Presentation to the Hawaii State Transit Oriented Development Council

April 4, 2017

Presented By:

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EVP Kosmont Companies

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Real Estate
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P3 Retail

ICSC Alliance for Public-Private Partnership

ICSC

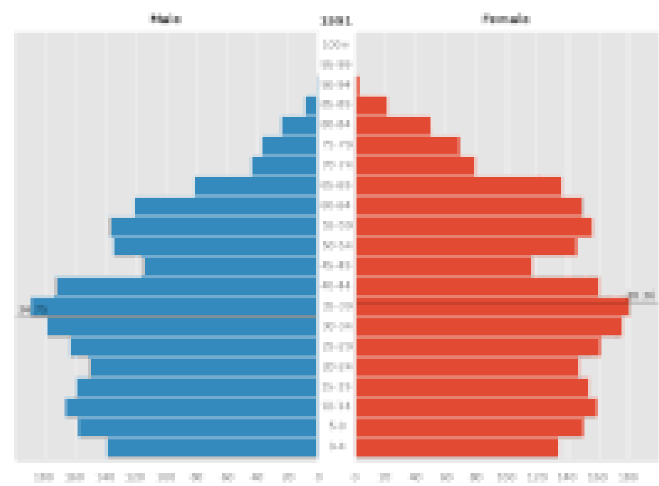
Who is Kosmont Companies?

Nationally-recognized real estate & economics advisory firm specializing in public-private transactions for 30 years.

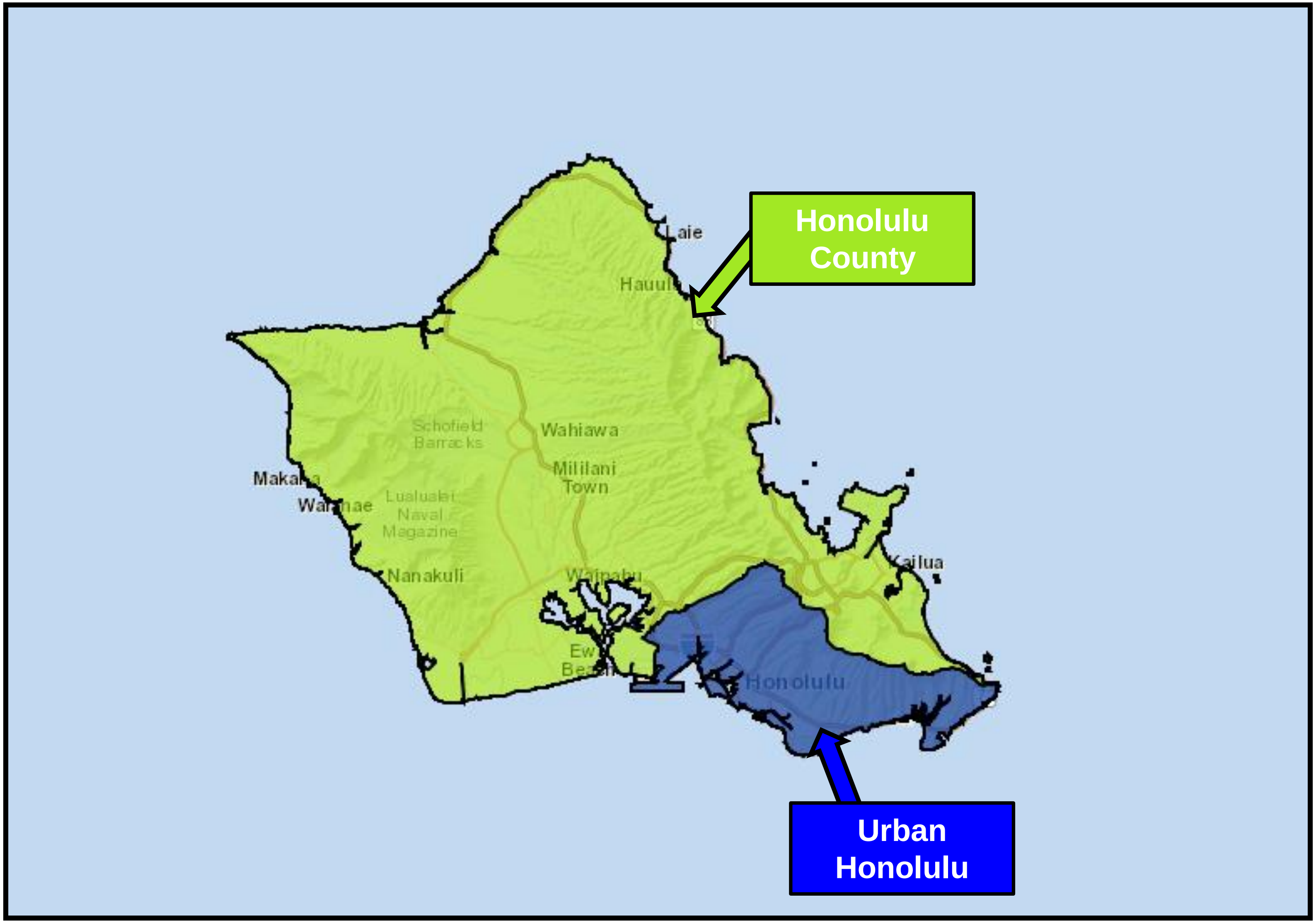
- **Offers a full range of economics & real estate advisory services including:**
  - Market, Fiscal and Feasibility Analyses
  - Economic Development Strategies & Implementation
  - Identification of Funding Sources & Financing Strategies
  - Retailer/Developer Recruitment through #KosmontRetailNOW!® platform
- **Winning track record of initiating and implementing projects for municipalities**
  - In-house team includes registered municipal advisors, financial analysts, lawyers, former bond underwriters, former city managers & department heads
  - Extensive network of brokers, investors and market data for real-time information, and retail industry leadership
- **Kosmont is not just a "*study*" company – we create strategies & make projects a reality**
  - Over $12 billion in project negotiation and implementation since 1986 and hundreds of public private transactions

Outline

- **Demographic Profile**
- Retail Trends & Blended Use
- Next-Gen Economic Development: The California Story
- Case Studies
- Summary



Urban Honolulu & Honolulu County



Source: U.S. Census Bureau (2010); ESRI (2017); *Honolulu is a consolidated city-county, Urban Honolulu includes areas defined by ESRI as "Urban Honolulu" and "East Honolulu". These are the more dense areas of the City with larger population centers.

Demographic Highlights (2016)

Population & Households

- Urban Honolulu* Population of ~403,500 and ~152,900 households; Honolulu County Population of ~999,800 and ~324,000 households
- 28% of entire State of Hawaii population falls within Urban Honolulu* and 70% of the State's population resides in Honolulu County

Income

- Avg. HH income **~$90,500** in Urban Honolulu and **~$94,300** within Honolulu County
- 1.7% annual growth projected for HH income over next 5 years in Urban Honolulu and Honolulu County

Other Demographic Characteristics of Urban Honolulu

- Avg. household size of ~2.6 (below County and State averages)
- Median age of ~43 (higher than County and State median age)
- ~39% Bachelor's Degree or higher (above County and State averages)
- Race: ~51% Asian, ~21% White, ~17% 2 or more races, (~58% Asian & Pacific Islander origin; 7% Hispanic origin)

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Population and Income
Urban Area, County and State

2016	**Urban Honolulu***	**Honolulu County**	**State of Hawaii**
Population	403,496	999,751	1,435,363
Households	152,863	324,047	477,631
Average HH Size	*2.55*	**2.97**	2.91
Median Age	*43.2*	**38.2**	39.1
% Asian & Pacific Islander Origin	**58.1%**	49.7%	45.6%
Per Capita Income	**$35,326**	$31,544	$30,608
Median HH Income	$65,068	**$74,851**	$68,416
Average HH Income	$90,478	**$94,342**	$89,117
2016-2021 Annual Growth Rate			
Population	*0.79%*	0.83%	**0.94%**
Median HH Income	1.70%	1.70%	**2.28%**

Source: U.S. Census Bureau (2010); ESRI (2017); *Honolulu is a consolidated city-county, Urban Honolulu includes areas defined by ESRI as “Urban Honolulu” and “East Honolulu”. These are the more dense areas of the City with larger population centers.

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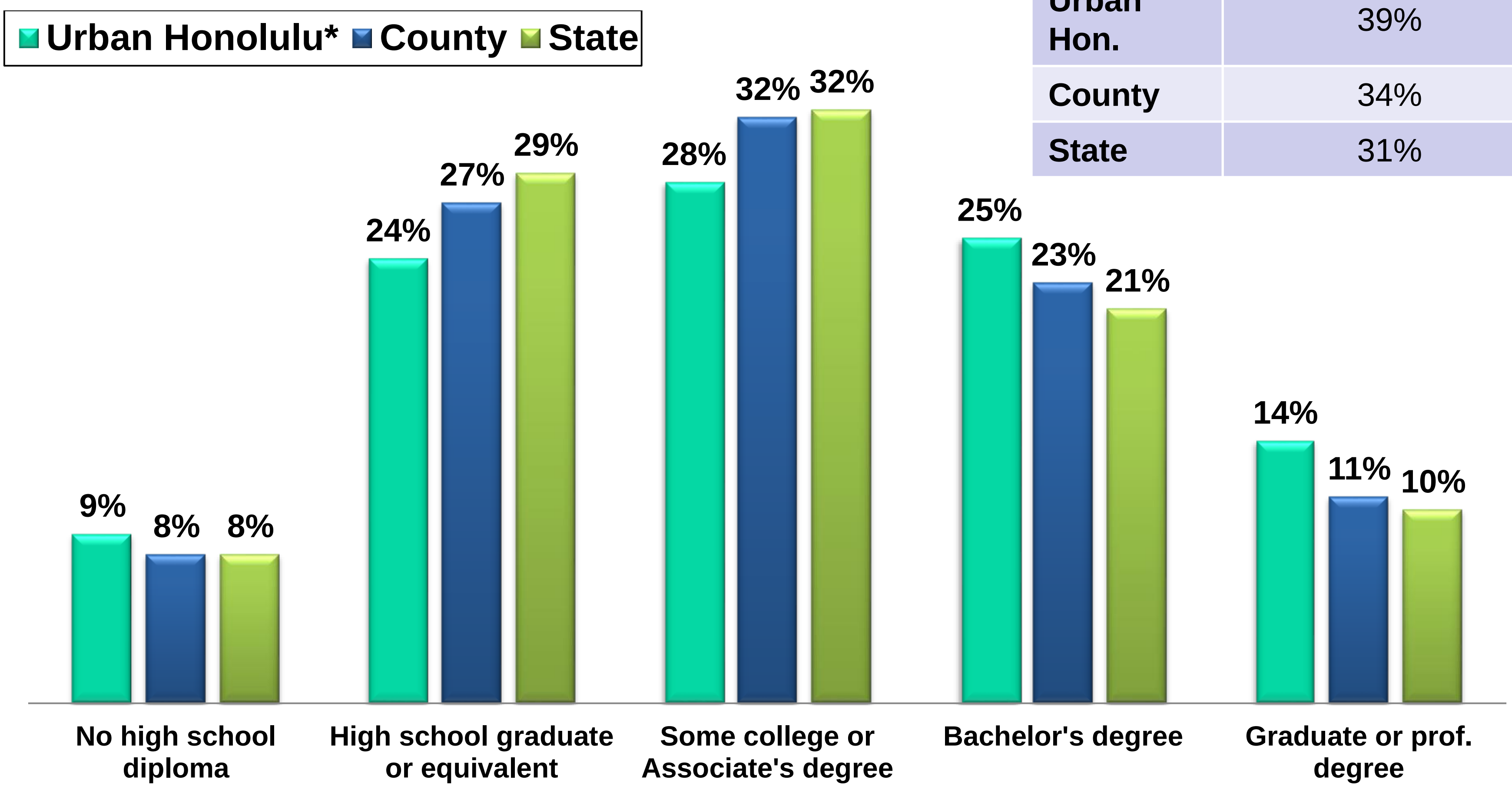
Educational Attainment

Population Aged 25+ by Educational Attainment (2016)

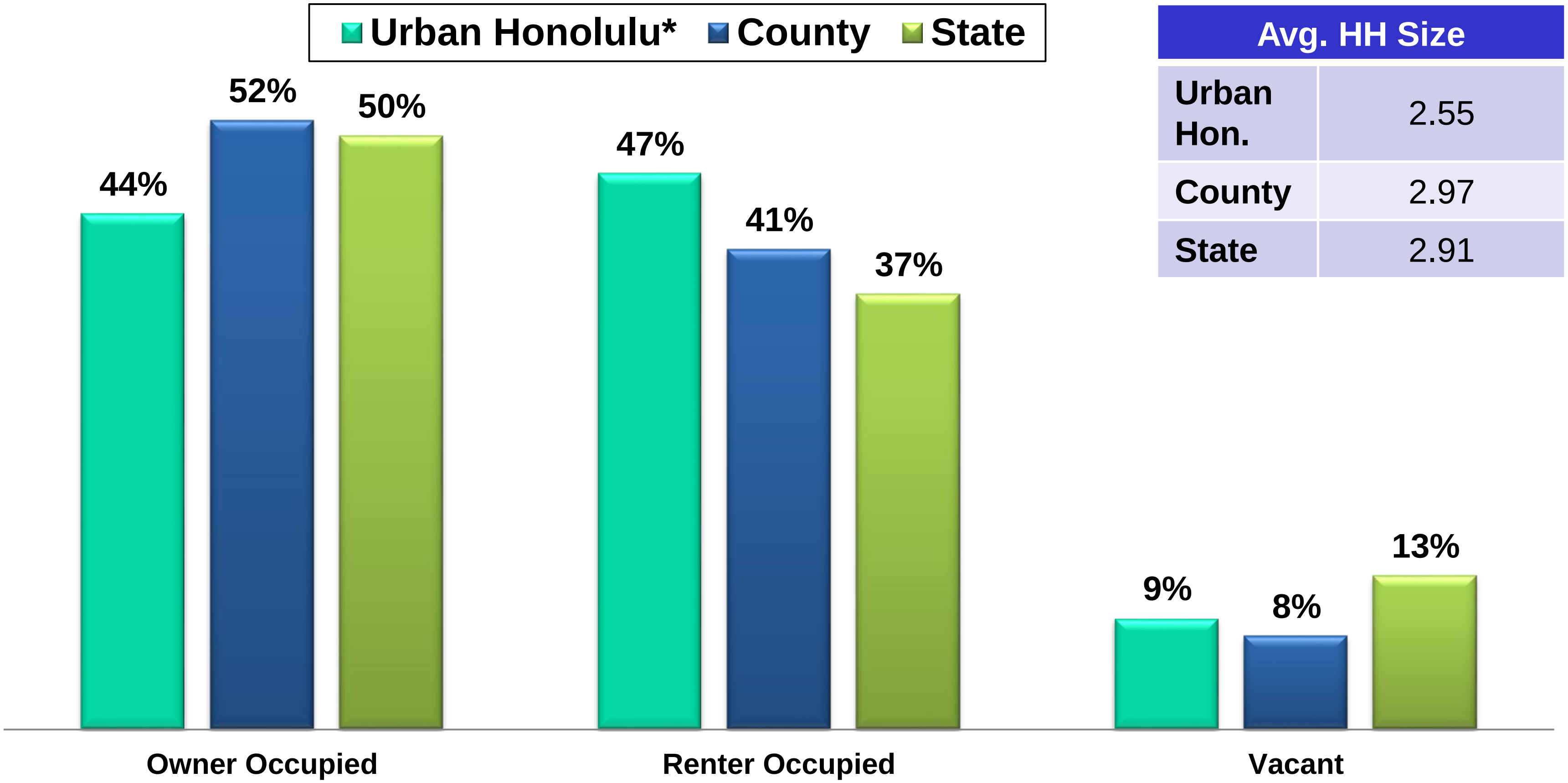


	Percent Bachelor's Degree or Higher
Urban Hon.	39%
County	34%
State	31%

Source: U.S. Census Bureau (2010); ESRI (2017); *Honolulu is a consolidated city-county, Urban Honolulu includes areas defined by ESRI as "Urban Honolulu" and "East Honolulu". These are the more dense areas of the City with larger population centers.

Housing & Household Size

Housing Breakdown (2016)



Avg. HH Size	
Urban Hon.	2.55
County	2.97
State	2.91

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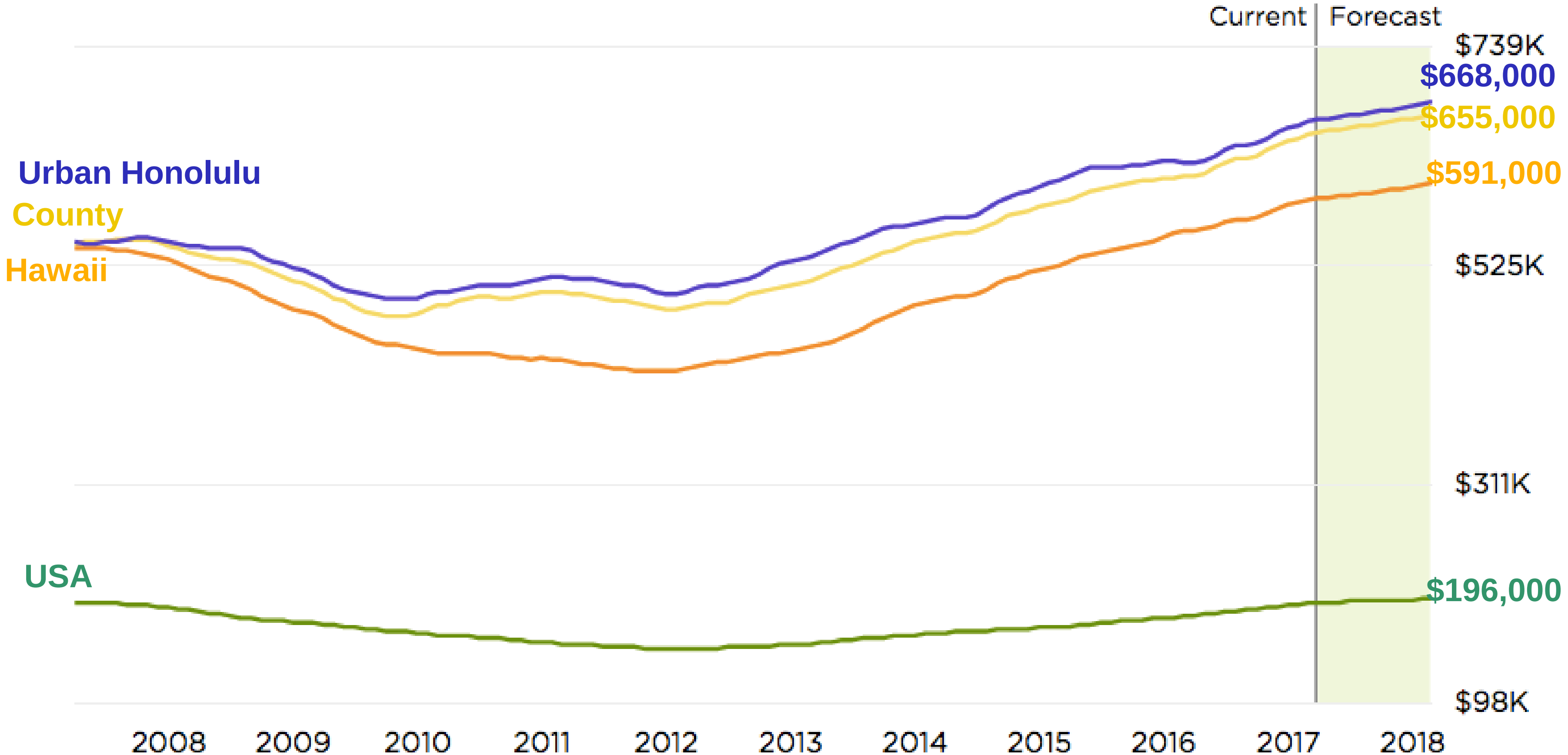
Home Value History

Zillow Home Value Index



Source: Zillow.com (March 2017)

Outline

- Demographic Profile
- **Retail Trends & Blended Use**
- Next-Gen Economic Development: The California Story
- Case Studies
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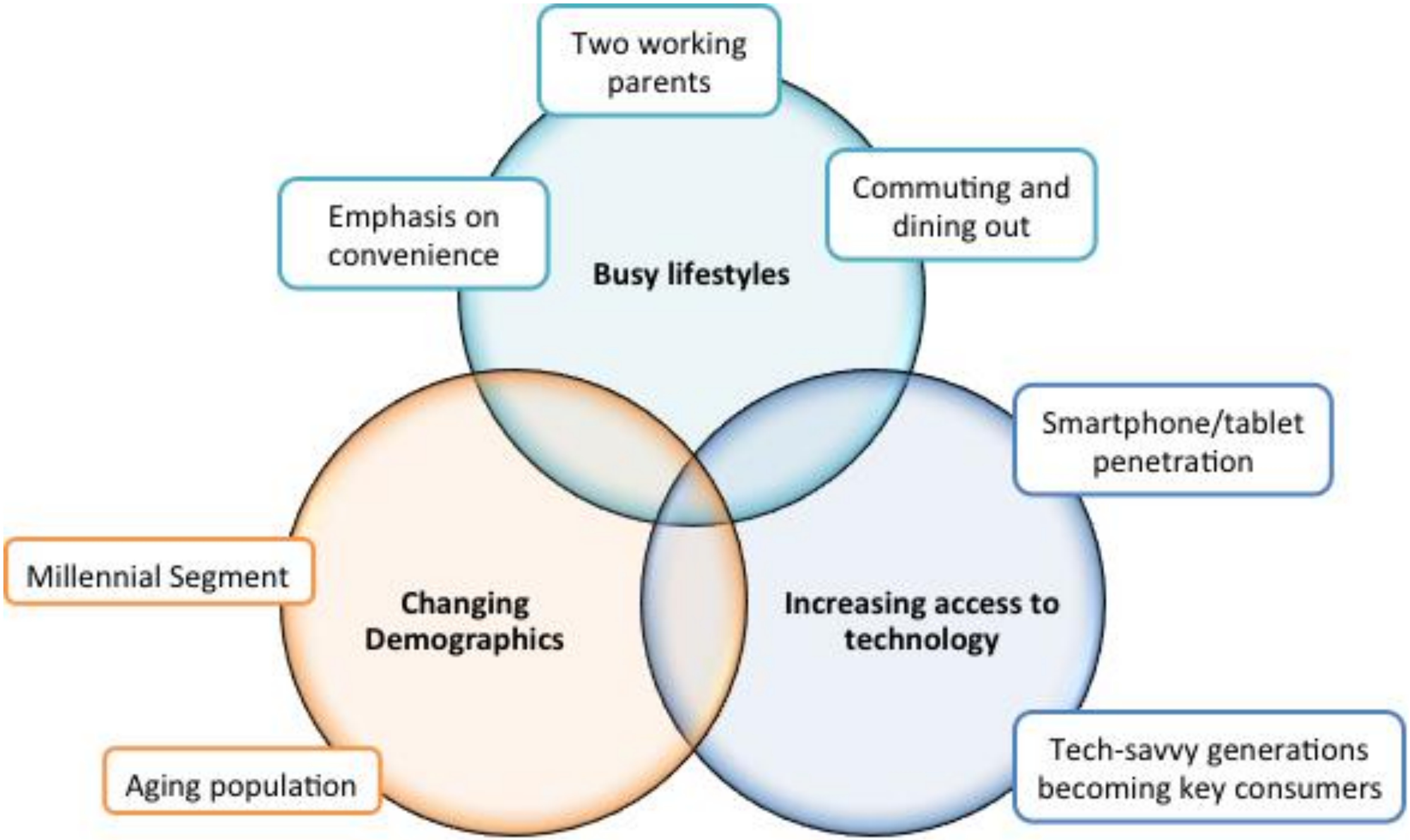
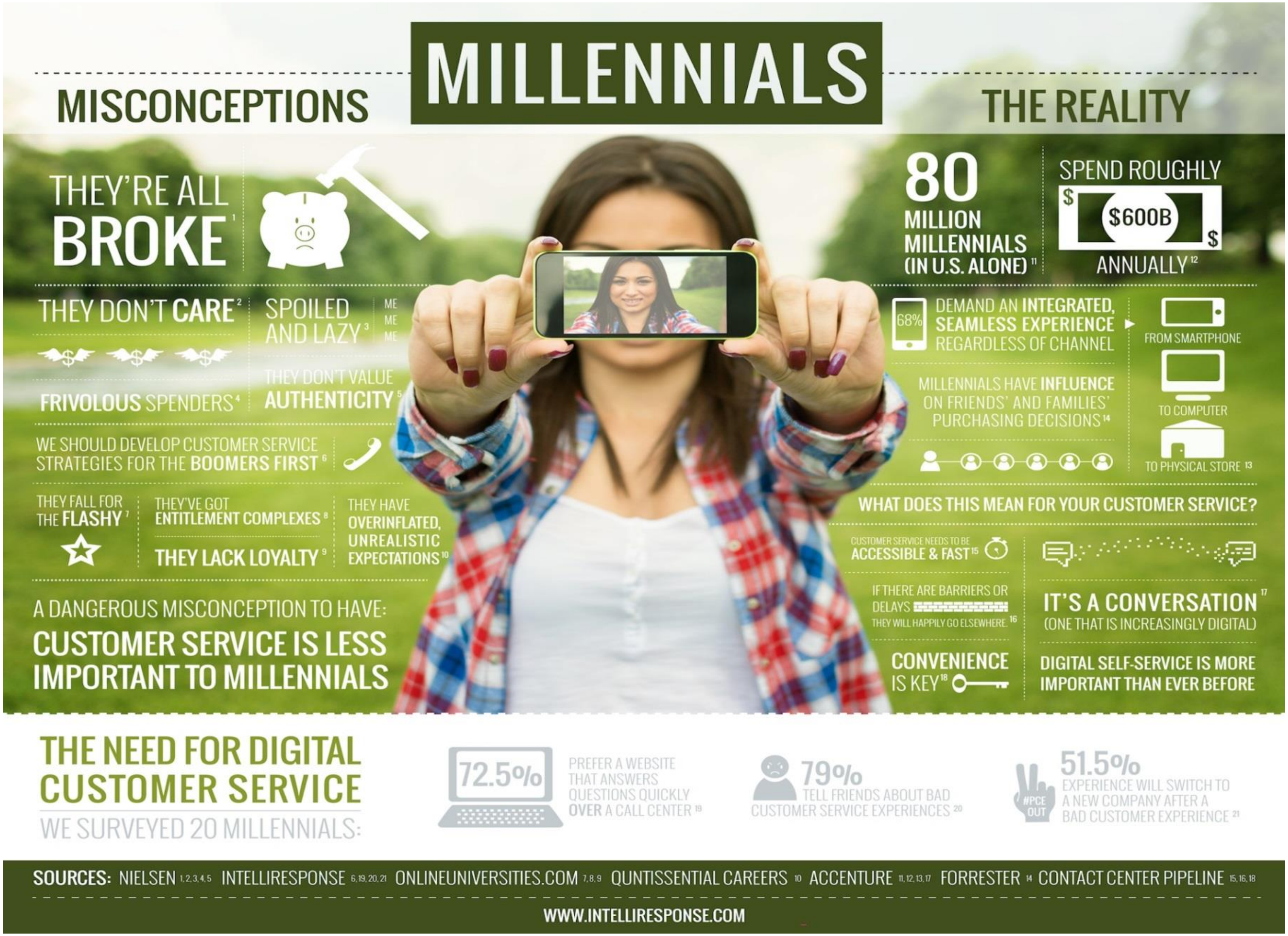
Cumulative Evolution of Retail

1. ***Big Box Shrinkage***
   - **Size matters, but bigger is not necessarily better; most stores smaller by 25% to 75%**
   - **#smallboxretail**
2. ***Food and Place are New Anchor Tenants***
   - **For the first time in history, U.S. restaurant sales have surpassed grocery sales**
   - **#YouCan'tEatorDrinkOvertheInternet**
3. ***Mixed Use is about the Right Blend***
   - **Today's "value" metric is more about time and trip generation than sales per square foot**
   - **#CommunityRetail instead of lifestyle retail**
4. ***Millennials Defining Consumer Demographics***
   - **Misconception vs. Reality: More spending power than any other generation ($600B)**
   - **80M strong, mobile devices are their medium for communication, research, shopping, etc.**
   - **#ExperientialRetailing**
5. ***E-Tail***
   - **Union of retail consumption & electronic commerce**
   - **Retailers with robust omni-channels backed by physical stores, generate the most online sales**
   - **#Omnichanneling**

What is Driving Change for Consumers?



Changing Demographics of Consumers



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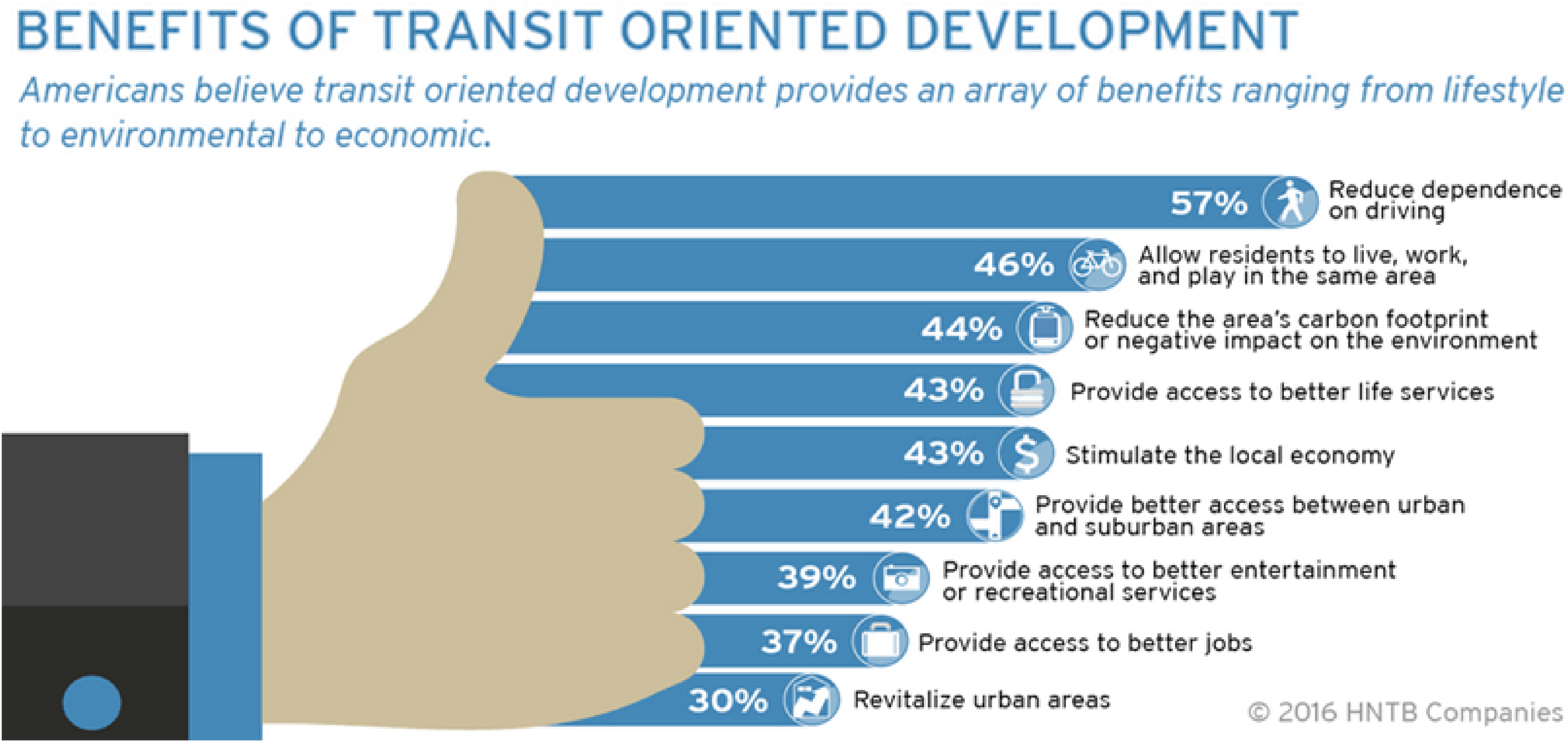
TOD is Trending!



Source: Transit Oriented Development Institute

#BlendedUse

Residential

Community Retail

Experiential / Entertainment / Fitness

Food / Grocery / Restaurants

Medical / Office / Civic

The 3D Effect:

1. Demand
2. Design
3. Density

2016 Holiday Winner is... Omnichannel Retailers

"The convergence of physical and digital continues to be important as consumers have come to expect an integrated experience allowing them to buy products through a variety of channels," McGee said. "The survey data proves that omnichannel retailers are the real winners this season as they offer purchasing options that satisfy the shopping behaviors of all generations.

Source: International Council of Shopping Centers

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The California Redevelopment Story

Community Redevelopment Act (1945)

- Local governments allowed to form separate Redevelopment Agencies (RDAs) in California
- In 1952, Proposition 18 allowed for “tax increment financing”
- Cities and counties could declare “blighted areas” allowing agencies to acquire properties, enter public private transactions and leverage growth in property tax revenue from RDA project areas

Prop. 13 (1978)

- Capped the general-purpose property tax rate at 1% and growth of taxes at 2% annually
- Encouraged RDAs to use property-tax income to finance RDA projects by reducing other financing options
- Property taxes were reliable and consistent source of revenue stream

ABX1 26 (2011)

- Governor Jerry Brown decided RDAs should be eliminated in wake of CA budget deficit
- Dissolution of RDAs and “all authority to transact business and exercise power” on Feb. 1, 2012
- RDA properties to be sold

Source: HUD “Redevelopment Agencies in California: History, Benefits, Excesses, and Closure”; ABX1 26 Ch. 2, Section 34172.b (California, 2011)

California Shifting from Oil-Based to Green Economy

NOW THE WORLD LEADER IN FIGHT AGAINST CLIMATE CHANGE

SB 32 requires State to reduce greenhouse gas emissions 40% below 1990 levels by 2030.

Focus of Next Gen Economic Development

Sustainable Infrastructure Investments / Transit

Energy-Saving Industrial Processes

Renewable Energy Investments

Cap and Trade Program

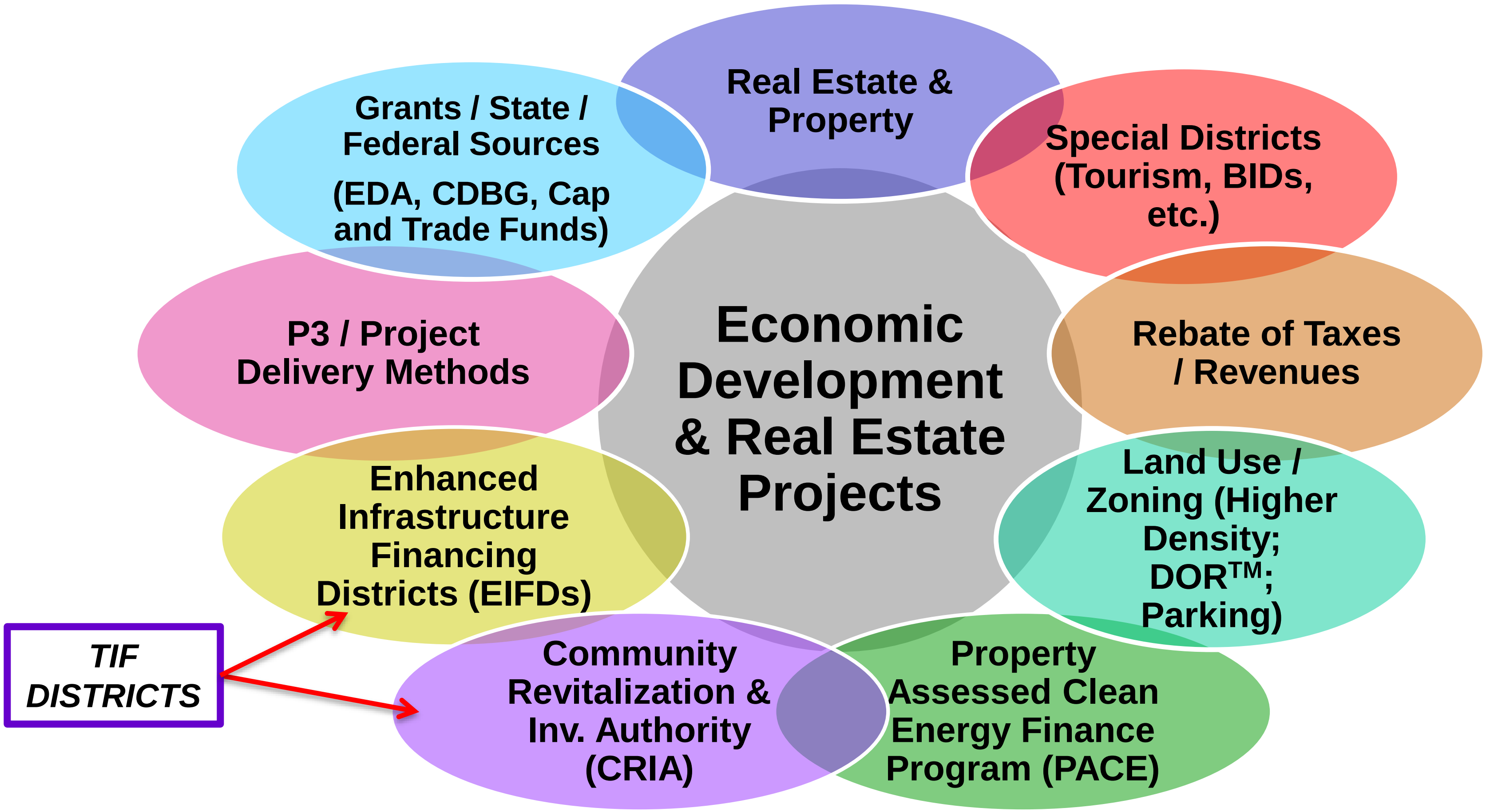
Building Efficiency Design and Upgrades

CEQA Analysis Changes from LOS to VMT

Next-Gen Economic Development

“Creating a Place” using E.D. 2.0 tools

Cities have 9 BASIC TOOLS for Public/Private Projects



These tools often work best when used together

The Plumbing of the World is Changing

- **Tech changing the way we live: shifting retail and tenant mix, interaction and connectivity (driverless cars, robots, big data)**
- **Replacement of jobs with automation requires unprecedented commitment to "continuous" education and job creation**
- **Retail adapting to changing social habits, brick/clicks blending, focus on *trips***
- **California Governor and Legislature shifting economy to a reduced carbon footprint "green" economy**
- **Green Mandates & Green Public/Private Projects with incentives will flourish**
- **Housing shortage hurts State's competitiveness**
- **Cities need the private sector $$ to create jobs & tax revenue and housing**
- **New E.D. strategies required to respond to accelerated changes in climate action controls, technology, & lifestyle preferences**
- ***Economic Development is not a mission, it's an imperative***

Next-Gen Tools to Attract Private Investment Through Sustainability

Governor Jerry Brown taketh and giveth …

- **Enhanced Infrastructure Financing Districts** (**EIFDs**) (SB 628/AB 313 Sept. 29, 2014/Sept. 22, 2015)
  - Focus on infrastructure and public/private transactions
- **Community Revitalization and Investment Authorities** (**CRIAs**) (AB 2/AB 2492 Sept. 22, 2015 / Sept. 23, 2016)
  - Similar with stringent eligibility standards & focus on affordable housing
- EIFD AND CRIA encourage regional approach with multiple local agencies (cities, counties & special districts) to maximize <u>tax increment financing</u>
- Can enhance tax increment with state funding geared to climate action and transportation programs: Cap & Trade/GGRF, PACE, Prop 1, plus regional transportation sales tax measures

EIFDs at a Glance

- Enables tax increment financing for local/regional projects (purchase, construction, expansion, improvement, seismic retrofit, rehabilitation)
- District lifespan is 45 years to collect and spend property tax increment
- Any property with useful life of 15+ years & of communitywide significance
- Managed by newly created Public Financing Authority (led by city or county) – board of 5+ members, includes at least 2 public members
- Activities directed by PFA adopted Infrastructure Financing Plan (IFP)
- No public vote required to create District
- 55% landowner or registered voter election needed for tax increment bonds
- No school district increment allowed
- Does not increase property taxes

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CRIAs at a Glance

<u>Community Revitalization Investment Authority (CRIA)</u>

- Restores redevelopment authorities to disadvantaged communities
  - Carries out provisions of Community Redevelopment Law
- Formed by City or County (Special Districts allowed if CRIA is Joint Powers Authority) 5+ member board, including at least 2 public members
- Allows projects to be financed by bonds serviced by tax increment
  - 30 years to issue debt; 45 years to repay indebtedness
- Powers of <u>eminent domain</u> granted to CRIAs for first 12 years of district
- <u>No voter approval for formation or bond issuance</u>, but subject to <u>majority protest</u> at adoption and every 10 years
- **25% affordable housing set-aside**
- **Must meet qualification requirements**

Types of Projects EIFDs/CRIAs Can Fund


Industrial Structures


Aff. Housing / Mixed Use


Transit Priority Projects


Wastewater/Groundwater


Light / High Speed Rail


Civic Infrastructure


Parks & Open Space


Childcare Facilities


Brownfield Remediation

Source: SB 628/AB 2 - Bill Text

EIFD Example: Transit-Oriented Development (TOD)

Issue

- Sprawl and lack of transportation options lead to auto dependency and excessive greenhouse gas (GHG) emissions

Opportunity

- Regions will look to reduce sprawl and improve air quality
- Transit-oriented development (TOD) is one way to not only reduce car dependency, but also to invest in the neighborhoods that surround transportation options
- The result is the creation of economically revitalized communities

Role of the EIFD/Tax Increment District

- Cities/Counties/Special Districts may participate in a tax increment district to build infrastructure, such as transit lines/systems, construct stations, and develop the neighborhoods around the transit terminals
- The District can fund physical improvements: sidewalks, streets, bicycle lanes, and new parking structures
- User fees from parking and revenue growth from rising property values, can be used to catalyze private investment

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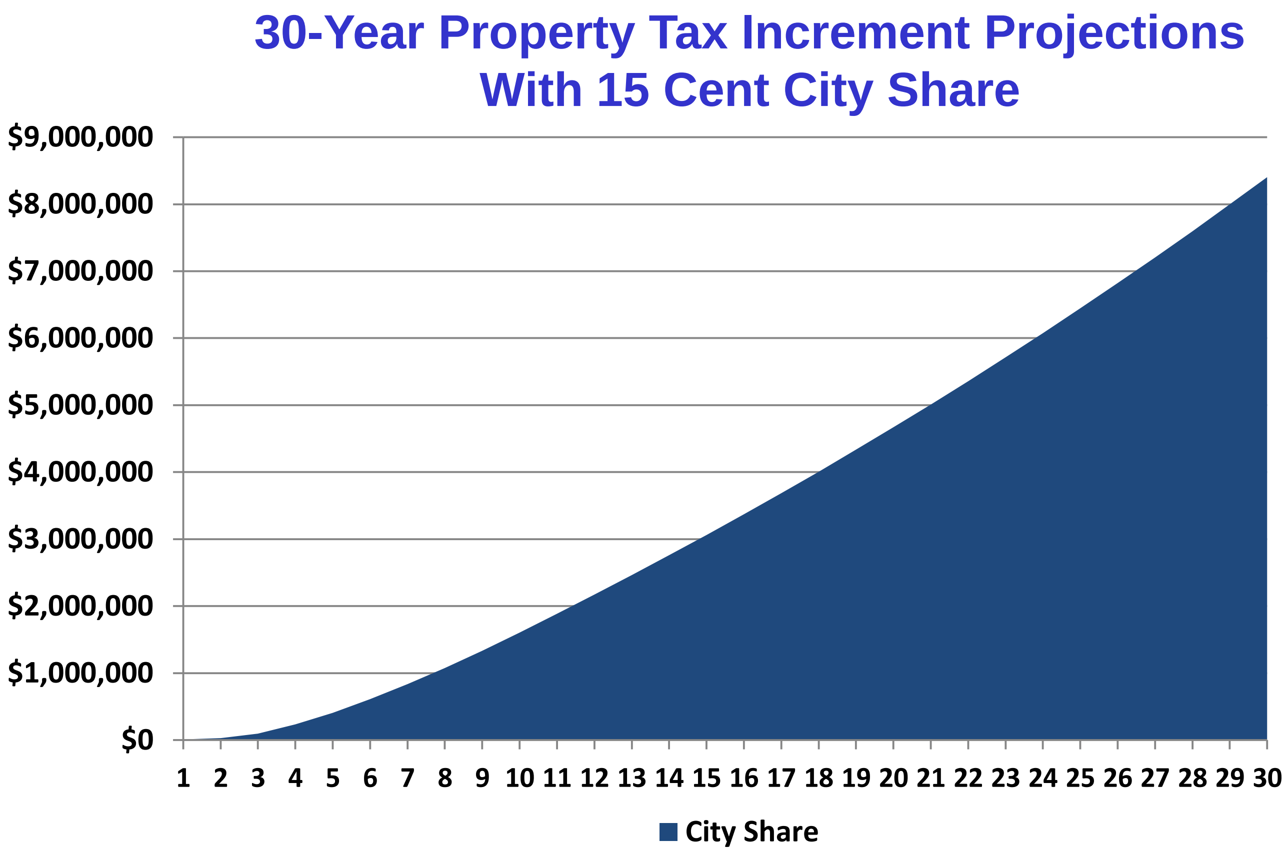
Hypothetical Mixed Use TOD Project

Kosmont assumed EIFD for **$150 million** project valuation shown below

Commercial Development						**($2017)**	
Retail	45,000	SF	$	350	$/SF	$	15,750,000
Office	29,375	SF	$	400	$/SF	$	11,750,000
Hotel	80	Keys	$	250,000	$/Key	$	20,000,000
Subtotal Commercial Development Value						**$**	**47,500,000**
Residential Development						**($2017)**	
Residential Owned	150	Units	$	450,000	$/Unit	$	67,500,000
Multifamily Rental	100	Units	$	350,000	$/Unit	$	35,000,000
Subtotal Residential Development Value						**$**	**102,500,000**
Total Development Value						**$**	**150,000,000**

TIF Growth

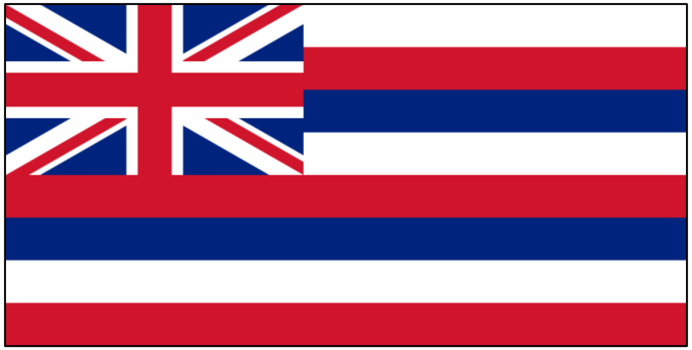
- The city pledges 15 cents of tax increment to the EIFD
- In this scenario, the EIFD creates approximately **$8.4 million** in revenue over 30 years.



Tax Increment Financing in Hawaii

Tax Increment Financing at a Glance

- Authorized in 1985 under Hawaii Revised Statutes (Div. 1, Title 6, Subtitle 1, Ch. 46, Part IV, 46-101) "Tax Increment Financing Act"
- "Any county council may provide for tax increment financing by approving a tax increment financing plan and adopting an ordinance establishing the tax increment district"
- A county may exercise the power to:
  - Create tax increment districts
  - Issue tax increment bonds
  - Deposit tax increments into the tax increment fund created for such a District
  - Enter into agreements with redevelopment agencies and owners or developers of project lands and bondholders



Eligible Public Costs

- Bicycle lanes, bridge construction and repair, building acquisition, convention centers, curb and sidewalk improvements, demolition, drainage facilities, environmental remediation, lighting, park improvements, parking structures, wastewater treatment facilities, etc.

Validity of TIF today??

Source: Council of Development Finance Agencies (CDFA); Hawaii State Statutes Div. 1, Title 6, Subtitle 1, Ch. 46, Part IV, Sect. 46-101 to 46-104

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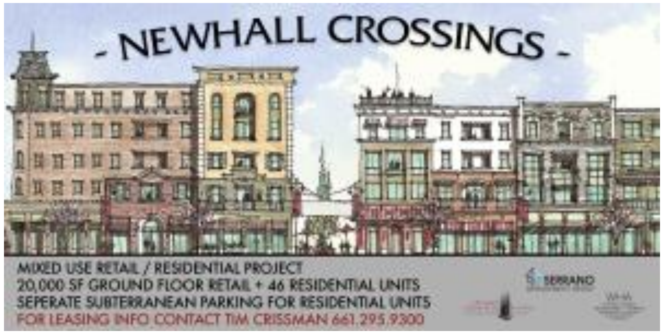

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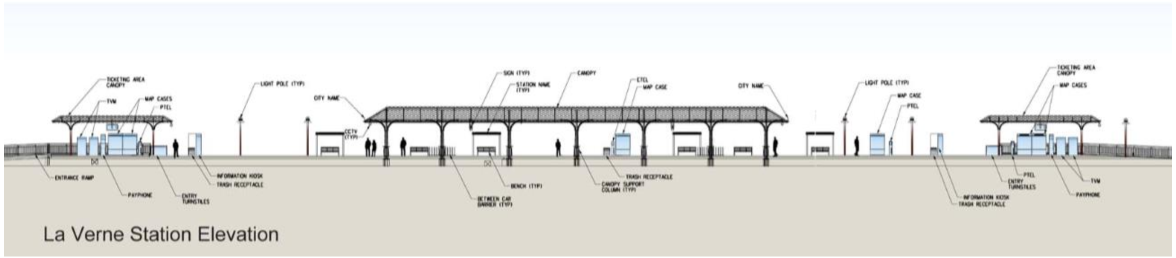
Future La Verne Station - Station Platform Elevation & Architectural Elements



Retail/Mixed-Use Case Study: Old Town Newhall

- **Old Town Newhall in Santa Clarita, CA is currently undergoing revitalization**
  - Kosmont negotiated public private transaction
  - Old Town is downtown transit district in Santa Clarita located near Newhall Metrolink Station
- **Plans include:**
  - 372-space Public Parking Structure - broke ground March 2017
  - Newhall Crossings Mixed Use development (20,000 SF of retail; ~47 new apartment units) with central courtyard - construction slated for Sept. 2017
  - New Laemmle Art House Theater - construction to begin end of 2017

Newhall Crossings Site Plan


Artist Rendering of Newhall Crossings


Groundbreaking Ceremony for Parking Structure

EIFD Case Study:
City of La Verne, CA Proposed EIFD (TOD Focus)

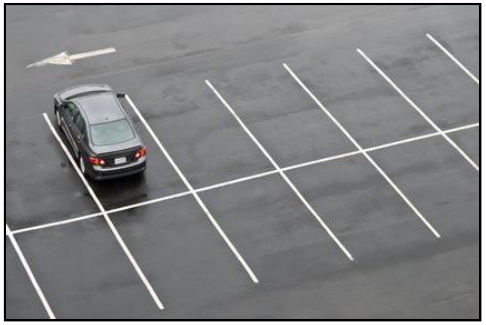
- ## EIFD Status
  - EIFD under evaluation by City of La Verne as lead public agency
  - <u>La Verne's EIFD Goals:</u>
    - *Induce private development around future gold line station*
    - *Access Statewide sustainable funding sources such as Greenhouse Gas Reduction Fund (GGRF)*

- ## The Proposed District
  - Proximate to University of La Verne, LA County Fairplex properties & future Gold Line Transit Station
  - 388+ acres adjacent to La Verne's Old Town Specific Plan Area
  - Small number of private property owners

- ## Projects (pubic and private)
  - Development of mixed-use housing, potential hotel, retail and event space
  - Station area improvements, circulation infrastructure next to Foothill station
  - Sustainable improvements to commercial and industrial structures

La Verne EIFD:
Preliminary Potential EIFD Map

La Verne EIFD: Infrastructure Around Gold Line Station



Parking Infrastructure

Rail Station Improvements

Improvements for increased Pedestrian Access to Rail Station

- **Parking:** 600-space structure at the Gold Line Station, four future parking structures at buildout

- **Gold Line Improvements (Sub-Area 1):** Platforms, bicycle racks and improved streetscape at station.

- **Pedestrian Access:** New bike lanes, pedestrian sidewalks, and a footbridge across Arrow Hwy. to connect proposed Fairplex development to Gold Line station.

La Verne EIFD: Tax Increment Projections

Assumptions:

- Kosmont used initial 5, 10 and 20 year development projections and infrastructure needs to estimate tax increment revenues

City of La Verne Preliminary Assessed Value Projections				
Development Type	Units		Projected AV/Unit/SF	Projected Total Assessed Value
Hotel	150	Keys	$100,000	$15,000,000
Retail	110,000	SF	$250	$27,500,000
Business Park	60,000	SF	$100	$6,000,000
Apartments	920	Units	$175,000	$161,000,000
Condominiums	915	Units	$300,000	$274,500,000
Total Projected AV New Development				**$484,000,000**

Key Initial Findings:

- Project Area current assessed value **~$63 million**
- Significant infrastructure funding capacity for district, further increased and accelerated with LA County participation

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La Verne EIFD: Partnerships

- **La Verne Pitch to County for EIFD Participation:**
  - **Goals of La Verne EIFD/CRIA are consistent with goals of County per County E.D. Resolution**
  - **Projects funded by EIFD/CRIA are regionally beneficial**
  - **EIFD/CRIA induces private investment, which increases tax increment for LA County**

- **Tax Increment Potential for La Verne with LA County Participation:**
  - **LA County receives ~30 cents on the dollar in property tax increment**
  - **City of La Verne receives ~22 cents**
  - **With LA County participation, EIFD district could increase tax increment above La Verne's share, increasing/accelerating infrastructure funding capacity for district**

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Summary

1. Well educated, high income population within Honolulu County
2. Changing demographics, busy lifestyles, and increasing access to technology are what is driving today's consumers
3. Retailers are embracing physical and digital platforms to capture larger amounts of sales via Omnichanneling
4. Plumbing of the world is changing; shifts in technology, climate, and lifestyle require new Economic Development approaches
5. Next-Gen. Econ Dev fosters regional collaboration, energy efficiency, sustainability, infrastructure, quality jobs & creating destinations
6. Cities can use tax increment districts (EIFDs/CRIAs in CA) and other Econ Dev tools to achieve community objectives; private sector investment needed to yield taxes, jobs and development

Questions?

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Real Estate
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Entitlements