Companies

Presentation Outline

I. Kosmont Companies Overview

II. Evolution of Retail Market

III. Deficiencies & Opportunities of MVSC

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V. Summary

I. Kosmont Companies Overview

Kosmont Companies is a nationally-recognized real estate and economics advisory firm specializing in public + private transactions

The firm specializes in a full range of economic and real estate advisory services including:

- Market and Fiscal Analyses
- Economic Development Strategies
- Real Estate Transactions and Redevelopment
- Land Use
- Public/Private Transaction Structuring and Negotiation
- **Founded in 1986- serving public agencies for over 27 years**

Retained by City to assist in evaluating MVSC proposal.

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II. Evolution of Retail Market

- Loss of over 200 credit tenants in recession
  - Circuit City
  - Linens N' Things
  - Mervyns
  - Borders Books
- Competition for tenants is increasing given loss of tenants and surviving tenants that are downsizing formats
  - Best Buy was 45k sq. ft. at peak, now 30k sq. ft. and getting smaller
  - Petsmart 27,000 sq. ft. prototype recently took over former Borders Books @ 18,000 sq. ft. of space

II. Evolution of Retail Market

- Importance of improving shopper experience is more important than ever given increasing online sales
- Even stores like Fry's performing well today have dubious future without very low rent – (which is why Fry's will leave MVSC)
- Direct competition with expanding and renovating retail
  - Federal Realty-owned shopping center across the street in market looking for similar tenants to fill ~ 70,000 sq. ft.
  - Redondo Harbor Waterfront potentially 300k in next 5 to 7 years
  - Del Amo Fashion Center, Torrance (Simon Malls) re-tenanting started with Nordstrom as lead anchor

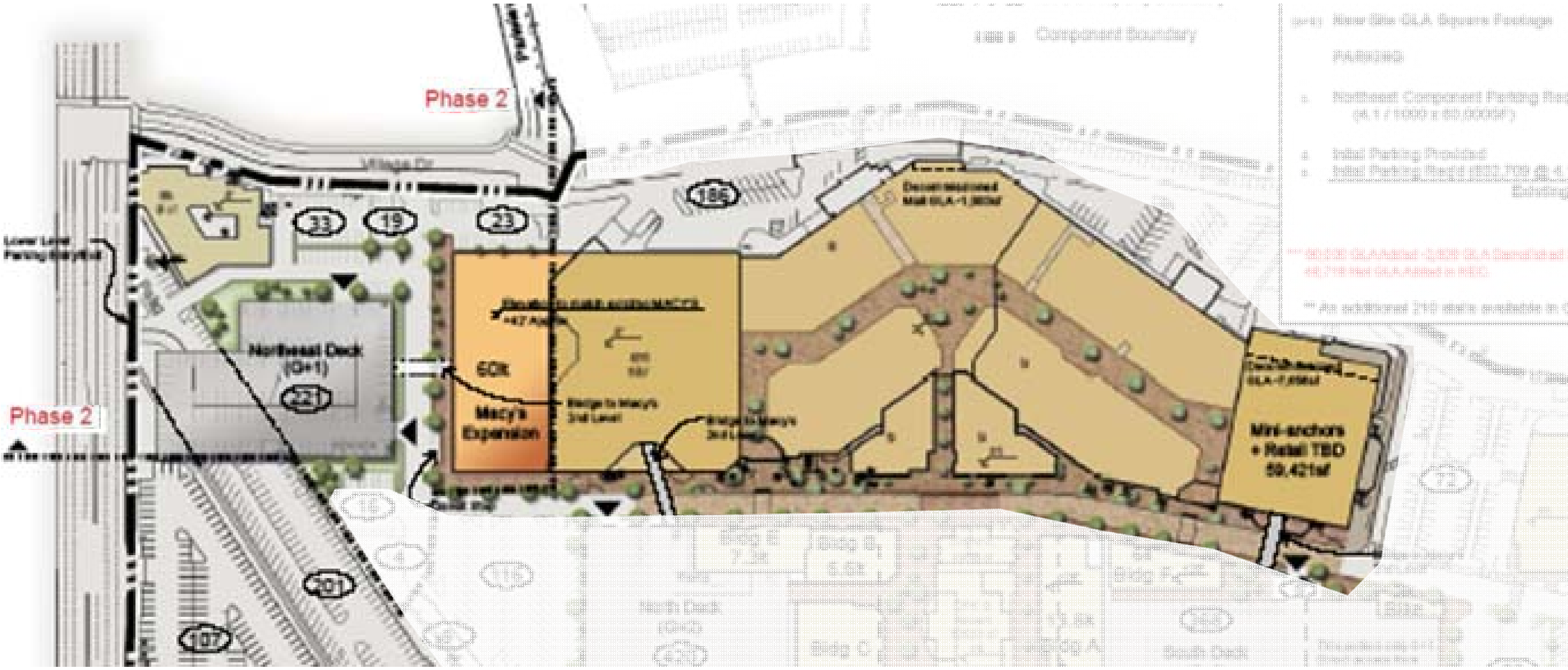
III. Deficiencies & Opportunities of MVSC

- Need to improve MVSC's competitive ability to act as regional and local attractor (identified in General Plan as Regional Mall)
- Low-traffic generating banks at front of mall limits retail synergy
  - Banking is different today – increasingly electronic
  - Means reorganization of relevance of existing center is tight
- Without mall improvements, tenant loss will increase and sales revenues will decrease
  - If drops below $450/sq. ft. (ICSC average for US regional malls) likely sale to owner not interested redeveloping property
  - Passive owner (e.g., institutional vs. developer/owner) can cause sales and tenant quality to deteriorate over time

III. Deficiencies & Opportunities of MVSC

- Closing of antiquated movie theater yields an opportunity as does the consolidation of Macy's
  - Macy's consolidation opens south to sub-anchors that can drive activity
- Competition for sub-anchors is stiff and broad based
  - Home Furnishings: Crate & Barrel / Restoration Hardware
  - Fashion: Forever 21 / TJ Maxx / Ross
- Timely availability of attractive space for tenants is a primary competitive advantage for a retail center
  - other locations become available and pursue existing/potential tenants
  - significant if stores have a presence in Santa Monica and Del Amo, may conclude market coverage is sufficient & skip over MVSC

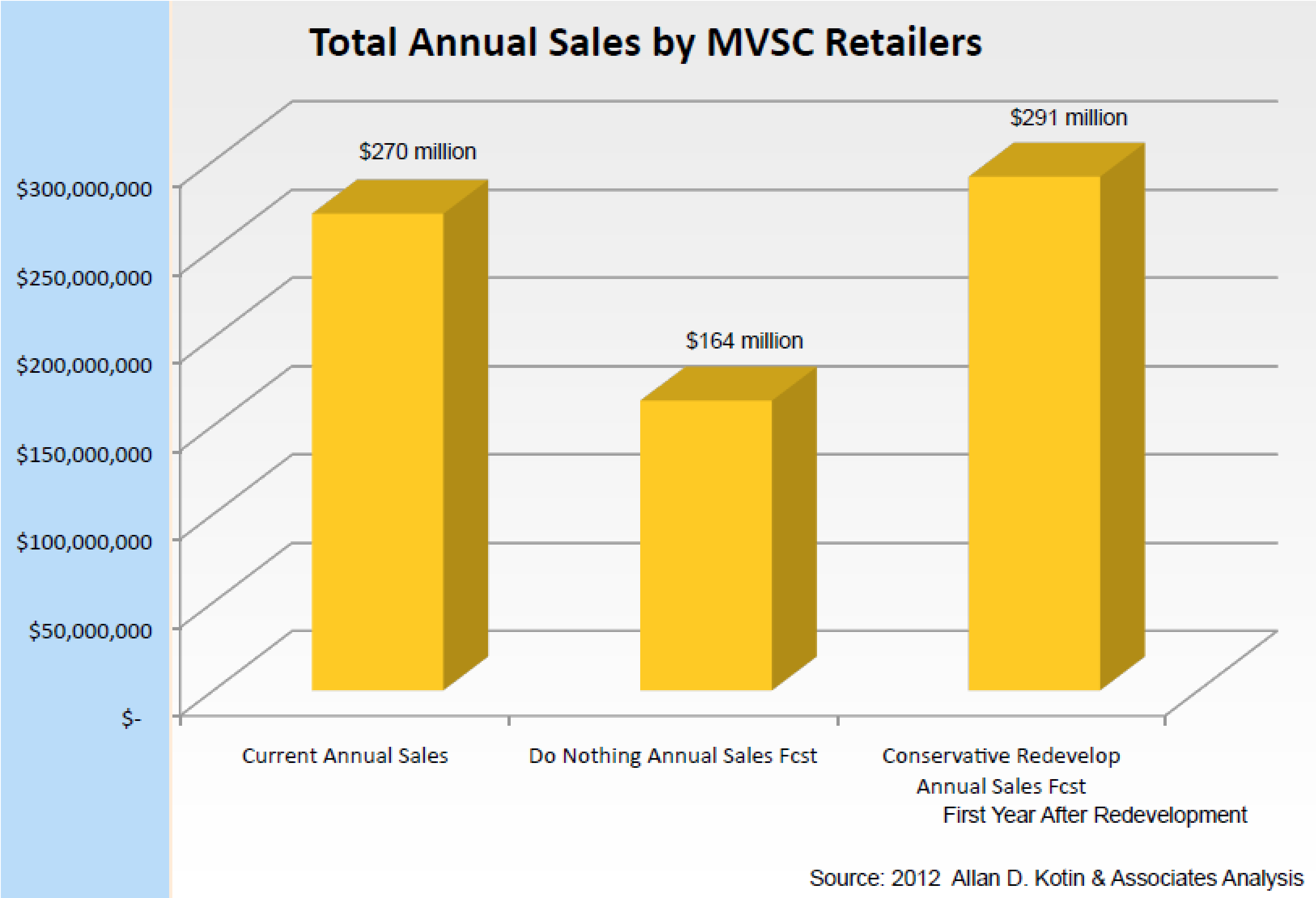
Macy’s Consolidation (Phase 2)



IV. Economics of Revitalization

- Without revitalization, tenants may leave or be “snatched”
  - ability to attract new tenants will become more difficult
  - leads to decreased sales revenues
- Fry’s slated to leave in 2016 when lease is up
- Movie theater space sits empty
- Macy’s
  - Men's Store underperforms in current split format and inhibits livelier mix of tenants in a key mall location
  - Overall, Macy’s performance strong- (local rep informed Planning Commission meeting that MB store performs well

Projected Sales at MVSC



IV. Economics of Revitalization

- Advantage of project is no need for City assistance- needs timely approvals (certainty) & COA flexibility to re-populate tenants
  - Potential of subsidy existed when Macy's consolidation was to take place on longer timeline (10 years out),
  - In past Macy's not willing to commit to consolidation
  - Today, with improving economy, Macy's is supportive of consolidation and willing to pursue it in near-term (Phase 2 as opposed to Phase 3)
    - Allows owner to release former Macy's Men's store space creating value on accelerated schedule
    - No need for subsidy to pursue consolidation and Macy's parking structure that will be required
    - Macy's requires sufficient parking in P2 lot
  - Parking levels at 4.1 per 1000 meets tenant demands, needed to achieve competitive rent levels

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V. Summary

- Evolution in the retail industry is a key driver for the necessity of revitalizing MVSC
- Currently empty tenant spaces and upcoming lease terminations are also driving need for revitalization
- Without revitalization, MVSC sales revenues expected to drop significantly over time
- Macy's willingness to be an active partner in the revitalization has enhanced potential for early success
- Need COA's that deliver a quality project with enough flexibility to freshen tenant mix in the future
- Timing is key due to competitive projects looming; approved entitlements sooner than later will enhance leasing