

**Item #8:**  
**Village Trustee Michaud**  
Economic Development Update – Bridget Lane, BDI



To: Village of Long Grove  
 From: Bridget Lane  
 Subject: Potential Revenue from Economic Development Update  
 Date: February 2, 2020

### Introduction

In June 2018, BDI provided the Village of Long Grove with information documenting the revenue potential associated with undeveloped or under-utilized commercial property that was either in the Village or potentially annexable. This 2020 update documents market trends since that 2018 information was assembled. Although there is also interest in the potential for hotel development, that analysis is a specialization best completed in cooperation with Lake County and therefore BDI has not examined that possibility. During 2019, Village staff and Long Grove’s Economic Development Commission have been active in promoting the Village and has met with property owners/brokers for target properties. Where appropriate, the results of those meetings have guided the recommended action steps.

## Regional Development Conditions

### Retail Development Conditions

The Chicago retail market continues to present dismal prospects for new store and restaurant construction. Two bright spots in the regional market were the opening of the 258,646 square feet of stores, restaurants, and services at Melody Farms in Vernon Hills and the Aldi opened in Gurnee at the northwest corner of Grand Avenue and North Hutchins Road. The Melody Farms development required a \$20 million Tax Increment Financing subsidy that involves bonds backed by Village general revenue

As CBRE reports, the more common retail growth strategy is re-tenanting vacant spaces. Pete’s Fresh Market has claimed two former Dominick’s. New restaurant concepts are filling vacant restaurants, and fitness and entertainment continues its strong and steady activity within the Chicago retail market. Planet Fitness, Edge Fitness and Urban Air Entertainment are just a few of the tenants that signed leases for existing vacant space. Non-traditional uses continue to enter the retail realm. Co-working is making its way to shopping centers. CBRE reports that this use has a dual purpose: to aid in the absorption of space, and to drive foot traffic to local restaurants and shops.

Figure 1 reports market conditions in the area surrounding Long Grove.

Submarket	# of Properties	Gross Building (Sq. Ft.)	Vacant Area (Sq. Ft.)	Vacancy Rate (%)	Average Asking Lease Range (\$/Sq.Ft./Yr)	
					LOW	HIGH
Far N.W. Suburbs	91	14,799,521	1,357,674	9.2	17.74	21.05
N.W. Suburbs	101	17,051,859	2,204,670	12.9	16.67	20.29
<b>Total</b>	<b>830</b>	<b>138,573,491</b>	<b>13,353,626</b>	<b>11.1</b>	<b>16.49</b>	<b>20.57</b>

Figure 1 Q2 2019 Retail Marketview, CBRE

Although not tracked by CBRE, there have been new auto service entrants to the Chicago market. In Northbrook on Waukegan Road, Waterway opened a convenience store, fuel pumps, and car wash/detail business.



Figure 2 Northbrook Waterway

Waterway has a focus on upscale markets and has another Illinois location in Highland Park. Closer to Long Grove, Bucky's improved Buffalo Grove's Mobile Station with a new convenience store.

On a national level, the Consumer Confidence Index has decreased to 121.5, its lowest level since September 2017. According to the Consumer Confidence Board, rising trade and tariff tensions have shaken consumers' confidence. A reading above 90 points indicates a stable economy.<sup>1</sup>

These trends guide future retail growth:

- Smaller stores are preferred formats
  - Stores are showrooms
  - Rapid delivery reduces need for inventory
- Shorter lease terms hold greater appeal
  - Historically, 8 to 10-year leases had options to extend,
  - Today's leases often are for a month or two and have simple, low-cost or no-cost buildouts.
- Health, wellness, and beauty are hot categories.
- Ethos and purpose matters
  - Fostering community is a big part of 21st-Century retailing
  - Event space in stores is common
- Clicks should be combined with bricks
  - Savvy operators see their online and physical presence as mutually reinforcing.
- Experience is king
  - Thriving clusters offer experiences beyond mere shopping

Long Grove has a long history as an "experience" that can be a foundation for attracting new businesses that capitalize on the other trends.

As retail environments have responded to the rise of Internet shopping, restaurants have become the most important "Internet Proof" tenant in retail clusters.

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<sup>1</sup> Retail Marketview, Source: CBRE Research, Q2 2019.

The restaurant trends reported in 2018 all remain important; however, the most impactful trend is the continuing increase in off-premises restaurant sales. The National Restaurant Association’s 2019 report on the industry found that 38 percent of adults in the U.S.—and 50 percent of millennials—are more likely to have restaurant food delivered to them than they were just two years ago. The casual- and fast-casual dining both benefitted from off-premises, seeing higher takeout and delivery sales than where they were two years ago. In August 2019, Lettuce Entertain You announced a partnership with GrubHub to develop a virtual restaurant, Whole30 Delivered. Virtual restaurants offer only online ordering and delivery, eschewing a traditional dining room to lower overhead and providing more flexibility to chefs. Both Lettuce and GrubHub see the concept growing in popularity and believe it to be poised for expansion into other markets outside traditional large cities.<sup>2</sup>

The quick-service segment with longstanding drive-thru’s and delivery reports “More than 70 percent of customer traffic in the quick service, coffee, and snack segments is off-premises according to data from The NPD Group CREST.”<sup>3</sup> These are the volume businesses that deliver higher sales per square foot than do more service oriented restaurants.

Although Long Grove’s unique configuration and history adds opportunities beyond these trends, initiatives fitting these trends will likely meet with greater success.

**Industrial Development**

In 2018 and following a favorable Supreme Court decision, the State of Illinois enacted legislation that clarifies the responsibility for collecting sales taxes on Internet sales and distributing the revenue collected in other states on sales in Illinois. Long Gove will receive its percent of out of state sales tax revenue based of its percent of Illinois’ population. For Internet sales by Illinois businesses to Illinois residents, the sales taxes on internet sales are collected just as sales taxes are collected in stores. Long Grove will receive both its municipal sales taxes and non-home rule sales tax on sales by its Internet businesses to Illinois residents. These sales are often made from warehouses and therefore communities, such as Long Grove, that traditionally have not allowed that land use, rethinking the possibilities of warehouses.

The Amazon Fresh Warehouse in Wood Dale provides insight into the potential sales tax revenue from direct to consumer businesses occupying warehouses. That Amazon Fresh warehouse is 82,000 square feet and has parking only for employees, so it occupies most of its three-acre site. Using the Illinois Department of Revenue Municipal Sale Tax Reports for 2016, the year before that business opened, and 2018, offers a glimpse at the magnitude of revenue from this type of development.

	Municipal	NHMR	Total
2016 Food Sales Tax	\$295,183	\$84,685	\$379,868
2018 Food Sales Tax	\$538,968	\$124,956	\$663,924
Change	\$243,784	\$40,271	\$284,055

*Figure 3 Wood Dale Changes in revenue with the addition of Amazon Fresh*

<sup>2</sup> [https://www.chicagobusiness.com/restaurants/lettuce-grubhub-launch-virtual-whole30-restaurant?utm\\_source=breaking-news&utm\\_medium=email&utm\\_campaign=20190821&utm\\_content=hero-readmore](https://www.chicagobusiness.com/restaurants/lettuce-grubhub-launch-virtual-whole30-restaurant?utm_source=breaking-news&utm_medium=email&utm_campaign=20190821&utm_content=hero-readmore)

<sup>3</sup> <https://www.foodnewsfeed.com/fsr/employee-management/study-restaurant-sales-hit-863b-years-end>

These results are lower than the results from other consumer goods because the non-home rule sales taxes are not collected on grocery items. If this were, for example, a Wayfair warehouse distributing furniture, the total annual local sales tax revenue could be nearly \$500,000.

With quick access to Route 53 at Long Grove's southwest border, a 50,000 to 100,000 square foot warehouse could be a revenue generating opportunity. Because these businesses do not depend on visibility, they are very open to attractive landscape screening. Automobile traffic is much lower than the high-volume stores providing similar sales tax revenue; however, there is increased truck traffic and there often is 24-hour operation. The Comprehensive Plan long-standing "Lake-Cook/IL 53 Subarea" includes potential "big box and higher density residential. Potential addition of Warehouse uses as a suggested use may help to attract this type of use. In particular, the SW corner would be an ideal location from the user perspective and is large enough of a site to fully screen the building.

### Office Development

The Chicago suburban office market has been weak since the 2008 recession. This weakness resulted from large businesses relocating into the Loop, employees more frequently telecommuting, less space per employee, and other factors relating to technology and amenities. Figure 3 reports market conditions for office uses in the Northwest Suburbs that includes Long Grove and the whole Chicago suburban market.<sup>4</sup>

Submarket	Rentable Building Area (Sq. Ft.)	Direct Vacant (Sq. Ft.)	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q1 2019 Net Absorption (Sq. Ft.)	2019 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Gross Asking Lease Rates (\$/Sq. Ft./Yr)
<b>Northwest Suburbs</b>	<b>26,827,473</b>	<b>6,267,064</b>	<b>23.4%</b>	<b>0.8%</b>	<b>24.1%</b>	<b>(18,146)</b>	<b>(68,462)</b>	-	<b>\$22.12</b>
Class A	12,012,378	2,438,288	20.3%	1.0%	21.3%	19,002	76,627	-	\$26.29
Class B	8,062,981	2,073,354	25.7%	1.1%	26.8%	(59,508)	(163,196)	-	\$20.65
Class C	6,752,114	1,755,422	26.0%	0.1%	26.1%	22,360	18,107	-	\$16.60
<b>Total Suburban</b>	<b>102,909,660</b>	<b>18,979,515</b>	<b>18.4%</b>	<b>1.1%</b>	<b>19.5%</b>	<b>61,569</b>	<b>130,155</b>	-	<b>\$23.73</b>
Class A	39,323,068	5,623,622	14.3%	1.7%	16.1%	20,893	147,299	-	\$29.15
Class B	40,824,915	8,686,146	21.3%	0.8%	22.1%	53,711	(10,971)	-	\$22.54
Class C	22,761,677	4,669,747	20.5%	0.4%	20.9%	(13,035)	(6,173)	-	\$17.53

Figure 4 Q2 2019 CBRE Chicago Suburban Office Marketview

<sup>4</sup>The Building Owners and Managers Association (BOMA) classifies office space into three categories: Class A, Class B, and Class C. According to BOMA, Class A office buildings have the "most prestigious buildings competing for premier office users with rents above average for the area". BOMA states that Class A facilities have "high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence". BOMA describes Class B office buildings as those that compete "for a wide range of users with rents in the average range for the area". BOMA states that Class B buildings have "adequate systems" and finishes that "are fair to good for the area", but that the buildings do not compete with Class A buildings for the same prices. According to BOMA Class C buildings are aimed towards "tenants requiring functional space at rents below the average for the area".

It is notable that there is no office space under construction anywhere in the market and that vacancies in the Northwest suburbs are higher than regional vacancies. Although those conditions make it unlikely that a developer would build in Long Grove, a senior executive living in Long Grove and controlling site location decisions could choose Long Grove for lifestyle rather than market reasons.

#### Potential Village/ Economic Development Commission Action Steps

1. Work with Visit Lake County to undertake a specialized study of the demand for additional hotels in southern Lake County.
2. Broadly consider possibilities for supporting additional uses and new experiences in Downtown Long Grove.
3. Create appearance standards for distribution facilities that generate sales taxes and initiate contacts with investors adding that use in other communities.

## Economic Development Opportunities Update

This information that follows focuses on 2020 action steps for the target properties:

### South 15 – South of Sunset Grove and The Executive House

This target site is the 15 acres south of Sunset Grove as well as acreage to the east and north along Aptakisic Road. The goal is to create development that would make this area a significant sales tax producer and add substantial incremental property tax revenues to the IL 83/Downtown TIF District as the current assessed value as agricultural property is very low and has the greatest potential of all the properties located in the TIF to produce revenues prior to TIF expiration in 2032.

#### Key findings:

- The continuing weakness of retail development reduces the opportunity for large format, high volume stores at this location.
- The opportunity for sales tax generating outlot development continues to depend on IDOT approving access at the intersection of Routes 53 and 83.
- There is a need to protect and build the market for Sunset Foods in the very competitive and changing Chicago grocery business. Woodman's new Buffalo Grove store heightens this need. Adding senior or market rate apartments is an example of a use that could build the market for nearby businesses. This fits the model for developments such as Glen Gate and Reserve at Glenview Apartments.

#### Potential Village/ Economic Development Commission Action Steps

1. Continue seeking IDOT approval for access at Route 53 and Route 83.
2. Seek consensus on residential development that would feed the TIF.
3. At the ICSC Chicago Dealmaking Session, this area was promoted at meetings that included the listing broker and potential tenants.

## The Archer Outlots

These lots are an opportunity to expand downtown and capitalize on municipal parking as well as add substantial incremental property tax revenues to the IL 83/Downtown TIF District prior to its expiration in 2032.

### Key findings:

- Flexibility in lot size is important because restaurant concept development has changed to include entertainment experiences that can require large spaces.
- For quicker development and a higher land sales price, the Village should consider allowing a variety of uses on the Archer Lots.

### Potential Village/Economic Development Commission Action Steps

1. At the ICSC Chicago Dealmaking Session, this area was promoted at meetings that included the listing broker and potential tenants.
2. Use the Downtown festivals as opportunities to solicit businesses. Interns/owner/EDC members can staff a booth with a “locate your business here” message.
3. Consider allowing Food trucks with established social media followings to hold independent events in the Archer Parking Lot. Those events are a trial opportunity that can verify the market for the food truck’s concept and lead to investors supporting a permanent site.

## Triangle Properties – Old McHenry Road/Route 53 Triangle

Located at the Gateway to Downtown Long Grove, these properties are Long Grove’s Gateway to its Downtown and recently improved Old McHenry Road. The Comprehensive Plan includes a concept to make the Old McHenry Road gateway to downtown more notable. Developing these properties could add substantial incremental property tax revenues to the IL 83/Downtown TIF District prior to its expiration in 2032.

### Key Findings:

- As this memo’s market information details, it will be difficult to recruit a restaurant to build on this commercial site. The more likely business would be a medical or financial service. The key to making that type of use “right” is how the gateway at the triangle’s point announces the downtown.
- Accessing the corner property from Old McHenry Road may not be possible due to the proximity to the traffic signal.
- Current zoning authorizes single family homes as by rights development.

### Potential Village/ Economic Development Commission Action Steps

1. Build consensus on the right number of homes to be built on this property.
2. Build consensus on the acceptability of a service use at the entrance and begin assisting efforts to find the right business.

### Menards Outlots and other nearby commercial property

The Menards outlots are a 7-acre property previously subdivided into 5 parcels. To the north and west there are another 40 acres identified in the comprehensive plan for commercial development. The Village recently approved an evaluation of the possible establishment of a new TIF District for this area to be completed in mid-2020.

#### Key Findings:

- The Comprehensive Plan notes the possibility of distribution as a land use across Route 53, west of Menards.
- Menards recently confirmed that company policy dictates that it will never sell land below cost plus a profit. Because bringing sewer service and storm water management to this land was costly, the Long Grove outlots are priced at a premium over outlots at other Menards locations and nearby property. When the Menards development agreement was finalized, it included a provision for recapturing the cost of the off-site sanitary sewer. Although the ordinance is in place and the recapture amount is established at \$1,783.81 per residential unit with 5% escalation per year, there has been no recapture.
- Menards Real Estate and Leasing Division reported inquiries about its Long Grove property, but that there have been no offers at acceptable values. Most inquiries are about automotive service (gas stations and car washes) and quick serve restaurants.
- Although price is the primary objection leading to failure to pursue buying the Menards outlots, the lack of access on Lake Cook road also is detrimental. The Village engineer evaluated the direct access and believes that providing an additional lane between the IL 53 off ramp and IL 53/Old Hicks with a non-mountable median from the off ramp to just beyond the access point would satisfy the traffic weave concerns of regulating agencies. Approval of added access requires state legislation to modify IDOT's ownership of access rights along Lake-Cook.
- Economic Development Commission members requested a preliminary examination of a Cracker Barrel Restaurant as an outlot possibility. Reviewing Cracker Barrel's most recent Security and Exchange Commission 10-K filing revealed this information.
  - Store Development: In 2018, eight new Cracker Barrel locations opened, including the first location in California as part of westward expansion. Although Cracker Barrel planned eight new stores during 2019, as of September 2019 there was no net increase in stores during 2019.
  - Locations: 83% of Cracker Barrel stores are located along interstate highways and the remaining stores are located near tourist destinations.
  - Investment per store: Land costs for stores averaged \$1,164,000 per site. Building, site improvement, furniture, equipment and related development costs for each store averaged \$4,356,000. Pre-opening costs averaged \$579,000 per store.
  - Current store prototype: 9,000 square feet, including approximately 2,100 square feet of retail selling space, and a dining room seating approximately 180 guests.
  - Advertising: Billboards are the principal method of advertising. Signage or billboard restrictions or loss of existing signage or billboards adversely affects attracting customers.
  - New concepts: Although Cracker Barrel opened three Holler & Dash stores in Alabama, Florida, Tennessee, Georgia and North Carolina, it has abandoned plans for future Holler & Dash stores.



Cracker Barrel Annual Operating Statistics:

	FY 2018	FY 2017
Stores open at end of year	660	649
Average Unit volumes (000)		
Restaurant	\$3,724	\$3646
Retail	\$902	\$892

Potential Village/ Economic Development Commission Action Steps

1. Evaluate the potential TIF's ability to repay the sewer cost from incremental property tax.
2. Gather additional data and assessment of the traffic movements to support access improvement and encourage State elected officials to introduce legislation necessary to remove IDOT control of access rights.
3. Build consensus on the appropriateness of locating a gas station, convenience store, car wash like Northbrook's Waterway in this area.
4. Study the Village leader's interest in implementing the Comprehensive Plan by rezoning property in this area for warehouses that may provide sales tax revenue.

3890 Salem Lake Drive (the former CF Industries Property)

This 37-acre property was originally developed in 1975 as a corporate headquarters facility. There is only one access point, an approximately half mile-long private road that intersects Route 22 at an unsignalized and gated intersection.

Key Findings:

- When this property was built, it was a unique, probably non-market driven decision. It will take another non-market driven decision for it to attract a commercial use.
- Properties of this age in other communities have been adapted for uses ranging from Internet showroom/office/warehouse, to indoor farms and public storage. However, those properties benefit from quick access to highways and the advantage of other nearby development. They also are located on public roads, where the costs of supporting heavy vehicles are borne by the municipality.
- Property owner efforts to redevelop the site as higher density residential/cluster development were denied by the Village and, without other potential buyers, the owner has "walked away" from and abandoned this property.

Potential Village/ Economic Development Commission Action Steps

1. The EDC might consider whether it could encourage a crowdfunding effort to raise local capital to buy this property. Local environmental and conservation groups may be able to share this property with a group of smaller companies. 20,000 square feet might be used as a co-working space.
- Other than residential redevelopment, this area has few natural market possibilities. Consequently, the EDC's efforts to attract unique uses requires work to promote it in non-

traditional channels. Both individual EDC members and other community residents can be property ambassadors armed with information on the site conditions.