<u>Designation of Area</u>

As part of the Class 7b Incentive, the subject property located at 15080 La Grange Rd. in Orland Park, Illinois (PINs: 27-09-401-051-0000) must be located in an area designated in need of redevelopment. Therefore, 55th & S. Kedzie LLC ("Applicant") is requesting that the Village of Orland Park pass a Resolution designating the subject property as blighted, a renewal area, an area encompassing a rehabilitation or redevelopment plan or designation of like effect adopted under any similar statute or Ordinance. In support, please find the attached Gruen Gruen + Associates report determining that the property is in need of redevelopment and that the Class 7b Incentive is necessary to bridge a feasibility gap for the needed redevelopment of the subject property.

WHETHER REDEVELOPMENT BLIGHTING CONDITIONS EXIST AND THE NEED FOR A CLASS 7(B) INCENTIVE TO BRIDGE A FEASIBILITY GAP FOR THE REDEVELOPMENT OF PROPERTY LOCATED AT 15080 SOUTH LAGRANGE ROAD, ORLAND PARK

To

SARNOFF AND BACCASH PROPERTY TAX LAW

From

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

October 2021

C1578

WHETHER REDEVELOPMENT BLIGHTING CONDITIONS EXIST AND THE NEED FOR A CLASS 7(B) INCENTIVE TO BRIDGE A FEASIBILITY GAP FOR THE REDEVELOPMENT OF PROPERTY LOCATED AT 15080 SOUTH LAGRANGE ROAD, ORLAND PARK

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APPLYING KNOWLEDGE

CREATING RESULTS

ADDING VALUE

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MEMORANDUM

Date: October 25, 2021
To: Robert M. Sarnoff, Esq., President, Sarnoff and Baccash Law
From: Gruen Gruen + Associates
Subject: C1578: Whether Blighting Conditions Exist and The Need for a Class 7(B) Incentive to Bridge a Feasibility Gap for the Redevelopment of the Property Located at 15080 South Lagrange Road, Orland Park, Illinois

INTRODUCTION

Gruen Gruen + Associates ("GG+A") has been asked to evaluate whether blighting conditions apply to a property located at 15080 South Lagrange Road in Orland Park, Illinois[1] and that therefore the property is in need of redevelopment. In addition, GG+A was asked to evaluate whether a Cook County Class 7(b) tax incentive is needed to facilitate the feasible redevelopment of the shopping center including the vacant building space formerly occupied by Art Van Furniture in order to eradicate the blighting conditions.

To complete the evaluation, GG+A inspected the property and environs, obtained information from representatives of the owner of the property as well as property and assessed valuation data from the Cook County Assessor's Office and from property listings. GG+A also simulated the real estate investment results of the redevelopment, operation, and eventual sale of the property with- and without- the Class 7(b) tax incentive. The Class 7(b) tax incentive would only apply to the vacant anchor space consisting of approximately 65,600 square feet of building space.

[1] Until new PIN numbers 27-09-401-050-0000 and 27-09-401-051-0000 were obtained in 2021 to "split" the former Art Van Furniture property and remaining the strip retail space into two separate properties, the PIN for the formerly combined properties for which assessment history exists was 27-09-401-049-0000.

BASIC CONCLUSIONS

The conclusion that the property is subject to blight and in need of redevelopment is supported by the following findings:

- The equalized assessed value of the property has declined over time;

- Since the Art Van Furniture store closed in March 2020 the building space in which the Art Van Furniture store was located has remained vacant and another 8,948 square feet of the remaining 29,383 square feet of space in the retail center is also vacant for a vacancy rate of 30 percent for the smaller shop space and a total vacancy rate of 78 percent for the entire center. The center has experienced persistent and increasing vacancies since 2013;

- As indicated by the low occupancy rate, low rental rates, and physical deterioration and dilapidation, and deleterious land use described below, the property is both competitively and physically obsolete. It is not responsive to contemporary user or customer preferences;

- Structures and site improvements on the property are deteriorated including, for example, defects in the components such as doors which require replacement in the building space formerly occupied by Art Van Furniture. The windows in the former Art Van Furniture building space also require replacement. The fascia and façade of the retail center need to be replaced and upgraded. Surface improvements evidence deterioration, including, but not limited to, surface cracking, crumbling, depressions, loose paving material, and weeds protruding through paved surfaces;

- The vacant building space formerly occupied by Art Van Furniture is dilapidated. The roof needs replacement. New interior LED lighting needs to be installed in the former Art Van Furniture space while exterior lighting updates are required as part of the façade improvements needed for the exterior of the retail center. The parking lot detention facilities need to be rehabilitated to modern design standards. Some utilities are reportedly deteriorated, in disrepair, and antiquated and will need to be relocated and improved to modern standards; and

- The property is subject to deleterious land use and layout – The property includes low-end tenancies incompatible and inconsistent with a location across the street from the 1,230,000-square foot Orland Square regional mall and within the primary commercial corridor of Orland Park. Examples include an eyebrow threading shop, tattoo parlor, currency exchange, and dollar store which discourage attraction of more suitable retailers and discourage the number of shopping trips by area households and workers that would visit these other more appropriate to the area retailers.

  The inline strip center layout of the 1980s vintage retail center does not have direct left turn access into the center from northbound on LaGrange Road. The optimal configuration for access to a retail center is at least two entrances on the main road. To partially address the layout constraints the owner plans to widen and extend the drive lane in the rear of the property to accommodate a new truck dock that will also need to be installed.

In addition, the results of the real estate economic analysis indicate that but for the Class 7(b) tax incentive for the former Art Van Furniture property, it would not be financially feasible for the private sector to redevelop, occupy, and operate the vacant property. Without a Class 7(b) tax incentive, the potential investment returns from the redevelopment, occupancy, operation, and eventual sale of the property would be too low relative to the associated risks and costs to justify the investment of capital and entrepreneurial resources to undertake the redevelopment/reuse.

BLIGHT CONDITION FINDINGS

The Village of Orland Park must designate the property area as "blighted" and in need of redevelopment to meet Cook County Class 7(b) eligibility requirements. Consistent with the eligibility factors required to apply under the Illinois TI Act, we conclude that the property is subject to blight and can be appropriately designated as a Redevelopment Project Area. This conclusion that the retail center is blighted and in need of redevelopment is based on finding that the following factors pertain to the property:

The first eligibility factor that applies is a "Lagging" or "Declining" EAV. Table 1 shows that the equalized assessed value (AV) of the property (including the Art Van urniture property and the remaining strip retail property) e hibits a pattern of decline.

TABLE 1: Equalized Assessed Value (EAV) Trend[1]			
	Assessed Value	qualization ultiplier	qualized Assessed Value (AV)
2015	2,12 ,4 8	2. 85	5, 74,400
201	2,12 ,4 8	2.80 2	5,9 0,8 1
2017	2,242,482	2.9 27	, 4 ,801
2018	2,185,184	2.9109	, 0,852
2019	2,000,000	2.91 0	5,8 2,000
2020	1,4 5,1 9	.22 4	4,722,82
Change 2015-2020	- 1,2 9		-951,574
[1] PIN: 27-09-401-049-0000			
Sources: Cook County Treasurer Cook County Assessor Gruen + Associates.			

The AV of the property has declined in three of the prior five years. Since 2015, the AV has declined by 952,000 or about 17 percent.

The second eligibility factor that applies is "Excessive Vacancies". The presence of unoccupied and underutilized buildings such as the former 5,000-square-foot Art Van urniture store represent an adverse influence on the shopping center. The appro imately 5,000-square-foot big bo space was vacated by Art Van urniture in arch 2020 and has since remained wholly unoccupied. In addition to the vacant Art Van urniture store, another 0 percent of the retail center space is vacant. The total vacancy rate for the shopping center is 78 percent. According to the owner the retail center s vacancy rate has significantly increased since 201 and the center has e perienced persistent and prolonged vacancies.

oreover, the number of big-bo users who would backfill the vacant Art Van store is limited. A former Toys R s store across the street from the vacant Art Van urniture store was torn down for development of four new restaurants.[2] Pier 1 Imports also closed at 151st and LaGrange Road and the store space has not been re-occupied. The 1,2 0,000-square-foot Orland Square regional mall owned by Simon was heavily incentivized to bring in Von aur to replace Carson Pirie Scott and still has a major vacant anchor space to fill. A scarce number of retailers in today s market will occupy large, single-tenant spaces of 5,000- square-feet or more (other than those which already have store locations in or near the corridor such as ome epot, Target, and almart).

Table 2 shows e amples of vacant retail space in the corridor (in addition to the Orland Square mall vacant space), indicating that the retail center suffers one of the largest amounts and rates of vacant retail space in the corridor.

TABLE 2

Retail Space Availability in Orland Park

Name Address of Center	Total Space _ Square eet	Available Space _ Square eet	Vacancy Rate __
Subject Property **15080 South Lagrange Road**	95,0 1	74,59	78.5
Orland Park Place[1] S C 151st & LaGrange Rd.	41,777	1 7,071	21.4
Orland Square rive	17 ,44	72,000	40.8
ania urniture Center[2] 14812-148 0 S. LaGrange Rd.	50,000	4 , 07	92.
Lake View Plaza 15854 S. LaGrange Rd.	0,000	50,884	14.1
14700 S. LaGrange Rd.	11,074	7, 0	.4
Orland Park Plaza 15 01 S. 94th Ave.	59,875	18,970	1.7
ain Street Village est 9 04 . 1 1st Street	1 ,1 4	1 ,1 4	100.0
Park ill Commons 9010-90 0 . 159th St.	0, 2	17,414	57.5
Total	1,4 7, 90	4 7,7	0.4

[1] Includes vacant 55,804-square-foot space and ,74 -square-foot space.
[2] Includes vacant ,000-square-foot space of former ania urniture.
Includes 25,400-square-foot vacant space.

Sources: C R id America Group Loopnet.com Gruen Gruen + Associates.

The e amples indicate nearly 4 8,000 square feet of vacant space for an overall vacancy rate of over 0 percent. This suggests competition for scarce large retail tenants will be intense and that some of the e isting properties in the corridor with e tensive retail space vacancies will need to be redeveloped.

The prolonged vacancy of the retail center negatively impacts other nearby land uses by contributing to an e cess supply of commercial space and by reducing consumer visitation and

[2] 4 Restaurants Planned or ormer Toys R s Space In Orland Park Orland Park, IL Patch.

commercial traffic. Adjoining stores and restaurants would benefit from the re-occupancy of the former Art Van urniture store by a major draw such as a Pete s resh arket.

A third eligibility factor that applies is "Deterioration". Structures and site improvements on the property are deteriorated including, for e ample, defects in the components such as doors which require replacement in the building space formerly occupied by Art Van urniture. The windows in the former Art Van urniture building space also require replacement. The fascia and fa ade of retail center need to be replaced and upgraded. Surface improvements evidence deterioration, including, but not limited to, surface cracking, crumbling, depressions, loose paving material, and weeds protruding through paved surfaces. Appendi A includes photographs showing e amples of deterioration.

A fourth eligibility factor is "Obsolescence". The property was designed for an inline retail strip center format more than 40 years ago. The retail center design and layout is obsolete. The physical obsolescence reflects the age of the property and lack of modernization in terms of layout, e terior facade, lighting, signage, landscaping, and lack of outlot pads. The retail center s high amount and percentage of vacant space, low rents averaging 1 .50 per square foot, and few low-end tenancies remaining in the center demonstrate it is competitively obsolete and not positioned to attract tenants favored by customers including area households and workers that would patronize more desirable tenants including a strong necessity tenant such as a Pete s resh arket.

A fifth eligibility factor that applies is "Dilapidation". The vacant building space formerly occupied by Art Van urniture is dilapidated. The roof needs replacement. New interior L lighting needs to be installed in the former Art Van urniture space while e terior lighting updates are required as part of the fa ade improvements needed for the e terior of the retail center. The parking lot detention facilities need to be rehabilitated to modern standards. Some utilities are reportedly deteriorated, in disrepair, and antiquated and will need to be relocated and improved to modern standards.

A sixth eligibility factor that applies is "Deleterious Land Use or Layout." The property is subject to deleterious land use and layout. The property includes low-end tenancies incompatible and inconsistent with a location across the street from the 1,2 0,000-square foot Orland Square regional mall and within the primary commercial corridor of Orland Park. amples include an eyebrow threading shop, tattoo parlor, currency e change, and dollar store which discourage attraction of more suitable retailers and discourage the number of shopping trips by the area households and workers that would visit these other more appropriate to the area retailers, including a strong necessity retailer such as Pete s resh arket that induce more frequent trips and encourage multi-purpose shopping.

The inline strip center layout of the 1980s vintage retail center does not have a direct left turn access into the center from northbound on LaGrange Road. The optimal configuration for access to a retail center is at least two entrances on the main road. To partially address the layout constraints the owner plans to widen and e tend the drive lane in the rear of the property to accommodate a new truck dock that will also need to be installed.

In addition to the findings outlined above that demonstrate blight conditions pertain to the property making it in need of redevelopment, the real estate economic analysis of the redevelopment plan and occupancy by a Pete s resh arket for the property demonstrates but for the Class 7(b) ta incentive for the former Art Van urniture space, the property would not be subject to feasible private redevelopment and reuse.

THE NEED FOR A CLASS 7(B) INCENTIVE TO BRIDGE A FEASIBILITY GAP TO RENOVATE THE PROPERTY LOCATED AT 15080 SOUTH LAGRANGE ROAD, ORLAND PARK, ILLINOIS

To evaluate the need for a Class 7(b) ta incentive, GG+A compared the returns on investment with- and without- the incentive based on the estimated cash flows produced from the build-out, occupancy, operation, and eventual sale of the property from the viewpoint of the owner-investor. One simulation assumes that a Class 7(b) incentive for the anchor space (5, 00 square feet) is provided to facilitate the feasible redevelopment and occupancy of the property. The second simulation holds all other variables the same but reflects the assumption that the Class 7(b) is not provided. The real estate economic analysis is used as the basis to determine whether there is a “reasonable e pectation that the development is viable and likely to go forward on a reasonably timely basis if granted Class 7(b) designation and therefore result in the economic enhancement” of the site. The lack of private financial feasibility without a Class 7(b) incentive is also another basis for concluding the property is in need of redevelopment.

Estimated Development Costs and Business of Anticipated Occupant

stimated redevelopment costs were provided by Pete s resh arket which would modernize the property for its reuse of the former Art Van urniture store to be re-occupied by Pete s resh arket and for the vacant shop space to be re-tenanted. ard and soft construction costs to repair, renovate, replace, and redevelop the building space and grounds are estimated at 90 per square foot of building space or appro imately 8. million.

Market and Operating Parameters

Table summarizes the estimated annual e penses associated with the operation of the improved facility and occupancy of the former Art Van urniture store by Pete s resh arket and the re-occupancy of the vacant shop space in the retail center.

TABLE 3: Annual Operating Expense With- and Without- Class 7(b) Incentive

	ith 7(b) Incentive on Anchor Space		ithout 7(b) Incentive on Anchor Space	
	_ Per Square oot	_ Total	_ Per Square oot	_ Total
Non-Property Ta Operating pense[1]	2.50	2 ,905	2.50	2 ,905
Property Ta pense[2]	.08	581,050	10.44	992, 71
Annual Operating Expense	**8.58**	**814,954**	**12.94**	**1,226,276**

[1] aintenance, landscaping, property insurance, administrative, etc.
[2] or initial 10 years for entire retail center. stimates based on a market value of 150 per square foot and the current ta rate (8. 4). The former Art Van urniture property with a Class 7(b) incentive is estimated to pay 411,000 less per annum in property ta es.

Source: Gruen Gruen + Associates

Non-property ta operating e penses are estimated at 2 4,000 annually, or appro imately 2.50 per square foot of occupied building space. Property ta e penses with- and without- a Class 7(b) incentive for the entire property are estimated at appro imately 581,000 and 992,000 respectively. This reflects the current ta rate applicable to the property (8. 9 percent), the 2020 Cook County equalization multiplier of .22 4, and an estimated property value of 150 per square foot or 14,255,000 following renovation and re-occupancy.

ithout a Class 7(b) incentive for the former Art Van urniture property, annual operating e penses including property ta es are estimated at 1,22 ,000 or appro imately 1 per square foot. The Class 7(b) incentive for the former Art Van urniture property only would reduce total annual operating e penses including property ta es by 411,000 or appro imately 4 per square foot (for the initial 10 years of the incentive).

ased on information provided by the property owner, following redevelopment of the retail center average gross rents for the center are estimated at 18 per square foot with the property assumed to be 9 .9 percent leased following the redevelopment and 98.5 percent leased in the second year following the redevelopment.

Investment and Financing Parameters

This analysis assumes that equity investment into the repairs and replacements and modernization, and re-use and re-occupancy of the vacant building will constitute 100 percent of total capital costs, equaling 8,55 ,000. e assume the redeveloped substantially leased property could be sold at a .5 percent capitalization rate or future buyer s required yield on the purchase of the occupied property.

FORECAST PROJECT CASH FLOW AND INTERNAL RATE OF RETURN ON EQUITY INVESTMENT

ased upon the revenue (rent), e pense, and capital cost estimates described above, Table 4 summarizes the property cash flow over 1 years and the Internal Rate of Return (IRR) on equity investment over that period with- and without- a Class 7(b) ta incentive for the former Art Van urniture property.

The C R Cap Rate Survey for 2021 indicates prevailing capitalization rates of .0 to 7.0 percent for Class A neighborhood community retail centers in the Chicago metro. The 14,992 square foot net leased algreens on the hard corner of a signalized intersection along 159th Street in Orland Park was offered for sale at a .0 percent capitalization rate - document.pdf (loopnet.com).

TABLE 4: Property Cash Flows With- and Without- Class 7(b) Tax Incentive

	With Class 7(b) Incentive on Anchor Space					Without Class 7(b) Incentive on Anchor Space				
	quity Investment	Net Operating Income[1]	ebt Service	Proceeds from Property Sale[2]	Total Cash low	quity Investment	Net Operating Income[1]	ebt Service	Proceeds from Property Sale[2]	Total Cash low
ear 1	(8,552,790)	(290,525)	---	---	(8,84 , 15)	(8,552,790)	(49 ,18)	---	---	(9,048,97)
ear 2	---	84 , 87	---	---	84 , 87	---	4 5,0 5	---	---	4 5,0 5
ear	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear 4	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear 5	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear 7	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear 8	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear 9	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear 10	---	8 9,159	---	---	8 9,159	---	457,8 7	---	---	457,8 7
ear 11	---	7 2,052	---	---	7 2,052	---	457,8 7	---	---	457,8 7
ear 12	---	594,945	---	---	594,945	---	457,8 7	---	---	457,8 7
ear 1	---	457,8 7	---	,902,777	7, 0, 15	---	457,8 7	---	,902,777	7, 0, 15
Total	**($8,552,790)**	**$9,293,968**		**$6,902,777**	**$7,643,956**	**($8,552,790)**	**$4,975,090**		**$6,902,777**	**$3,325,077**
Internal Rate of Return (IRR)					**8.1%**					**3.4%**

[1] Gross rent payment less property ta es and non-ta operating e penses.
[2] Net Operating Income in ear 1 is capitalized at .5 percent (.5). Sales e penses of two percent (2) are deducted from sales price.

Source: Gruen Gruen + Associates

In ear 1, as summarized above, an equity investment of 8. million is assumed to be made. ithout a 7(b) incentive, the total cash flow over 1 years is estimated to total appro imately . million. This provides an internal rate of return (IRR) on equity investment of only .4 percent. Such a low return would not warrant private investment and redevelopment of the property.

If a Class 7(b) incentive is granted for the initial 12-year period, the property cash flow would total 7. million, or appro imately 4. million greater than if no incentive is provided. The IRR on initial investment improves to 8.1 percent over the 1 -year period with the Class 7(b) incentive.

Investment in the proposed reuse and re-occupancy of the obsolete, deteriorated, and dilapidated retail center would not be financially feasible without the Class 7(b) tax incentive. The projections of cash flow from the lease of the real estate would not provide a sufficient rate of return to attract and support private equity investment. The Class 7(b) ta incentive, however, can be e pected to bridge the feasibility gap.

The rate of return (8.1 percent annualized return on equity investment), however, while acceptable in this case is certainly not extraordinary and would not provide a windfall to the owner-investor. ecause the owner and tenant are affiliated, a lower rate of return can be accepted on the real estate investment. The relatively low IRR even assuming the Class 7(b) ta incentive reflects the lack of continued marketing risk. That is, an anchor occupant for the property has been arranged. A higher IRR threshold would be warranted if the project that would be considered “speculative” involved attracting an anchor tenant following redevelopment.

APPENDIX A: SITE INSPECTION PHOTOS

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15028
15022


15026


15028
PULL
NO SMOKING


Art Van
Furniture
Furniture
Mattresses
Outlet
Home Accents


15026