



Memo

To: Mr. Ray Keller, Village Manager
Village Lake Zurich

From: Chris Aiston, Pres/CEO
CC Aiston Consulting, Ltd

Date: November 19, 2019

**RE: A Report to the Village of Lake Zurich, Illinois Concerning the Viability Status of
Adopted Land Development Plans for the Village's Original Downtown Commercial
District and Suggested Ways to Address Such Status Moving Forward**

Please find attached the above-referenced report, including an Executive Summary of same. This report is respectfully submitted to the Village of Lake Zurich and pursuant our mutually agreed scope of professional services.

A Report to the Village of Lake Zurich, Illinois Concerning the Current Viability Status of Pervasive Land Development Plans for the Village's Original Downtown Commercial District and Suggested Ways to Address Such Status Moving Forward

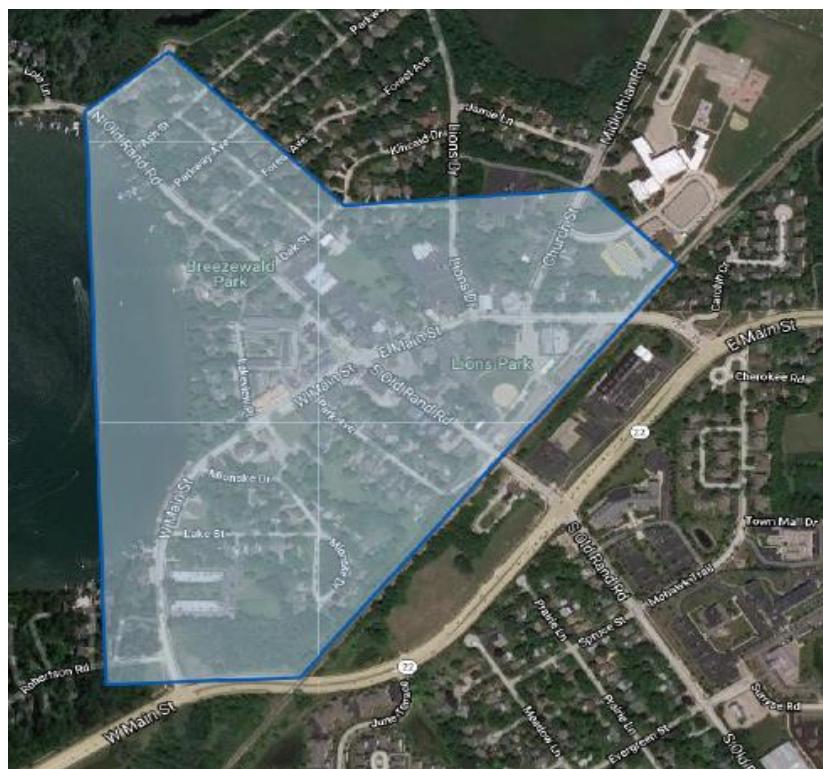
Executive Summary

Introduction

In early September of this year, Lake Zurich Village Manager Ray Keller retained CC Aiston Consulting, Ltd. for the purpose of producing a report that considered certain past events and policies positions that have seemingly affected the economic conditions of the Village's historic central business district and provide its opinion as to the relative viability of current redevelopment planning for this district (hereafter alternatively "downtown" or the "Main Street Subarea"). Pursuant to Mr. Keller's direction, the subject report shall include, but not necessarily be limited to, the following areas of inquiry:

1. Consider the recent development history of and the existing land use conditions within the Village's "Main Street Sub-Area" (or "downtown");
2. Review various planning initiatives concerning the downtown's prospective redevelopment;
3. Consider the area's existing commercial real estate market and trade area dynamics;
4. Provide some opinion as to the relative viability of the Village facilitating the implementation of such redevelopment; and
5. Suggest possible ways of affecting this perceived viability.

For the purpose of this report, the Village's downtown is depicted below as bounded in blue:



Section 1. Recent Development History and Existing Downtown Land Use Conditions.

In Section 1 we review various changes in land use and development, as well as certain policies adopted by the Village, going back to 2002, with a primary focus on those created since 2006. There is also mention of the 2006 construction of the RT 22 bypass around the downtown district and its intended, positive result of reducing traffic congestion in the downtown, while at the same time causing a deleterious impact on the economic viability of the downtown's existing and prospective commercial enterprises. This section also examines areawide historic suburban residential and commercial sprawl, generally noting the negative impact of same on downtowns in Lake County and specifically downtown Lake Zurich.

Also in this section, the report presents information concerning the existing land use conditions in the Village's downtown commercial district, including identifying its aging building stock, vacant and underutilized properties and lack of evidence of any significant private real estate investment. In terms of Lake Zurich's existing downtown office and retail land use (throughout this report, retail use includes restaurants), there are 34 commercial buildings, totaling some 156,000 square feet in gross leasable floor area (GLA) downtown. Of that space, according to CoStar, approximately 28,600 square feet, or 18.4%, is vacant. Additionally, there are 7 vacant lots, totaling approximately 232,652 SF, or 5.34 acres. The Village itself owns 6 of these of these vacant lots, totaling 172,975 SF, or approximately 4 acres.

Section 2. Planning Studies and Initiatives.

Section two describes several key planning studies and initiatives undertaken by the Village since 2004. They are:

- 2004 McCaffey and Associates Downtown Redevelopment Plan;
- 2013 "Moving Lake Zurich Forward: Six Point Action Plan;
- 2013 Request for Proposals (RFP) for Downtown Redevelopment;
- 2014 "Downtown TIF #2 Redevelopment Plan and Project" and
- 2019 "Imagine Lake Zurich: Comprehensive Plan at the Heart of the Community" (Draft).

Each of these documents calls out the Village's desire to see the downtown redeveloped. Further, where possible and practical, mixed-use redevelopment (street-level commercial and residential units in floors above street-level) is often cited in these materials as a targeted land use objective for the downtown.

Section 3. The Existing Retail Real Estate Market

Section 3 presents observations about general trends that have affected the existing retail real estate market, including comparative data for Lake Zurich as a whole, its primary commercial corridors (Rand Rt and RT 22), and its downtown district. Further comparisons are made between these given areas and those in the nearby communities of Barrington, Deer Park, Long Grove and Wauconda.

Among the general trends in the retail real estate market, the report describes the impact of residential and commercial sprawl and the predominance of arterial highways traversing suburbia. These developments brought with them consumer-friendly shopping centers and malls, providing substantial mass and variety of both shopping and dining opportunities, as well as vast parking supply to support them. It is also noted here that the nation and Chicagoland are over-supplied in retail building space. Finally, this section briefly notes the emergence and market share of ecommerce trade.

In terms of hard data, we present a table showing floor area values and vacancy rates for the aforementioned commercial areas, noting that when comparing both the mass of existing, active commerce in terms of floor area, as well as the amount of space available for lease within each area, it becomes clear that downtown Lake Zurich is up against tough competition in attracting new retail or office enterprises. In short, the amount of existing downtown commercial activity, as well as the amount of available building space that may house additional such activity, is dwarfed by what is available elsewhere within the communities included in this study. When compared with the other commercial areas included in the table, downtown Lake Zurich generally has neither the mass nor variety of commercial activity and is further disadvantaged by being essentially invisible to the motoring public and would-be area-wide consumers.

Section 4. Viability of a Plan Recommending the Comprehensive, Mixed-use Redevelopment of Downtown Lake Zurich

There are several questions posed in this section. First and foremost, to establish a *de facto* condition, the reader is asked, “Are Plans for the Downtown Being Implemented”? We would argue that, at least to date, they have not. Ultimately, two critical and related questions are also asked as part of this discussion. They are taken directly from the March 24, 2019 issue of the Village’s *Benchmarks* on-line publication:

1. *“Does it make sense to continue to pursue the ‘downtown’ concept”?*

Our answer to this would be, “Probably, at least for a limited amount of time”. However, for the plans to remain at least potentially viable, short of its near-term redevelopment, the Village must take action to help attract people to the downtown. Something must be done to increase the awareness that downtown Lake Zurich still exists, albeit even if somewhat off the beaten path.

2. *“More broadly, is now the appropriate time to step back and reconsider what community need the ‘downtown’ concept would fulfill, and whether there are more innovative and workable means to satisfy it”?*

Our answer to this second question is, “Absolutely”. Clearly it is folly to dogmatically continue to have faith in a plan that has proven over a fifteen-year period to be otherwise unsustainable by conditions on the ground.

It’s been said that, as a community, “you are what the market brings you”. If this is true, perhaps the inverse can also be said that “you’re not what it doesn’t”. However, beyond the realities of the retail real estate market described in Section 3, fortunately, we believe that this condition may change as preconditions on the ground change, such as: an increase in the number and concentration of housing units in the market; increased awareness that there is a downtown Lake Zurich; an increase in passerby traffic (in the instant case, at least pedestrian mode if not vehicular); regularly occurring concentration of destination-type goods, services or activities offered in the downtown; and the promotion/marketing of such goods, services and activities, whether private or public.

Section 5. Suggestions for Stimulating Downtown Economic Development

Here the report turns to the subject of what the Village may be able to do, largely on its own and in relative short order to address these, “preconditions on the ground”. The following activities are suggested here:

1. Amending the Village’s existing land use plans and development regulations to allow for the construction of mid to high-density, residential buildings, including street-level residential use. We call for the Village to consider permitting 4 to 5 story buildings, housing multi-family units at a density of 25 to 40 dwelling units per acre. Not only do we suggest that the Village permit housing units in street-level spaces of multi-story buildings but that it also considers eliminating regulations requiring that there be any commercial space at all in such a building, at least for the time being, noting that these buildings could bring a significant number of rooftops and buying power directly into the downtown. Ultimately also, as noted above, retail follows rooftops.

This subsection also provides several examples where a Chicago suburb's zoning regulations prohibiting or greatly limiting street-level residential use served to threaten a proposed redevelopment project moving forward. These projects are described in some detail in the full report but for brevity's sake in this report summary, they are:

- 101 West. N. Hough Rd (Rt 59), Barrington.
- Ninety Seven Fifty On the Park, 9750 Crescent Park Circle, Orland Park.
- F & C Development. Main and Ogden, Lisle.
- Foxford Station. Wolf Rd. & Burlington Ave, Western Springs.
- Marq on Main. 4755 Main Street, Lisle.

2. Establishing temporary land uses to bring people downtown. Several land uses and community activity opportunities are explored and suggested in this subsection. They include Popup Chalet Retail, Bocce Ball Courts, Outdoor Chess Tables, Community Christmas Tree Trimming Along Selected Downtown Sidewalks and other Miscellaneous Temporary Uses for Downtown (e.g., community garage sale, cashless swap/shop, arts and craft festivals, organized performances).

Section 6. Conclusion

The land use history in downtown Lake Zurich over the past 15-20 years would indicate that the long-held Village vision of significant mixed-use redevelopment has, to date, not transpired. This, notwithstanding the Village's many proactive efforts toward adopting plans and policies meant to encourage private investment, including but not limited to, creating the downtown TIF District and refinancing its debt, acquiring strategically located downtown properties and, through demolition, making such properties shovel-ready. There is now a need for the Village to recalibrate its land use planning and regulations affecting its historic downtown commercial district and, while perhaps not yet giving up on its long-held vision of mixed-use redevelopment for the downtown, take near-term actions to help raise the awareness of downtown Lake Zurich's existence and provide reasons for people to visit it.

The growth in popularity of and inherent consumer efficiencies offered at the many and vast shopping centers in and surrounding the Village of Lake Zurich, coupled with constructing the RT 22 bypass, have served to ultimately further erode the economic viability of the downtown, particularly with respect to its somewhat already disadvantaged position vis a vis other suburban downtowns that have Metra commuter rail stations. These conditions were, of course, exacerbated by the recession of 2007-2009 and its aftermath affecting nearly all sectors of the economy. Furthermore, the very real contraction in the need for retail space nationwide over the past ten years has resulted in the vacancy of thousands of square feet of retail/restaurant floor area. One may rightly describe the above events as the crescendo in creating a perfect storm for the downtown.

However, the Village may consider actions in addressing this perfect storm condition and this report both identifies and assesses the effects on the downtown of the aforementioned events, as well as providing example activities that may prove effective in changing the near-term perception of downtown Lake Zurich. These activities include, in the short term, considering retaining professional commercial real estate brokerage to assist the Village in selling its downtown properties, reigniting the RFP process in hope of securing redevelopment proposals for the downtown, identifying and promoting the downtown's value proposition(s) when targeting desired developers, business interests and consumers, encouraging the development of more housing downtown through modifying land use and development regulations affecting the downtown area, and, if nothing else, in the meantime, creating opportunities for temporary land uses and activities to raise the area-wide awareness of downtown Lake Zurich and provide new reasons for persons to visit the district.

**A Report to the Village of Lake Zurich, Illinois Concerning the Current Viability Status of
Pervasive Land Development Plans for the Village's Original Downtown Commercial District
and Suggested Ways to Address Such Status Moving Forward**

CC Aiston Consulting, Ltd

November, 2019

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Introduction

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For the purpose of this report, the Village's downtown is depicted below as bounded in blue:



Section 1. Recent Development History and Existing Downtown Land Use Conditions.

- a. Policy and Land Use Developments. In the last 15-20 years, there have been a number of policy and land use developments that have affected land use in the Main Street sub-area. In our estimation, however, the following eight such events have had or have the greatest potential for impact with respect to downtown redevelopment:
 - i. The Village designating the TIF District and adopting its Redevelopment Plan in 2002, and subsequently revising the same in 2014;
 - ii. The State's decision to create the "RT 22 bypass". This highway improvement was originally approved by the Village Board in principle in 1994, with the State later approving the bypass design and funding in 2003 and ultimately completing the construction in October, 2006. The bypass served to re-route IL ST RT 22 from its original course through the downtown, resulting in reducing traffic congestion in the downtown (its intended effect) while at the same time significantly diminishing vehicular passerby visibility and direct access to downtown commercial properties;
 - iii. The Village restructuring its TIF debt in 2013;
 - iv. The Village's acquisition of various properties and its demolition of certain existing underutilized or deteriorating building stock thereon;
 - v. Foxford Communities' 2016 development of Somerset by the Lake;
 - vi. The Village's construction of various streetscape improvements and hardscape amenities to improve the physical character and pedestrian friendliness of the Main Street rights-of-way;
 - vii. The Village building Sunset Pavilion at Breezewald Park, a community asset sparked by public entrepreneurial initiative and an appropriate use of private development-generated dollars (\$157K from Somerset on the Lake) ; and
 - viii. The Village's initiative to update its Comprehensive Plan in 2019.
- b. Downtown Existing Land Use Conditions. The existing land use conditions in the Village's downtown area portray an aging building stock, vacant and underutilized properties and, excepting the aforesaid Somerset by the Lake, a lack of private real estate investment. These conditions are not altogether dissimilar from many other downtown central business districts throughout suburban Chicagoland and generally the Midwest United States, only perhaps made more so by the RT 22 bypass project. The latter half of the twentieth century saw vast areas of farmland and natural areas in NW Lake County transformed into suburban sprawl and crisscrossing and ever-expanding arterial roadways. These highway improvements provided area residents with quick access to thousands, if not millions of square feet of commercial building space, generally located at the periphery or completely outside of existing downtown areas, and in large part consisting of retail and personal service enterprises, typically served by multiple lighted intersections and seas of asphalt parking lots.

In terms of Lake Zurich's existing downtown office and retail land use (throughout this report, retail use includes restaurants), there are 34 commercial buildings, totaling some 156,000 square feet in gross leasable floor area (GLA) downtown. Of that space, according to CoStar, approximately 28,600 square feet, or 18.4%, is vacant. Additionally, there are 7 vacant lots, totaling approximately 232,652 SF, or 5.34 acres. The Village itself owns 6 of these of these vacant lots, totaling 172,975 SF, or approximately 4 acres.

Section 2. Planning Studies and Initiatives.

- a. 2004 McCaffey and Associates Downtown Redevelopment Plan. The McCaffey and Associates plan envisioned a master-planned, Main Street sub-area with multiple commercial sites, office suites, townhomes and high-density residential in one or more mixed-use redevelopments. The onset of the financial crisis and “Great Recession” (Dec. 2007 to Jun. 2009), negatively affecting lending policies and investment decisions well into the next decade, coupled with the RT 22 bypass, shed doubt on whether or not the McCaffey and Associates plan would or could be implemented within any reasonable planning horizon.
- b. 2013 Village’s “Moving Lake Zurich Forward: Six Point Action Plan”. By 2013, pursuant to Village plans and policies, the Village had taken on debt to fund property acquisition so to facilitate the master-planned, mixed-use downtown redevelopment project(s). This six-point plan included actions to address the overall appearance of downtown Lake Zurich, the need for marketing and promotion, and strengthening the overall financial position of the downtown TIF District.
- c. 2013 Request for Proposals (RFP) for Downtown Redevelopment. Marketing initiatives stemming from the “Moving Lake Zurich Forward Plan” were intended to raise the awareness of redevelopment opportunities, both under potential TIF subsidies and generally in accordance with the Village’s redevelopment-friendly adopted plans. These initiatives included the Village issuing an RFP to would-be development interests, seeking development proposals that would essentially put into action the aforesaid mixed-use redevelopment plans. Unfortunately, few proposals were submitted from the development community and of those that were, the submittals reflected either residential-only projects or projects that were primarily residential in character, involving only *di minimus* commercial space.
- d. 2014 “Downtown TIF #2 Redevelopment Plan and Project” (RP&P). This document was completed and adopted as required by the State’s TIF Act. The RP&P include stated objectives that were fairly consistent with previous planning initiatives, here again, indicating the Village’s desire for area-wide, mixed-use redevelopment of the downtown.
- e. 2019 “Imagine Lake Zurich: Comprehensive Plan at the Heart of the Community” (Draft). Among other reasons, this current planning initiative is intended to “provide effective goals and objectives to enhance the Village’s economic viability in the *current and forecasted market place*, secure the Village’s position as a *unique community* and economic leader within the metropolitan region, and plan for the development of housing to meet the needs of a population *in every stage of the life cycle*”. (emphasis added)

As part of the 2019 comprehensive plan update effort, the Village conducted a survey of its residents, including asking them their thoughts about what the village should look like 20 years from now. From this inquiry, certain themes emerged in their responses, including new and vibrant downtown developments, a reduced focus on residential developments, placing more emphasis instead on commercial developments, providing new small and ecofriendly businesses in town and more family centered activities and developments.

The resident survey also made clear that those persons responding to the survey were “overwhelmingly happy” with the shopping opportunities in the Village, excepting a complaint that there are not enough ‘small or niche’ shops. Shops of this nature are typically independently owned and often located in a community’s downtown central business districts or CBD.

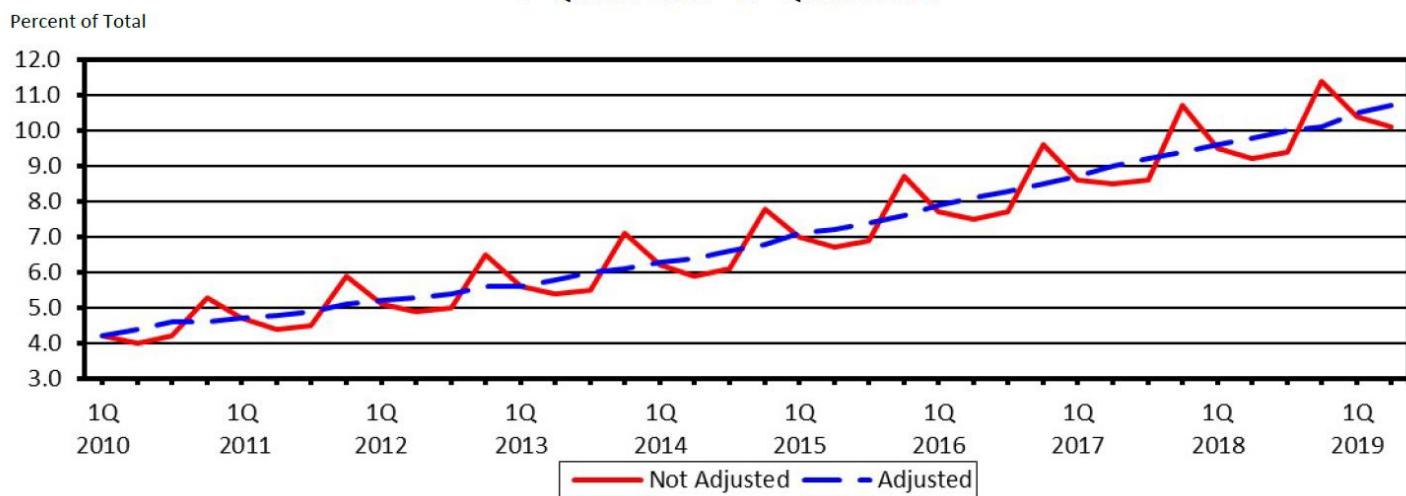
Section 3. The Existing Retail Real Estate Market.

a. The State of Retail Real Estate Generally. Across the country, it is widely recognized that during the past ten-fifteen years, retail has faced a seismic shift in supply and demand. There are several factors driving this retailing shift but two primary ones are the over-supply of existing retail space and the prevalent purchase of goods through e-commerce.

Like housing, retail space was overbuilt during the real estate bubble at the dawn of and during the early years of the 21st century. As usual, during this period, commercial developers typically followed new housing development, and as housing stock sprawled, so too did the expansion of retail. In a 2018 joint study endorsed by the International Council of Shopping Centers, Cushman and Wakefield and Cowen and Co., the authors found that there are approximately 23.5 square feet of retail space for every person in the US, far exceeding any other nation on earth (Chicago has 43 SF/person). Canada is ranked second internationally at 16.8 SF per person, while the UK and Germany hold ratios of 4.6 SF and 2.3 SF per person, respectively.

Finally on this point, the growing e-commerce market has also affected brick and mortar retail sales. Census Bureau data portray a wide shift in market share within the retail sector (see table immediately below). The nation's habit to turn to e-commerce in acquiring all things otherwise retail has exacerbated the problems (including returns on retail property investment) associated with the country's and our region's overbuilt and now glutted retail space phenomenon.

**Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:
1st Quarter 2010 – 2nd Quarter 2019**



b. Downtown's Competitive Position for Retail Site Selection.

i. General Notes.

Location. There are three tried and true adages when it comes to retail site selection. These are that *retail follows rooftops* (further amplified when considering an area's buying power and product-specific sales), *retail needs center stage* (visible from high foot and/or vehicular traffic patterns) and *retail goes where it's already is* (mass and concentration of other retail spaces). For all three, see "Location, Location, Location". There is a fourth adage, again associated with location, of course, that relates to the prevailing cost of space. Landlords know if their space meets tenant-desired thresholds concerning the first three adages and set lease pricing accordingly. Correspondingly, tenant retailers also recognize this fact and accept that they must pay what the fair market demands.

Trade Area Dynamics. Successful retail site selection is largely predicated on answering two critical questions, to wit: 1. What is the nature of my trade area (e.g., household buying power and preferences, acceptable drive times for my product or service) and What makes one potential store location better than others available in this trade area?

Eclectic Composition of Downtown Business Activity. A downtown's success is often dependent on the level of variety within its business composition and the pedestrian-friendliness of its actual physical surroundings (parking in suburban downtown is often lacking and/or remote). Downtown customers must be able to make multi-purpose trips (shopping, personal services, dining, etc.) to maximize the efficiency of their downtown visits. Such efficiencies were key in the development and – at least initially – success of shopping centers and malls. Downtowns that are more eclectic in character, in both the private and public realm, are better-suited to meet this customer demand.

It should be noted here that downtown Lake Zurich, unlike many competing downtowns located in other NW Lake County communities, lacks a commuter rail station. Commuter rail stations tend to stabilize existing and attract new commercial activity. Having a commuter station raise the likelihood of the development of higher density, infill residential development, expanding the proximate consumer base and thereby stimulating additional commercial activity.

ii. Commercial Real Estate Data.

The table at the end of this subsection lists the total amount of space and, of that, the amount of vacant/available space suitable and/or zoned for retail/restaurant, office and medical office uses. The total floor area *and* the actual amount of this space currently available for rent in each respective community portray a distinct disadvantage for the Village in attracting new commercial development to buildings and properties located within its downtown area, at least in the near term.

In Lake Zurich alone, there is approximately 3 million square feet of commercial space (retail, office and medical office), with the combined square feet along Rand Road (2.4M) and RT 22, from Quentin Rd east to Ela Rd (134K) making up nearly 85% of that total alone. There is approximately 156,000 SF of commercial space in downtown Lake Zurich, or approximately 5% of the total inventory in the Village.

The 156,000 SF in downtown Lake Zurich represents less than 1.5% of the total 10.7M SF of commercial space outside of the downtown but located within the communities of Lake Zurich, Barrington, Deer Park, Long Grove and Wauconda. There is 1.3M SF of commercial space in downtown Barrington alone. The total commercial space in downtown Lake Zurich calculates to be just over 8.3% of that downtown Barrington figure. Per the table below, even when looking at vacant space available for new or relocated commercial enterprises, downtown Lake Zurich has an inventory of 28,600 SF to offer against its competing market place total of nearly 1.3M SF.

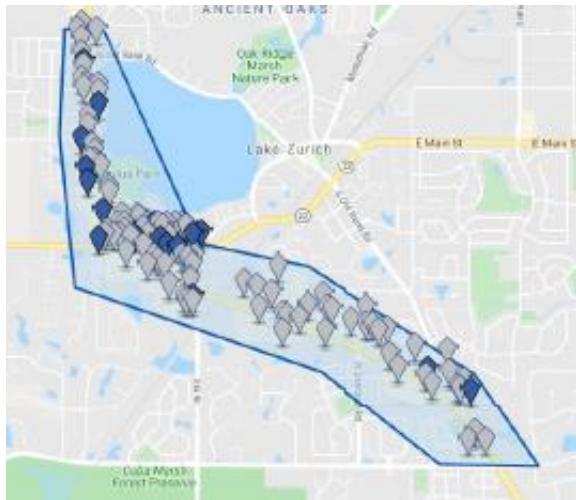
A prospective retail tenant (and likely his or her banker) must ask the following question: What is the value proposition when comparing a potential location along Rand Rd in Lake Zurich, with its 2.4M square feet of commercial floor area, 42,000+- daily traffic volume and an average asking price of under \$15.50/SF, and that of a location in "bypassed" downtown Lake Zurich, having just over 150,000 SF of commercial space (less than 7% of Rand Road commercial corridor) and where the average rental asking price is at \$16.00/SF?

With respect to downtown spaces only, the table shows that there is currently more than twice the amount of vacant commercial space in downtown Barrington than there is in downtown Lake Zurich. Most businesses, particularly retail, focusing on downtown location opportunities would rather be where there is more than a million square feet of commercial business activity and its associated customer and employee foot traffic than they would in an available space surrounded by commercial space of only 5% of that figure. With respect to rent rates, when considering the bigger picture (e.g., potential sales and profit versus total costs of doing business, including rent), any retailer or restaurateur would be hard-pressed to not at least consider selecting a location in the larger and more active downtown commercial district, notwithstanding the premium they must pay in rent.

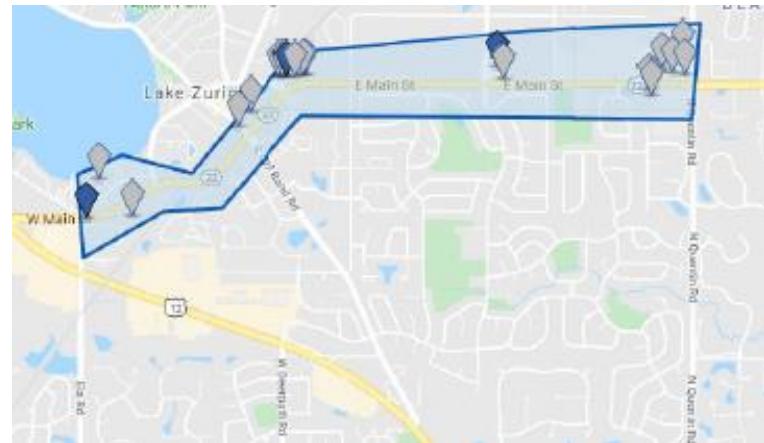
Retail/Restaurant, Office and Medical Building Analytics
Lake Zurich and Its Selected Commercial Sub-Areas
and Selected Commercial Areas Outside of the Village of Lake Zurich

Community	Building Inventory (SF)	6-Month Vacancy Rate	Vacant Space (SF)	Market Rent (\$/SF)	Market Sale Price (\$/SF)	Asking Rent for Available Space (\$/SF)
Lake Zurich - Total (incl Mariano Ctr)	3.M	6.5%	193,500	\$17.83	\$159	\$16.00
Prior Period		7.2%		\$18.03	\$166	
Lake Zurich - Rand Road Corridor (from Miller Rd to Cuba Rd intersections, including east along Rt 22 to Ela Rd)	2.4M	7.1%	170,600	\$17.88	\$163	\$15.29
Prior Period		7.5%		\$18.06	\$174	
Lake Zurich - RT 22 Corridor (incl Mariano Ctr) (Quentin Rd west to Ela Rd)	134,000	1.7%	2,300	\$17.91	\$282	No Data
Prior Period		8.0%		\$18.04	\$301	
Lake Zurich - Downtown - Main St Area	156,000	18.4%	28,600	\$16.67	\$172	\$18.44
Prior Period		15.8%		\$16.88	\$178	
Barrington - Total	4.5M	15.0%	675,000	\$18.86	\$177	\$19.34
Prior Period		14.3%		\$19.03	\$178	
Barrington - Downtown (Approx. 5 blocks N. & S. and E. & West of Main St & RT 59)	1.3M	4.7%	61,000	\$18.79	\$177	\$22.12
Prior Period		4.3%		\$18.88	\$177	
Deer Park	1.5M	14.0%	210,000	\$25.30	\$254	\$14.77
Prior Period		8.2%		\$25.60	\$256	
Long Grove	814,000	21.5%	175,000	\$19.67	\$215	\$18.43
Prior Period		22.4%		\$19.94	\$220	
Wauconda	913,000	7.1%	64,825	\$16.86	\$170	\$15.35
Prior Period		7.3%		\$17.08	\$173	
Wauconda (Downtown)	140,000	0.6%	840	\$16.27	\$155	\$18.00
Prior Period		0.8%		\$16.51	\$155	

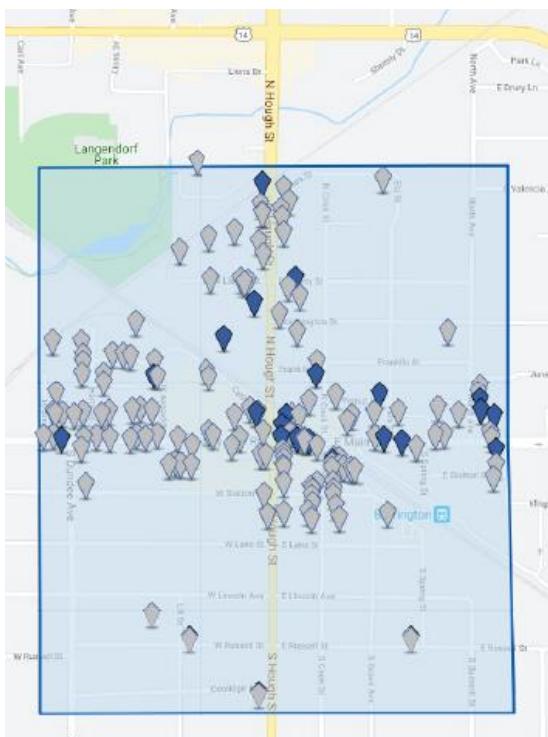
Maps below show boundaries of specific areas: **Grey = All bldgs.; Blue = Bldgs w/available space.**



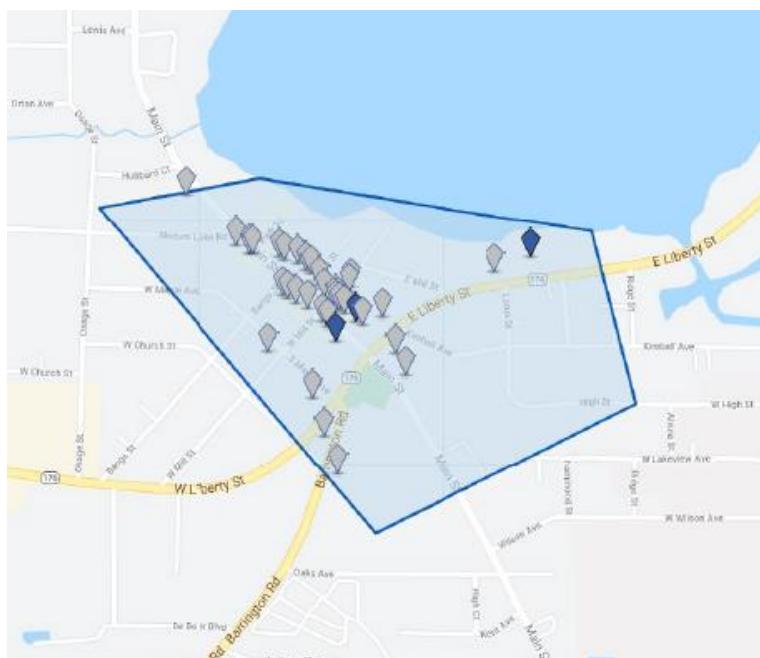
Rand Rd Corridor, Miller Rd to Cuba Rd



RT 22 Corridor, Ela Rd to N. Quentin Rd



Downtown Barrington



Downtown Wauconda

Section 4. Viability of a Plan Recommending the Comprehensive, Mixed-use Redevelopment of Downtown Lake Zurich.

- a. Are Plans for the Downtown Being Implemented? To date, the Village has been unable to identify a private investor interested in constructing the mixed-use redevelopment project as set forth in the planning documents described above in Section 2. This is the case even though the Main Street sub-area is wholly within a TIF District, allowing opportunities for public-private partnerships and the use of TIF funds to support such ventures. The Village's authority to provide financial assistance in a TIF redevelopment effort, for whatever reason, has not proven to be enough stimulus or provocation for private investment to build a redevelopment project promoted in repeated downtown planning documents and policies.

In its March 24, 2019 issue of "Benchmarks", after more than fifteen years of envisioning a downtown that would be revitalized through the construction of one or more mixed-use redevelopments, the Village asks its readers several questions. Ultimately, there are two questions posed in this issue of "Benchmarks" that bring this report to the fore. These two questions speak to whether the above-described planning efforts are still viable.

Question: "Does it make sense to continue to pursue the 'downtown' concept?" Our answer to this would be, "Probably, at least for a limited amount of time". However, for the plans to remain at least potentially viable, the Village must take action to help attract people to the downtown, short of its desired redevelopment. Something must be done to increase the awareness that the downtown still exists, albeit even if somewhat off the beaten path.

Question: "More broadly, is now the appropriate time to step back and reconsider what community need the 'downtown' concept would fulfill, and whether there are more innovative and workable means to satisfy it?" Our answer to this second question is, "Absolutely". Clearly it is folly to dogmatically continue to have faith in a plan that has proven over a fifteen-year period to be otherwise unsustainable by conditions on the ground.

- b. Recognizing Market Forces. Beyond the above-described conditions of today's retail climate, there is also the "it is what it is" condition specific to the village's historic downtown commercial district. At the October, 2019 Annual Conference of the International Economic Development Council, when considering a community's identity and market position, site selection and cluster analysis consultant, Dennis Conaghan, stated simply, "You are what the market brings you". Conversely, perhaps "you're not what it does not". Beyond the realities of the retail real estate market described in Section 3, fortunately, this condition may change as preconditions on the ground change, such as: a greater number and concentration of housing units in the market; increased awareness that there is a downtown Lake Zurich; an increase in passerby traffic (in the instant case, at least pedestrian mode if not vehicular); regularly occurring concentration of destination-type goods, services or activities offered in the downtown; and the promotion/marketing of such goods, services and activities, whether private or public.

Section 5. Suggestions for Stimulating Downtown Economic Development

Apparently the redevelopment investment market believes downtown Lake Zurich has not been and is not now the right location for mixed-use redevelopment. The downtown does not *presently* compete well against site opportunities in other neighboring communities, particularly those communities whose downtowns include a commuter rail station.

If the Village decision-makers concede this point and feel it is now the appropriate time to re-think their immediate priority of transforming the downtown through one or more mixed-use, redevelopment projects, then these same people should consider what can reasonably be accomplished to alter the downtown's value proposition? In our view, the Village should do whatever it can to bring people into the downtown itself, both in terms of permanent residency and with respect to creating things for residents and nonresidents to see and do downtown.

- a. Commercial Real Estate Brokerage Representation. In researching CoStar data, it appears that the Village has not retained a commercial real estate broker (of if it had at one time, no such individual is included in the LoopNet listing). If this is the case, the Village should consider entering into an "exclusive representation" contract with a commercial brokerage firm having proven successful experience in the NW suburban submarket.
- b. Distributing Another RFP. Considering the change in economic conditions since the 2013 RFPs were distributed (although some may describe the change in retail conditions since then as having only gotten worse), the Village may want to consider resurrecting the RFP initiative.
- c. Perfecting the Downtown's Value Proposition. Assuming that there remains real interest in attracting a developer, builder or specific business, the Village must identify something that it has which makes it unique, or at least distinctive, in the market place. Of equal importance, the Village should also identify what it is that your target customer needs to be successful. If you determine that you have it, ask yourself how you can enhance it. On the other hand, if you determine that you do not have it, then ask yourself how you can create it. If you have or can create your target customer's identified needs to be successful, promote this community attribute to your target as your community's value proposition. Assuming area-wide supply and demand dynamics are positive for your target (whether associated with product, service, residential or commercial building space, etc.), this synergy is your mutual sweet spot. We have developed a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for the downtown area and have included same as an appendix to this report.

This may be an appropriate time to discuss the 15,000+- retail/restaurant building proposed for West Main Street in Block A and across from The Promenade. Some may say that "if you build it, they will come". We would probably qualify that statement with, "but generally only if you already have something to build upon". That said, we think the project concept and architecture is perfectly appropriate for the subject site, just likely premature. However, if the Village were to consider constructing this project on its own, whether in the near or long term future, our recommendation would be that such an initiative is an unjustifiable risk and should not be undertaken. Again, if to date the private market has not brought this project to the Village, its likely not ripe for development.

- d. Allowing Medium to High-Density, Residential Buildings, Including Street-Level Residential Use. Amending the Village's Existing Land Use and Development Regulations. The Village should consider changing its land use and development regulations to allow for medium to high-density multi-family housing (25 - 40 dwelling units per acre) in buildings of up to four or five stories in its downtown. Consideration should also be given to allow for such buildings to be built with only a limited percent of total street level space devoted to commercial occupancies or, in unique circumstances, without any commercial space required within the building at all. Under either composition, these buildings could bring a significant number of rooftops *and buying power* directly into the downtown.

There are several examples where Chicago suburban communities have faced project proposals that include residential units for street-level space and in some cases, at a significant percentage of all such space. In the examples given below, zoning regulations either outright prohibiting or greatly limiting street-level residential uses served to threaten the project's economic viability and ultimately its construction.

- 101 West. N. Hough Rd (Rt 59), Barrington. The developer's position was that constructing commercial space in the proposed downtown building was economically infeasible. According to the Village's Assistant Director of Development Services, Jennifer Tennant, "Because the Village saw the benefits of the additional rooftops in its downtown, *zoning entitlements were amended so to approve this exclusively residential project*" (emphasis added). The project is a 4-story, all residential building, with 64 luxury rental apartments. There is no commercial component. Here below is a rendering of the completed project.



- Ninety Seven Fifty On the Park, 9750 Crescent Park Circle, Orland Park. 295 Apartments, 4-5 Story Building with on-site, interior parking lot and 4000 SF of street-level commercial. According to Ed Lelo, Operations Manager for the Village's Development Services Dept., the apartments are about 85% occupied. However, Mr. Lelo informed me that, "Although at one time there were two independent café businesses located in the commercial space, all 4000 SF is now vacant and has been for more than two years now." Bob Rychlicki of Kane McKenna, who had completed the original financial analysis and subsequent update on the project for the Village, has stated that the commercial space in this project has been "a drag on the project financials".
- F & C Development. Main and Ogden, Lisle. Proposed 4-Story, Mixed-Use Downtown Building. Of the 215 apartments proposed for the project, 34 of these are proposed for ground floor spaces fronting School Street and Spencer Avenue. According to Michael Smetana, Lisle Development Services Manager, F&C allowed its contract to purchase the property to expire, while contesting the Village's objection against building the ground floor apartments. Here again, with respect to this proposed mixed-use project, Mr. Rychlicki with Kane McKenna noted that the Village zoning code's prohibition against residential uses at street level had placed additional risk on building the project, presenting challenges to the developer's respective financial pro forma.
- Foxford Station. Wolf Rd. & Burlington Ave, Western Springs. 4-Story, mixed-use downtown redevelopment project. The first floor consists of 3579 SF of commercial space (no leases in place but now planned for office and/or service use) and parking. Floors 2 through 4 consists of 28 condos. The project is about 98% completed. Ms. Dianne Williams of Business Districts, Inc., who is familiar with the project, has noted that projects like Foxford Station prove that "finding tenants for commercial spaces can be difficult, as most of the ground level retail/commercial space in these types of new mixed-use developments is really challenged".

- Marq on Main. 4755 Main Street, Lisle. Two, 5-story buildings, 201 residential units, four commercial spaces with two filled (coffee shop and small gym) and two other, 4800 SF commercial spaces, that are currently vacant.

e. Temporary Land Uses to Bring People Downtown.

- PopUp Chalet Retail. Since 2017, the City of Muskegon, Michigan has experienced widespread success in generating new foot traffic and retail sales through its conversion of an otherwise vacant block (formerly a failed mall, demolished by the City) into a stage for a “PopUp Chalet Retail” district along the City’s Western Avenue. Branded the “Western Market”, this shopping district consists of approximately 15 individual, City-owned chalet buildings, ranging from 90 to 150 square feet. In a May, 2017 article in *Real Estate Development*, when the Western Market first opened, these independent retailers were either new to downtown Muskegon or just new to brick and mortar space, expanding their business while offering a mix of products and experience that Muskegon pedestrians hadn’t seen before. Products offered for sale at the Western Market are nearly exclusively from Michigan artisans, chefs and collectors and include jewelry, sculpture, paintings, photography, sewn, knitted, embroidered, woven and screen printed apparel, blankets, bags and hats, etched and hand blown glass items, candles, essential oils, bath bombs, gourmet popcorn and small batch-baked goods, unique confections, stuffed animals, toys, vintage kitchen and home furnishings.
- According to the City, 2019 rents cover the entire season, May to December, and vary from \$1,325 to \$2,125 for a single chalet, depending on floor area. The tenant must meet required hours of operation as part of their lease arrangement. There are portable bathrooms located behind the chalet and each contains and air door. Tenants may also install their own, wall-mounted AC unit. As the total distance between the width of the sidewalk and the depth of the chalet buildings is less than 25 feet, leaving considerable space on the lot behind the chalets, the City has put in a sand volleyball court to add yet another reason to visit the Western Market.

Besides providing a quick and fairly inexpensive (chalet buildings were either purchased for \$10,000+/-, or were constructed at less cost by the City’s public works department) means to create economic development, there are a number of sound reasons to create a chalet retail district in an otherwise challenged downtown, such as:

- Provides another reason for people to visit the downtown area;
- May meet a pent-up demand for purchasing unique products and collectables;
- visiting unique locations, having a unique experience;
- Brings together entrepreneurs (creative, non-risk averse types), potential for cluster development of “maker microbusinesses”*
- Serve as incubator spaces for new business activity;
- Provides a beta test to help predict downtown sales by product type;
- Could create a basis for a “Made Local” branding effort.

* According to a 2018 study by the National League of Cities, communities across the US are finding great success with encouraging the development of “maker-entrepreneurs” and “maker-microbusiness”. Makers are potters, artists, jewelers, metalsmiths, woodworkers, seamstresses, printers, painters, etc. According to the study, “[t]hese entrepreneurs are taking advantage of a growing market for local handmade and vintage goods”, generally selling such products on-line. A downtown chalet retail space can bring a local maker from behind his or her computer to a first experience with a brick and mortar space and retailing experience. Data from the *US Census Bureau* and *A to Z Databases* provide ample evidence that Lake County is well-represented by resident artists and by persons with high interest levels in arts and crafts.



Muskegon's Western Market (Chalet Retail)

- **Bocce Ball.** It would be relatively easy and inexpensive for the Village to place one or two, family-friendly bocce ball courts on one of its currently vacant lots downtown. Although a “regulation” bocce ball court is 90 feet in length and between 8 and 13 feet in width, the game is played all over in varying sized courts, basically following a similar ratio, length to width (e.g., 60 L x 10 w). Depending on surface material), and material of the court’s outer frame, a bocce ball court can cost as little as about \$7.00 to \$10.00/SF to construct.
- **Outdoor Chess Tables.** Chess is a game for everyone, enjoyed across the world by men and women, boys and girls, from 10 years old to those in their nineties. Typically taking only about 6 square feet in area and ranging in cost from as little as five or six hundred dollars to upwards of two thousand dollars per table and seats, a couple of strategically placed chess tables, visible to passerby pedestrians and persons incidentally driving through the downtown, would create interest and activity along the street. This opportunity should be readily explored by the Village.



Bocce Ball Court Action



Outdoor, Public Chess Tables

- **Christmas Trees Along the City Parkway.** For a small investment, the Village could make a very dramatic statement at a central downtown location (e.g., the hard corner of Main Street and Old Rand Road) by staging a community tree trimming event along the sidewalk of a public street downtown. Purchasing the trees and lights in bulk for such an event (ideally from a local vendor) and allowing resident groups, businesses and not-for-profits to “sponsor” a tree by trimming it with creative decorations and would play into the previously mentioned “Made Local” theme.



Community Tree Trimming (Brookfield Zoo)

- **Other Miscellaneous Temporary Uses for Downtown.** Other potential activities that may provide additional interest and reasons for both local and out of town residents to visit downtown Lake Zurich may include a community garage sale or cashless swap/shop, arts and craft festivals, and organized performances (“reader theater”, children/students band or orchestra).

Section 6. Conclusion

The land use history in downtown Lake Zurich over the past 15-20 years would indicate that the long-held Village vision of significant mixed-use redevelopment has, to date, not transpired. This, notwithstanding the Village’s many proactive efforts toward adopting plans and policies meant to encourage private investment, including but not limited to, creating the downtown TIF District and refinancing its debt, acquiring strategically located downtown properties and, through demolition, making such properties shovel-ready. There is now a need for the Village to recalibrate its land use planning and regulations affecting its historic downtown commercial district and, while perhaps not yet giving up on its long-held vision of mixed-use redevelopment for the downtown, take near-term actions to help raise the awareness of downtown Lake Zurich’s existence and provide reasons for people to visit it.

The growth in popularity of and inherent consumer efficiencies offered at the many and vast shopping centers in and surrounding the Village of Lake Zurich, coupled with constructing the RT 22 bypass, have served to ultimately further erode the economic viability of the downtown, particularly with respect to its somewhat already disadvantaged position vis a vis other suburban downtowns that have Metra commuter rail stations. These conditions were, of course, exacerbated by the recession of 2007-2009 and its aftermath affecting nearly all sectors of the economy. Furthermore, the contraction in the need for retail space nationwide over the past ten years has resulted in the vacancy of thousands of square feet of retail/restaurant floor area. One may rightly describe the above events as the crescendo in creating a perfect storm for the downtown.

However, the Village may consider actions in addressing this perfect storm condition and this report both identifies and assesses the effects on the downtown of the aforementioned events, as well as providing example activities that may prove effective in changing the near-term perception of downtown Lake Zurich. These activities include, in the short term, considering retaining professional commercial real estate brokerage to assist the Village in selling its downtown properties, reigniting the RFP process in hope of securing redevelopment proposals for the downtown, identifying and promoting the downtown’s value proposition(s) when targeting desired developers, business interests and consumers, encouraging the development of more housing downtown through modifying land use and development regulations affecting the downtown area, and, if nothing else, in the meantime, creating opportunities for temporary land uses and activities to raise the area-wide awareness of downtown Lake Zurich and provide new reasons for persons to visit the district.

Appendix

Strengths, Weaknesses, Opportunities and Threats Analysis Downtown Lake Zurich

Strengths

No. of HH within 20-minute walk time from Old Rand and Main Street (2546) and within 3 miles (13,534), with median household income of \$98,350 and \$133,400, respectively.

Lake Zurich (the lake itself), although with very limited opportunities for direct public access, city-owned properties afford local residents and visitors some access and/or visibility opportunities.

Buying Power within 15 miles from Village geographic center (per 2019 draft Comprehensive Plan), including a considerable number of affluent households (\$200,000 median household income or greater), the majority of which are occupied by persons between the ages of 25 and 44. Persons in this age cohort are often engaged in growing their personal property assets, including durable goods, while also looking for life experiences, such as visiting unique places, dining, entertainment and recreation.

Due to pro-active measures by the Village (property acquisition and building demolition), unlike many rural/exurban communities, the existing building inventory does not include a significant number of unsightly, deteriorating and unsafe buildings fronting streets within the downtown (though there certainly are some).

In the last 15-20 years, the community has coalesced and put its collective focus on plans and strategies to revitalize the downtown, producing formal planning documents, development schematics, including considering higher density land use patterns, and gathering in groups to discuss ways to market and promote the historic downtown.

Per the Village's Comprehensive Plan, under "Feelings about Lake Zurich", the need to revitalize the Village's downtown was a common response of survey respondents when asked about pressing issues facing the Village. This could indicate a willingness by constituents to consider raising funds (e.g., increase in sales and/or property taxes, development fees) that would be specifically ear-marked for Main Street area revitalization activities.

Although currently not comprising significant mass, there is an eclectic retail/service character to downtown Lake Zurich. Businesses such as an independent florist, local barber, shoe repair, ice cream shop and family diner/coffee shop provide the consumer with a good mix of specific goods and services, establishing a setting, or commercial district likely to invite other entrepreneurial retailers, restaurateurs and personal service providers. This character could foster cluster development around creative and unique shopping venues.

The downtown has largely retained a small town aesthetic and character, distinguishing it from many other communities in Lake County that have tried to create or replicate such a "place" in the absence of an original, historic town, or whose once historic feel has made way to massive, new redevelopment.

Weaknesses

There is a lack of anything nearing “critical mass” with respect to an established shopping and/or dining district within the Village’s downtown.

The downtown lacks larger, anchor tenant type retailers (e.g., hardware store, pharmacy, food market).

Much of the existing commercial building stock downtown appears dated and worn, reflecting 1970’s architecture and construction.

Not having a commuter rail station in or near downtown Lake Zurich is a weakness and places the Village at a clear disadvantage with respect to attracting mixed-use development and redevelopment. Such ventures must rely on high density housing in order to offset risk and vacancies associated with filling street level commercial spaces.

There is a lack of available commercial building space (just under 30,000 SF, among approximately 10 properties) within the Village downtown, making new business growth (whether start-ups, relocations or expansions of existing business enterprises) within the subject area problematic. Consequently, at least in the near-term, increasing tenant-ready commercial space will require new building construction or substantial building repurposing, meeting either of these requirements will necessarily come only after considerable investment.

Private commercial property owners have shown to be overly aggressive in their sales pricing, as real estate located in competitive areas within and outside of the Village of Lake Zurich would indicate that such pricing may be unrealistic.

Several individual downtown properties are under the control of only a few private parties. This dynamic often suppresses property sales and redevelopment.

The RT 22 bypass has likely caused reduced awareness of downtown Lake Zurich in the minds of persons visiting other commercial areas within the Village, driving passers-by and even Village residents themselves.

Opportunities

There are several vacant parcels planned for commercial or mixed use in the downtown, including six properties that are owned and controlled by the Village.

There is a stock of underutilized and depreciating buildings in the downtown that, on a case-by-case basis, may be worth rehabbing and/repurposing, creating an increase in both property values and in opportunities for increased business activity downtown.

From all appearances, either through use of city-owned properties or by entering into lease or other shared use arrangements, there is or can be substantial parking to serve new buildings and prospective business parking demand.

In recent years, the overall growing economy, including increased employment and business start-ups, as well as low interest rates, have increased consumer confidence and spending. These factors have also resulted in an overall increase in business investment.

Creating a “Main Street”-type program, structured after the National Trust for Historic Preservation, stressing three of the four-pronged Main Street work plan (i.e., organization, promotion and economic restructuring), either as implemented through the direction of a free-standing organization or perhaps a function of Village department.

Threats

The well-established mass of commercial space along the Rand Road and – to a lesser extent – the RT 22 commercial corridors. 42,000 average daily trips (ADT) along this regional arterial dwarfs traffic volumes found at the intersection of downtown Main Street and Old Rand Road.

Nearly 77% of the entire inventory of leasable retail, restaurant and office building space is found either along the Rand Road or RT 22 commercial corridor, driving consumers and, prospective tenant businesses to these two highways and away from the Village downtown.

There are several other communities with well-established commercial centers and located within reasonable consumer drive-times from persons that may otherwise be consumers or tenants, including Deer Park, Barrington, Long Grove and Wauconda.

On-Line shopping. According to US Census data, ecommerce has reached approximately 11% market share for retail sales across the country.

The Village’s existing zoning/building codes prohibit or discourage the downtown development of buildings of four or more stories and residential structures with greater than 12/du per acre.

Existing code prohibiting tavern uses (i.e., businesses that do not serve food as a set percentage of overall sales as a condition of obtaining and retaining a liquor license).

Under TIF statutes, the Village is limited in its authority to pay critical development costs as a means to incentivize a developer to construct new commercial or mixed-use buildings within the TIF project area.

Downtown residents, in many cases, have shown resistance to infill redevelopment, particularly in the case of high density use or greater mass buildings, as this would be trading neighboring vacant, bucolic lots for a built-up environment, possibly diminishing the historic, downtown charm. Change is often disrupting to and unwanted by current – particularly, longstanding – stakeholders in a community.

Recently, we have seen a general trend nationally for contraction rather than expansion of retailer enterprises. The consensus among professionals in the retail real estate arena is that in the United States, including the Chicagoland market, the development world has simply over-built retail space.