MEMORANDUM

TO: Anthony Puccio, Chairperson
Economic and Community Development Committee Members

FROM: William J. Heniff, AICP, Director of Community Development

MEETING DATE: May 23, 2022

RE: **Synergy Construction and Pacific Retail Capital Partners (PRCP) Economic Incentive – Introductory Memorandum**

Staff is introducing to the Economic & Community Development Committee (ECDC) a potential and pending economic incentive request pertaining to the former Carson's Anchor Store (230 Yorktown Shopping Center) and related perimeter of the Yorktown Center building abutting and adjacent to the site (203 Yorktown Shopping Center). The Carson's site is currently under contract by Synergy Construction (a residential development entity) and Pacific Retail Capital Partners (PRCP) owner of the center mall area. Their plan is to enter into a joint venture to acquire and redevelop the property with a combination of multiple-family housing, active and supportive green/open space area and possible companion peripheral building modifications to the existing mall building. A working name of the project is Yorktown Station.

The due diligence period for the property is rather short and one of their entitlement deadlines is on May 31, 2022. Synergy is requesting the Village introduce their development plan and the economic incentive concepts to the ECDC, in order to determine a support level and assess risk in spending further funds on formal entitlement and economic incentive negotiations.

For reference, companion land use redevelopment concepts were introduced to the Lombard Plan Commission at a Special Workshop session on March 28, 2022. This meeting and subsequent engagement efforts with staff and the Village economic development consultants (Kane McKenna & Associates) has begun, as it is anticipated that zoning entitlements will be requested this Summer along with a formal economic development request to the ECDC. A neighborhood Open House was held on May 17, 2022 to solicit initial public input on the plan concepts.

This item is being placed on the May 23, 2022 ECDC Special Meeting agenda for the following purposes:

1. Staff wants the ECDC members to be aware of the background of the property, proposed project and pending request;
2. Synergy and PRCP is looking for preliminary input from the Village on a pending request; and

3. Not unlike what staff has sought in past pending requests, staff will be seeking concurrence from the ECDC to engage in further efforts with Synergy and PRCP to develop a companion economic incentive agreement for future Village Board consideration.

Staff will provide the draft illustrative concepts for the ECDC members for reference purposes. At the ECDC meeting, staff can offer an additional narrative relative to the development concepts and potential economic incentive parameters.

BACKGROUND – YORKTOWN CENTER

Yorktown Center has been an economic development engine for the Village for more than a half-century. Development entitlements were originally approved by the Village in 1966 and the mall center, peripheral tenants and related anchor auto service centers were constructed and opened in 1968. Subsequent peripheral development such as the Yorktown Convenience Center immediately north of the mall in the 1970s and peripheral uses occurred in the 1970s. In 1995, the Target store was constructed. In 2007, the LPFC/Westin conference center hotel was completed. Perimeter restaurants and uses (Capital Grille, Claim Jumper, Rock Bottom, 5/3 Bank, McDonald's and MB Financial (now a medical office building)) were constructed in the 2000s.

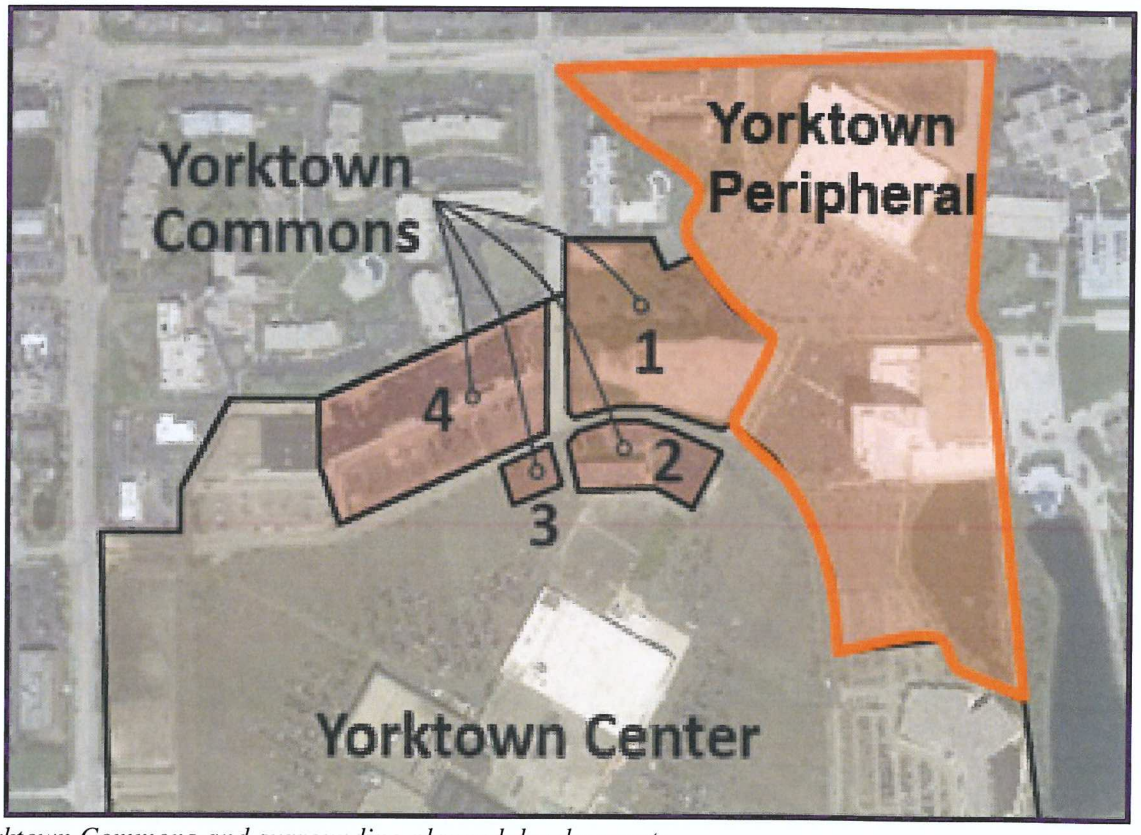
Since acquiring the property in 2012, Yorktown Center ownership undertook significant revitalization and upgrade activities, including: interior renovations, the revitalized food court (Eatery), enhanced main entry, and reconstruction of the parking lot drop-off area to the south side of the center. These improvements were undertaken to enhance the Center's customer experience. However, the overall retail commercial market has dramatically shifted in the last 15 years. The rapid increase in internet sales has fundamentally changed the way that consumers procure goods, which has impacted the viability of regional malls as bricks and mortar retail-focused operations. Malls throughout the country have seen increased vacancy rates as traditional retail tenants have closed or shifted operations to online sales. Additionally, anchor retail department stores have also significantly declined in number and market share. With the loss of anchors, corresponding rent rates have been negatively impacted for mall owners, as it is not uncommon for lease rates to be adjusted if such events occur. This in turn, creates a downward spiraling effect.

For reference, parcels within the center's commercial area are held in various limited partnerships, with the mall center being controlled through PRCP. The anchor store properties are separately owned, historically by the actual anchor tenant on the premises. For the former Carson's anchor store property, the property was owned by Bon-Ton Stores, but was turned over to a receivership entity in 2018, who has been seeking a purchaser of the property.

Many malls have sought to transform in both design and use in order to remain competitive in today's consumer landscape, through introduction of more service-oriented or experience-based businesses. In its place experiential spaces, fitness/recreation centers and integrated residential development are becoming more commonplace in larger spaces. Such local examples include Hawthorne Mall (Vernon Hills), Fox Valley Mall (Aurora), Randhurst Mall (Mount Prospect), and

others. Incorporation of residential land uses is becoming more commonplace as the goal is to stabilize existing retail uses and integrate such centers into a larger mixed-use context. Yorktown Center has added a number of such businesses in recent years, including Amazing Lash Studio, European Wax Center, Paul Mitchell The School, Cycle Bar, Orange Theory Fitness, UFC, and the Barre Code. But such tenancies do not fully address the larger scale transformations.

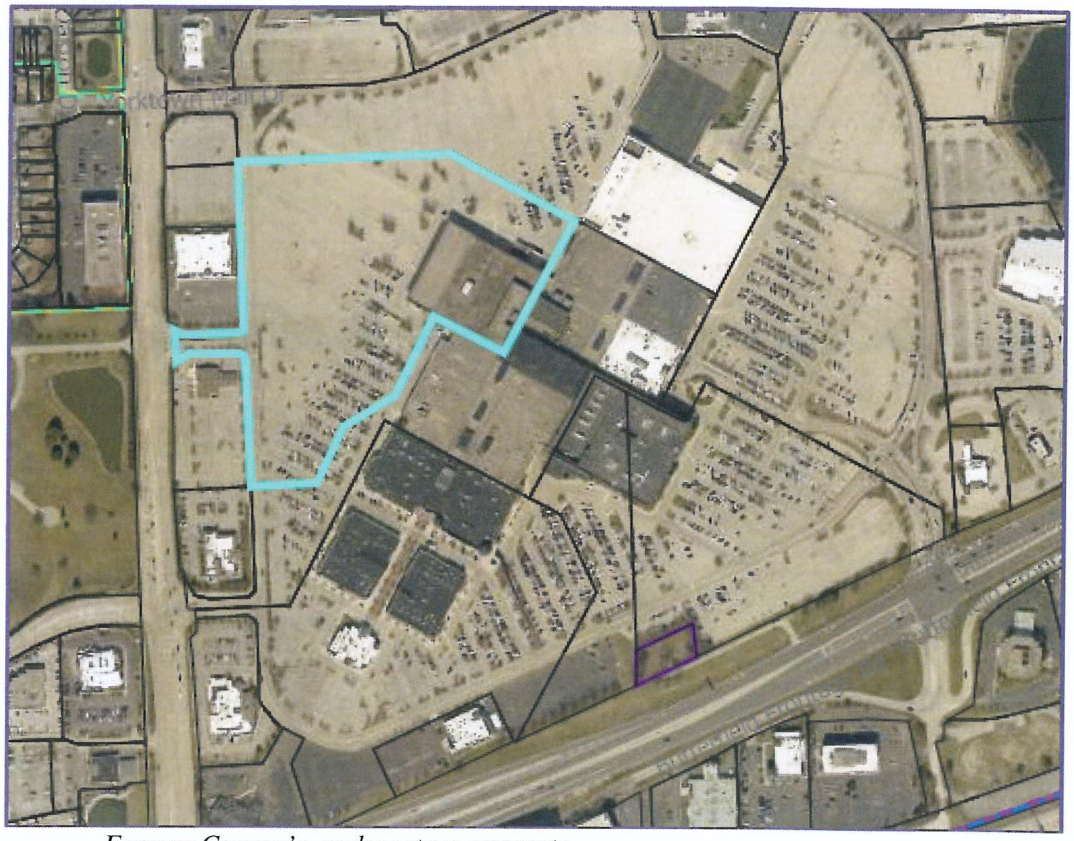
Demand for retail space in general and for large anchor store space in particular has decreased, so adaptive re-use or redevelopment options to incorporate non-traditional uses is quickly occurring. The further redevelopment of Yorktown Center began in 2015, when Yorktown ownership turned its attention to the redevelopment of the northern portion of the center. This area previously consisted of the long-closed Bamboo Room, the underperforming Yorktown Convenience Center and a vacant lot, all oriented around the intersection of Grace Street and the Yorktown Ring Road. Throughout 2015, Yorktown Center ownership worked with the Village to develop a vision for this area, which became known as Yorktown Commons. Since then, Yorktown Commons Parcels 1 and 2 have been developed with multi-family apartment complexes (Elan (#1) and Overture (#2)), which were constructed in the 2017-2019 period and are essentially at full occupancy.



Yorktown Commons and surrounding planned developments

CARSON'S ANCHOR STORE PROPERTY REDEVELOPMENT

The anchor tenant buildings and adjacent parking areas at Yorktown Center were or are owned by their respective anchor store companies (Von Maur, JCPenney, Carson's).



Former Carson's anchor store property.

The former Carson's anchor store closed in 2018 after the Carson's parent company, Bon-Ton Stores, declared bankruptcy and began the process of liquidating its assets. Following the closure, the owner has sought to find a buyer for the real estate. The property was put up for auction in January, 2022. While the auction effort did not result in a purchaser, a partnership between PRCP and Synergy Development is being formed to acquire the property and advance the site redevelopment. This entity is in an expedited due diligence period and this item is being advanced for discussion purposes so that they will have a preliminary assessment of the project feasibility before they incur further costs in due diligence costs, plan development and refinement, engineering services, legal review, financial commitments and incentive considerations.

For an economic development standpoint:

- Private market forces are reflecting that the existing building and land use as currently conceived is not providing benefit to the center and the Village overall. The Carson's

building has been vacant since 2018, with the current owner unable to attract a traditional retail tenant/buyer. Large scale inquiries typically came forward with a Village-incentive inquiry as well.

- The property was also subject of an auction earlier in 2022, however, no parties offered the desired asking price for the property.

- As evidenced by past regional planning and general market indicators, there is an existing oversupply of retail commercial square footage relative to the population in the region.

- A potential purchaser of the Carson's property is proposing to make a significant investment in a non-retail redevelopment of the site, as set forth below.

INTRODUCTION OF FINANCIAL COMPONENTS

Earlier this year, PRCP and Synergy entered into a due diligence period to explore the acquisition of the former Carson's site. For Synergy, it would provide an opportunity to redevelop the site with a multiple-family residential apartment project which would be undertaken in two phases and would consist of about 622 new dwelling units. For PRCP, the project could serve as a catalyst to stabilize the overall Center, provide an opportunity for reinvestment in the Center itself and would include a common green/open space area that would be programmed for active, external uses and activities, not unlike what can be found at Rosemont's Parkway Bank Plaza.

Private development capital investment parameters in their incentive request show they are contemplating an estimated project cost of approximately $198,000,000 for the residential component. Data relative to any investment by PRCP relative to their enhancements has not been provided to date.

Eligible TIF expenses will be significant and will be subject to further vetting upon completion of preliminary engineering activities as well as extended review of construction costs and financing interest costs. Staff does not question that the project will be a "but-for" standard, so the further discussion will pertain to the amount and structure of any incentive request.

FUNDING ASSISTANCE APPLICABILITY

As currently contemplated, two primary funding sources or tranches are identified. First, the Butterfield Road Yorktown Tax Increment Financing (TIF) District was established in 2017 and the Second Amendment to the TIF District was adopted in 2020 to include the Yorktown Center spine, the former Carson's anchor store property, the Carson's Furniture property and the Shops on Butterfield property. The TIF District has 18 years remaining on it and it was developed and amended to provide a non-General Fund resource for such projects.

Eligible uses and costs associated with TIF District funding by the Illinois' Tax Increment Allocation Redevelopment Act (65 ILCS 5/11-74.4-1 through 11-74.4-11) and identified within

the specific TIF District Redevelopment plan and Budget identifies a number of possible uses for this project, including but not limited to:

- Project administration, including studies, surveys and plans along with professional services, such as architectural, engineering, legal and financial planning
- Property acquisition
- Construction of public works improvements.
- Financing costs, including interest assistance.
- Marketing sites within the TIF.
- Demolition and site preparation.

Actual building construction costs are generally not applicable for TIF funding for private projects. Requisite School and Library District payments as set forth within State Statutes (65 ILCS 5/11-74.4-3(q)(7.5) and (7.7) respectively are being contemplated in the review.

Second, the members are also aware of the two Business Districts (BD) for the Yorktown area that were previously approved by the ECDC in 2005 (Business District #1) and in 2019 (Business District #2). These districts established a one percent (1%) additional sales tax on defined retail sales tax activity within the District and must be used to advanced eligible capital expenditures specifically within the respective districts.

In consideration of the proposed projects, staff offers the following frameworks:

1. Eligible TIF costs pertaining to building demolition, site engineering, environmental remediation, selected utility improvements would be a part of the incentive request. This could also be supplemented by current financial unknowns such as interest costs, inflation factors and final acquisition costs may also be incorporated into a request. These funds would be applicable to Synergy's development activities.

2. BD cost requests could pertain to the mall building engineering and exterior modifications, enhancements to the desired open space plaza and the like. While the geography of the proposed redevelopment area is within the BD2 area, it is possible to discuss funds that were previously approved for allocation to Yorktown within the BD1 as a potential revenue source, considering previous and future commitment, and allocation levels. These funds would be associated with the proposed open space area, exterior mall enhancements and related elements as it is envisioned that these improvements would be funded, constructed, operated and maintained on land under mall control and ownership.

POLICY DISCUSSION

As the ECDC members will recall, the Village's Economic Incentive Policy (EIP) will set the framework for any such future discussions. Key elements established within the EIP:

- Any incentives are performance based, not up-front assistance, and is set on a "pay as you go" basis. This requirement is intended to be met, as has been done in the past.
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- The recommended incentive time period for an incentive is 10-years, unless specifically approved by the Village Board. It is possible that a deviation for up to a 15-year period or up to 17 years (i.e., 2040 which is the end of the life of the TIF District) may be contemplated.

- There has been some discussion regarding a possible deviation from the fifty percent (50%) of generated eligible redevelopment cost provisions within the EIP as it pertained to the incremental property taxes generated by the project. For reference purposes, the approved Hoffmann 600 Lombard LLC Economic Incentive Agreement approved in 2021, did offer a policy deviation in the following respects and terms, defined as set forth below:

  "Developer Incremental Property Tax Allocation" *shall be seventy-five percent (75%).*

  "Developer Incremental Property Taxes" *shall be: (i) those Incremental Property Taxes which are received by the Village from the DuPage County Clerk's Office during the Incentive Term; multiplied by (ii) the Developer Incremental Property Tax Allocation.*

  "Eligible Redevelopment Costs" *means the costs of the Project, eligible to be reimbursed, in part, from Available Taxes by the Village, as provided in this Agreement, which qualify as both "redevelopment project costs" under both Section 3(q) of the TIF Act, 65 ILCS 5/11-74.4-3(q), and "business district project costs" under Section 5 of the Business District Law, 65 ILCS 5/11-74.3-5. Estimated Eligible Redevelopment Costs for the Project*

The proposed financial parameters are still under discussion and review by Village staff, Kane McKenna & Associates and Synergy at this time. Staff intends to provide the ECDC with a further information prior to or at the meeting for discussion and consideration if warranted.

FINAL CONSIDERATIONS

A neighborhood Open House meeting as held on May 17, 2022 at the Yorktown Convenience Center, with invitations being sent via standard mail to approximately 1,000 property owners in order to solicit initial feedback on the project and amongst the development team, they felt that there was a warm reception to their project concept. From a Village economic development perspective, Yorktown has been and will hopefully remain an economic engine and to that end the incentive request being conceived is identified as a tool to ensure this outcome. More importantly, the potential additional residential development investment along with the site amenities and enhancements will trigger additional retail or destination activity to the area.

Staff also notes that it is possible that given the nature of the prospective property elements and the proposed joint venture and other financial commitments, this effort may result in the creation of one or two economic incentive agreements for Village consideration.

ACTION REQUESTED

Staff recommends that the ECDC discuss the concepts set forth within the memorandum and direct Village staff and to work with Village consultants, Village Counsel, and relevant parties to undertake and complete a negotiation effort and prepare an Economic Incentive Agreement for Village Board consideration.