



Memo

To: **DTOP Sub Area Plan Steering Committee**
From: Business Districts, Inc.
CC: Andrea Terry, Ken Busse, Lisa Lyon
Date: 10/10/2005
Re: Executive Summary of BDI Analysis

Executive Summary

Scope

The Village of Oak Park is considering proposals for redevelopment of the “superblock” an area bounded by Harlem Avenue on the west, Lake Street on the north, Marion Street on the east, and North Boulevard on the south. Specifically the Village has a November 1, 2005 deadline in a “Put/Call” agreement with the Taxman Corporation that requires the Village to allow redevelopment of the Colt Building or pay approximately \$4.9 Million to acquire the building. BDI was retained to provide the Downtown Oak Park Superblock Planning Committee with information on the marketability of space contained in the Colt Building, to describe by type and operating economics businesses that could occupy those spaces, and, working with an architect, to estimate the investment economics of rehabilitation and redevelopment scenarios. The information that follows summarizes the content of two public presentations on those topics made on September 20 and September 27.

Market Facts

- The demographics of the population living within a 5-minute drive time of the Colt Building are not a constraint on the tenanting of any building on the property. Important characteristics of that market include:
 - Population over 300,000
 - Nearly 30,000 households with incomes over \$75,000
 - Total spending power over \$2 Billion
 - Over 80,000 employees
- The shopping centers within a 5-mile radius, North Riverside Mall, Brickyard and Harlem Irving Plaza, are all mid-market targeted. This competitive environment points to an opportunity to offer more upscale shopping on the superblock as is happening across Harlem in River Forest. The 5-mile radius was chosen as the competitive area because it is typically the area where tenants of existing shopping clusters are restricted from opening another store.
- Gross rents for new store and restaurant space in the Oak Park River Forest area are as high as \$43 per square foot.

- Gross Rents for store and restaurant space in vintage Downtown Oak Park buildings range from \$16 to \$25 per square foot.
- The preservation of historic buildings throughout Downtown Oak Park will offer the opportunity to mix upscale, national stores and restaurants with unique local businesses as has happened in Downtown Naperville.
- The residential condominium market in the superbloc area is particularly strong. New residences nearby in Oak Park are selling for approximately \$275 per square foot.
- Although office is overbuilt nationally, Oak Park still has a relatively strong market due to its excellent access and executive housing. Office gross rents for vintage buildings range from \$13 to \$24 per square foot depending on the building amenities. There are no newly constructed office buildings in the market.

Building Facts

- The Colt Building contains 54,077 square feet of space. Only about 10% of the space faces Lake Street on the ground floor and therefore can command the higher rents associated with stores and restaurants.
- The current 32% vacancy rate can partially be explained by the Colt Building's uncertain future. Tenants are unwilling to invest in the costs of moving into the Colt Building with the "put/call option" unresolved.
- If it is assumed that the building in its current condition could reduce its vacancy level to the 5% more typical of similar buildings in this market, the associated income stream of \$398,000 would be an 8% return on an investment of approximately \$5 Million.

Investment Return

In cooperation with a preservation architect, BDI developed three possible scenarios for the future of the Colt Building.

1. A facelift where the Colt Building undergoes the minimum rehab necessary to attract high quality retail tenants and to improve its overall contribution to the Downtown Oak Park business environment.
2. A historic rehabilitation that returns the Colt Building to its original arcade configuration and results in two separate buildings.
3. A redevelopment to the density entitled by existing zoning.

All of these configurations assume that necessary additional parking would be constructed off site because the site currently does not offer parking and it is not expected to offer any public parking in any redevelopment scenario.

- The facelift option would have a minimum gap of \$700,000 between the costs of completing the renovation and the value of the income stream from an optimistic projection of tenant revenue.
- The historic rehabilitation would have a minimum gap of \$2.4 between the costs of completing the historic rehabilitation and the value of the income stream from an optimistic projection of tenant revenue.
- The redevelopment would provide a return of \$3.4 million on an investment of \$24.3 Million, a return of just under 14%.
- Property taxes and therefore Tax Increment Financing (TIF) revenue would differ greatly under the values associated with building each scenario.
 - Colt Property value after facelift: \$7.3 Million
 - Colt Property value after historic rehabilitation: \$7.8 Million
 - Colt Property value after redevelopment: \$27.7 Million

Other Considerations

- The upper stories of the existing Colt Building cannot be reconfigured for residential use and maintain historic integrity because it originally only had windows facing north and south.

- The positioning of a new north south street on either side of the Colt Building would not be historically accurate. It would be particularly inappropriate if the arcade were reopened as proposed in the historic rehabilitation.
- The analysis took an optimistic look at the possibilities under all scenarios to make the resulting analyses comparable. It is likely that the facelift and historic rehabilitation would cause greater gaps and that the redevelopment would result in a different yet still profitable return.

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 that enhances the Village's revenue base. For additional information, attachments are provided that combine the two PowerPoint presentations to remove duplication and address the committee members' concerns that arose following the September 27 presentation. BDI is ready to answer any questions that you, the elected officials or the residents of Oak Park may have.

DTOP Sub Area Plan Steering Committee Meeting

Colt Building Update
September 20, 2005



Today's Goals

- Establish as shared knowledge base
 - Development Concepts
 - Market Strength
 - Investment Economics
- Present Preliminary Building Economics



Development Concepts

- Uncertainty causes vacancy
- Operating costs trump development costs

	Actual Weak	Expected	Actual Strong	Location Change
Sales	\$400,000	\$500,000	\$600,000	\$600,000
Merchandise Cost	\$200,000	\$250,000	\$300,000	\$300,000
Gross Margin	\$200,000	\$250,000	\$300,000	\$300,000
Rent	\$50,000	\$50,000	\$50,000	\$75,000
Salaries	\$100,000	\$100,000	\$100,000	\$100,000
Supplies	\$20,000	\$25,000	\$30,000	\$30,000
Reserve for repair	\$12,500	\$12,500	\$12,500	\$12,500
Advertising	\$25,000	\$25,000	\$25,000	\$25,000
ROI, Taxes & Profit	-\$7,500	\$37,500	\$82,500	\$57,500

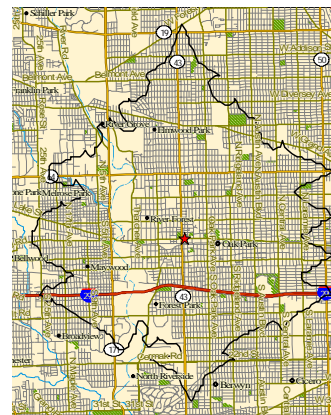


Market Strength

5-Minute Drive Time Market

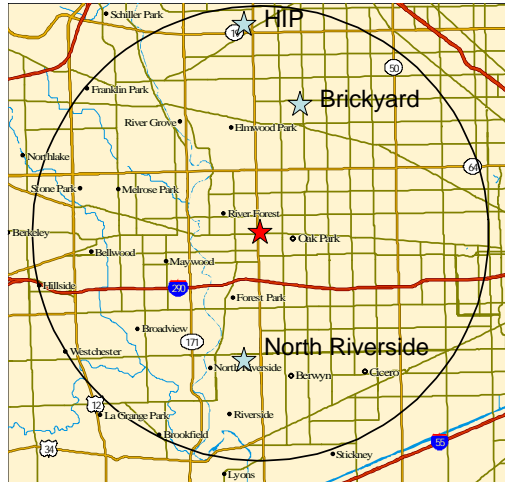
Population	300,790
Household Average Income	\$67,405
Income \$75,000 Plus	29,342
Total Employees	82,656
Total Retail Expenditure	\$2,271,640,067

Demographic data © 2004 by Experian/Applied Geographic Solutions.



The market is not a development constraint.

Market Strength



- Lease Restricted Market
 - 2nd store unlikely to be opened within 5-miles
 - Convenience stores and quick restaurants will open nearer
 - Clusters with tenant conflicts
 - HIP
 - Brickyard
 - North Riverside
 - Points to upscale target



Investment Economics

- Gross Rent
 - Vintage Stores and Restaurants: \$16 to \$25
 - New Stores and Restaurants: Up to \$43
 - Vintage Office: \$13 to 22
 - New Office: Not likely



Investment Economics

- Commercial Property Taxes
 - Vintage \$4 per SQFT
 - New \$6 per SQFT
- Commercial Expenses
 - 2% Maintenance
 - 4% Management
- Capitalization Rates (Expected Return)
 - 7% on Credit Tenant Leased New Building
 - 8% on solid vintage building
- Residential Condominiums
 - Sizes 700 to 3,000 SQFT plus balconies
 - Current product is selling for an average of \$275 per SQFT



Colt Building

• Current Lease Rate

<i>Floor</i>	<i>SQFT</i>	<i>Gross Rent</i>	<i>Net Rent</i>
Basement	16,221	\$13.00	\$4.00
Lake	5,036	\$25.00	\$16.00
Westgate	13,699	\$22.00	\$13.00
2nd Floor	19,121	\$14.00	\$5.00
Total	54,077		

Assumptions

Expenses	\$5.00
Taxes	\$4.00
Cap Rate	8.0%
Typical Vacancy	5%

• Implied Value

<i>Floor</i>	<i>Fully Leased Net Income</i>	<i>Occupancy</i>	<i>Net Income</i>	<i>Typical Vacancy</i>
Basement	\$64,884	33%	\$21,412	\$61,640
Lake	\$80,576	75%	\$60,432	\$76,547
Westgate	\$178,087	75%	\$133,565	\$169,183
2nd Floor	\$95,605	90%	\$86,045	\$90,825
Total	\$419,152		\$301,453	\$398,194



Value	\$5,239,400	\$3,768,168	\$4,977,430
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Three Scenarios

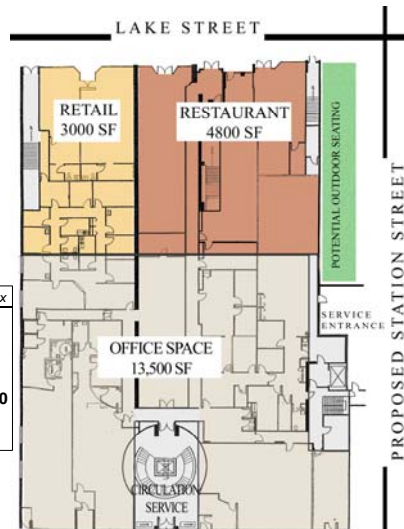
- Facelift
 - Make improvements that address deferred maintenance
 - Make changes that would make the spaces more likely to attract more desirable ground floor tenants
- Historic Rehabilitation
 - Return the building as closely as possible to its original appearance
 - Undertake unnoticeable changes to make space appeal to modern tenants
- Redevelopment
 - Demolish structure and construct modern building



Facelift

- Ground Floor
 - Redesign to allow for two larger spaces
 - Improve Lake Street facade
 - Add windows on Station Street
- Adjusted Value

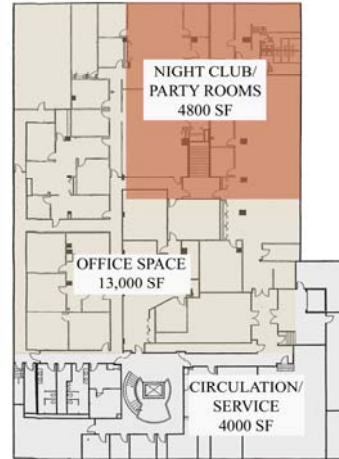
	Space 1	Space 2	Office	Total	Sales Tax
Size	4800	3000	13,500	21300	
Net Rent	\$26.00	\$26.00	\$13.00		
Annual	\$124,800	\$78,000	\$175,500	\$378,300	
Sales/sf	\$412	\$417			
Sales	\$1,979,520	\$1,251,000	\$3,230,520	\$64,610	
Gross Value				\$4,728,750	
Net Value				\$4,492,313	



Facelift

- Basement
 - Use space under the potential restaurant
 - Continue office uses
- Adjusted Value

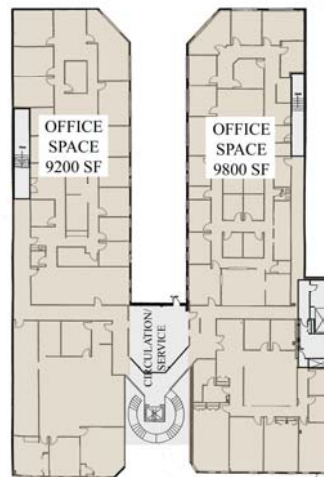
	Space 1	Space 2	Total	Sales Tax
Size	4,800	13,000	17,800	
Net Rent	\$11.00	\$4.00		
Annual	\$52,800	\$52,000	\$104,800	
Sales/sf	\$250			
Sales	\$1,200,000			\$24,000
Gross Value	\$660,000	\$650,000	\$1,310,000	
Net Value			\$1,244,500	



Facelift

- 2nd Floor
 - Remain office
 - Improvements in building systems
 - Perhaps “Class B”
- Adjusted Value

	Total
Size	19000
Rent	\$7.00
Annual	\$133,000
Gross Value	\$1,662,500
Net Value	\$1,579,375



Additional Considerations

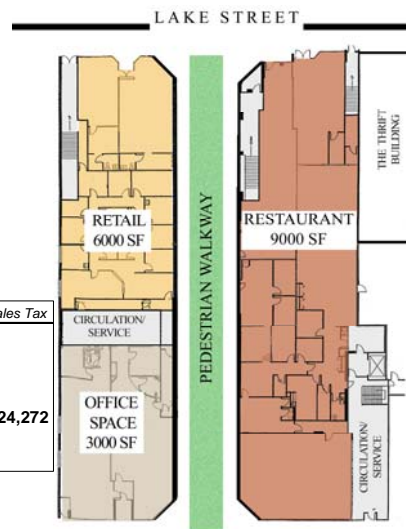
- Tenants not design are the key
- Station Street frontage is not likely to be active unless facing building significantly changes
- Residential
 - generally considered incompatible with evening focused dining/entertainment
 - requires windows or must be huge lofts
 - complicates financing unless rental
- Rough Investment Analysis
 - Costs:
 - \$4.9 Million (Put/Call)
 - \$3.1 million Construction
 - \$?? Soft Costs
 - **\$8 Million+ Total**
 - Rough Value Estimate:
 - \$4.5 Million Ground Floor
 - \$1.2 Million Basement
 - \$1.6 Million 2nd Floor
 - **\$7.3 Million Total**
 - Gap
 - **\$700,000**



Historic Rehabilitation

- Ground Floor
 - Restore Pedestrian Walkway allow outdoor dining
 - Restore limestone facades
 - Make improvements to modernize building systems
- Adjusted Value

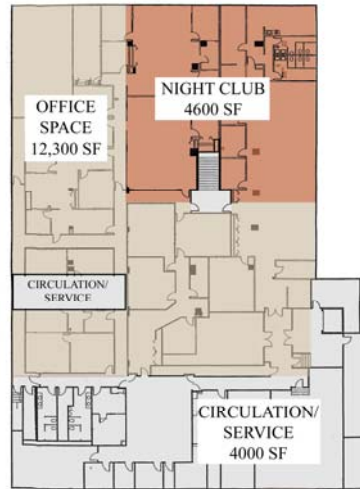
	Space 1	Space 2	Office	Total	Sales Tax
Size	9000	6000	3,000	18000	
Net Rent	\$26.00	\$26.00	\$13.00		
Annual	\$234,000	\$156,000	\$39,000	\$429,000	
Sales/sf	\$412	\$417			
Sales	\$3,711,600	\$2,502,000	\$6,213,600		\$124,272
Gross Value				\$5,362,500	
Net Value				\$5,094,375	



Historic Rehabilitation

- Basement
 - Additional restaurant space
 - Additional circulation for separated building
- Adjusted Value

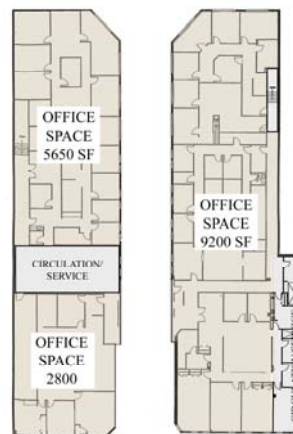
	Space 1	Space 2	Total	Sales Tax
Size	4600	12300	19000	
Rent	\$11.00	\$4.00		
Annual	\$50,600	\$49,200	\$99,800	
Sales/sf	\$250			
Sales	\$1,150,000		\$1,150,000	\$23,000
Gross Value	\$632,500	\$615,000	\$1,247,500	
Net Value			\$1,185,125	



Historic Rehabilitation

- 2nd Floor
 - Continues as office
 - Space lost to add second access due to building separation
- Adjusted Value

	Total
Size	17650
Rent	\$7.00
Annual	\$123,550
Gross Value	\$1,544,375
Net Value	\$1,467,156



Additional Considerations

- Tenants not design are the key
- Station Street would be inappropriate
- Rough Investment Analysis
 - Costs:
 - \$4.9 Million (Put/Call)
 - \$5.3 Construction
 - \$?? Soft Costs
 - **\$10.2+ Million Total**
 - Rough Value Estimate:
 - \$5.1 Million Ground Floor
 - \$1.2 Million Basement
 - \$1.5 Million 2nd Floor
 - **\$7.8 Million Total**
 - Gap
 - **\$2.4 Million**



Redevelopment

- No Station Street, enhanced western entrance
- 5-stories and underground parking for residential
- Significant "terracing"
- Assumptions
 - 30,130 sf of land
 - 29 residential units
 - 2,500 sf average units
 - 2 parking spaces per unit
 - Residential sales price \$280 per sf
 - \$175 per sf residential cost
 - \$145 per sf commercial cost
 - \$25 per sf soft costs
 - \$18,000 per parking space



Redevelopment

Ground Floor

- No restaurant tenants
- Decorative accessories or apparel
- Two Lake retail spaces
- One Westgate office
- Attractive residential lobby
- Enclosed service for all uses

	<i>Unit 1</i>	<i>Unit 2</i>	<i>Office</i>	<i>Other</i>	<i>Total</i>
Size	7,800	7,800	5,000	5,011	25,611
Net Rent	\$29.55	\$29.55	\$11.55		
Annual	\$230,490	\$230,490	\$57,750		\$518,730
Sales/sf	\$500	\$500			
Annual Sales	\$3,900,000	\$3,900,000			\$7,800,000
Annual Sales Tax	\$78,000	\$78,000			\$156,000
Value					\$7,410,429
Less 5% Vacancy					\$7,039,907
Hard Costs					\$2,987,000
Soft Costs					\$515,000
Contribution					\$3,537,907



Redevelopment

Residential

• Residential

- High ceilings
- 2-8 units per floor
- Terrace
 - Possible volume: 120,520
 - 29 units volume: 72,500
 - Step back/terrace: 48,020
- Upscale finishes

• Value

Units	29
Unit Price	\$700,000
Total Value	\$20,300,000
Construction Cost	\$12,687,500
Soft Costs	\$1,812,500
Parking	\$1,044,000
Contribution	\$4,756,000



Additional Considerations

- Tenants not design are the key
- Equity residential brings significant tax implications
- Incorrect to view in isolation from balance of the project
- Rough Investment Analysis
 - Costs:
 - \$4.9 Million (Put/Call)
 - \$500,000 Demolition
 - \$16.6 Million Construction
 - \$2.3 Million Soft Costs
 - \$?? Additional Parking
 - **\$24.3+ Total**
 - Rough Value Estimate:
 - \$7.4 Million Ground Floor
 - \$20.3 Million Residential
 - **\$27.7 Million Total**
 - Return
 - \$3.4 Million



Investment Analysis Summary

	<i>Cost</i>	<i>Value</i>	<i>Sales Tax</i>	<i>Net</i>
Facelift	\$8 Million	\$7.3 Million	\$88,000	-\$700,000
Historic Rehab	\$10.2 Million	\$7.8 Million	\$147,000	-\$2.4 Million
Redevelopment	\$24.3 Million	\$27.7 Million	\$156,000	\$3.4 Million

Caution: It is very dangerous to consider only one piece of the super block!



Next Steps

- Determine the three scenarios' impact on overall Downtown Plan
- Make a recommendation on Colt Building
- Consider “dominos”
- Prepare construction mitigation plan





Memo

To: **DTOP Sub Area Plan Steering Committee**
From: Business Districts, Inc.
CC: Andrea Terry, Ken Busse, Lisa Lyon
Date: 10/3/2005
Re: Answers to questions following 9-27-05 meeting

Thank-you for this opportunity to clarify issues that arose after the very information intensive meeting last week.

1. What is the level of exterior and interior improvements/upgrades under the “facelift” plan? Would the interior be redone to improve the rentability of the space? Would the Lake exterior be restored to its original stone appearance? Would either the east or west side be remodeled to add retail frontage and improve its appearance (this anticipates a new street or pedway on one side or the other)? Would mechanical systems be upgraded?

In discussion with Bauer Latoza Studio, we envisioned that the facelift would cover rehabbing the ground floor façade and reconfiguring the interior to accommodate two entrances. This would include a restoration to the original limestone. We struggled with how to portray the issue of “Station Street” at this level of analysis and made the choice to only portray it in the facelift option. In our opinion, that focused attention on the east facing façade and the rough cost estimate did include adding window/door openings that would allow outdoor dining along that façade, a key element to attracting a restaurant use. With the extra time and information from Tuesday’s presentation, it appears that Station Street creates so many issues that we probably should have avoided it in all of our analysis and assumed a party wall to the east. That choice would have little impact on the very rough cost analysis because the restaurant use would merely move to the west as would the window/door openings. A mechanical systems upgrade is included in the estimate.

2. I’m not sure I buy the proposed uses of the “facelift” Colt Building plan. We may be better served getting more realistic rent rates rather than large scale restaurants with basement night clubs. I also stand by my question last night that if we want to encourage retail use on Westgate, we should see sales tax generating businesses on the Westgate side. Obviously, the center stair court and perhaps some frontage would need to be non-retail, but more than half of the 1st floor is shown as non-retail. One idea that has come up is opening retail frontage along the east or west sides. The consultant noted the east side is not very conducive to that, but the west side is a pedway now and seems it could get a facelift and storefronts.

There are numerous options for tenating the ground floor of the Colt Building. In choosing one alternative to analyze, BDI relied on a perception that the Village would only want to preserve the Colt Building if there were a way to enhance the quality of its tenants. There are high quality, high rent tenants in many vintage buildings throughout the United States including the Chicago suburbs and many of them are restaurants—the models we considered are in Libertyville and West Dundee. Other uses that often prefer vintage buildings with unique interior features are interior designer showcases and specialty apparel. In keeping with a choice to present the optimistic scenario, BDI chose the restaurant use because it typically pays the highest rent and brings the most customer traffic, two criteria for increased vitality. When large restaurant/bars occupy these vintage buildings, providing service—deliveries, dumpsters, ventilation, and grease traps—is challenging. If we maximize the Lake Street frontage and create west side outdoor space and a party wall connects the building on the east side that service must be off Westgate. This configuration further minimized the quality of the Westgate space. If another use with lower service demands occupies the Lake street space, the revenue from the southwest space could certainly increase but the revenue from the spaces now labeled for retail would decline. The net impact is not likely to significantly change the total revenue stream from the building.

3. Are there any good and feasible ideas for the basement of the Colt Building? Taxman noted that it's hard to rent for office since there are no windows. Borders uses the basement for retail. Is that feasible for other retailers? Any other use that would thrive in a windowless environment?

As you point out, basements can be used in combination with the ground floor by any retailer with an operation that requires a large format. Area required for the stairway and elevators dedicated solely to retail customers that make the basement work as additional selling space means that the floor footprint must be relatively large. Restaurants place party rooms, wine cellars and public facilities in basements (think of the Berghoff in the Loop) What makes basement space thrive is its role as an extension of the successful ground floor concept.

4. I'm admittedly a little confused on the results of their financial study. It seems that the study conclusions are based on the value of the building now compared to the post-rehab value. In other words, can a developer buy the building, rehab it and rent it and then sell it for profit? Is that accurate? If so, why wouldn't we also review the costs to rehab compared to the return on investment with monthly income if the owner held the property for a reasonable term. What would be the monthly/yearly income compared to the expenses and financing costs?

The presentation PDF forwarded to the committee was in black and white so the fact that both the facelift and historic rehabilitation returns were negative (in red in the original) is not as obvious as it should be. Using the most optimist rental scenario possible, the facelift loses at least \$700,000 and the historic rehab loses at least \$2.4 million. Since the redevelop to allowed density scenario makes \$3.4 million, the variation in value between redevelop and retain existing Colt Building is at least \$4 million.

5. I'd like to know what kind of financial gap, if any, would be required to fill under the "facelift" and "restore the arcade" scenarios. It's not uncommon for such gaps to occur on historic projects. These are often filled by the 20% tax credits, TIF allocations or other means. I've worked on several projects in which the client (developer) depends on such funding to make the project work (BIG – high profile projects).

If one assumes that the value of the Colt Building is its potential positive contribution to the value of the super block redevelopment, estimated at \$3.4 million, then the "gap" if the facelift is chosen is estimated at \$4.1 million. (\$3.4 million combined with the negative \$700,000 return estimated for that scenario). Using similar assumptions for the historic rehabilitation scenario, its gap is \$5.8 million.

Filling the gap could involve using 20% tax credits if the rehabilitation meets the guidelines for that program. Important preliminary considerations to maximize the value of tax credits are a need for the building to be listed as a national or local historic property, the requirement that the rehab provide historic accuracy that would likely be more expensive than the cost used in the rehabilitation scenario analysis, and the need for a private owner to apply for the credits. Using a very optimistic assumption that all of the \$5.3 million estimated as construction costs for the rehabilitation scenario was eligible for credit, the reduction in the gap would be just over \$1 million. (20% of \$5.3 million) That would still leave a "gap" of nearly \$5 million. It is unlikely that Historic Rehabilitation tax credit could be used for the facelift since that scenario does not include tax credit eligible costs associated with historic accuracy. It may be possible to reduce the facelift or rehabilitation gap as a component of the overall super block development by giving density bonuses that add value to other property. That is one reason why it is important to consider the Colt Building as a component of the whole redevelopment. Would the Committee recommend a 10 or 12 story residential building rather than a 7 story one to compensate a developer for the cost of rehabbing the Colt Building?

6. One comment about filling the building with national retailers is their demand for parking. How would a nearby public parking garage affect that issue? As the consultant said, we can't consider the Colt building in a vacuum and one of the major plan components is to get a parking garage in this area. Would this help or do national retailers simply require surface, next-to-door parking? How have other communities integrated other national chains into their downtowns?

Any high volume retailer whether national or local, requires more parking than a low volume retailer. All of the Colt Building scenarios outlined last Tuesday require more parking than is currently available in the immediate area. Only certain retailers where shopping carts are used (think Trader Joe's, Whole Food, Home Depot) try really hard to find surface, next door parking. Even those retailers will accept structure if cart access is created. (Think Target in Harlem Irving Plaza and Whole Foods in Evanston.) All retailers want "teaser" parking, perhaps 10% of the total demand, as surface parking. That parking gives the perception that there is ample parking and if one is "lucky," that perfect space will be available.

Evanston and Naperville two suburbs known for national tenants rely heavily on garages to satisfy their parking needs. Although initially the independent retailers in Evanston opposed national retailers, they now are strong supporters of an ownership mix. Rather than driving the independents out, the nationals brought so much advertising and new customers that the preexisting independents have increased sales.

BDI hopes that this information helps to clarify the committee's decision. Please contact us if you have additional questions.