

CITY OF MANHATTAN BEACH

Manhattan Village Shopping Center ("MVSC") Revitalization

Financial & Fiscal Impacts



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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. Background
- II. Financial Impacts
- III. Fiscal Impacts

MB Village Expansion: Retail Market Context

- 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 life style conveniences (food/drug) as trip generators more important 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 mid 2014/MOU approved Nov. 2013)
 - Del Amo Fashion Center, Torrance (Simon Malls) re-tenanting started with Nordstrom as lead anchor (implementation continues)
 - Federal Realty's "Point" across street in El Segundo looking for similar shopping & dining tenants (under construction, expected open by mid-2015)

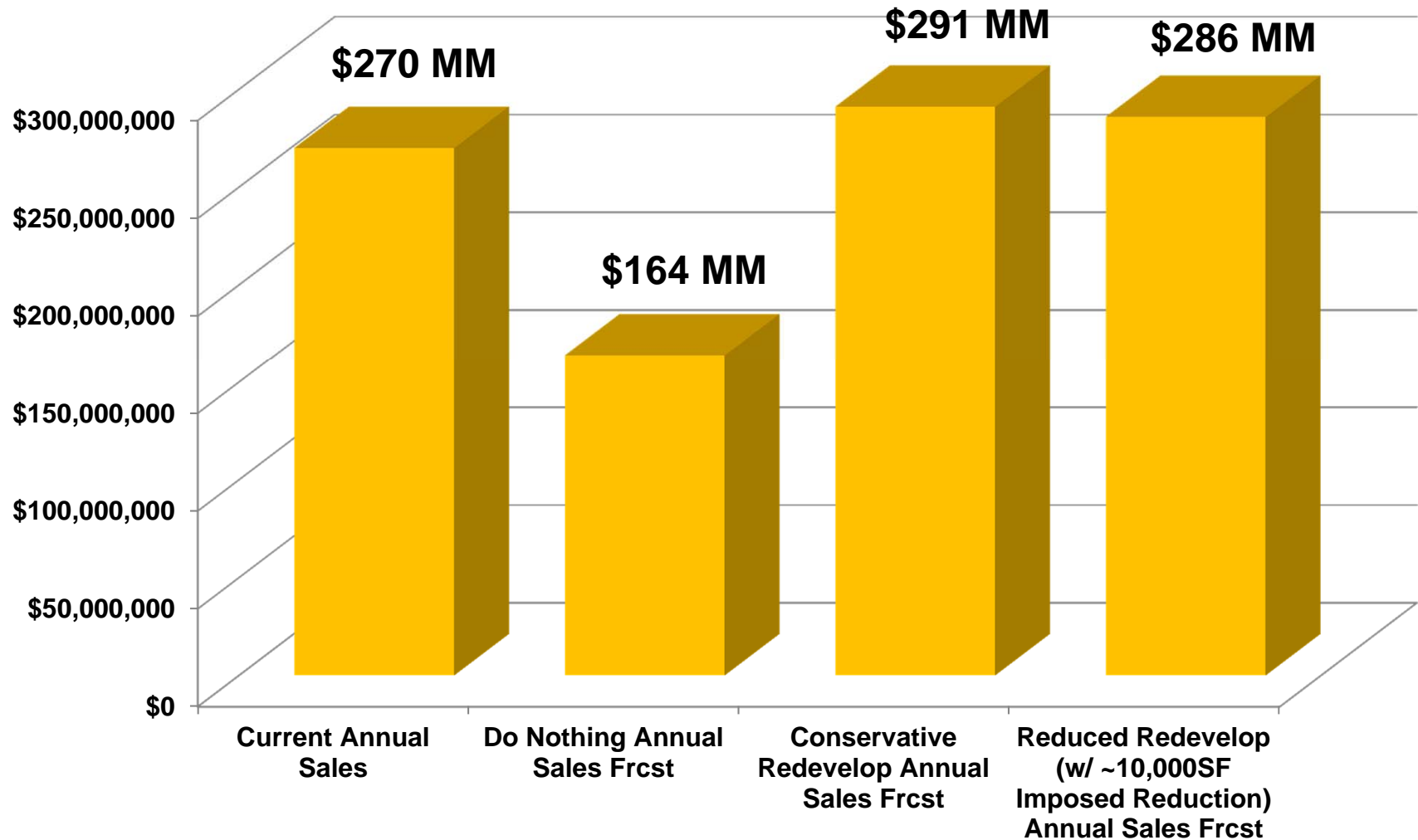
Shifts In Retail Trends & Consumer Priorities

- 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 (national "click & collect" strategy)
- Currently empty tenant spaces and upcoming lease term expirations also driving need for revitalization
- Opportunity to re-tenant based on added plaza/pedestrian amenities
- Without revitalization MVSC sales revenues expected to drop significantly over time;
- For MVSC timing is key due to competing projects advancing

COA Requirements: Summary of Financial Impacts (est.)

COA	Timing	Requirement	“What’s At Stake”	RREEF Commitment at Risk (est.)
13(c) / 14(b)	Prior to issuance of Phase I Building Permits	Evidence of binding agreement between Applicant and Macy’s to consolidate and expand Macy’s	Building Permits for Phase I	~\$2 MM+ for project processing, environmental review, project negotiations <u>Entire Project</u>
13(d)	Prior to issuance of Permits for Buildings B, C, D, E (in Phase I)	Applicant to make non-refundable security deposit of \$400k for Phase II (Macy’s) plan check/permit fees	Deposit forfeited if not used	\$1.7 MM+ for design \$400k Deposit
13(e) / 14(d)	Prior to issuance of Certificates of Occupancy for Buildings B, C, D, E (in phase I)	Applicant to submit complete building plan check submittal for Phase II including Macy’s consolidation	Applicant can’t open Buildings B, C, D, E	Cost of ~24k SF of new buildings= ~\$5 MM+ without being able to utilize
14(c)	Condition of Approval for Phase II	Macy’s consolidates Men’s Store in Fashion store expansion, RREEF leases space at south end of Mall	Approval of Phase II	<u>Entire Phase II of Development</u> \$2.5 MM Macy’s Men’s allowance ~\$2 MM year in lost rent
14(h)	Prior to issuance of Phase II Building Permits / Macy’s Expansion	Plans for Cedar Way expansion shall be submitted for plan check / Expansion completed prior to Permits for Macy’s Expansion	Building Permits for Phase II / Macy’s	<u>Entire Phase II of Development / Macy’s Expansion</u>

Fiscal Impacts - Projected Sales at MVSC



Note: All sales values are depicted in 2012 dollars

Projections with both phases built as previously proposed / currently conditioned)

Source: 2012 Allan D. Kotin & Associates Analysis;
Reduced redeveloped estimated from figures therein

Conclusion

- Local retail market deep, but highly competitive
- Mall needs to be enhanced just to maintain ongoing relevance
 - For shoppers
 - For revenue generation for City
- Macy's consolidation is key to long term success of Mall