business districts, inc. ▲ 627 grove street ▲ evanston, illinois 60201 ▲ 847 902 8152

Memo

To: David Lothspeich, Village Manager, Village of Long Grove

From: Terry Jenkins
Bridget Lane
Steve Qualkinbush

Date: October 2, 2003

RE: Commercial Sites Review

As part of Business Districts Inc.'s study of business mix enhancement in Long Grove four sites were identified as opportunities to expand the Village's business mix by attracting additional commercial development. Village staff indicated that in reviewing these sites, sales tax potentials are important to the Village but should be balanced by consideration of what commercial uses are needed for Village residents; whether existing or potential commercial uses can achieve the Village's quality vision; and how existing or potential uses impact on the whole Village's image. It should be noted that Long Grove expects to face a transition in Village funding sources in the next three to five years as full build out diminishes new home impact fees. Sales taxes are an obvious potential source to fill the expected funding gap.

In addition to reconnaissance visits, regional databases listing asking rents for retail and office properties were consulted to determine local market characteristics. The owners of the subject properties were not contacted.

General Market

The commercial real estate market in Long Grove is part of the retail and office cluster that has changed significantly with the opening and success of Deer Park Town Center. That center added over 400,000 square feet of store/restaurant space that has led the regional market with sales estimated to be $500 per square foot. Although the primary regional real estate impact of that center and nearby shadow development is domination of the local retail space market, it also has verified the strength of this area's retail drawing power. Deer Park has brought new customers to the edge of Long Grove. As the table below documents asking rents for available retail and office space in this market have remained strong despite the relatively weak Chicago retail and office space market.

site	address	size	estimated net rents
Retail			
Chase Plaza	Lake-Cook & Arlington Heights	86,170	$19.50
The Grove	Lake-Cook & 83	117,367	$19.10
Woodland Commons	400 Half Day	170,070	$11.18
Gateway Center	200 N Smith	25,000	$12.00
Downtown Long Grove		75,000	$20.00
Northwest Suburban Average			*$18.50*
Far Northwest Suburban Average			*$16.00*
Office			
Millbrook Business Center	485 Half Day	142,000	$18.50
Landmark Corp Center	3880 Salem Lake	21,135	$19.00
Deer Park	21925 Field Dr	91,864	$21.00
Northwest Suburban Average			*$14.50*

Source: The Metro Chicago Retail Space Guide, Spring 2002; Metro Chicago Office Space Guide, Fall 2002; CB Richard Ellis, Market Index Brief, Spring 2003.

The higher than average rents for both office and retail space illustrate the relative strength of this area's market. With development expenses as reported in the table that follows, these rents support market driven development

Per Square Foot	*9% Capitalization*
Net Rent (@10% vacancy)	$20.00
Investment	$222.22
Construction Costs	-$80.00
Design, financing, & fees	-$20.00
Tenant improvements	-$20.00
Site improvements	-$20.00
Land costs	$82.22
Sample One Acre Project	
Retail Square Footage	9,135
Land/Teardown Value	***$751,100***
Project Value	***$2,030,000***

Although regionally the market for new retail, restaurant and office development is weak, the limited commercial properties in the Long Grove area are attracting developer interest because developable land can be acquired for values consistent with the rent buildings on that property generate.

Development Constraints

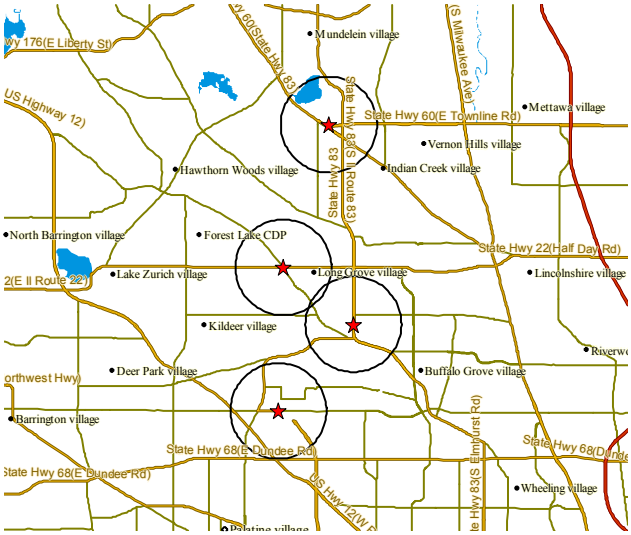
The Village of Long Grove has community supported policies that limit development possibilities. Although in many upscale communities denser residential development supports higher land vales than commercial development, this is not the case in Long Grove because the community's zoning permits only estate density residential and consequently, the value of land for residential development does not exceed its value for commercial development.

	Commercial	*Estate Residential*	*Townhome*	*Condominium*
Units per acre		1.25	6	16
Price per unit		$700,000	$500,000	350000
Project value		$875,000	$3,000,000	$5,600,000
Land value per developable acre	***$751,100***	***$262,500.0***	***$900,000.0***	***$1,680,000.0***

The actual value of commercial acres in Long Grove is not the $3/4 million suggested by this table because more than one acre must be purchased to provide a developable acre. The amount of development allowed on each commercial site is restricted by 100 foot scenic setback requirements, wet lands and soil conservation requirements. The resulting effect is a limit on the volume of by rights development on each acre in Long Grove. Some of these restrictions can be altered by planned unit development or annexation agreements.

Development Sites Overview

The four areas with commercial development possibilities identified for review are illustrated on this map by one-mile radius circles.



Traffic counts for key roads adjacent to these sites are strong.

Road	*Average Daily Traffic*
Route 22	18,400
Route 45	20,100
Route 83 (North)	31,500
Route 83 (South)	42,800
Lake Cook	41,600
Route 53	26,500

Since auto-oriented commercial projects generally thrive at average daily traffic counts above 20,000, there is substantial development opportunity for that type of project at these sites. Examples of auto oriented tenants include gas/mini-mart establishments, branch banks with drive throughs and quick serve restaurants. Auto-oriented developments generally take from one to three acres and have retail sales from zero for a bank to two or three million for each of the retail uses.

When there is a combination of a market nearing or exceeding 50,000 population and substantial average daily traffic counts, a site attracts market driven development of a grocery or drug store anchored neighborhood center. This table documents the characteristics of the market within a five-minute drive time of Long Grove's commercial development opportunities.

	Lake Cook & Route 53	*Route 83 & Robert Parker Coffin*	*Old McHenry & Route 22*	*Route 45 & Route 83*
Population 2002				
Total Population	66,778	46,859	32,409	53,118
Total Households	25,125	16,342	10,614	17,998
Average Household Size	2.66	2.83	3.07	2.95
Median Age Total Population	34	37	37	33
Household Income 2002				
Average Household Income	$84,016	$114,429	$129,537	$88,637
Median Household Income	$75,429	$100,863	$110,554	$86,984
Business Summary 2002				
Total Employees	23,097	18,605	14,194	30,987
Total Establishments	2,021	1,609	849	2,033
Consumer Expenditures 2002				
Total Retail Expenditures	$639,657,375	$519,479,496	$368,231,502	$476,209,082

Demographic data © 2002 by Experian/Applied Geographic Solutions.

With the exception of the site at Old Mc Henry and Route 22, each commercial development area meets the market threshold for a neighborhood center. That type of development would require at least 5 acres and could utilize up to 20 acres. Where there is enough land, a mixed use development approach could add office or residential at these sites.

The analysis that follows applies these general market development characteristics to the specific issues impacting each site.

Lake-Cook and Route 53

Property description:

This site is nearly 25 acres located on the northeast corner of Hicks Road which becomes Route 53 north of this intersection with Lake-Cook Road. Deer Park Town Center is a quick 1 ½ miles northwest of this site. There is a modest, unanchored strip center across the street containing independent retail and service uses. The last limited access interchange of Route 53 is directly to the east and Geimer Greenhouse is adjacent to the north. It is estimated that scenic setback requirements and wetlands would reduce the developable acreage by approximately 20% to 20 acres. Parcels across Hicks/53 to the west appear to contain even more wetlands and will be significantly more difficult to develop.

Potential uses:

This site's exceptional transportation access, proximity to Deer Park Center and size make it ideal for a high sales tax generating retail use. Using estimated floor area coverage ratios of approximately 17%, below the NIPC "Paint Your Town" planning value of 21% to account for Long Grove's more stringent landscaping requirements, this parcel could accommodate approximately 150,000 square feet of stores and restaurants. Typically in developments of this type, that space would be divided into a large user occupying 80,000 to 100,000 square feet and outlot developments with buildings of 3,000

to 15, 000 square feet. Assuming this development achieves the national sales average of $250 per square foot, a fully built out project of this type would provide sales of $37.5 million and Village sales tax revenue of $375,000. Depending on the actual tenants this development could generate higher numbers if it matches the success of Deer Park Center with its $500 per square foot sales. If outlot development includes drive throughs, the total square footage would be reduced but sales would remain the same.

The most likely users for this property include home improvement centers, value oriented mass merchandisers or grocery super centers. The most likely tenants are national versions of those businesses entering the Chicago market. Examples include Lowe's home centers, Meijhers or Kroger. Another possible tenant is a business relocating from nearby established markets where expansion of an existing store cannot be accommodated. Target and WalMart have made similar relocations in the area as has Menards. Sears recently announced its intention to create freestanding stores on the Kohls model and may consider this site because it intercepts Deer Park shoppers. The outlots would appeal to banks, quick serve restaurants and auto oriented uses.

Route 83 and Robert Parker Coffin Road

Property description:

This commercial development area is commonly referred to in the Village of Long Grove as the B-1a sites due to their zoning classification. Although it is four discrete parcels with more than four owners, the area is considered one site for this analysis because the parcels' development is interdependent and also individually and collectively impacts on existing downtown Long Grove.

The vacant land east of 83 between Route 53 and Aptakisic Road is nearly 30 vacant acres divided into two approximately equal parcels interrupted by an existing office development. The southern parcel appears to be relatively flat and dry and could be bisected by an extension of the signalized "T" intersection at Routes 53 and 83. The northern section appears to have significant wetlands and grade changes. To the east, both parcels border aging single family homes. Across Route 83 there is an existing development containing a bank and medical offices and a vacant 6¼ acres parcel. Access to this commercial development is not signalized for either Route 83 or 53. The existing development conforms to the Village's 100 foot scenic easement. Both buildings are well maintained although the bank is surplus property due to a merger that rendered much of its office space unnecessary. The third and fourth parcels are immediately adjacent to historic Downtown Long Grove. The fire station is on 1.75 acres south of the Village parking lot and west of the Fairview Lane subdivision. Across Old McHenry Road is 10 plus acres that has reportedly been assembled by one property owner. That site also is adjacent to downtown shops to the northwest and is bounded by Route 53 on the south. It presently contains a few aging houses of unknown historic value. There is a floodplain that would complicate development of this triangular parcel.

Potential uses:

This commercial development area occupies the land that is the southern gateway to Long Grove and particularly the historic central shopping district that has given Long Grove its distinctive regional image. As these parcels are considered for development, it is important for the Village to capitalize on the opportunity to provide wayfinding and gateway signage that enhances the business environment in its historic downtown. The exact nature and property demands to achieve that objective are beyond the scope of this review but must be considered before these sites are developed in a manner that precludes improving the quality of gateway and wayfinding signage. Ideally, gateway and wayfinding provisions would be part of a public private partnership that master plans development of this area and enhancements to the existing downtown.

The southern segment of the commercial development area east of Route 83 with its easily added signalized intersection appears to be ideal for a neighborhood serving shopping center. Although the parcel is nearly 15 acres, the need for significant buffering between development and the residential to the east, provision for internal access to the offices north of this section and enhanced landscaping requirements would likely reduce the developable land to approximately 12 acres. A development on that sized parcel could contain up to 100,000 square feet of neighborhood serving stores, services and restaurants with appropriate landscaping and parking. It is expected that the anchoring business would be a grocery store occupying approximately 60% of the total space. Additional uses might include a bank, dry cleaner, copy shop, pizza restaurant, coffee shop, hair care/day spa and consumer oriented office uses. Given the likely significant presence of non-sales tax generating services in this development, sales would likely be $12 to $15 million, generating $120,000 to $150,000 in sales taxes.

The northern section commercial development area east of Route 83 appears to have very limited commercial development possibilities due to its topography and wetlands. This could be a good site for a public use like the fire station or a park.

The land to the northwest of the intersection of Routes 53 and 83 has limited appeal for sales tax generating businesses because there is no signalized access. The medical office is well situated and should remain. The bank property is only a challenge because it is surplus. Its high visibility makes it an identity building and the Village would want to insure that a new user is appropriate to the Village's image since the business occupying this property will be associated with the image of Long Grove. This impact will be strengthened if the Village is able to provide the previously suggested gateway and wayfinding elements on this property. One intriguing alternative for the bank building is actively seeking a non-profit user that matches Long Grove's socially conscience and conservation oriented image or perhaps a public use like a branch library or Village Hall annex. Since that approach removes this property from the tax rolls, the Village would want to examine strategies for making the balance of the property a compensating higher value. As the value per acre calculation in an earlier section of this memo illustrates, allowing a carefully designed multi family development on this area's vacant land would provide that higher value to mitigate the property tax impact of a nonprofit use.

Authorizing additional floors with structured parking in an office development also could add value that would maintain the overall development's property value.

Although at 1.75 acres the fire station parcel is much smaller than the other B1a properties considered in this analysis, its location and the pending proposal to expand the fire station make careful consideration of the development options at this site critical. It is important to note that any option other than expanding the fire station on this site is only viable if the price paid for this property provides the fire station with enough funds to find another site and replace the existing station. The table below makes a simplified projection of the value of the fire station land as a component of various development scenarios. Note that the boxed column is ***not*** the amount the fire protection district could use to acquire and develop another site because there would be various land preparation and project costs that would be deducted from the value.

		FAR	*SQFT*	*Rent/ SQFT*	*Cap Rate*	*Per SQFT Value*	*Total Project Value*	*Building Value*	*Land Value*
1	**Retail**	20%	15,246	$25	10%	$250	$3,811,500	$1,829,520	$1,981,980
2	**Retail**	30%	22,869	$25	10%	$250	$5,717,250	$2,744,280	$2,972,970
3	**Office**	43%	32,779	$16	10%	$160	$5,244,624	$3,933,468	$1,311,156
4	**Office**	30%	22,869	$16	10%	$160	$3,659,040	$2,744,280	$914,760
			units			*$/unit*	*Total Project Value*		*Land Value*
5	**Residential**		2			$750,000	$1,500,000		$450,000
6	**Residential**		10			$500,000	$5,000,000		$1,500,000

Since under current zoning B1a areas have limited allowed uses, the Village's decision on a special use or planned unit development ultimately will determine which value is possible. The Village also can greatly influence any project's layout by combining this site with the adjacent Village owned parking lot to offer more options for the configuration of building, open space and parking. If the property were developed to the 20% FAR density, the probable uses would be restaurants generating approximately $3.5 million in sales and therefore sales tax revenue to the Village of approximately $35,000. Under the denser, 30% floor area ratio (FAR), there might be a small format grocery store or another destination retailer like The Studio or Red Oaks. Depending on the use, the sales could be $5 to $8 million and sales tax revenue $50,000 to $80,000.

The land within the triangle bounded by Route 53, Old Mc Henry Road and Buffalo Creek is another important opportunity to provide a gateway and wayfinding to Downtown Long Grove. Because this property reportedly has floodplain and wetlands, it has not been precisely established how large the developable acreage is. This property is subject to 100 foot scenic easements along both Old McHenry and Route 53 further reducing its developable acreage. Assuming the developable land is from 5 to 7 acres, building retail space at a 20% or 30% FAR could provide these revenues to the Village.

	Acres	SQFT	Sales	Sales Tax Revenue
20% FAR	5	43,560	$10,890,000	$108,900
30% FAR	5	65,340	$16,335,000	$163,350
20% FAR	7	60,984	$15,246,000	$152,460
30% FAR	7	91,476	$22,869,000	$228,690

The tenants and configuration of this space could follow two very different options. As at the previously analyzed B1a parcel at the northeast corner of Routes 83 and 53, this property could be developed as a grocery anchored neighborhood center. Alternatively, it could be an expansion of the specialty retail offered in the adjacent Downtown Long Grove buildings. Under that configuration, the new tenants would be a mix of restaurants and additional boutiques in 5,000 to 10,000 square foot buildings that sensitively fit the scale and appearance of the existing downtown.

Old Mc Henry and Route 22

Property description:

This property is 19.4 acres that wrap around the northwest corner of Old Mc Henry and Route 22. Staff reports that the annexation agreement that added this property to the Village does not require the 100 foot scenic easement. The interior of this site is a Village owned property purchased to preserve its high quality natural features. There is a children's Day Camp across Old Mc Henry, Kemper Lakes Golf Course is nearby to the west and the land across Route 22 is dry, flat agricultural fields.

Potential uses:

This intersection provides an opportunity for commercial developers to capitalize on Route 22's role as a major commuter thoroughfare. Although today's traffic counts fall slightly short of the hurdle for auto oriented development, planned new housing promises to increase those counts very soon. The challenge in developing this site is providing for protection of the soil and wetlands in the development design. Those provisions will make it more expensive than the dry flat land across Route 22 to the south. That land also will be better suited to development that serves commuters because it is right-in-right-out for cars going east in the morning. Development on the identified parcel will complicate the intersection of Old Mc Henry and Route 22 as morning commuters make left turns in and out. Requiring detailed traffic studies will be crucial to achieving the best possible development of this site. If this land is developed commercially, it potentially could contain two auto oriented centers of approximately 60,000 square feet each facing a major road. Likely uses would include banks, coffee shops, convenience stores, hair care, dry cleaners, small offices, day care and quick serve or casual restaurants. Because a significant percentage of the uses in this type of center are not sales tax producing the estimated revenue to the Village would be $100,000 lower than that expected from other 120,000 square foot development opportunities in Long Grove.

Route 45 and 83

Property description:

This property is at the northern border of Long Grove and consists of a series of relatively small lots across from and adjacent to auto serving and auto oriented development in Mundelein.

Potential uses:

None of these parcels appears large enough to generate significant revenue for the Village. Ultimately each parcel would be expected to contain a business or small multi-tenant development. Since this is the northern boundary of Long Grove, it would be appropriate for the Village to place gateway signage at this intersection.

Recommendations

BDI was not asked to analyze the interest of property owners in redevelopment or to evaluate the viability of existing businesses at any of these sites. The focus of this review was on how the various development possibilities could enhance the revenue and business mix of Long Grove. Within that context, the following recommendations are offered:

- The site at Lake Cook Road and Hicks/53 represents the best opportunity for the Village to greatly increase its sales tax revenue. The potential for significant revenue is also an opportunity for the Village to partner with the owner of the property in sharing extraordinary costs incurred to achieve development standards higher than those that might be imposed by nearby communities. Because "speed to market" is critical to developers, the village needs to act quickly in communicating with the owner/developer of this property.
- The B1a sites need a coordinated master plan to set development policies and procedures that are mutually beneficial to all sites. Although these properties were last analyzed as recently as 1999, there have been significant changes in the market due to Deer Park and the protracted national economic slump. If the property owners are supportive, the end product of a current plan could be as aggressive as a request for proposals seeking a master developer to improve the properties in a coordinated way. Without such a plan, each time a development is proposed for these properties, an evaluation of its impact on the nearby opportunities will be necessary. That incremental analysis promises to lengthen the Village's review process and frustrate potential investors.
- The Village should continue to deliberate carefully as it considers proposals for the commercial areas at Old Mc Henry and Route 22 and Routes 83 and 45. Their surrounding markets are growing and consequently improving so development interest will continue while the strengthening market offer the promise of higher sales volumes to justify spending more for enhanced design.

Summary

This analysis by Business Districts, Inc. has been guided by the existing and near term market for retail, residential and office, the documented behavior of retailers, the existing conditions, and the overriding Village desire for quality development. In the opinion of BDI, a "do nothing" strategy which merely reacts to proposals to guide development is not as desirable as strategy that seeks to approach owners of key parcels and share the responsibility for maximizing the quality of development.

BDI submits this document in response to our agreement and is ready to answer any questions that you, the political leaders or key stakeholders in the Village may have.