CITY OF SAN FERNANDO:

DOWNTOWN SAN FERNANDO ECONOMIC DEVELOPMENT AND ASSET ANALYSIS

MARCH 4, 2019

PREPARED BY:

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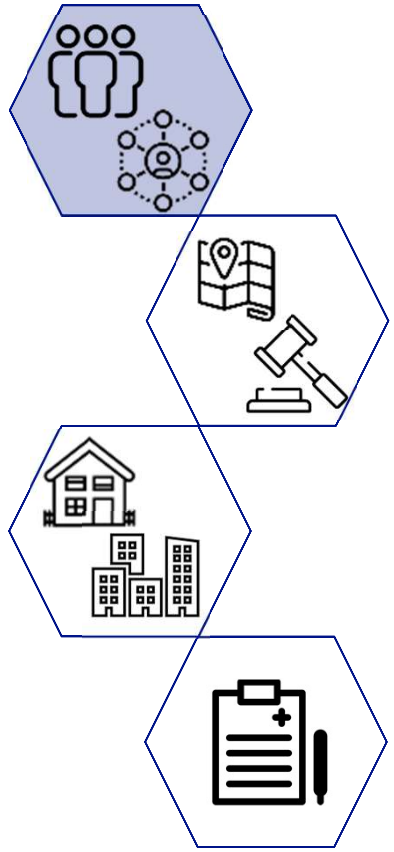
INTRODUCTION

- The City of San Fernando has recently completed the San Fernando Corridors Specific Plan to guide development in the downtown and surrounding areas.
- The City Council is seeking help understanding current real estate fundamentals and economic development tools in a Post Redevelopment ERA, in order to achieve economic growth and attract qualified developer interest.
- The City owns properties in the downtown and has hired Kosmont Companies to evaluate the assets given current market conditions and potential public private transaction negotiations.

OVERVIEW

- Communities and environments today are changing as a result of demographic, retail, and land use shifts.
- Land use is a function of City vision and zoning, market conditions, and execution of a plan by both the public and private sectors. Land use also varies by environment, such as urban, suburban, and rural communities.
- Economic Development has become a major priority for communities. In a post Redevelopment era, Econ. Dev. tools look different.
- Kosmont understands the evolution in land use and has applied new Economic Development tools to a wide array of different projects, including zoning strategies, public-private transactions, and asset strategies.

PRESENTATION OUTLINE



- **Global Changes**
- Economic Development
- Downtown San Fernando
- Conclusions and Recommendations

THE PLUMBING OF THE WORLD IS CHANGING

Technology is changing the way we live and consume

- **Shifting retail & tenant mix, interaction, and connectivity (e.g. driverless cars, robots, big data)**
- **Retail adapting to changing social habits, bricks/clicks omni-channeling, focus is on *trips vs. sales***
- **"Last Mile Delivery" reflects changes in buyer behavior & expectations: the new "store" is an industrial building**

Green Economy: California shifting to a reduced carbon footprint "*green*" economy

- **Mandates are aggressive and extensive**
- **Spur growth of clean, sustainable, environmental business initiatives to achieve compliance**
- **State approved 4 new "Housing and Sustainability" Districts; incentives for public/private projects**

Economic Development Approaches are changing due to new focus of private investment

- **Private Investment strategies based on digital-based lifestyle shifts, demographics, climate action mandates**
- **Cities need private $$ to create jobs, tax revenue, and housing**
- **Housing shortage affects all sectors; state-wide priority with local control at stake**
- **Automation driven job losses will require commitment to job creation and "continuous" education**

BUSINESSES PURSUE RELEVANCE AND PROFITS IN A CHANGING WORLD

Consumption

Customers are buying differently

- Brick & Mortar vs Online
- Accelerated Demand for convenient/rapid delivery (last mile delivery)
- InstaCart, Doordash, UberEATS, Amazon, Wal-Mart

Commuting

People's movement patterns changing

- Economy of sharing (Uber/Lyft ride-sharing)
- Driverless/Autonomous cars & transit coming quickly
- Expanding Transit (multi-billion dollars from County sales tax measures)

Communication

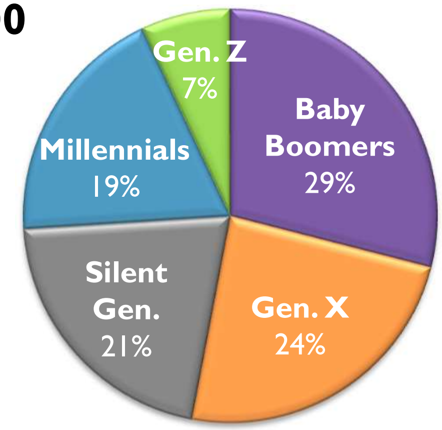
People are communicating digitally

- Social Media (Facebook, Instagram, Twitter)
- Employee Recruitment (LinkedIn, Zip Recruiter, Indeed)
- Digital means local as well (Nextdoor)

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

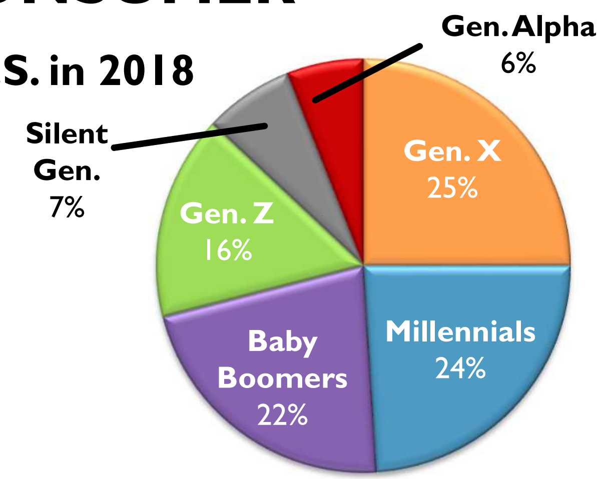
PURSUING THE MILLENNIAL CONSUMER

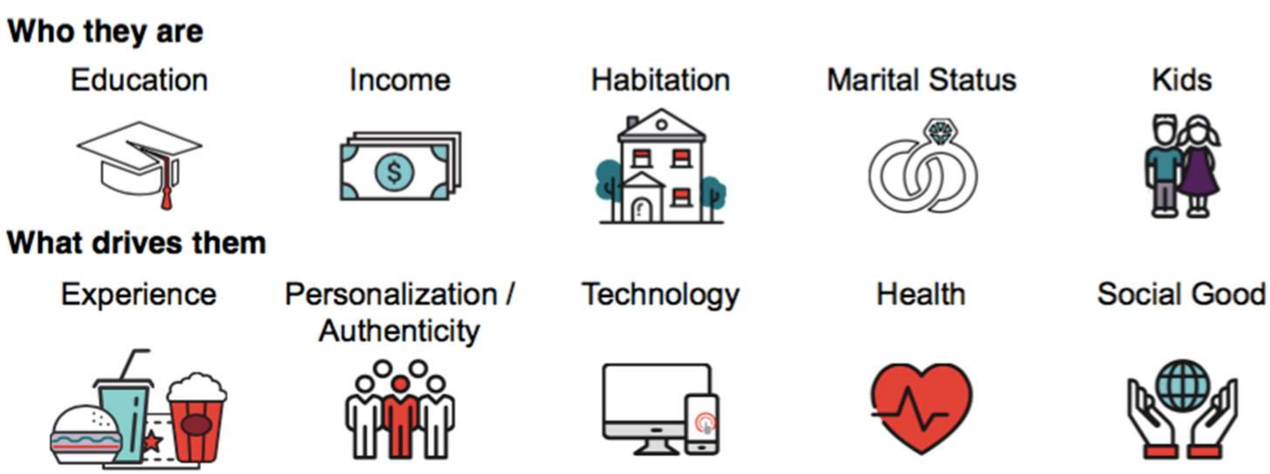
U.S. in 2000



- Millennials are **80 million** strong today and represent **$600 billion** in spending power
- Generation Z (5 to 17 year olds) and Generation Alpha (0 to 4 year olds) are up and coming digital native generations

U.S. in 2018

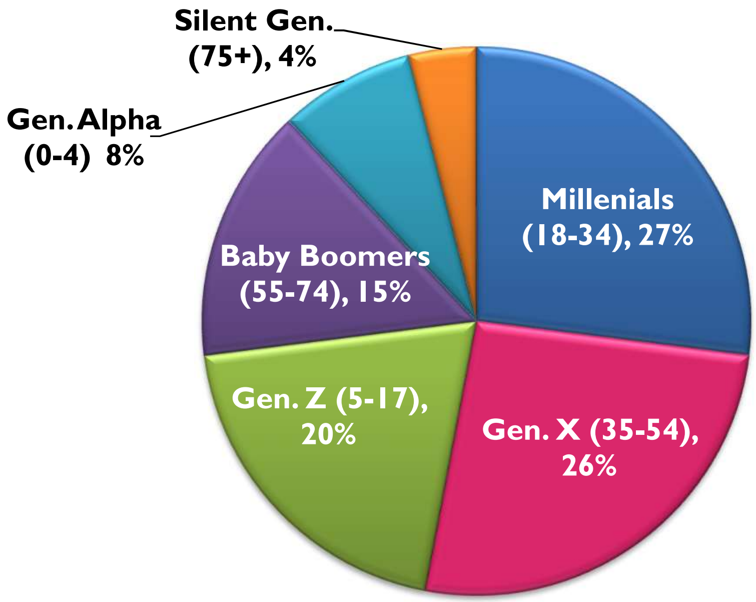




Source: ICSC; ESRI (2018)

AGE PROFILE

San Fernando Population by Age Bracket in 2018



Region	Median Age
City	32.0
County	35.7
State	36.2

Generation	Population (2018)
Millennials (18-34 years old)	6,650
Gen. X. (35-54 years old)	6,354
Gen. Z (5-17 years old)	5,019
Baby Boomers (55-74 years old)	3,807
Gen. Alpha (0-4 years old)	1,928
Silent Gen. (75+ years old)	964
TOTAL POPULATION	**24,723**

Did You Know?

- Millennials are the largest population segment in San Fernando
- 50% of Millennials prefer "finding" hidden local places than visiting tourist attractions (prefer authentic experiences)

Source: ESRI (2018); Expedia, "Millennial Travel Report"; Nielsen, "Millennial Travel Study"

RETAIL MEETS INDUSTRIAL: DESTINATION OR DISTRIBUTION?

- THINK DISRUPTION AND BIFURCATION
- **Retail as much about *distribution* of goods as it is *destination* to consume goods.**
- ***Last Mile delivery*** is the timely goods movement to the final destination (home or pick up location)
- Consumers have ***multiple ways to shop for and receive goods***:
  - ***The Traditional Approach*** – Buy and pick up in store
  - ***Buy and Receive*** – Buy in store receive at home
  - ***Click and Collect*** – Buy online and pick up in store
  - ***Click and Receive*** – Buy online and receive at home
- Today**….Retail meets Industrial** = ***REDUSTRIAL***
  - Growth from apparel, sporting goods, electronics, office supply, food
  - Still internet captures only approx. 9% of total retail sales

Sources: https://www.retailcustomerexperience.com/news/omnichannel-retailers-big-winners-in-holiday-season/; Shopping Centers Today, Feb. 2017, Datex; https://www.statista.com/statistics/272391/us-retail-e-commerce-sales-forecast/; https://www.statista.com/statistics/379112/e-commerce-share-of-retail-sales-in-us/

DESTINATION *IS* RETAIL

FITNESS

Divergent Crossfit; South Pasadena, CA

THEATRE / ENTERTAINMENT / CULTURE

Century Theatres; Mountain View, CA

RESTAURANT / BREWERY

Stone Brewing; Escondido, CA

COMMUNAL DINING MARKET HALLS

SteelCraft; Long Beach, CA

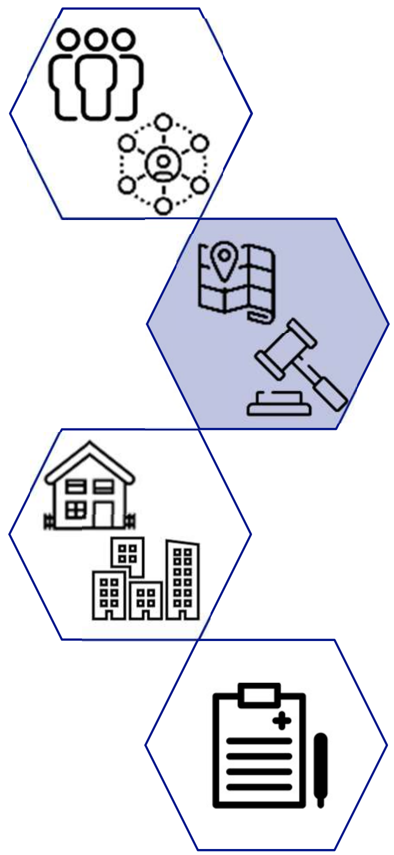
RETAIL SALES DRIVEN BY *PLACE* OR *PACE* OF DELIVERY

Destination	Distribution
Experience **Food** **Entertainment** **Blended/Mixed Use**	**Industrial** **Fulfillment** **Click and Collect** **Last-Mile Delivery**

Blended/Mixed Use: Paseo Colorado; Pasadena, CA

Amazon Fulfillment Center; San Bernardino, CA

PRESENTATION OUTLINE



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HOW DO CITIES ATTRACT ECONOMIC DEVELOPMENT?

The goals of the State include reducing the housing shortage and becoming greener. Cities will need to address these objectives by way of economic development projects such as blended/mixed use, transit, live/work/play environments.

Downtown San Fernando can benefit from utilizing publicly owned assets to advance economic development objectives and retaining/attracting retail dollars in the Downtown area.

Examples of case studies are presented herein.

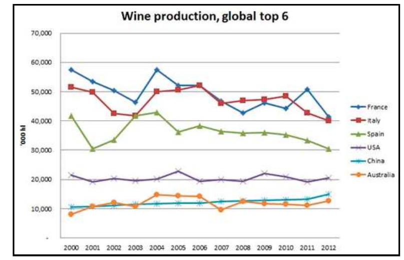
ECONOMIC DEVELOPMENT CASE STUDIES

1. City of Buellton Avenue of Flags – *Zoning & Economic Development Tool Strategy*
2. City of Santa Clarita Old Town Newhall – *Public-Private Transaction Structuring*
3. City of Placentia Metro Parking Structure – *Asset and Public Improvement Strategy*

CASE STUDY #1: CITY OF BUELLTON

ECONOMIC DEVELOPMENT

Kosmont prepared an Economic Development Strategy and Implementation Plan for the City of Buellton:



1. Analysis

- Economic & Demographic Profile (Households, Industries)
- Market Supply and Demand Analysis (Retail/Industrial/Office)

2. Strategy

- Economic Development SWOT Evaluation
- Opportunity Site Assessment

3. Implementation

- Targeted Retailers / Developers / Businesses
- Matching with Prioritized Opportunity Sites
- Marketing/Outreach Activities
- Evaluation of Fiscal Impacts and Economic Benefits
- Financing / Zoning Strategies (e.g., D.O.R.™)

Development Opportunity Reserve (D.O.R.)™ TRADE-OFFS:
CITY OF BUELLTON

- 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 <u>community benefits / objectives</u>, City rewards developers with <u>incentives</u>

Potential Community Benefits / Objectives	Potential Incentives
• 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 additional green building features	• 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 • Reduced application fees • Reduced traffic fees of off-site public improvements are provided

Source: City of Buellton City Council Staff Report, October 23, 2014

CITY OF BUELLTON:

DEVELOPMENT OPPORTUNITY RESERVE (D.O.R.)™

Assigns new density to a County/City controlled Density Account (D.O.R.™) and allocates that density to a project that conforms to Community Vision, instead of awarding density to all property owners via a Specific Plan.

Receives Reduction in Required On-Site Parking

Builds Public Parking Lot

Developer A Project

Receives Residential Density Bonus

Builds Public Restrooms

Developer B Project

Receives Increase in Max Building Height

Provides Off-Site Public Improvements

Developer C Project

CASE STUDY #2: OLD TOWN NEWHALL

Vision for Old Town Newhall

- Create an Arts and Entertainment District - 2005 Specific Plan
  - Live theater entertainment
  - Special events
  - Night life
  - Museums
  - Art galleries
- Alternative to the mall
  - Unique shopping and dining experience – a downtown destination

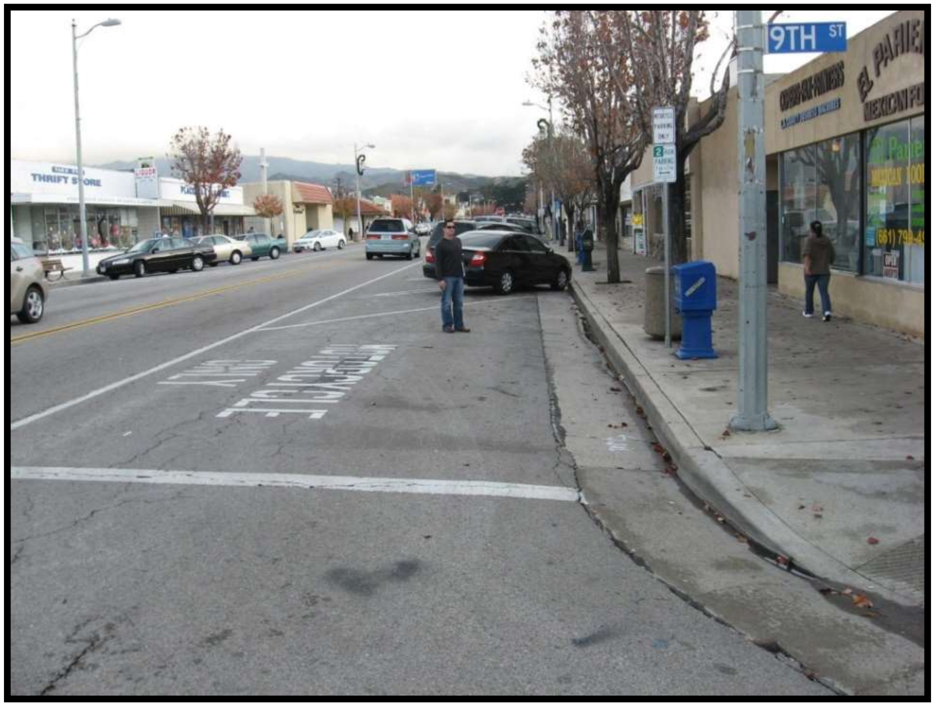
City of Santa Clarita Investment

- City of Santa Clarita made substantial investment in public improvements and amenities in Old Town
- Kosmont issued Developer RFP and negotiated P3 transaction
- City gets fiscal impacts and economic benefits such as jobs, wages, taxes, a revitalized downtown core and improved quality of life
- City made the upfront investment in order to foster revenue not only from the project, but also from the entire Old Town District

NOTE: A net fiscal impact analysis which considers municipal service costs, as well as indirect and induced fiscal revenues generated by catalyst projects, should be conducted prior to recommending a strategy

OLD TOWN NEWHALL STREETSCAPE IMPROVEMENTS

Before



After

OLD TOWN NEWHALL FAÇADE IMPROVEMENTS

Before

After

OLD TOWN NEWHALL – CATALYST PROJECT

RESIDENTIAL / RETAIL MIXED-USE

RESIDENTIAL / RETAIL MIXED-USE

THEATER

PARKING STRUCTURE

CASE STUDY #3: PLACENTIA PARKING STRUCTURE

Transaction Structure – Public-private partnership: build-to-suit Capital Lease Structure

Challenge

- City owns properties adjacent to future Metrolink station
- Limited financial resources prohibits City from proceeding with development of properties
- New Metrolink station required City to provide parking spaces for Metrolink riders
- City **needs private developer** who will take on construction risk

PLACENTIA – PARKING STRUCTURE

Strategy

- **Public private deal structure** with a third party developer (RFQ process)
- Development of the **parking structure** will likely be financed through the use of **Lease-leaseback structure** or **lease revenue bonds**
- **Revenues** from parking structure will be used to **underwrite the bonds**
- **Other City Assets** (parks, etc.) may be pledged as security to help reduce credit risk
- If desired can utilize leveraged **funds** to finance (gas tax bonds)

PLACENTIA – PARKING STRUCTURE

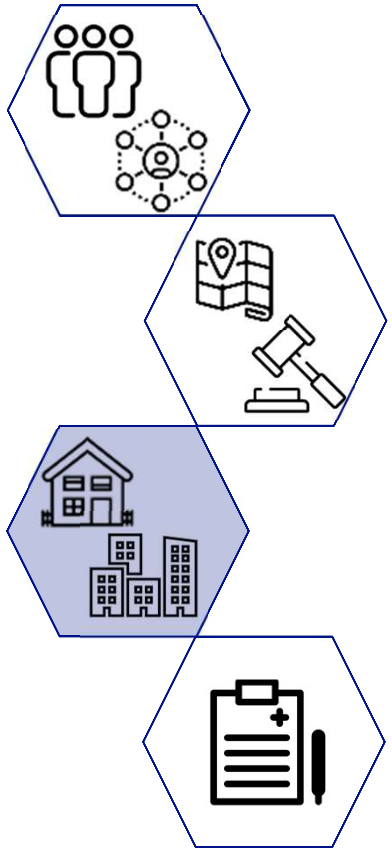
Outcome

- The City leveraged its own assets and land for private development, public infrastructure, and overall economic development for the community
  - Transit Oriented Development (TOD) of parking structure adjacent to the future Metrolink station
  - Minimize cost of construction and transfer risk of cost escalation (GMP)
  - Complete project in an accelerated timeframe (no or limited bidding process)
  - Finance TOD project as part of revitalization of downtown Placentia
  - Prevailing wage did not factor into this transaction
- In addition to the parking structure site, the City of Placentia issued an RFP for a potential hotel development on another set of parcels it owns. This land will be sold for market value and the City is currently in an Exclusive Negotiation Agreement (ENA) with a developer
- The City has also embarked on creating a specific plan for the transit-oriented area and are currently looking at highest and best use options

STRATEGIES FOR PROSPEROUS COMMUNITIES

- Basis of successful Community Development prioritizes place-making, transit-oriented development (TOD), greenhouse gas reduction, and sustainable infrastructure.
- Goal of successful Community & Neighborhood Development is to attract and retain business, jobs, and increase cities' tax base.
- Trends in CA public policy, demographics, and retail shape this generation of Community Development projects
- Projects implemented through application of Econ. Dev. tools:
  - Land use / zoning and D.O.R.™
  - Tax increment financing (EIFD / CRIA)
  - Private-private sector investment and financing (SSTR)
  - Special Districts

PRESENTATION OUTLINE



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EVALUATE AND STRATEGIZE

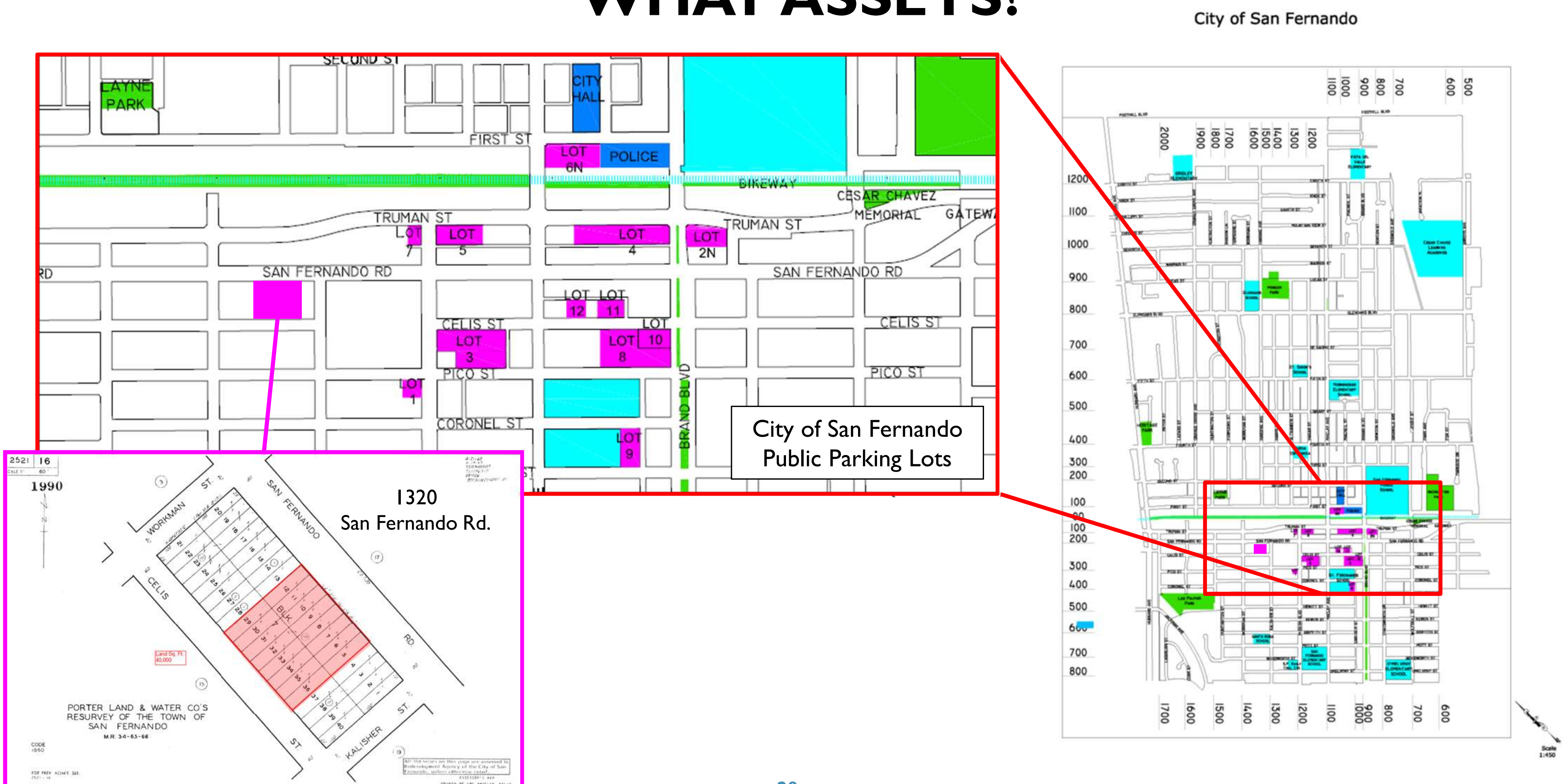
Assets must be evaluated

- Evaluate asset's maximum potential
- Determine highest and best use
- Align potential of asset with needs of the:
  - Community
  - Public Agency

Optimal asset management strategies

- Maximize revenues
- Optimize costs
- Minimize risks
- Realize public agency's objectives
- Sustain economic development in the community

WHAT ASSETS?


City of San Fernando
City of San Fernando
Public Parking Lots
1320
San Fernando Rd.
SECOND ST
LAYNE PARK
CITY HALL
FIRST ST
LOT 6N
POLICE
BIKEWAY
CESAR CHAVEZ MEMORIAL
GATEW
TRUMAN ST
LOT 7
LOT 5
LOT 4
LOT 2N
SAN FERNANDO RD
LOT 12
LOT 11
CELIS ST
LOT 3
LOT 8
LOT 10
PICO ST
LOT 1
CORONEL ST
LOT 9
BRAND BLVD
WORKMAN ST
CELIS ST
SAN FERNANDO RD
KALISHER ST
PORTER LAND & WATER CO'S RESURVEY OF THE TOWN OF SAN FERNANDO
M.R. 34-63-66
1990
2521 16

WHAT ASSETS?

City of San Fernando owns 13 public parking lots in the downtown area with 784 parking spaces, many for the San Fernando Mall businesses

- Lots 1, 7 and 12 are very small lots (less than 7,500 SF), making blended/mixed-use development impractical
- Lots 3, 5, 8 & 10 are required to include at least 144, 59, 96 and 39 public parking spaces respectively - requiring parking structure
- Lots 8 and 10 are 60,000 SF of contiguous land, making mixed use development with a parking deck feasible
- Lot 3 is 62,876 SF with access on Celis St. and Pico St.
- Lot 6 is of significant size, but is located adjacent to City Hall and is not in mixed-use zone. Lot 6 is also adjacent to a future Metro Light Rail Transit (LRT) station
- Lot 4 is 1.2 acres with frontage on Truman St. and suitable for blended/mixed-use
- Lot 5 is 0.5 acres with access on San Fernando Mission Blvd. and Truman St.
- Lot 2 is well located but already is a multi-level parking deck
- Lot 9 is almost 0.5 acres, but located outside downtown zone
- 1320 San Fernando Rd. is a 0.9-acre, mid-block site between S. Workman St. and S. Kalisher St. located within the downtown area. Frontage on San Fernando Rd. makes the site suitable for blended/mixed-use development, primarily residential

CORRIDORS SPECIFIC PLAN:
GOALS AND DISTRICTS

Established in 2017 to Guide New Development in Downtown

Land Use and Development Goals:

- Revitalize City's commercial corridors – small-town, mixed use
- Enable a walkable, multi-modal environment with a mix of uses within walking distance of the Metrolink Station, future LRT stations, and Downtown San Fernando
  - Maclay Ave., Truman St., San Fernando Rd., and First St. corridors

Relevant Specific Plan Districts and Overlays

- Downtown – mixed-use, TOD, active storefronts; increased FAR/height in Downtown Overlay surrounding mall
- Mixed-Use Corridor – neighborhood connecting to Metrolink
- Auto Commercial – auto sales with retail/office mix
- Maclay – new housing/commercial compatible with adjacent residential; mixed-use in Neighborhood Services Overlay at Glenoaks and Eighth St.
- Workplace Flex – commercial/industrial; limited industrial allowed in Flex-Use Overlay north side of Truman
- General Neighborhood – multi-family housing with transition to adjacent single-family housing

SPECIFIC PLAN DEVELOPMENT STANDARDS

Source: San Fernando Corridor Specific Plan § 4.1-4.4

Parking lots are located in Downtown District in Residential Overlay (near San Fernando Mall):

- Mixed-use, TOD, active storefronts
- Freestanding stores, auto-oriented buildings, drive-up services prohibited
- Increased max FAR
- Extra story of development
- Upper floor residential uses with CUP

Generally allowed land uses:

- Parking
- Residential (CUP)
- Retail, Service, Entertainment, Lodging and Office

General development standards:

- Max FAR = 3.0 non-residential; 3.5 residential mixed-use
- Max residential density = 50 du/ac
- Max height = 4 stories, 50 ft.
- Setback = 0 ft.

ASSET MANAGEMENT POLICIES

Asset Management Best Practices Include:

- Define/Prioritize long term community needs
- Develop a financial plan
    - Understand long term capital requirements
    - Identify capital sources
    - Provide reserves for regular maintenance of real estate assets
    - Focused economic development initiatives to increase tax base
    - Long term ground leasing of surplus real estate

DETERMINE PROGRAM/CONCEPT

- Determine the highest and best use for the asset to generate the maximum value for the public agency, as well as the community. Your highest and best use may be different than that of the private sector.

- Initial project concept is further refined through:

  - Market analyses
  - Economic feasibility studies
  - Status of entitlements
  - Environmental compliance

- Highest and best use must be supported by an optimal mix of product types and basic building parameters: square footage, number of units, amount of open space, height of building, parking, amenities.

POTENTIAL TAX REVENUES

Real estate development offers numerous ways to address City financials:

- Revenue from land sales/ground lease income
- Revenue from increased tax base:
  - Property tax from increase in assessed value
  - Retail sales taxes from visitor spending
- Potential for impact fees/inclusionary units at building permit (housing, traffic)
- Community Facilities District and/or Enhanced Infrastructure Financing Districts for infrastructure
- Density is key to feasibility – what is minimum threshold?

MARKET AND FINANCIAL VIABILITY

Is the project responsive to market demand?

- Look at tomorrow's market not just today's market
- Define the primary market area for the project
- Determine current and future competition
- Researching demographic and market trends

Determine if project fulfills the current and future demand of potential users in the market area

- Absorption
- Pricing
- Quality/design/amenities

How can public agency attract private equity/debt to make assets productive?

LEVERAGING PRIVATE INVESTMENT

- **Public-private partnerships (P3**) can be utilized to make productive use of underutilized public assets
- The asset can also be an investment in a P3 to **generate income for the public agency**
- Primary P3 Transaction Structures:
  - Ground Lease
  - Sale-Leaseback
  - Sale
- Utilize non-traditional revenues

Intermediaries (like Kosmont) are the translator between the public and private sectors and can assist both parties in solving issues in the public-private partnership (P3). Kosmont assists in vetting the project merits and challenges of a P3 deal.

The public sector needs private investments. The private sector is in the business to access capital and take risks.

The private sector needs the public sector as their partner. Private sector developers need assistance with entitlements and at different times may partner with the City when there are financial implications (e.g. developer needs to install public infrastructure and City could help with public improvements.)

LEVERAGING PRIVATE INVESTMENT (CONT.)

Ground Lease Transaction

Ground Lease of public land to private entity for development and operation of public-use or private-use property (potential economic development tool), but can be difficult to get loan financing

Typical Process and legal documents:

- Request for Qualifications (RFQ) / Request for Proposals (RFP)
- Exclusive Negotiation Agreement (ENA)
- Memo of Understanding (MOU) Non-binding
- Disposition Agreement (DA)
- Ground Lease (GL)
- CEQA/EIR

LEVERAGING PRIVATE INVESTMENT (CONT.)

Sale – Leaseback Transaction

- Public agency *sells* property to a private entity and *leases* it back simultaneously on long term basis
- Private entity makes an equity investment in the property and in return gets benefit of ownership
- Public agency gets a stable cash flow and an opportunity to lease back the facility at an affordable rate
- Private sector owns the property at the end of the lease (unless Joint Powers Authority (JPA)* transaction wherein public agency gets ownership at end)
- Method of raising funds for capital projects that may be less costly than issuing tax exempt bonds

***Note:** A Joint Powers Authority (JPA) is a legally created entity that allows two or more public agencies to jointly exercise common powers. Such an entity provide public agencies the ability to provide services in an efficient and cost-effective manner; **Source:** https://www.bbknowledge.com/general/the-ins-and-outs-of-joint-powers-authorities-in-california/

LEVERAGING PRIVATE INVESTMENT (CONT.)

Sale Transaction

- Public agency finds best developer/partner through RFQ/RFP selection process
- Public agency *sells* property to a private entity and controls entitlement process and development terms
- Private entity makes an equity investment in the property and in return gets benefit of ownership and asset appreciation
- Public agency gets an influx of cash capital
- Private sector owns and operates project potentially subject to Development Agreement performance measures

LEVERAGING PRIVATE INVESTMENT (CONT.)

Non-traditional Revenues and Approaches

- Signage, advertising, billboards, and wireless telecommunications facility leases can add significant revenue at little capital cost
  - Can you create a signage district?
  - Do you have sites with high visibility and high traffic?
- Kiosks also generate high rents per square foot
- Public messaging a benefit to community, programs and business districts, and city's marketing/outreach

REAL ESTATE MARKET DATA (HIGH LEVEL)

RETAIL MARKET

At a regional level, the East San Fernando Valley retail market has 95% occupancy with average rents of $25 psf.

In City of San Fernando there is a 98% occupancy rate for the 1.8 million gross SF of inventory, up significantly from recession low of 90%. However, there has been less than 30,000 SF of new construction in past decade

Average rent rates are about $25 psf, showing a strong recovery from peak recession lows around $16 psf, but below levels needed to justify new development at current land values. New development will require higher rents

Asking rents for vacant space in the San Fernando Mall area above $30 psf indicating better economic potential.

REAL ESTATE MARKET DATA (HIGH LEVEL) – CONT.

RETAIL MARKET (CONT.)

Consumer demographic analysis indicates that San Fernando is capturing more than its fair share of sales in most retail categories, indicating the city is a regional draw with respect to restaurants, general merchandise, grocery stores and home furnishings.

However, the City faces growing competition with many of today's consumers spending more in large discount warehouses (value shopping) and on e-commerce websites, such as Amazon.com (convenience shopping).

With significant online channels for purchasing clothing, shoes, and an array of soft goods, even the most vibrant communities are faced with reduction in retail brick and mortar formats. Despite this trend, the City has strong soft goods demand.

Key to maintaining a healthy retail market is creating dining and entertainment gathering places that provide social experiences, including more blended use with office and residential nearby.

REAL ESTATE MARKET DATA (HIGH LEVEL) – CONT.

OFFICE MARKET

The East San Fernando Valley office market is a small component of the Los Angeles office employment sector, with less than 9 million SF of space, primarily class B/C.

Vacancy rates at 6% are relatively healthy, while average gross monthly rents are $28 psf.

Office building sale values are approximately $250 psf, well below levels needed to justify new development.

For the City of San Fernando, there is only 450,000 SF of office inventory, with vacancy at approximately 3% and average rents of $25 psf (full service gross) up 40% from recession levels.

There has been little new construction in the past 10 years.

REAL ESTATE MARKET DATA (HIGH LEVEL) – CONT.

The San Fernando area is a predominately single family suburban community with above average household size.

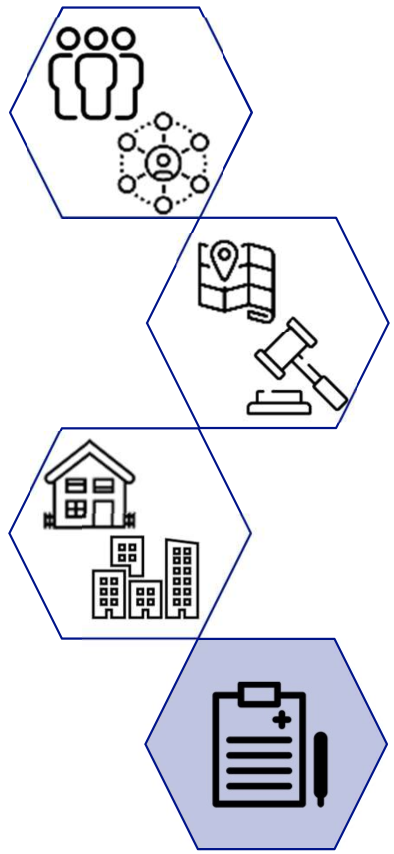
APARTMENT MARKET

The North San Fernando Valley apartment market, as defined by CoStar, has only 5,500 apartment units, with 85% being older class B/C units.

Average rents are $1,500 per month in 2018, as vacancy rates have steadily declined over the past decade down to 2.5%. Class A apartments are achieving rents of $2,250 per month.

For the City of San Fernando, there are approximately 1,100 apartment units, with only 53 new units constructed since 2012. Even at peak of the 2008-10 recession vacancy rates were only 4-5%. Today's average rents are only $1,000 per month, and clearly not high enough to justify new construction.

PRESENTATION OUTLINE



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HIGHEST AND BEST USE SITE ANALYSIS

Kosmont has examined the 13 parking lots for new development potential using a SWOT analysis:

Strengths

- Metrolink and other new regional transit station
- I-5 freeway access
- Healthy retail market
- Vibrant downtown

Opportunities

- Potential for entertainment uses
- Multi-family transit oriented development (TOD)

Weaknesses

- Smaller parcel sizes (need 0.5 to 1.0 acre to do blended-use)
- Replacement parking for parking lots 3, 5, 8 & 10 increases cost

Threats

- High land values ($75 - 95 psf) are major challenges to development
- E-commerce is a major threat to soft good retailers, limiting new retail development

CONCLUSION

- Blended-use development appears to be challenged by lower current residential market rents – New multi-family product may warrant higher residential rents and/or may need to consider condominiums instead of apartments
- The entertainment/retail market is healthy - opportunities for substantial new development need to be identified
- The office market is not strong enough with rents too low to support significant new development
- With land values so expensive, high density and zoning strategies are of utmost importance. Need large enough parcel to accommodate parking and integrated blended uses (explore parking strategies)

CONCLUSION (CONT.)

Based on the SWOT analysis Kosmont recommends the following parking lots for development:

- Lot 3, potentially combined with closure of Celis St. is a prime location for blended use development and replacement parking
- Lot 6, although not in the mixed-use zone, is a good site for entertainment / retail and possible office
- Lots 8 & 10 combined total 60,000 square feet, leaving adequate room for a multi-level parking garage and 3-4 story blended use development
- 1320 San Fernando Rd. is a 0.9-acre, mid-block site located in the downtown area. Frontage on San Fernando Rd. makes the site suitable for blended/mixed-use development, primarily residential

To evaluate the financial feasibility, Kosmont prepared a preliminary pro forma to illustrate the potential development value and developer profit from both mixed-use and 100% commercial developments on a 40,000 SF site.

See Blended-use and Commercial Development Pro Formas

BLENDED-USE AND COMMERCIAL DEVELOPMENT SAMPLE PROFORMAS

Exhibit 1

San Fernando Corridor SP

Feasibility Per Specific Plan Limits

Residential Units	30	850	sf	
Commercial SF	20,000			
				Pro Forma
Stabilized Income:				
Residential Gross income		$2.80	per month	$856,800
Less: Vacancy Factor		4.0%	of rent	(34,272)
Commercial Gross income		$27	PSF	$540,000
Less: Vacancy Factor		8.0%	of rent	(43,200)
Effective Gross Income				1,319,328
Maint.,Taxes & Insurance		35.00%	of Apt EGI	(341,885)
Net Operating Income				977,443
Development Costs				
Land	$ 75.00			$ 3,000,000
Arch & Engineering	4.0%			439,283
Resid. Construction	$ 200			5,862,069
Comm. Construction	$ 175			3,500,000
Construction - Parking	18,000			1,620,000
FF&E	7,500	per apt unit		225,000
Leasing	$ 1,500	and 5% Leasing commission		45,000
Financing	6.0%	30 mths		873,476
Taxes & insurance	1.0%			116,914
Developer Overhead	3.0%	of costs		380,452
Contingency	5.0%	of costs		634,087
Total Costs				16,696,281
Stabilized Value @	6.00%			$16,290,720
Developer Profit				($405,561)
Profit Margin				-2.4%

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 from those expressed in this analysis.

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Exhibit 2

San Fernando Corridor SP

Full Commercial Development

Commercial SF	30,000			
	0			Pro Forma
Stabilized Income:				
Gross income		$30		$900,000
Less: Vacancy Factor		8.0%	of rent	(72,000)
Effective Gross Income				828,000
Non-Reimburs Expenses		10.00%	of EFG	(82,800)
Net Operating Income				745,200
Development Costs				
Land Value	$ 75.00			$ 3,000,000
Arch & Engineering	4.0%			222,000
Construction - Building	$ 175			5,250,000
Construction - Parking	$ 2,000			300,000
Tenant improvements	$ 40			1,200,000
Leasing	5.0%	x 7.5 yr Lease		310,500
Financing	6.0%	18 mths		327,713
Taxes & insurance	1.0%			72,825
Developer Overhead	3.0%	of costs		230,491
Contingency	5.0%	of costs		384,152
Total Costs				11,297,681
Stabilized Value @	6.00%			$12,420,000
Developer Profit				$1,122,320
Profit Margin				9.9%

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 from those expressed in this analysis.

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THANK YOU
QUESTIONS AND DISCUSSION

PREPARED BY:

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APPENDIX

ECONOMIC & DEMOGRAPHIC PROFILE

POPULATION & HOUSEHOLD DEMOGRAPHICS

2018 DEMOGRAPHIC HIGHLIGHTS

Population & Households

- Population of ~24,700 and ~6,200 households within the City
- Population of ~10,288,900 and ~3,369,700 households within Los Angeles County

Income

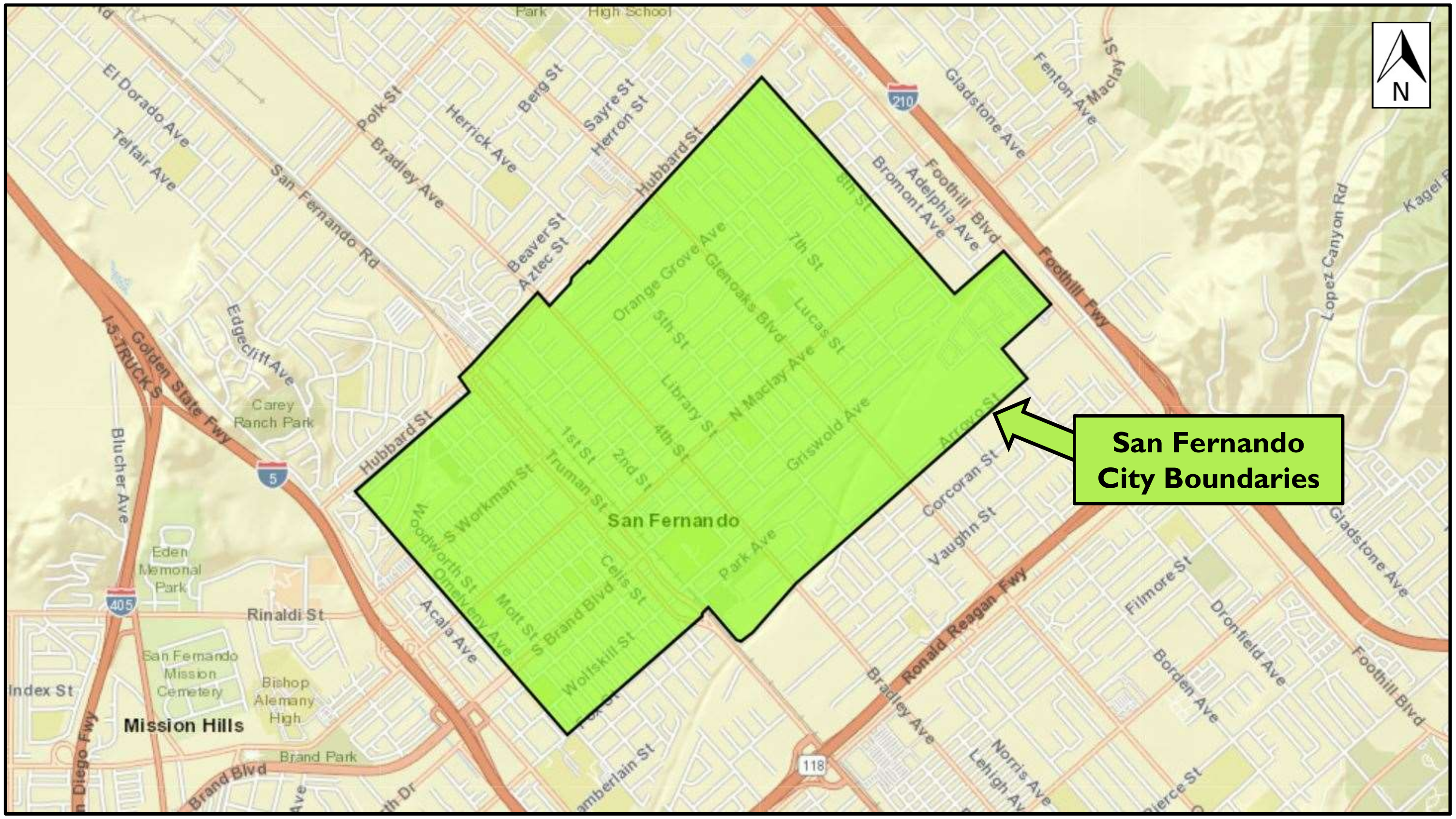
- Avg. HH income ~$63,000 in City and ~$94,900 within Los Angeles County
- 1.82% annual growth projected for HH income over next 5 years in City

Other Demographic Characteristics

- Average household size of 3.97 in City (larger than County and State)
- Median age of 32.0 in City (younger than County and State)
- ~12% Bachelor's Degree or higher (lower than County and State)
- Race: ~51% White, ~42% Some Other Race, ~4% Two or More Races
- Ethnicity: ~93% Hispanic in City

Source: ESRI (2018)

SAN FERNANDO CITY LIMITS



Source: ESRI (2018)

POPULATION & INCOME

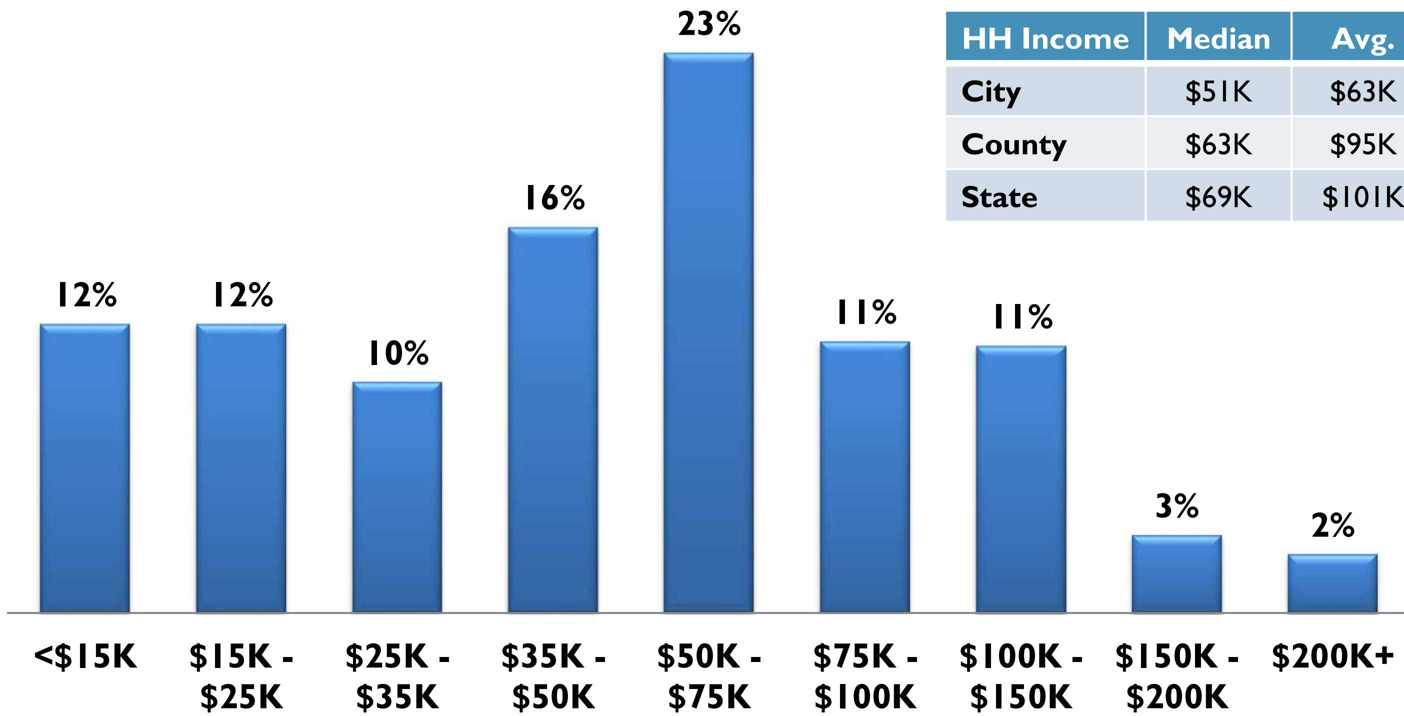
CITY, COUNTY, AND STATE

2018	City of San Fernando	County of Los Angeles	State of California
Population	24,723	10,288,937	39,806,791
Households	6,190	3,369,650	13,336,104
Average HH Size	3.97	3.00	2.92
Median Age	32.0	35.7	36.2
% Hispanic Origin	93.3%	49.0%	39.6%
Per Capita Income	$15,969	$31,653	$34,254
Median HH Income	$50,618	$62,751	$69,051
Average HH Income	$62,961	$94,861	$100,620
2018-2023 Annual Growth Rate			
Population	0.47%	0.54%	0.82%
Median HH Income	1.82%	3.87%	3.47%

Source: ESRI (2018)

INCOME PROFILE

City of San Fernando – 2018 Households by Income Bracket

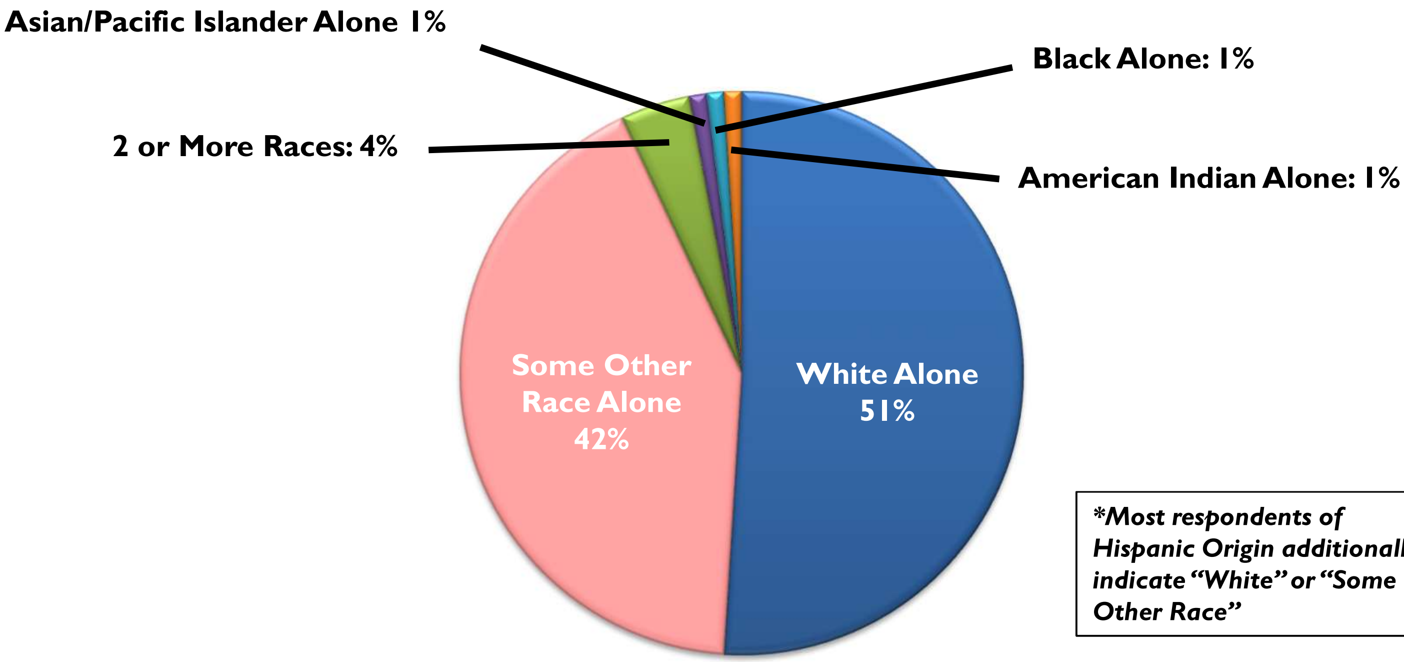


HH Income	Median	Avg.
City	$51K	$63K
County	$63K	$95K
State	$69K	$101K

Source: ESRI (2018)

RACE & ETHNICITY

City Population by Race & Ethnicity in 2018



**Most respondents of Hispanic Origin additionally indicate "White" or "Some Other Race"*

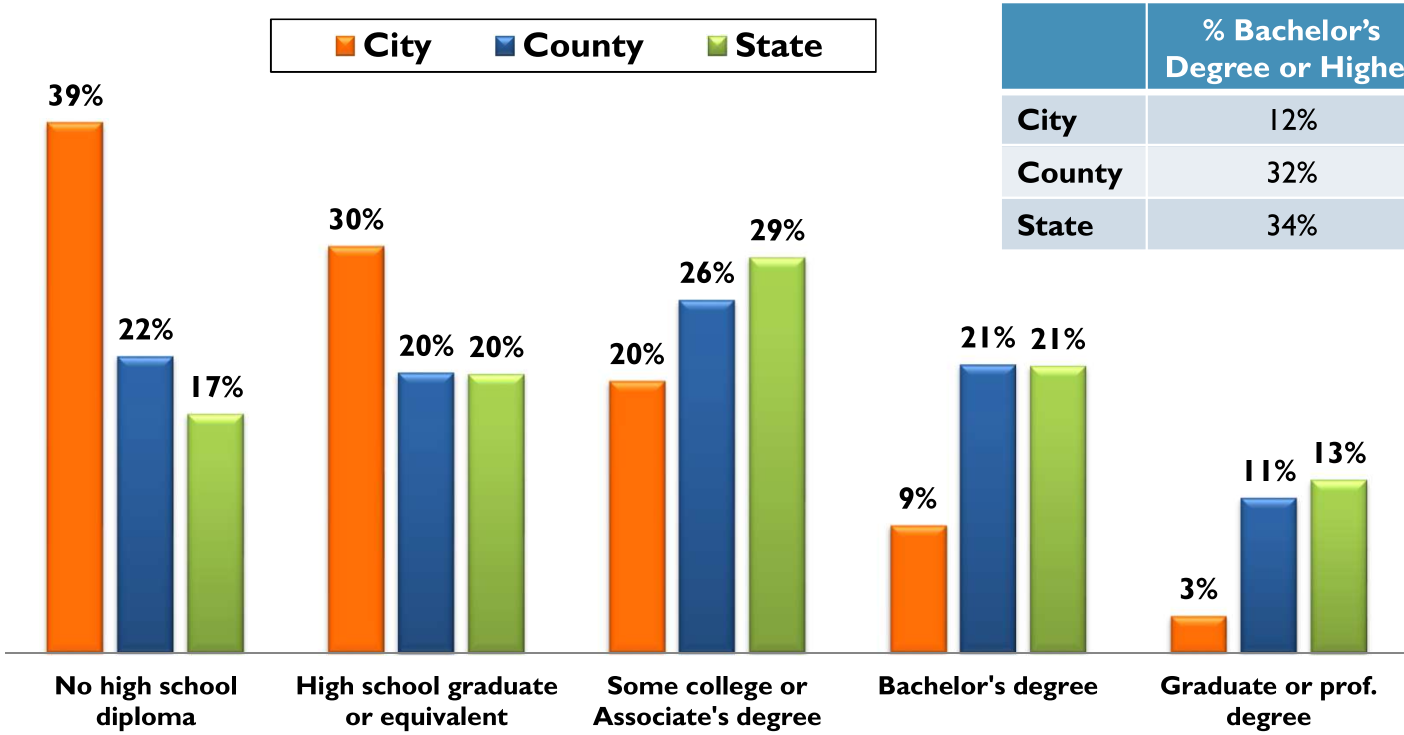
Hispanic Origin of Any Race: 93%

Note: U.S. Census Bureau defines race and ethnicity as two separate and distinct identities. One Census question asks respondents which socio-political race (of categories in pie chart above) they associate most closely with, and a separate question asks whether they associate with "Hispanic, Latino, or Spanish origin" or not (defined as ethnicity).

Source: ESRI (2018)

EDUCATIONAL ATTAINMENT

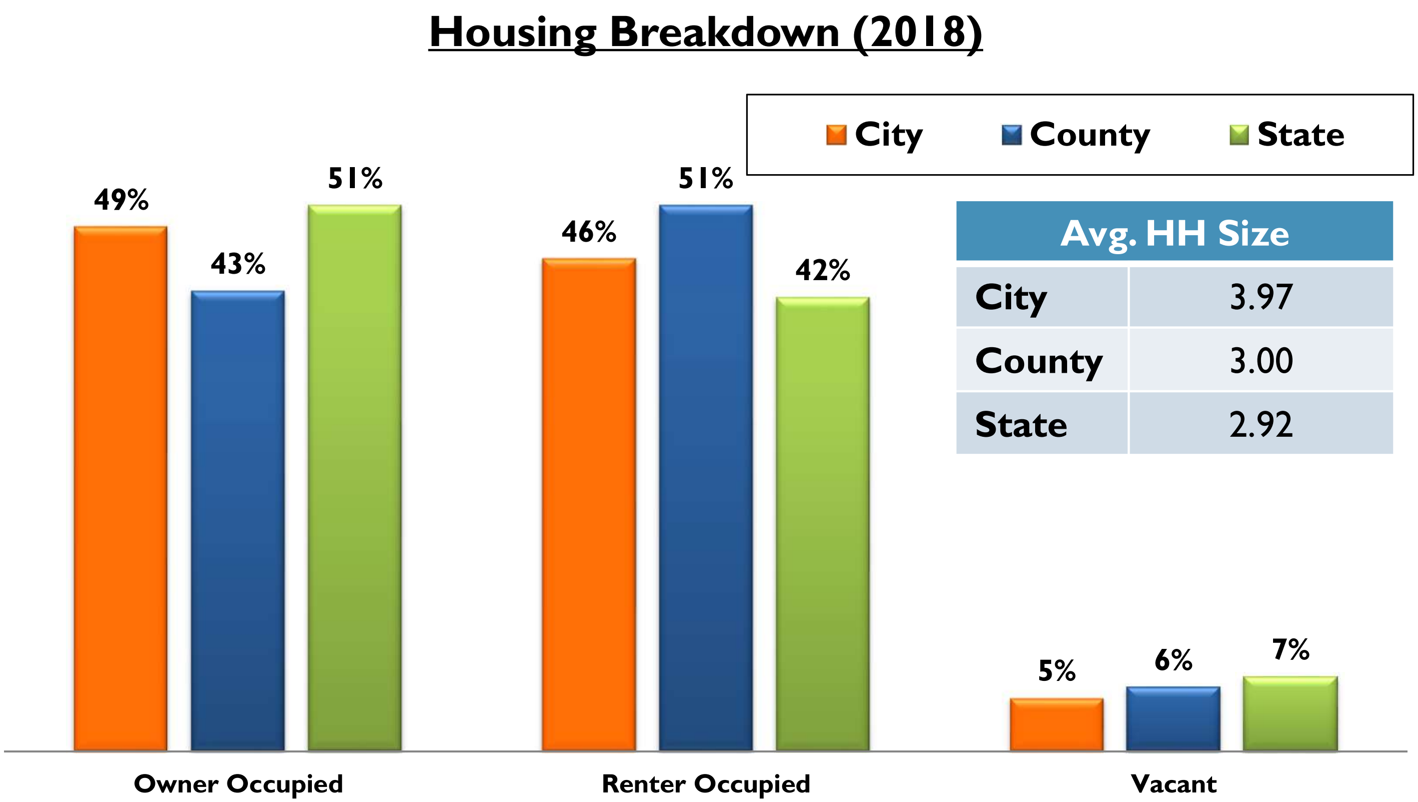
Population Aged 25+ by Educational Attainment in 2018



	% Bachelor's Degree or Higher
City	12%
County	32%
State	34%

Source: ESRI (2018)

HOUSING & HOUSEHOLD SIZE

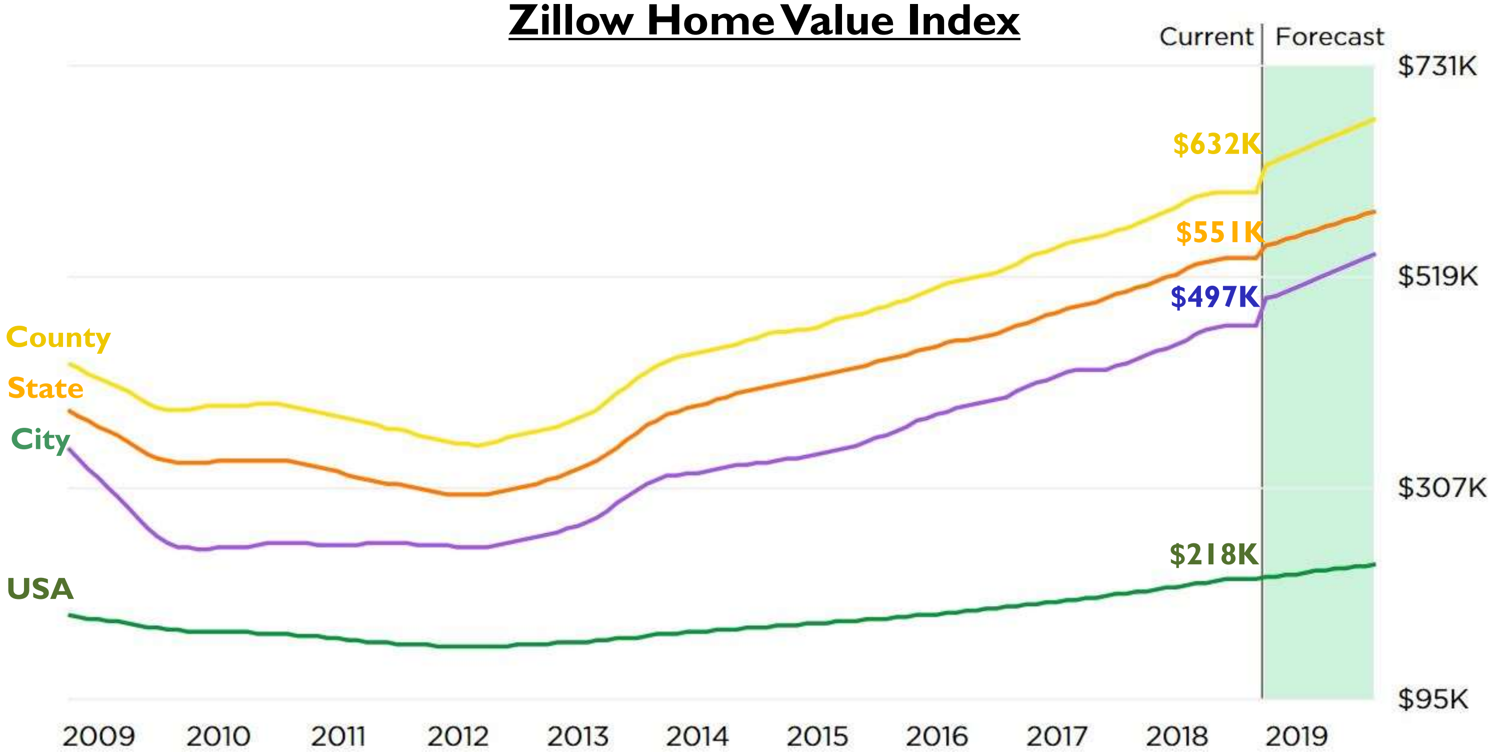


Avg. HH Size	
City	3.97
County	3.00
State	2.92

Source: ESRI (2018)

HOME VALUE HISTORY

Zillow Home Value Index



Source: Zillow.com (Sept. 2018)

POPULATION SEGMENTATION PROFILE

"Tapestries" in City		Description
1. Urban Villages	55%	• Multicultural, multigenerational, and multilingual households • More than half the population 25 and older have a high school diploma or some college • Homes are typically single-family and owner occupied • Consumers are brand and status conscious, but many purchases are for the family esp. children; Enjoy shopping at Costco, Trader Joe's, Target, and Macy's
2. Las Casas	41%	• A family-oriented market with multigenerational households (high average household size of 4.12) • Young population, average labor force participation, high unemployment • Homes are primarily renter-occupied in single-family and multi-unit buildings • Consumer spending reflects their children – baby food, furniture, children's apparel – and convenience – fast food and family restaurants
3. Southwestern Families	4%	• Young, majority Hispanic families • While 32% have attended or graduated college, 40% have not completed high school, limiting employment prospects • About 55% own, 45% rent single-family homes within a mix of urban city centers and metropolitan area suburbs • Budget-conscious consumers; Enjoy shopping at Walgreens, dollar stores, and discount department stores

Source: ESRI (2018)

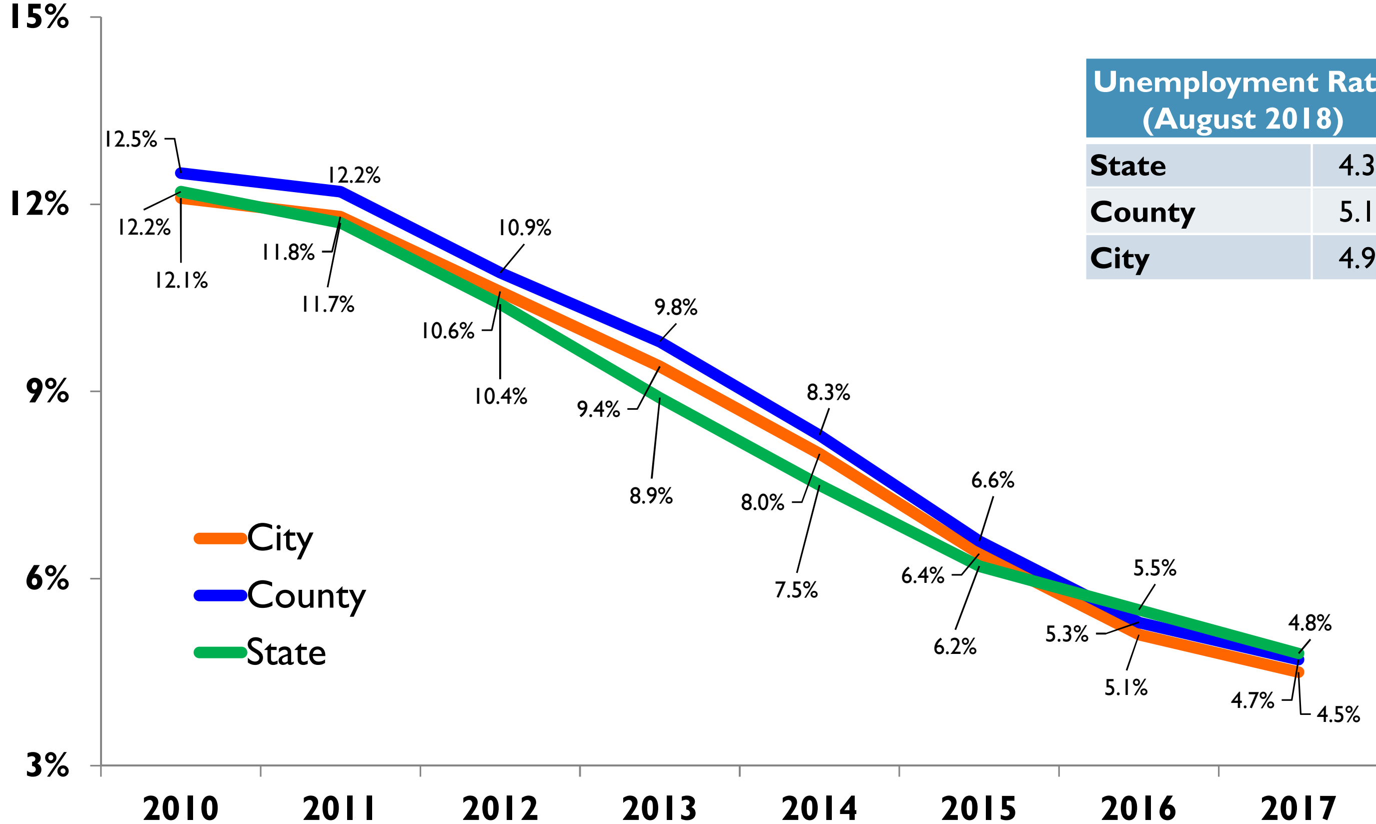
SUMMARY: POPULATION & HOUSEHOLD DEMOGRAPHICS

- Younger population - median age of 32.0 in City (younger than County and State median ages)
- Majority of San Fernando's population is of Hispanic origin (93%); Households are multigenerational and blue collar
- Average household size of 3.97 is larger than both Los Angeles County and State average household sizes; Average household income for the City is lower than the County and State average household incomes
- Educational attainment in San Fernando is lower than that of the County and State with a sizable population (39%) of residents not completing a high school education

ECONOMIC & DEMOGRAPHIC PROFILE

UNEMPLOYMENT & EMPLOYMENT BY INDUSTRY

UNEMPLOYMENT

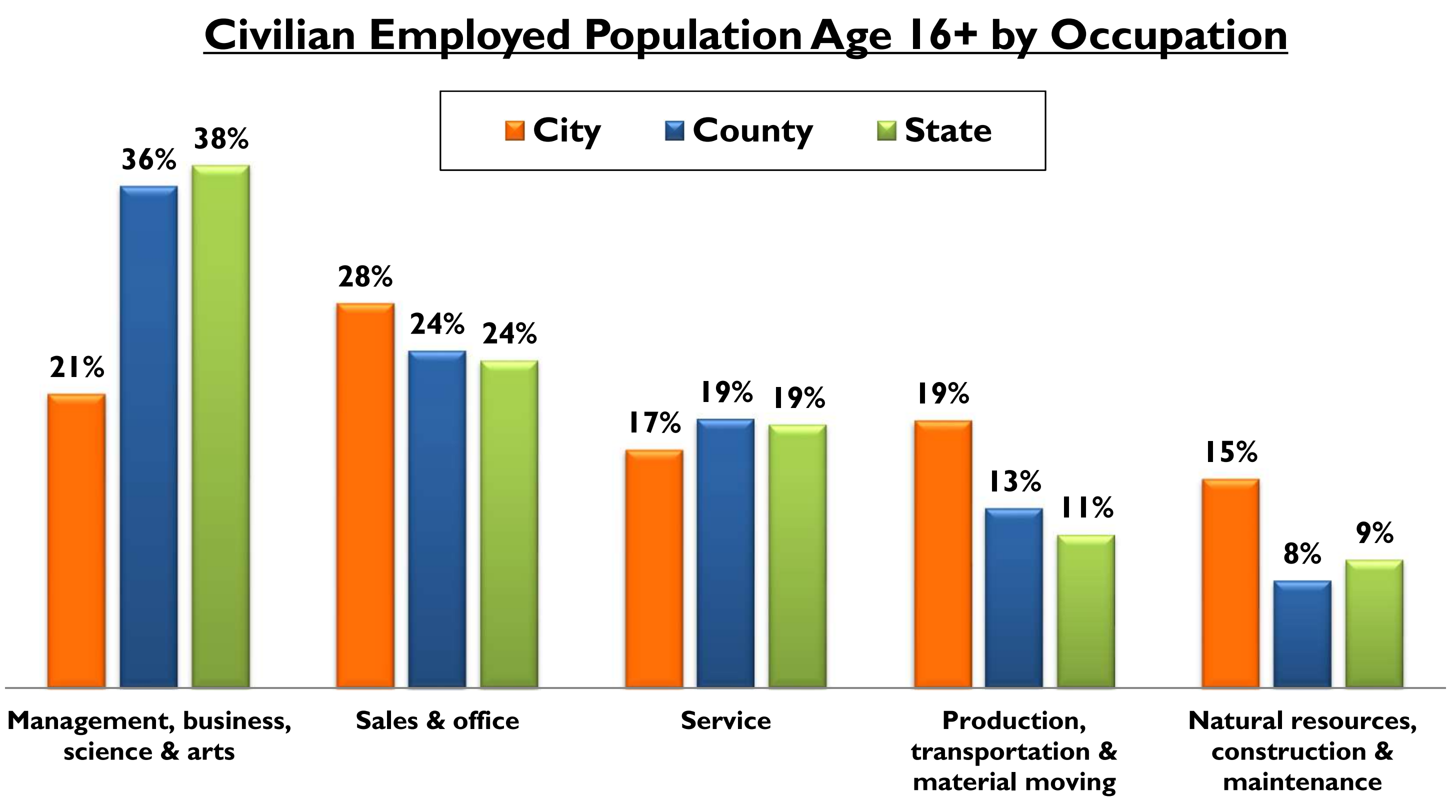


Unemployment Rate (August 2018)	
State	4.3%
County	5.1%
City	4.9%

Note: Not seasonally adjusted; annual averages for 2010-2017

Source: California Employment Development Department (2018)

RESIDENT EMPLOYMENT BY OCCUPATION



Source: ESRI (2018)

SELECT MAJOR EMPLOYERS WITHIN THE CITY

Major Employers	No. of Employees
Los Angeles Unified School District	2,021
Pharmavite, LLC	370
Los Angeles County Superior Court	276
Pepsi Bottling	268
Home Depot	254
Puretek Corp.	200
Production Resource Group, LLC	200
Sam's Club	170
Vallarta Supermarkets	162
Ricon Corp.	149

Note: Top 10 listed by number of employees (high to low); **Source:** City of San Fernando CAFR (FY 2016-2017)

EMPLOYMENT PROJECTIONS BY INDUSTRY

LOS ANGELES COUNTY

Industry	2014	2024	Annual Growth 2014-24	Total Growth 2014-24	Total Change 2014-24
Health Care and Social Assistance	602,100	780,900	178,800	29.7%	3.0%
Accommodation and Food Services	386,800	483,700	96,900	25.1%	2.5%
Professional and Business Services	599,100	680,300	81,200	13.6%	1.4%
Retail Trade	413,000	449,900	36,900	8.9%	0.9%
Educational Services (Private)	118,600	148,600	30,000	25.3%	2.5%
Construction	119,600	146,700	27,100	22.7%	2.3%
Government	556,200	582,000	25,800	4.6%	0.5%
Wholesale Trade	222,500	242,700	20,200	9.1%	0.9%
Transportation, Warehousing, and Utilities	163,400	183,500	20,100	12.3%	1.2%
Other Services (excludes 814-Private Household Workers)	150,500	167,000	16,500	11.0%	1.1%
Information	198,000	213,500	15,500	7.8%	0.8%
Financial Activities	211,100	218,900	7,800	3.7%	0.4%
Mining and Logging	4,300	4,500	200	4.7%	0.5%
Manufacturing	364,100	329,300	(34,800)	(9.6%)	(1.0%)
Total Nonfarm	**4,189,000**	**4,724,700**	**535,700**	**12.8%**	**1.3%**
Total Farm	**5,200**	**4,700**	**(500)**	**(9.6%)**	**(1.0%)**
Total Other	**297,600**	**333,900**	**36,300**	**12.2%**	**1.2%**
Total Employment	**4,491,800**	**5,063,300**	**571,500**	**12.7%**	**1.3%**

Source: California Employment Development Department, U.S. Bureau of Labor Statistics (2014)

EMPLOYMENT BY INDUSTRY

City Resident Employed Population (Age 16+)	
Health Care and Social Assistance	14.1%
Manufacturing	13.1%
Retail Trade	12.1%
Accommodation and Food Services	9.0%
Educational Services	7.4%
Administration & Support, Waste Management and Remediation	6.6%
Construction	5.5%
Professional, Scientific, and Technical Services	4.5%
Wholesale Trade	4.3%
Information	3.8%
Finance and Insurance	3.4%
Other Services (excluding Public Administration)	3.3%
Public Administration	3.1%
Transportation and Warehousing	2.8%
Arts, Entertainment, and Recreation	1.9%
Real Estate and Rental and Leasing	1.8%
Management of Companies and Enterprises	1.4%
Agriculture, Forestry, Fishing and Hunting	1.1%
Utilities	0.7%
Mining, Quarrying, and Oil and Gas Extraction	0.1%

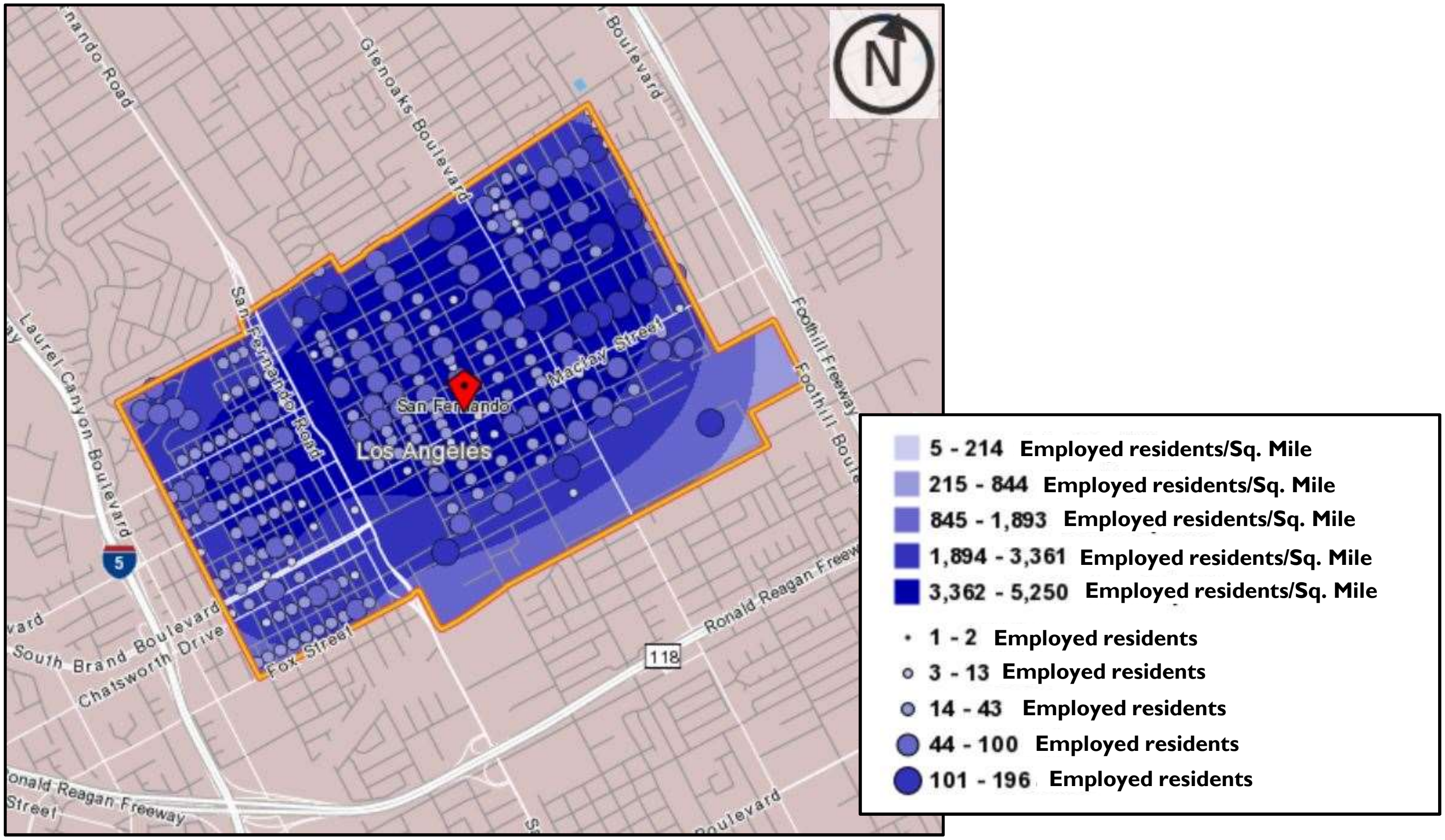
"Industries in which City residents work"

Workers Employed Within City	
Manufacturing	19.6%
Accommodation and Food Services	14.2%
Wholesale Trade	9.8%
Health Care and Social Assistance	8.8%
Construction	8.5%
Retail Trade	8.5%
Finance and Insurance	5.9%
Educational Services	5.6%
Other Services (excluding Public Administration)	4.7%
Professional, Scientific, and Technical Services	3.1%
Information	2.3%
Administration & Support, Waste Management and Remediation	2.1%
Public Administration	2.1%
Transportation and Warehousing	1.5%
Agriculture, Forestry, Fishing and Hunting	1.3%
Real Estate and Rental and Leasing	1.2%
Management of Companies and Enterprises	0.6%
Utilities	0.1%
Arts, Entertainment, and Recreation	0.1%
Mining, Quarrying, and Oil and Gas Extraction	0.0%

"Jobs in the City"

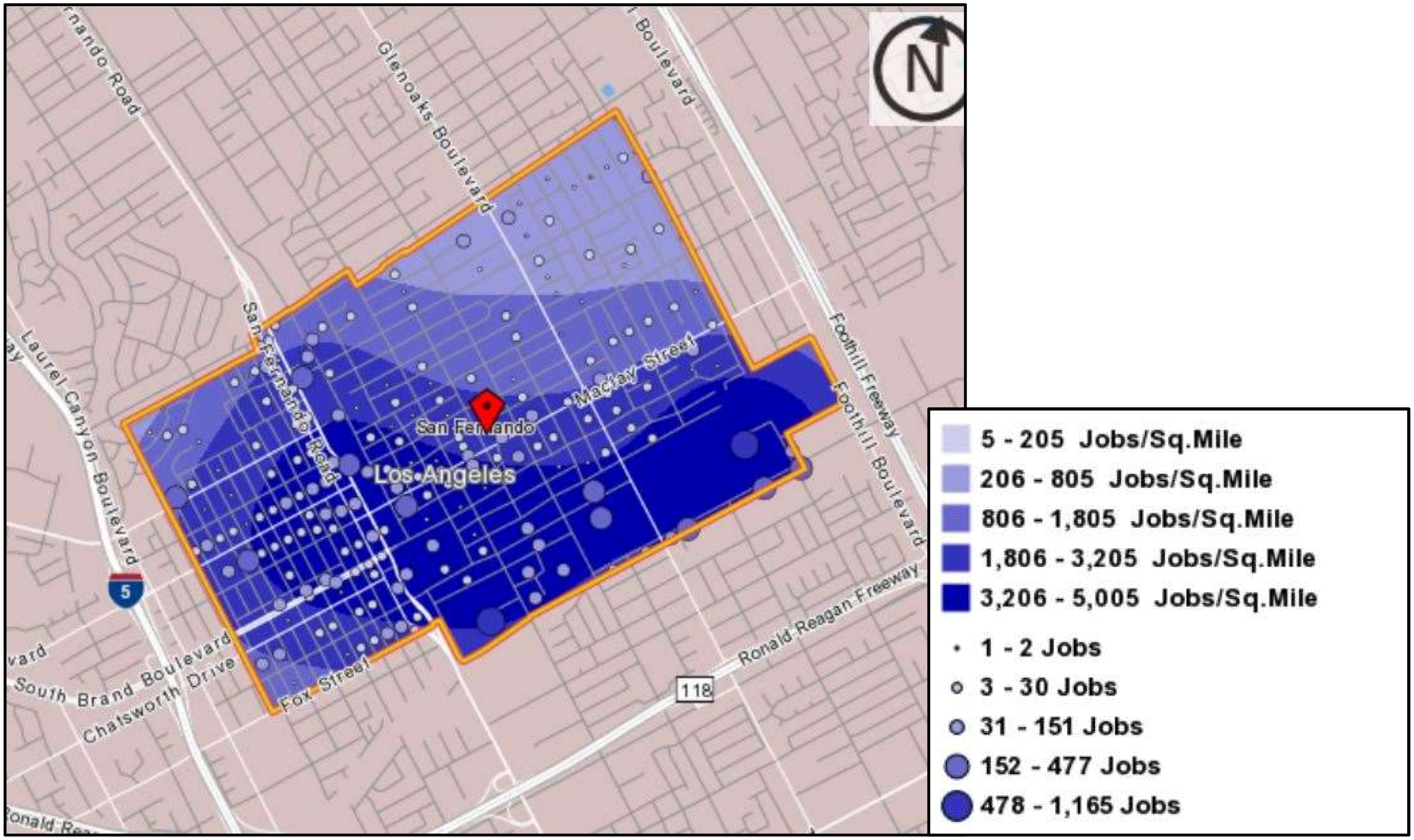
Source: U.S. Census Bureau Center for Economic Studies (2015)

RESIDENT CONCENTRATION WITHIN CITY



Source: U.S. Census Bureau Center for Economic Studies (2015)

EMPLOYMENT CONCENTRATION WITHIN CITY



Source: U.S. Census Bureau Center for Economic Studies (2015)

RESIDENT AND EMPLOYEE COMMUTE

Employed Residents Place of Work*	
Los Angeles, CA	53.0%
San Fernando, CA**	5.6%
Santa Clarita, CA	4.3%
Burbank, CA	4.0%
Glendale, CA	1.7%
Simi Valley, CA	1.5%
Thousand Oaks, CA	0.9%
San Diego, CA	0.9%
Santa Monica, CA	0.8%
Culver City, CA	0.8%
Pasadena, CA	0.7%
Oxnard, CA	0.6%
Anaheim, CA	0.6%
Beverly Hills, CA	0.5%
Irvine, CA	0.5%
Long Beach, CA	0.5%
Torrance, CA	0.5%
San Francisco, CA	0.5%
Moorpark, CA	0.4%
Camarillo, CA	0.4%
Westlake Village, CA	0.4%
Calabasas, CA	0.4%
El Segundo, CA	0.4%
Orange, CA	0.4%
Costa Mesa, CA	0.4%
All Other Locations	19.5%

"Where City residents work"

City Employee Origin*	
Los Angeles, CA	51.1%
San Fernando, CA**	6.7%
Santa Clarita, CA	4.5%
Palmdale, CA	2.4%
Glendale, CA	2.1%
Burbank, CA	1.5%
Simi Valley, CA	1.3%
Lancaster, CA	0.8%
Pasadena, CA	0.6%
Anaheim, CA	0.6%
Long Beach, CA	0.5%
San Diego, CA	0.5%
Oxnard, CA	0.5%
Thousand Oaks, CA	0.5%
Bakersfield, CA	0.4%
Moorpark, CA	0.4%
Santa Monica, CA	0.3%
South Gate, CA	0.3%
Lake Los Angeles CDP, CA	0.3%
Castaic CDP, CA	0.3%
East Los Angeles CDP, CA	0.3%
Altadena CDP, CA	0.3%
Torrance, CA	0.3%
Calabasas, CA	0.3%
San Bernardino, CA	0.3%
All Other Locations	22.8%

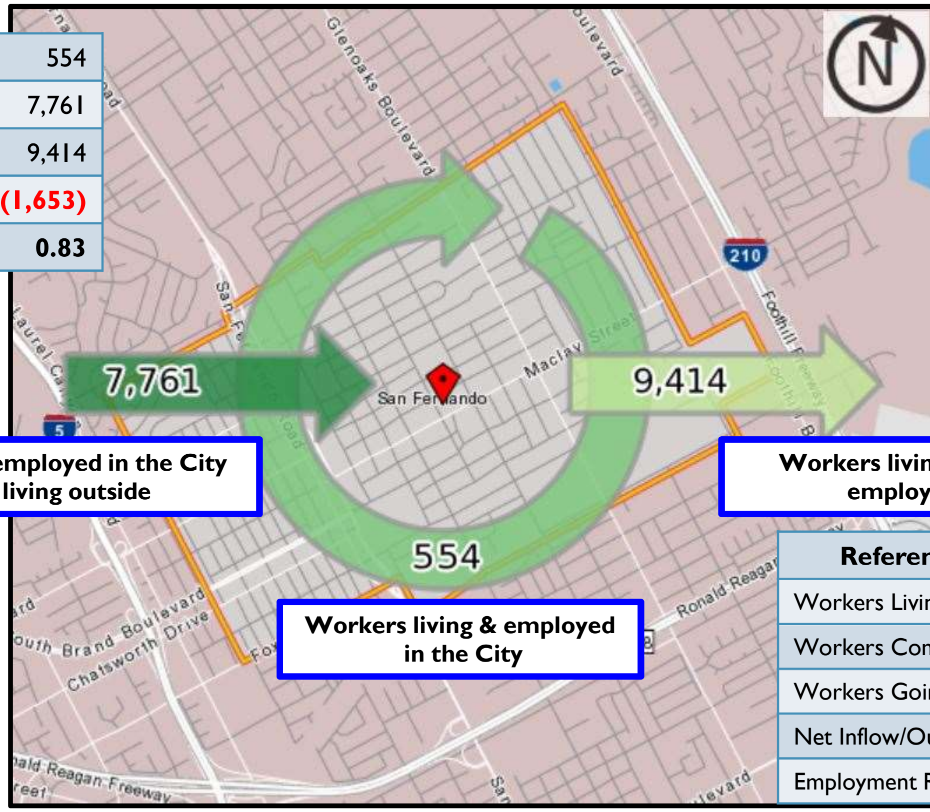
"Where people who work in the City come from"

Source: U.S. Census Bureau Center for Economic Studies (2015); **Notes:** *The top 25 locations where City residents work and where people who work in San Fernando come from are listed.**The table on the left asks the question 'What percent of ***total San Fernando residents*** work within the City of San Fernando?', while the table on the right asks 'What percent of ***everybody who works in San Fernando*** also live in the City of San Fernando?'.

WORKER INFLOW / OUTFLOW

"ARE JOBS COMING OR GOING?"

Workers Living and Working	554
Workers Coming (Inflow)	7,761
Workers Going (Outflow)	9,414
Net Inflow/Outflow	**(1,653)**
Employment Ratio*	**0.83**



Reference: Los Angeles County	
Workers Living and Working	3,445,811
Workers Coming (Inflow)	997,322
Workers Going (Outflow)	779,053
Net Inflow/Outflow	**218,269**
Employment Ratio*	**1.05**

***Employment Ratio** = People employed within City (living and working in City + those who come into the City for work) / Employed population of City (living and working in City + workers who live in the City, but work outside of the City)
Source: U.S. Census Bureau Center for Economic Studies (2015)

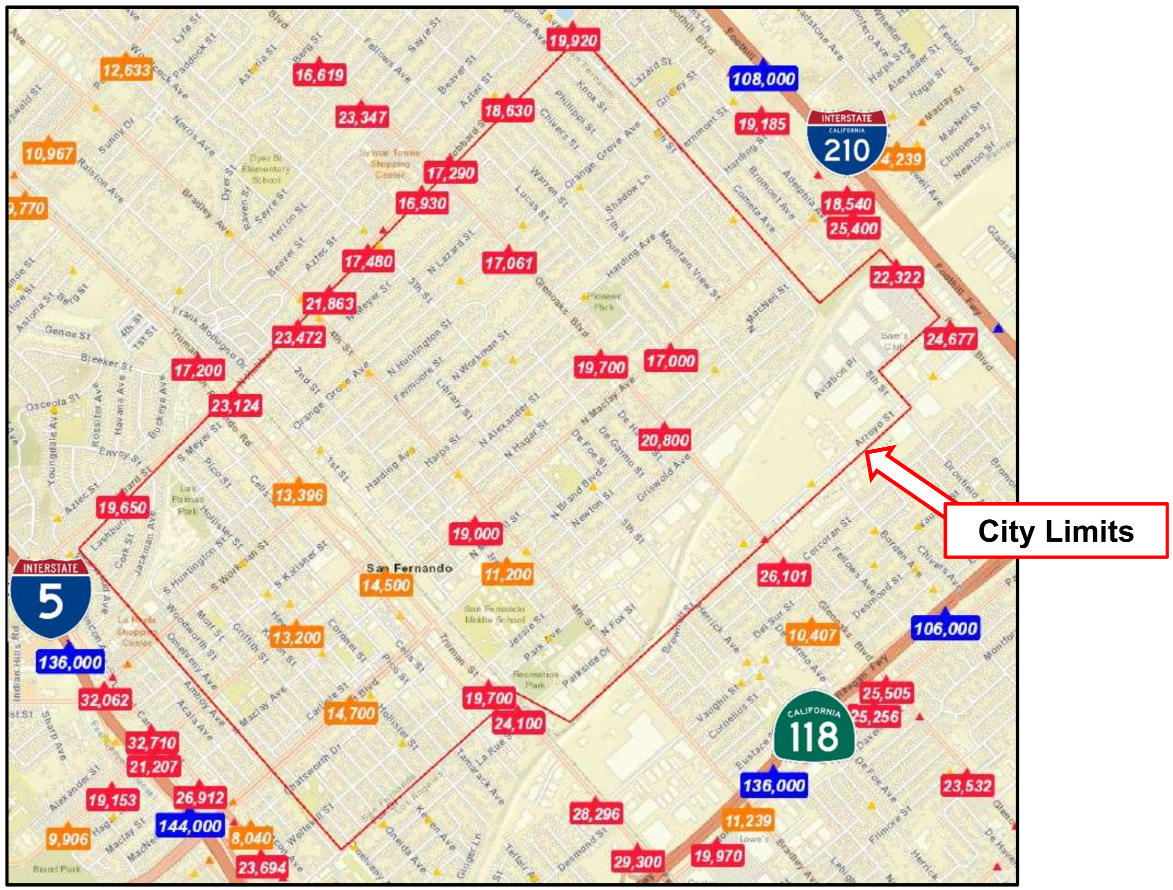
JOBS / HOUSING BALANCE

2018	City of San Fernando	County of Los Angeles	State of California
Employment	10,494	4,186,060	16,100,156
Households	6,190	3,369,650	13,336,104
Jobs / Housing Ratio	**1.70**	**1.24**	**1.21**

Source: ESRI (2018)

TRAFFIC MAP

CITY OF SAN FERNANDO



Source: ESRI (2018)

SUMMARY: UNEMPLOYMENT AND EMPLOYMENT BY INDUSTRY

- Kosmont analyzed the location of homes and job centers within the City. There is a high concentration of homes in the north and northeast portions of the City, while there is a strong concentration of jobs in the south and southeast portions of the City
- Historically, the City has **slightly lower unemployment** compared to Los Angeles County, but **slightly higher unemployment** than the State. Currently, the City's unemployment rate is only slightly lower than the County and higher than the State's unemployment rates
- Most workers in the City are employed in the following industries: manufacturing, accommodation and food services, wholesale trade, health care and social assistance, and construction
- A majority of employees who live in the City work in other areas including Los Angeles, Santa Clarita, Burbank, Glendale, and Simi Valley, yielding a **net outflow** of jobs; The net outflow of jobs indicates a lower daytime population in the City
- San Fernando's jobs/housing ratio is higher than the County and State ratios, indicating a possible need for more housing in the City

MARKET DEMAND ANALYSIS

RETAIL SALES SURPLUS / LEAKAGE

RETAIL SALES SURPLUS / LEAKAGE BY CATEGORY

CITY OF SAN FERNANDO

Retail Category	Retail Spending Potential	Retail Sales	Retail Surplus/ (Leakage)	Percent Surplus/ (Leakage)	Online Sales Leakage Potential
Shopper Goods (GAFO):					
Clothing & Clothing Accessories Stores	$11,986,064	$20,273,332	$8,287,268	69.1%	**High**
General Merchandise Stores	$27,404,381	$86,567,835	$59,163,454	215.9%	**Med**
Furniture & Home Furnishings Stores	$5,824,094	$24,970,625	$19,146,531	328.7%	**Med**
Health & Personal Care Stores	$10,730,748	$7,531,939	($3,198,809)	(29.8%)	**Med**
Sporting Goods, Hobby, Book & Music Stores	$5,341,570	$5,164,087	($177,483)	(3.3%)	**High**
Electronics & Appliance Stores	$6,067,450	$6,591,052	$523,602	8.6%	**High**
Miscellaneous Store Retailers	$5,724,463	$8,356,433	$2,631,970	46.0%	**Varies**
Subtotal – GAFO	**$73,078,770**	**$159,455,303**	**$86,376,533**	**118.2%**	
Convenience Goods:					
Food & Beverage Stores (Grocery)	$26,381,472	$68,555,324	$42,173,852	159.9%	**Low**
Food Services & Drinking Places (Restaurants)	$17,525,291	$41,824,553	$24,299,262	138.7%	**None**
Subtotal – Convenience	**$43,906,763**	**$110,379,877**	**$66,473,114**	**151.4%**	
Heavy Commercial Goods:					
Bldg Materials, Garden Equip. & Supply Stores	$8,783,401	$29,741,260	$20,957,859	238.6%	**Low**
Motor Vehicle & Parts Dealers	$31,809,880	$56,729,755	$24,919,875	78.3%	**Low**
Gasoline Stations	$14,664,876	$14,294,773	($370,103)	(2.5%)	**None**
Subtotal – Heavy Commercial	**$55,258,157**	**$100,765,788**	**$45,507,631**	**82.4%**	
Non-store Retailers	$4,628,832	$1,412,730	($3,216,102)	(69.5%)	**Varies**
Total Retail	**$176,872,522**	**$372,013,698**	**$195,141,176**	**110.3%**	

Source: ESRI, Infogroup (2018)