

Kosmont Vision 2018:

Retail, Real Estate and Land Use Trends

What's old is over. What's new is changing.

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Real Estate
Finance/Economics
Development
Entitlements

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companies
since 1986



Presentation Outline



- **The Plumbing of the World is Changing**
 - *What is the State After?*
- Economic Development 2.0
 - *Zoning Incentive: Development Opportunity Reserve*
 - *Off to the FUTURE We Go!*

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How is the World Changing?

Digital and Demographic Shifts	Market Responses	Land Use Impact
<p>Growing Millennial Population</p> <p>Online Retail</p> <p>Shared Economy</p> <p>Autonomous Vehicles</p> <p>Internet Socializing</p>	<p>Larger market base utilizing technology</p> <p>Delivery increased from industrial centers</p> <p>Create “Place” vs. “Space”</p> <p>Focus = “Trips” vs. “Sales”</p> <p>BIG store to small store</p> <p>Authenticity/Differentiation</p>	<p>First mile & last mile (how you get to transit; how goods get to you)</p> <p>Mixed-use vs. Retail</p> <p>Sustainability vs. Density (millennial housing)</p> <p>Mobility vs. transportation</p> <p>Recycled parking (structures vs. ride share)</p>

***Technological and demographic changes alter the way we
Consume, Commute, and Communicate***

Businesses Pursue Relevance/Profits in a Changing World

Consumption

- Customers buying differently
- Brick & Mortar vs. Online
- Last-Mile Delivery- demand convenient/rapid delivery
- *Instacart, Doordash, UberEATS*



Commuting

- People's movement patterns are changing
- Transit (\$100 Billion approved by LA voters)
- Shared economy (Uber/Lyft ride-sharing)
- Driverless cars coming soon



Communication

- Communicating digitally
- Social Media (Facebook, Instagram, Twitter, Snapchat)
- Employee Recruitment (LinkedIn, Zip Recruiter, Indeed)
- Digital means local (Nextdoor - social network for neighborhoods)



Public & Private Sectors Must Focus on the 3 C's

How Do Millennials Communicate?

Social Media! Millennials are communicating and sharing experiences digitally on a regular basis

- **Social Media** monthly usage stats
 - Facebook - 2.06 billion
 - Instagram - 800 million
 - Twitter - 328 million
 - Snapchat - 300 million
 - Pinterest - 150 million
- **Employee Recruitment (LinkedIn, Zip Recruiter)**
 - LinkedIn - 500 million registered members, 200 million monthly visitors
- **Local is digital too** (Nextdoor for neighborhoods)



#@THEGYM: A Gym For Millennials

You can't work-out on the internet...

But you can be on the internet *or* at work *while* you work out

Consumer Preference: *Value* *Price* & *Place* & *Trips*

- **Internet is driver** of change: “**the sale can take place anywhere**”
- So...**trip generators** are the new anchors; sustain centers
- But...despite digital growth **Brick & Mortar is in demand**
- Going **from BIG to small**: “Urban” Nordstrom Local 3,000 sq ft vs. Nordstrom at 177,000 sq ft
- **Omnichanneling = blend of Clicks & Bricks**
 - Click & Collect: in-store or curbside
 - Pop-Ups popping up everywhere
 - Last mile delivery demand boosting



Exterior (above) and Interior (below) of Nordstrom Local in West Hollywood, CA. Opened October 2017.



Online Sales on Black Friday/Cyber Monday

- Black Friday - **\$3.34 billion** in 2016 to **\$5 billion** in 2017
- Cyber Monday increased to **\$6.6 billion** this year from **\$3.45 billion** in 2016

Sources: <https://www.cnn.com/2017/10/05/take-a-peek-inside-nordstroms-first-tiny-store-without-inventory.html>; <https://retail-index.emarketer.com/company/data/5374f24e4d4afd2bb444662a/5374f28a4d4afd824cc15ab8/lfy/false/nordstrom-real-estate>; <http://fortune.com/2017/11/26/black-friday-online-2017-sales-record>; <https://www.reuters.com/article/us-usa-holidayshopping/black-friday-thanksgiving-online-sales-climb-to-record-high-idUSKBN1DP0PR>

Amazon's Two-Pronged Approach

- Amazon is an online retailer creating a physical presence
- Whole Foods (now owned by Amazon) is a physical retailer whose private-label products are now available through Amazon's online marketplace

Examples of Amazon's Physical Presence

- Convenience Stores - **Amazon Go**
- Drive-up Pick-ups - **Amazon Fresh Pick-Up**
- Clicks to Bricks - **Amazon Books**
- Click and Collect - **Amazon Locker (now available at Whole Foods)**
- Delivery - **Amazon Restaurants, Amazon Prime Now Drone**



Amazon is an **omnichannel trend-setter**

The Trinity of Online Retail



Tech is changing how We Work, Travel & Build Real Estate

Impact on Real Estate

- **More Driverless cars, less Parking:** new parking lot design; focus shifts to other uses (office, retail, hotel)
- **Shared workspaces:** Collaborative environment to energize work space
- **Place vs. Space:** Landlords remodel vacant retail space, create “place” that yield trips
- **Blended Uses:** retail supported by residential, entertainment, events, medical, education, fitness/health, food, creative office, transit, and civic



Examples of reimagined collaborative work spaces



Westfield created a “place” at the Westfield Century City mall

Source: Gensler; Forbes, Oct. 24, 2017; <https://www.nrdc.org/experts/meg-waltner/new-california-building-efficiency-standards-set-stage-zero-net-energy-homes>

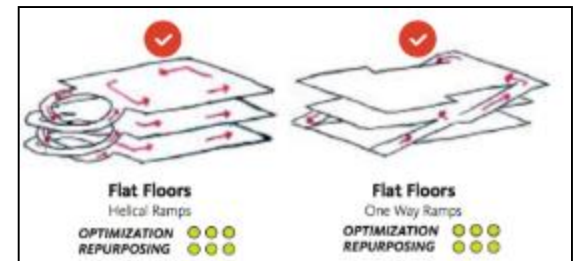
Real Estate Impacted by Ridesharing, Reduced Parking, Autonomous Vehicles

Driving a Thing of the Past

- Americans spend 250 million hours commuting/year
- ~93% of road accidents caused by “human error”
- 24 pounds of CO2 emitted per gallon of gas used

Ridesharing and Autonomous Vehicles are the Future

- Will change parking demand and reduce parking standards
 - By 2025 and 2035, most people will not own a car
 - Est. 10 million self-driving cars on road by 2020;
 - Cars to read infrastructure
- Wasted space: 500 million parking spaces in the U.S.(25-30% of land area)
- Institutional investors working with architects on new structure designs and retrofit strategies for parking in existing buildings



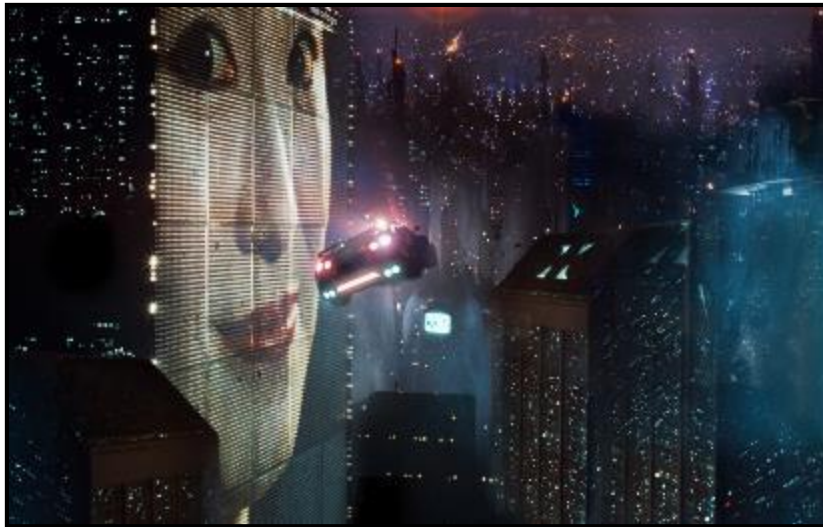
Sources: Gensler; <https://www.moneycrashers.com/sharing-economy/>; <http://www.businessinsider.com/free-uber-rides-for-summit-new-jersey-commuters-2016-10>; http://www.progressive-economy.org/trade_facts/traffic-accidents-kill-1-24-million-people-a-year-worldwide-wars-and-murders-0-44-million/; <http://www.businessinsider.com/no-one-will-own-a-car-in-the-future-2017-5>; <https://www.scientificamerican.com/article/driverless-cars-may-slow-pollution/>

Robots, More Human Than Human

Technology has potential to replace ~50% of all jobs (33% by 2030)

One third of US workforce may need to be retrained for new positions

**Jobs most at risk are physical ones in predictable environments
(machine operation, fast food, data processing, paralegal/accounting)**



***“Robots are like any other machine, either a benefit or a hazard.
If they’re a benefit, it’s not my problem.” –Rick Deckard (Blade Runner)***

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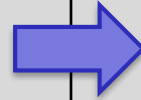
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New State Mandates to Tackle Issues

State Mandates / Targets



Mandates on Private & Public Sectors

Climate Action

Sustainability & Housing Districts

Housing Supply/Affordability

Poverty Reduction

Sustainability plans hit every industry, government, cars, and buildings

Zero Net Energy for residential and commercial buildings

Clean Air Mandates targets Zero-Emissions Vehicles

Sustainability element required in updated General Plans

Mandates on housing affordability and affordable housing production

State Policy Direction: Climate Action Drives Green Economy

California local governments must incorporate climate action strategies into planning and operations to comply with state mandates

Select CA Legislation

AB 32 / SB 32	Reduce GHG below 1990 levels by 2020 and 40% below by 2030
SB 375	Integrated Sustainable Communities Strategy (SCS) and Regional Transportation Plan (RTP)
SB 535 / AB 1550	Disadvantaged and Low Income Communities cap and trade investments
AB 1358	Complete streets incorporated into General Plan updates
SB 97	Qualified GHG Reduction Strategy / Climate Action Plan

City Climate Actions



Sustainable Infrastructure Investments



Renewable Energy Projects



Efficient Building & Design Upgrades



CEQA Analysis Changes from VMT to # of Trips

Newest Tools: Housing *is* Economic Development

15 New Housing Statutes Effective January 1, 2018

<u>Focus</u>	<u>New Statutes</u>	<u>What Do These Bills Do?</u>
Streamlining, Districts, & Financing Authorities	SB 540, AB 73, SB 35, AB 1568, AB 1598	Allows cities and counties to create special districts and financing authorities whose goals are to expedite the housing development approval process and fund affordable housing.
Compliance: Housing Accountability Act (HAA)	SB 167, AB 678, AB 1515	Strengthens the provisions of the HAA by limiting the ability of a city / county to deny or downsize housing projects and by providing HAA protections to a larger number of housing projects.
Compliance: Housing Element & Procedures	AB 72, SB 166, AB 879, AB 1397, AB 1505, AB 1521	Amends housing element law by granting cities, counties, and the State Department of Housing and Community Development (HCD) the ability to impose inclusionary zoning and housing affordability requirements and further strengthen their enforcement powers of housing element law.
Money	SB 2, SB 3, AB 571	Provides funding sources for affordable, farmworker, and veteran housing.

“Today CA begins a pivot from a housing-last policy to a housing-first policy”
- CA State Senator Scott Weiner (D - San Francisco)

The Cost of Not Housing

55%

of SCAG renter households are paying over

30% of their income to housing costs.

In L.A. County, one-third of renters spend more than **50%** of their income on housing.

Source: Census, 2010

HIGHER HOUSING COSTS IMPACT THE LOCAL ECONOMY

Housing is a component of economic development: tied to sustainability and prosperity



\$43 to \$83

Billion Billion

Lost Construction Activities



\$27 to \$32

Billion Billion

Lost Expenditures on Activities Outside Rent and Mortgage Payments

Source: McKinsey Global Institute, *A Tool Kit to Close California's Housing Gap*, October 2015



Millennials Priced Out

Nearly

50%

of all households leaving Los Angeles and Orange counties are millennials.

Source: Trulia, *Priced Out: Big Cities Are Becoming Too Costly For Lower-Income Residents*, April 2016

“Housing is a place for jobs to sleep.”

- Lucy Dunn, President & CEO of Orange County Business Council

Source: League of California Cities

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Building a Sustainable Community

City Priority: Economic Development attracts private investment

- Jobs & Taxes
- Zoning policies focused on placemaking (retail w/ trip generators)
- Housing and mixed use (with transit investment)
- Industrial growth is technology driven
- Retail sales increasingly tied to delivery
- Sustainability Districts (EIFDs, CRIAs) to induce private investment



State Priority: Economic Development helps cities meet climate action targets

- 2020 is right around the corner – is your city on target to meet AB 32 reduction goals?
- Land use approvals that require business to invest in sustainability (higher density, fewer trips, Title 24, electric vehicles) will help cities meet CAP targets

Human Priority: Housing is where jobs sleep at night

- New legislation provides tools, streamlining, and funding for affordable housing
- Tax Increment and other districts can accelerate compliance
- State focused on imposing housing projects locally

**Economic development is the KEY to
address housing, climate action, and the changing face of retail**

Utilize Economic Development Tools for Public / Private Projects

New Tools

Digital E.D. & Digital Community Participation

OppSites

digiConversation™

Sustainability and Housing Districts

Enhanced
Infrastructure
Financing Districts
(EIFDs)

Community
Revitalization & Inv.
Authority (CRIA)

WHOZ

Housing
Sustainability
Districts (HSD)

Affordable
Housing
Authorities
(AHA)

NIFTI

Existing / Former Tools

Kosmont
Retail NOW!®

Real Estate &
Property

Land Use / Zoning
(Higher Density;
DOR™; Parking)

Rebate of Taxes
/ Revenues

Special Districts
(Tourism, BIDs, etc.)

P3 / Project
Delivery
Methods

Grants / State /
Federal Sources

California
RDAs
1945 - 2012



Land Use & Zoning can be E.D. Tools

1. Expedited Processing of Entitlements and Permits:

- For the private sector time is money. Reduced processing time is a win-win
- Shorter timeframes for CEQA and other local Permitting requirements

2. Development Agreement (DA):

- Think “prenuptial agreement”
- DAs lock in benefits for public & private sector: e.g. infrastructure/public amenities

3. Specific Plans:

- Incorporate “ED” priorities and convert them to zoning policy objectives

4. Development Opportunity Reserve (DOR):

- Assign density for preferred uses (mixed use, retail, tax and job generators); Reward the Buyer/investor not the owner

5. Transfer of Development Rights (TDR):

- Specific Plans with an Economic Development “kicker.”

6. Post Construction Operating Covenants:

- Valuable for financing improvements made by a developer and/or tenant

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Land Use/Zoning Options - Density as E.D. Tool

Development Opportunity Reserve (“DOR”):

- **Problem:** Upzoning used to stimulate economic development often results in a windfall to existing landowners, not targeted end users or uses
- **Bright Idea:** Combine Specific Plans (SP) with Econ. Development “Kicker”
- **Zoning/Density** should protect/advance community desires as per the SP
- Place ‘Added’ density into a “Reserve” and distribute per parcel
- Higher density to projects that comply with pre- set “community objectives”
- Economic value of “DOR” projects vs. existing owners
- **Note:** May trigger prevailing wage impacts on certain projects

Successful Examples of DOR:

- **Burbank Media Overlay District Zone (1991- present)** – allows more density through CUP process for projects that meet community goals (infrastructure)
- **City of Buellton (2017)** – Adopted Commercial Town Center Specific Plan with DOR incentives – mixed use density tied to beautification and amenities)

Potential DOR Trade-Offs

- Incentives support Specific Plan Goals and Objectives and are placed into a “Reserve Account” for City to distribute on a case-by-case / project basis
- If developers provide specified community benefits, City provides developers with incentives

Potential Community Benefits / Objectives	Potential Incentives
<ul style="list-style-type: none">• Construction of restrooms• Construction of an off-site public parking lot• Payment into, or creation of, a parking district• Construct off-site public improvements (curb, gutter, sidewalk, street widening)• Payment of an off-site trail fee• Payment of off-site water / wastewater fees• Installation of public art• Payment of a library fee• Adding green building features	<ul style="list-style-type: none">• Increase building heights from 35 to 50 feet• Reduce on-site parking requirements• Increase mixed-use residential density from 12 units per acre to 18-20• Reduced rear yard setbacks• Allow land uses not allowed in the CR zone, such as 100% industrial• Additional density

DOR In Action

City of Carson DOR "Reserve"



Receives
Reduction
in
Required
On-Site
Parking

Builds
Public
Parking
Lot

Developer A
Project

Receives
Residential
Density
Bonus

Construct off-
site public
improvements

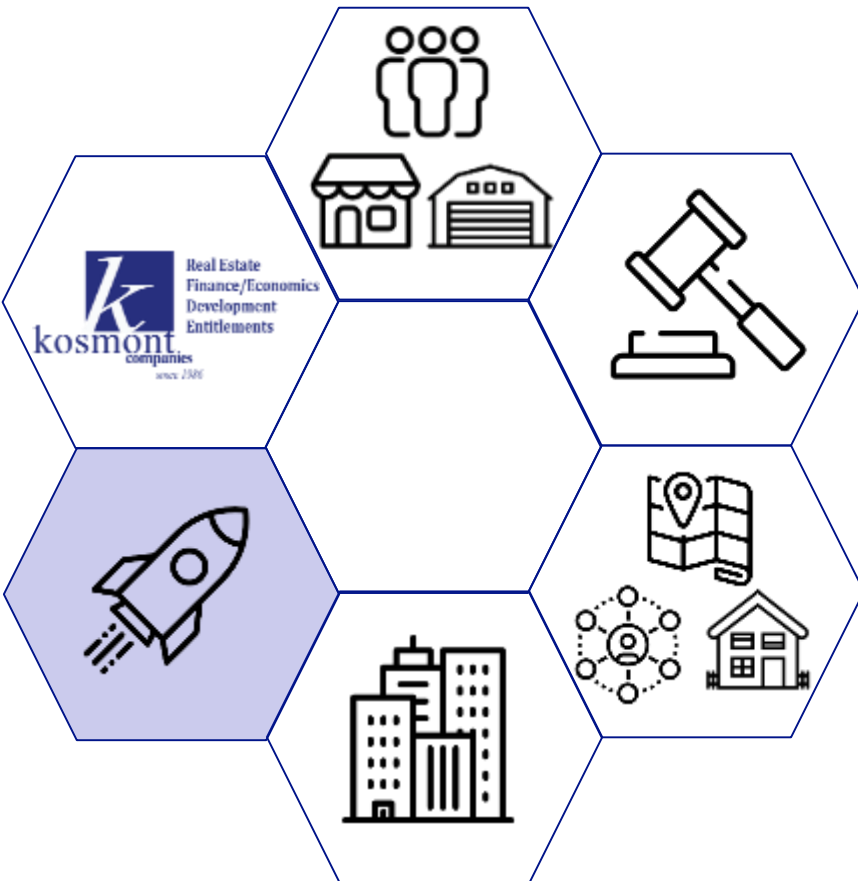
Developer B
Project

Receives
Increase
in Max
Building
Height

Provides
Off-Site Public
Improvements

Developer C
Project

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Is Your City Millennial Ready?

Millennials initially drove the re-urbanization movement

- Wanted walkable communities with urban amenities
- Stayed longer in urban centers compared to earlier gen. of young adults

Peak Millennials - From Urban to Suburban

- 2/3 of Millennials are married and half have at least one child
- Buy homes in suburban areas; lower costs & crime rates, childcare, and better schools
- Future Gen Z won't replace urban Millennial dwellers (smaller population, less collaborative, more individualistic, more conservative)
- Baby boomers not intending to downsize
 - 63% want to stay, 33% want a larger house

How does this affect real estate?

- Apartment buildings down 35.2% in 2017,
- Single family homes are up 10.9%
- Suburban cities: higher density near transit
- Create “authentic” projects with walkable places;
it's not all about the retail



Summary: Trends to Pay Attention to

1. TECHNOLOGY CHANGING THE WAY WE LIVE

- **Millennial** generation dominant: Consume, Commute, and Communicate differently
- Consumers shifting to a **digital and shared economy**
- **Digital interaction** exploding; the future is now (driverless cars, robots, big data)
- **Retail adapting**; **place and trips** vs. sales, omnichanneling, experiences, bricks/clicks, augmented reality arriving
- **Mobility and Delivery** are new drivers of consumer behavior (first mile/last mile)
- Changes affect land use focus (**sustainability** vs. density; **mobility** vs. transportation)

2. “GREEN” ECONOMY IS A MANDATE

- California shifting to a reduced carbon footprint **climate action driven** economy
- **Sustainability Targets**: Zero Net Energy by 2020 - residential, 2030 - commercial
- Green public/private projects **eligible for incentives**
- EIFDs/CRIAs are the new “**sustainability districts**”

3. ECONOMIC DEVELOPMENT THROUGH SUSTAINABILITY AND HOUSING

- California state policy driven by climate action, housing and infrastructure
- New Sustainability & Housing Districts (EIFD/CRIA/WHOZ/AHA)
- Incentives for private investment and public infrastructure - more to come

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Questions & Discussion

Thank you



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