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**Real Estate and Economic Advisory**

***Renaissance Community Fund***  
**Revitalization & Development Projects**



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# **COMPETITIVENESS.**

*LOCAL GOVERNMENTS,  
IGNORE IT AT YOUR PERIL*

**Presented by:**

Larry Kosmont, CRE, President & CEO, Kosmont Companies

**Presented to:**

10th Annual Regional Economic Forecast Conference

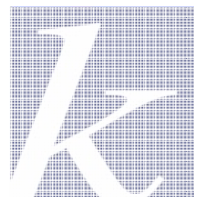
**SOUTHERN CALIFORNIA  
ASSOCIATION OF  
GOVERNMENTS**

March 9, 2006



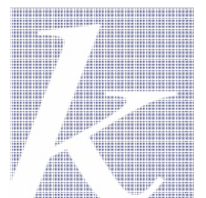
# The Middle Class is Changing Fundamentally

- **Traditional middle class employment** such as manufacturing is diminishing and shifting toward knowledge-based economy
- **Housing** is unaffordable for most people
- **The middle class is being forced to make a lifestyle choice** – longer commutes *or* smaller and denser dwellings closer to work



# California's Middle Class Has Depended on Manufacturing

- **Manufacturing jobs pay especially well.** On average, a manufacturing job pays almost *\$60,000* per year, well above California's median income of *\$37,000* (est.). Source: CA Dept of Finance, 2006; US Department of Labor, 2005.
- **Manufacturing jobs are the ticket to the middle class,** especially for California's growing Latino population. Therefore, loss of these jobs have the greatest impact on Latino families.
- ***BUT* -- California lost 261,000 manufacturing jobs** between July 1999 and October 2002 according to a 2004 Keystone Study
- ***AND* -- the CA legislature passes more bills that hurt manufacturing than help it,** according to the California Manufacturing and Technology Association (CMTA).



# California Has a Poor Business Reputation

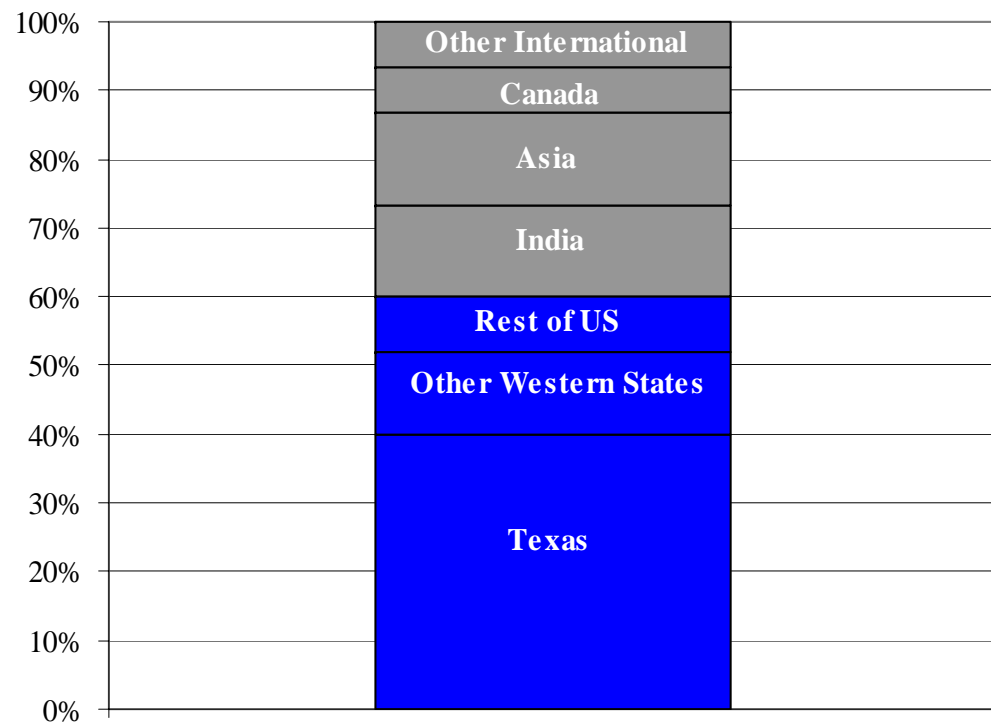
- **California is a High Cost State** according to the 2006 Kosmont – Rose Institute Cost of Doing Business Survey
- **Workers' compensation is still among the highest in the nation.** State legislature is inclined to expand benefits again
- **60%** of California business executives interviewed have policies to restrict job growth or move jobs out of state, according to the 2004 Bain study for the California Business Roundtable
- **20%** planned to expand or relocate out of state, according to a California Chamber of Commerce survey of State business leaders



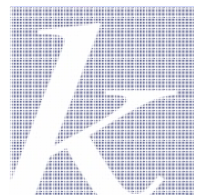
# Where are California's Middle-Class Jobs Going?

- 60 percent of California's overall employment losses were to other states
- Two-thirds of California's domestic losses went to Texas
- More jobs are going to Texas than China and India combined
- **BUT** – Cities compete *regionally* for firms and labor

Job Destination

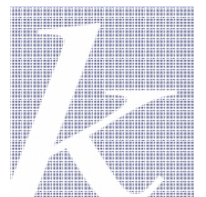


Source: California Competitiveness Project: Bain & Company 2004



# How Are Cities Involved?

- Two Primary Options for cities to raise revenues:
  1. A Vote of the People to Increase Taxes
  2. Economic Development
- Since Propositions 13, 62 and 218, new jobs and tax revenues have been created using:
  - Economic Development (Corporate Expansion, Retail Development, & Real Estate Projects) and
  - Fees imposed on business (easier target than residents)
- The State offers cities little or no help
- Today, local land use decisions are driven by the desire of cities and counties to gain tax revenue. There is little fiscal incentive to recruit or accommodate manufacturing -- and housing suffers as well.



# Kosmont – 2006 Rose Institute Cost Ratings: SoCal Cities over 100,000 pop.



**Employers have options locally, so competition is key.**

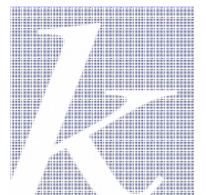


# Unaffordable Housing

Region / County	Median Price as of Dec 2006
<b>SOUTHERN CALIFORNIA</b>	\$552,474
Ventura	\$670,830
Orange	\$692,980
San Diego	\$585,970
Los Angeles	\$584,600
Riverside	\$424,730
San Bernardino	\$378,520
Source: California Association of Realtors, 2007	

Los Angeles County ranked last in affordability among the 202 largest metro areas in the US: Only 2% of households can afford a median priced home.

Source: California Building Industry Association, 2007



# Unaffordable Housing

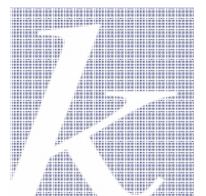
## 1. Inadequate supply of homes raises cost for middle class

- Housing is sitting on the market but still too expensive. There is not enough product at prices middle class Californians can afford.
- High housing cost creates high transportation costs. There is not sufficient housing supply close to job centers (West LA is a classic example)

## 2. Development Impact Fees are passed on to homeowners

The average single-family home in Western Riverside County can reach **\$70,000** in fees.

Source: California Building Industry Association, 2007



# Unaffordable Housing

## 3. Processing time is longer in California than in other states

- General Plan Amendment

- 1. Large Cities            2-3 years

- 2. Small Cities            1-2 years

- Zone Change

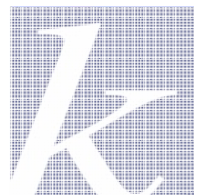
- 1. Large Cities            1-2 years

- 2. Small Cities            9-18 months

- Variance / CUP

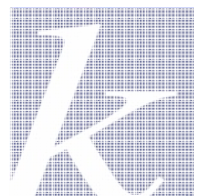
- 4 – 12+ months

Source: Kosmont Companies, 2007



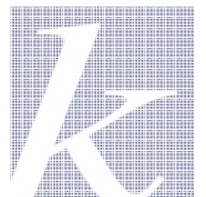
# What Cities Can Do To Compete

1. Strategies should be targeted and based on incentives rather than fees
2. Economic Development must incorporate multiple strategic programs (e.g. downtown revitalization *plus* job expansion)
3. Must have buy-in from elected leaders & term limits imply cities must act quickly



# What Cities Can Do To Compete?

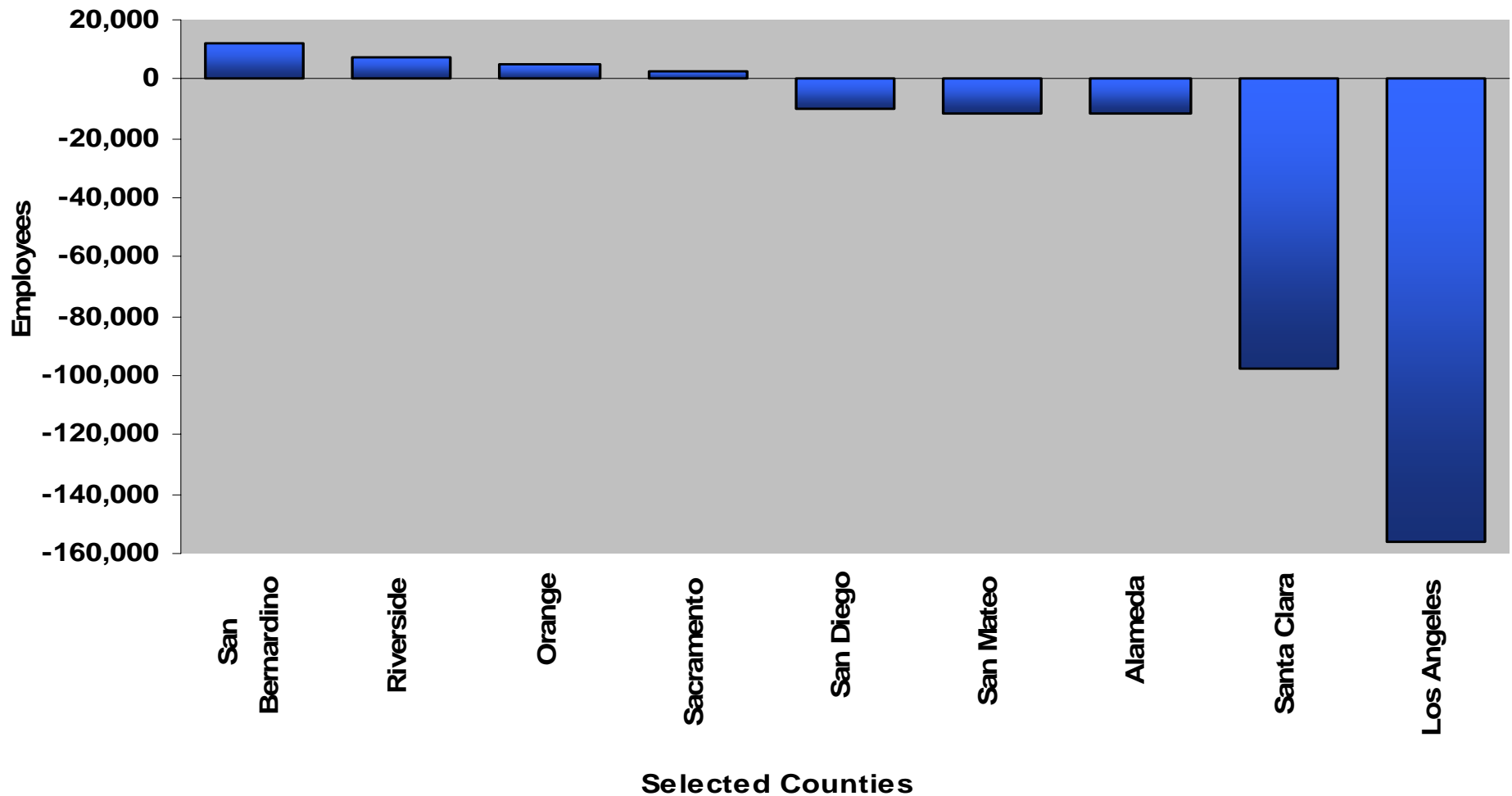
4. Carefully evaluate impact of business fees on local investment; focus on incentives to induce investment and compete with lower cost cities.
5. Take advantage of state bond money to make infrastructure upgrades that firms would find attractive.
6. Manage land resources with land use plans that accommodate industrial/commercial clusters relevant to the marketplace.



# *The Inland Empire is fit for A Different Breed of Company than the Coastal Cities*

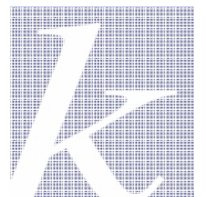
*Change in Manufacturing Employment in California*

*Selected Counties  
July, 1999 – October, 2002*



# What Cities Can Do To Compete

7. Reduce bureaucratic barriers to mixed-use and residential development, particularly for infill projects.
8. Strategically reduce impact fees just enough to stimulate development with long-term financial & community benefits as the goal.
9. Get moving on redevelopment agency projects because redevelopment as a tool is consistently diminished by legislation (e.g. dilution of condemnation powers likely).

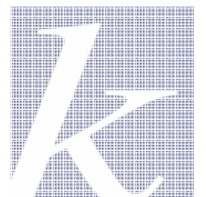


# New Economy. New Strategies.

Cities now competing for the new middle-class of “knowledge” workers who prefer:

- Variety of employment opportunities
- A Balance between work and personal life
- Diversity
- Creative and Innovative Cities
- High Tech
- Amenities (cultural, recreational, lifestyle)
- Environmental quality
- Sense of Place / Smart Growth

Source: Florida, R. (2002). *The Rise of the Creative Class*

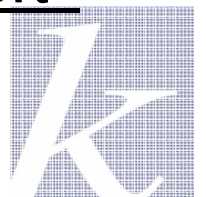


# How Can the State Help?

- California needs an omnibus affordable housing bill that would restructure redevelopment:

Change the RDA set aside from the current 20% to say 50% BUT with the increase going more toward middle class / workforce housing

- Proposed Legislation may help:
  - AB 723 & AB 1096– CEQA exemptions for affordable housing and urban infill housing
  - AB 1221 – Would allow cities and/or counties to use tax increment financing to develop Transit-Oriented Districts



*This Presentation is Available at*  
**[www.kosmont.com](http://www.kosmont.com)**

