

# **CITY OF MANHATTAN BEACH**

## **Economic and Market Summary**

### **Manhattan Village Shopping Center ("MVSC") Revitalization**



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**Prepared By:**  
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# *Kosmont Companies Overview*

Kosmont Companies is a nationally recognized real estate & economics advisory firm specializing in public + private transactions for 28 years

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
- Land Use
- Public/Private Transaction Structuring and Negotiations

**Retained by City to assist in evaluating MVSC proposal.**

# *Presentation Outline*

- I. Summary of Issues & Staff Recommendations
- II. Fiscal Impacts
- III. Market Commentary

# Summary of Issues & Staff Recommendations

	Issue	Status	Result	Fiscal Impact / Market View
1	<b><u>Size of Center</u></b>	<p><b>Staff Recommendation #1:</b> Approve Phases I &amp; II only, no Phase III; Developer proposes Phases I, II, &amp; III, but does not have definitive plans for Phase III</p>	<p>W/O Phase III City reduces net new commercial by approx. 25% (89,872 SF, versus 123,672 SF with Phase III)</p> <p>Total Project SF reduced to 662,709 SF, versus 696,509 SF with Phase III)</p>	<p>Fiscal: Build-out of proposed Phase III, roughly equal to Fry's staying in existing facility, without Phase III approval, Fry's likely to remain in Center</p>
2	<b><u>Size of North Parking Structure (NPS)</u></b>	<p><b>Staff Rec #2 and #3</b> (2) 20,000 SF be transferred from Phase I to Phase II Or eliminated (3) Redesign/reduce size of North Structure &amp; make it more like Phase I South Parking Structure</p>	<p>Not acceptable to RREEF in order to accommodate Macy's and internal mall tenant requirements</p> <p>NPS moved to enable larger Plaza</p> <p>Existing surface parking reserved without Phase III</p> <p>3500 Sepulveda will prefer two story structure per Settlement Agreement Design of Structure still negotiable after entitlements</p>	<p>20K reduction would financially impact Developer and City.</p> <p>Less retail reduces critical mass of retail adjacent to expanded Plaza</p>

# Summary of Issues & Staff Recommendations

	Issue	Status	Result	Fiscal Impact/ Market View / Other
3	<b><u>Completion of Phase II</u></b>	<b>Staff Recommendation #4:</b> Macy's "put option" needs to be exercised prior to issuance of building permit for Phase II	Phase II cannot be completed without Macy's consolidation & improvement of Macy's Men's Store	Macy's expansion cements and upgrades valuable anchor Revamp of Macy's Men's with ~50,000 sq. ft. of new anchor tenants expands diversity of retail mix Consolidation of Macy's is more desirable than current configuration
4	<b><u>Circulation</u></b>	<b>Staff Recommendation # 5:</b> Cedar Way must connect to Rosecrans Ave with Phase II  Oak Avenue Traffic Study still a condition	Improves access/ circulation & supports pedestrian & vehicle connectivity sooner	Desired improvement by City Council & 3500 Sepulveda  Oak Study funded by RREEF up to \$20K

# Summary of Issues & Staff Recommendations

	Issue	Status	Result	Fiscal Impact/ Market View / Other
5	<b><u>Retail &amp; Pedestrian Amenities</u></b>	Expanded Community Space (100' x 180')  Size & width like Metlox  Events to be programmed Clock Tower/Fountain are focal points	Doubled size of Plaza (In response to Council comments) New Phase I & II retail focused on expanded Plaza	Internet sales reduce buyer trips Visits driven by experience Enables MVSC to compete w/ Plaza El Segundo expansion and improved South Bay Galleria and Del Amo malls
6	<b><u>3500 Sepulveda – Removal of Use Restrictions</u></b>	Staff recommended approval of use restrictions in Nov 2013	Full alcohol for existing restaurants  Extended hours for existing restaurants  Additional medical and dental allowed  Additional “in-line” bank allowed	Expansion of restaurant hours and additional medical and dentist office will increase shopper visits to MVSC

# MB VILLAGE CORE QUESTION

Is the concern about the North Deck Structure size and design enough to not support the proposed ~\$120 Million investment by RREEF to build a Village Plaza, Phases I and II, and Macy's reinvestment/consolidation?

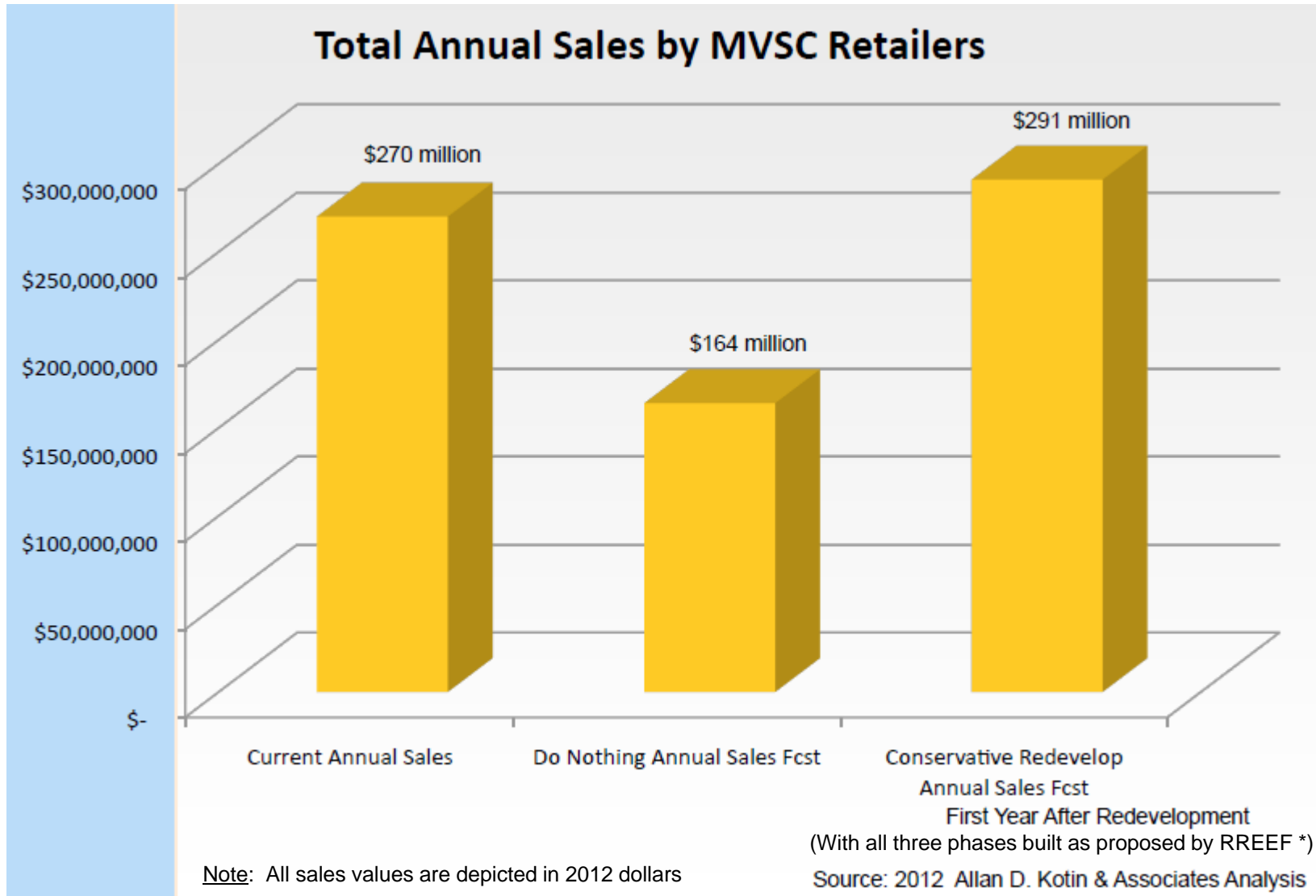
**Internet driving sales trends, investment in the MBVSC "retail experience" timely & needed**

**Tenants getting smaller, diversity of experience important**

**El Segundo Plaza will deliver 115,000 sq. ft. with over 25 tenants by mid-2015.**

***"The Point will offer unmatched shopping dining and most importantly, an oasis like escape for the SB beach communities" Jeff Kreshek, VP Federal Realty West Coast Leasing***

# Fiscal Impacts - Projected Sales at MVSC



\* Build out of Phase 3 as proposed by RREEF generates similar sales levels to maintaining Fry's



# Financial Impacts of Various Phase 3 Alternatives

Scenario	Square Feet (SF)	Sales/SF	Annual Sales	Comparative (Loss)/ Gain in Annual Sales Revenue
RREEF Phase 3 (as proposed)	80,000	\$572*	\$45.8 M	\$0
<b>Maintain Fry's</b>	46,000	\$1,000	\$46 M	<b>\$200,000</b>
<b>With Higher Performing Tenant (i.e. Forever 21)</b>	46,000	\$550	\$25.3 M	<b>(\$20.3 M)</b>
<b>With Lesser Performing Tenant(i.e. Burlington Coat)</b>	46,000	\$250	\$11.5 M	<b>(\$34.3 M)</b>

- Sales/SF estimate represents 'Mid-range' Case from Kotin Fiscal Revenue Impact report, June 2011

Note: All sales values are depicted in 2012 dollars

The analyses, projections, assumptions, rates of return, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Project pro forma and tax analyses are projections only. Actual results may differ materially from those expressed in this analysis.

# *MVSC competes with Retail Trends & Local Projects*

- Premium placed on improved shopper experience geared to daily trips: food, dining, entertainment, internet sales pick up, viewing of merchandise based on area internet preferences
- Sense of place and convenience becoming more important ever given increasing online sales and shopper due diligence
- Diversifying tenants is critical to address potential loss of existing large tenants (i.e. Fry's)
- Direct competition with expanding and renovating retail
  - Redondo Harbor Waterfront potentially 300k in new retail next 5 to 7 years (EIR evaluation phase starts in 2014, MOU approved Nov. 2013)
  - Del Amo Fashion Center, Torrance (Simon Malls) re-tenanting started with Nordstrom as lead anchor (implementation continues)
  - Federal Realty-owned shopping center across the street in market looking for similar tenants to fill (under construction, expected open by mid-2015)

- Evolution in the retail industry is a key driver for the necessity of revitalizing MVSC
- With increase in internet activity, stores are downsizing and experience based shopping has become more important
- Macy's willingness to be an active partner in the revitalization enhances potential for early success
- Currently empty tenant spaces and upcoming lease term expirations also driving need for revitalization
- Without revitalization MVSC sales revenues expected to drop significantly over time
- For MVSC timing is key due to competing projects advancing