



July 18, 2022

To: Board of Trustees, Village of Oak Park

From: John Lynch, Executive Director, OPEDC

Re: Letter of Support – Dom’s Kitchen & Market Sales Tax Sharing Agreement

The Oak Park Economic Development Corporation (OPEDC) is pleased to provide this letter in support of a sales tax sharing agreement between the Village of Oak Park and 1144 Lake Street, LLC, for the purpose of attracting Dom’s Kitchen & Market to 1144 Lake Street. We believe strongly that Oak Park has a unique opportunity to attract an exciting and proven retail operation to a long-vacant gateway corner, and we believe that a sales tax sharing agreement is an appropriate and necessary incentive to attract this tenant.

For the past several months, OPEDC has been in active discussions with Mr. Nick Karris, Principal of 1144 Lake Street, LLC, and its management company Water Tower Realty Management Company, as well as representatives of Dom’s Kitchen & Market (“Dom’s”) to locate and fill approximately 22,000 square feet on the first floor and basement levels of 1144 Lake Street. That property, originally home to a Marshall Field’s department store and located at the highly visible corner of Lake and Harlem Avenues, has been vacant at the ground level since the 2011 closure of the Borders bookstore. While Dom’s corporate real estate team has communicated its intent to move forward with the location and has negotiated terms with Mr. Karris for a 30-year lease (including extensions), the cost to improve the large space at 1144 Lake Street for this unique use requires significantly more investment than other locations Dom’s is exploring.

Due to the extraordinary costs associated with retrofitting the 1144 Lake Street building for tenancy by Dom’s Kitchen & Market, OPEDC’s Board of Directors is recommending a 50% rebate of grocery, retail, and alcohol sales tax receipts for the initial 20 years of the lease. In this letter, we provide detail and rationale for this recommendation.

***Dom’s Kitchen & Market Summary:***

Dom’s Kitchen & Market is an innovative grocery/restaurant/food hall hybrid, founded in part by Bob Mariano of the well-known Mariano’s grocery chain. Dom’s currently operates a single 18,000 square foot location in the Lincoln Park neighborhood of Chicago, with a second Chicago store under construction in the Old Town neighborhood. Dom’s reports that the business has performed extremely well, generating praise and excitement from the community and the industry. Dom’s corporate real estate team is looking to aggressively expand its footprint with more stores over the next several years and has selected 1144 Lake Street as a unique and high-profile “flagship” location to grow its brand.

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### ***1144 Lake Street Site Summary***

1144 Lake Street has been vacant at the ground and lower level for approximately 11 years since the closing of Borders. The long vacancy period mirrors a general decline in large-format retail demand both regionally and nationally that has made attracting a quality tenant very challenging. While the offices above the ground floor have maintained solid occupancy over the years, the high-profile ground-level vacancy has been a constant focus of OPEDC, building ownership, and many stakeholders and residents. In the past few years, proposals or inquiries for the space have included a Bank of America branch, a discount retailer, a performance space, a co-working space, and other ideas, but no user could ultimately make use of the entire space in a manner that was economical for both tenant and owner.

The most obvious challenge with this space is its large size – half of which is below-ground – which severely limits the pool of prospects. The few tenants in the market looking for spaces of this size will generally choose to build new or backfill other single-tenant buildings with ample parking. On the other end of the spectrum, most restaurants and retailers looking for a high-profile downtown location would fill less than half of the ground level space and be uninterested in occupying the lower level. Costly subdivision of the space for such tenants without the ability for long-term lease guarantees has not been financially attractive for building ownership. Other obstacles to leasing have included:

- A lack of significant outdoor seating space
- A lack of dedicated parking
- Large columns within the space that reduce the viability of certain potential commercial floorplans
- Significant cost of installing “black iron” and ventilation (likely up to the roof)
- Unique build-out costs to getting an older/historical building up to modern retail standards

### ***Project Economics***

In evaluating the need for a sales tax sharing agreement, we have worked closely with the Dom’s team to understand the anticipated costs and revenues associated with this proposed store. Given Dom’s projected revenues and an understanding of the Lincoln Park location’s performance, we expect that the store will generate approximately \$350,000 in total annual sales taxes. We recognize, of course, that a portion of Dom’s sales would likely be redirected from other grocery sellers in Oak Park; however, we support Dom’s contention that at least 70% of its sales would be additive, as the novelty and lack of comparable businesses nearby would make Dom’s a destination for Oak Park residents and residents of other municipalities who want to shop for unique food items or have their meals cooked as they shop the market.



On the cost side, estimates provided to OPEDC suggest that the buildout will cost Dom's and the building owner approximately \$13 million combined, and costs have continued to escalate rapidly in the current economic environment. Dom's has reported to us that the cost of this project is approximately \$6.5 to \$8 million more than other locations they are considering, and likely \$6 to \$7 million more than a new construction build. While much of this cost increase is reflective of retrofitting an historic building for an entirely new use, the unusual costs specifically include:

- Cooking ventilation that must likely be carried all the way to the roof, as it cannot vent out to Harlem Avenue or into the back alley;
- A full electrical upgrade for the building due to the load from lighting and refrigeration;
- Rebuilding of the loading area behind the building needs to account for Dom's shipping and loading/unloading needs.

The 50/50 sales tax split over 20 years will not fully compensate for the unusual costs for this location, but would constitute a significant incentive by defraying these costs to where this project is profitable for both tenant and owner in the long term.

### ***Community Benefits***

In addition to the sales tax benefit of this project, this project stands to benefit the Downtown Oak Park business district and the Village of Oak Park as a whole. For over 11 years, the high-profile corner of Lake and Harlem has had its largest commercial space sitting vacant. The visual and psychological benefits of going from a seemingly empty building to a vibrant and thoughtfully designed food and beverage marketplace cannot be overstated. This reactivation stands to serve as an immediate and clear marker of our Downtown's progress for all those who enter Oak Park via Lake Street from the west. In addition, this fresh concept will no doubt bring more shoppers and commercial activity to the Downtown district as a whole. Other businesses along Lake Street and throughout Downtown Oak Park stand to benefit from the increased foot traffic as Dom's draws new shoppers to Oak Park who may also want additional goods and services as they make their stop here.

OPEDC has also had conversations with Dom's with respect to other initiatives designed to enhance the store's benefits to the community. As part of the sales tax sharing agreement recommended in this letter, OPEDC is also recommending that the Board of Trustees encourage Dom's to take steps to provide additional community benefit through their business operations. Specifically, we have encouraged Dom's to commit to local and minority hiring through, for example, local job fairs and advertisements. We have also encouraged Dom's to minimize the use of plastic in its stores by, for example, using compostable cutlery, straws, and packaging rather than plastic. Finally, we would encourage the Board to consider encouraging Dom's to support local anti-hunger initiatives by, for example, making surplus food donations to Oak Park assistance providers.

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### ***Additional Considerations***

When considering incentive requests, we strive to ensure that the benefits to the Village will be long-lasting and that any downside is managed and protected. In this case, the significant improvements to 1144 Lake Street will make the commercial space vastly more leasable to a subsequent tenant in the unlikely event that the Dom's concept proves unsuccessful. Of course, a significant benefit to the Village of a sales tax sharing agreement versus up-front financial incentives is that the incentive is only earned if and when a business is active and producing sales tax revenue to the Village.

Finally, we have researched and considered municipal sales tax sharing agreements in other communities for benchmarking purposes. A review of agreements made available publicly through the Illinois Department of Revenue suggests that while this particular tenant and building type are fairly unique, 20-year sales tax sharing agreements are not uncommon. A small number of agreements have been signed for 10 or 15 years, and another small number for 25 years, but 20 years for regional grocery stores (which, again, differ from the Dom's model) is common. In addition, while most agreements provide for a 50/50 split of sales tax revenues, there are several agreements that return higher percentages of the sales tax to the operator, with rebates of as high as 75%.

### ***Recommendation Summary:***

After reviewing the expected project financials and meeting with both the building's owner and the prospective tenant, the Board of OPEDC supports this project and believes that the project is not likely to move forward without a sales tax sharing incentive.

The Board of Directors of OPEDC therefore recommends that the Oak Park Village Board of Trustees supports a Sales Tax Sharing Agreement between the Village of Oak Park and 1144 Lake Street, LLC, for the purpose of attracting Dom's Kitchen & Market to 1144 Lake Street, with 50% of grocery, retail, and alcohol sales tax being rebated to 1144 Lake Street, LLC, for the initial 20 years of the lease term.

In addition to the Sales Tax Sharing agreement recommended in this letter, OPEDC is also recommending that the Board of Trustees encourage the following as part of the Dom's project:

1. Dom's commitment to local and minority hiring efforts through, for example, local job fairs and advertisements.
2. Dom's willingness to make best efforts to minimize the use of plastic in its stores through, for example, using compostable cutlery, straws, and packaging rather than plastic;
3. Dom's commitment to supporting local anti-hunger initiatives through, for example, surplus food donations to Oak Park assistance providers.

We thank you for your consideration.

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