



Date: October 23, 2018

To: Cara Pavlicek, Village Manager

From: John Lynch, Executive Director, OPEDC 

Subject: Preferred developer for 700-728 Madison Street

## Background

On May 24<sup>th</sup>, 2018, the Village of Oak Park issued a Request for Proposals (RFP) for the Village-owned property at 700-728 Madison Street. Four responses were received by the July 6<sup>th</sup> due date, specifically from Jupiter Realty Company (“Jupiter”), Jameson Charhouse Group with the Marquette Companies and TWM Consulting (“Jameson/Marquette”), Michigan Avenue Real Estate Group (“Michigan Avenue”), and Nitti Development. The proposals received from those respondents are summarized in the attached Proposal Comparison.

At the Village’s request, the Oak Park Economic Development Corporation (OPEDC) reviewed and evaluated the proposals. At its July 13<sup>th</sup> board meeting, OPEDC short-listed Jupiter, Jameson/Marquette, and Michigan Avenue for in-person interviews on July 17<sup>th</sup>. Nitti Development, whose experience is largely in suburban single-family home construction, proposed a 155-unit multifamily development and was not short-listed due to its lack of experience in this type of large-scale multifamily infill development.

The Jameson/Marquette proposal was for a 10-story, 218-unit residential building with two ground-floor restaurants including a 5,000-square foot Jameson’s Charhouse and a second, smaller concept such as a breakfast/lunch café. The Michigan Avenue proposal was for a four-story, 96-unit residential development with ground-level parking and 6,000 square feet of retail space.

The proposal from Jupiter was for a mixed-use retail and residential complex containing a grocery store of up to 60,000 square feet on the 2<sup>nd</sup> level; up to 36,000 square feet of additional ground-floor retail; and 36 to 48 residences above a parking structure for residents and retail customers. The proposal included a non-binding letter from Jewel-Osco expressing “hope to finalize lease terms and seek internal corporate approval” to anchor the development. The proposal also noted Jupiter’s contractual right to purchase the entire 600 and 700 blocks on the north and south sides of Madison Street, respectively (between Euclid and Wesley on both sides of Madison).

The board of OPEDC determined after shortlist interviews that Jupiter’s proposal for a large-format grocery store on Madison Street provided the greatest potential economic benefit to the street and the Village as a whole, despite questions regarding the financial viability of the residential units and the costs associated with the accompanying parking structure. OPEDC also believed that Jupiter’s contractual control over neighboring private property east and south of the subject site provided it with the unique ability to spearhead redevelopment efforts on both sides of Madison Street. Before making its recommendation, however, OPEDC asked Jupiter to exhaust all reasonable efforts to secure a binding



commitment from Jewel to anchor a new development, while working to secure another grocery anchor in the event Jewel should withdraw.

Despite signing a non-binding Letter of Intent to anchor the proposed Jupiter development on July 11, Jewel notified both Jupiter and OPEDC in early October that it was formally withdrawing its interest in the project. Within a week, Jupiter reported to OPEDC that Pete's Fresh Market ("Pete's") was prepared to develop a new 41,500-square foot store under a simplified development concept that would include a ground-level store with surface parking, additional outparcel retail, and would eliminate costly structured parking and the mid-rise residential component of the original proposal. OPEDC has since met with representatives of Pete's Fresh Market in addition to Jupiter, and the board of OPEDC met on October 12<sup>th</sup> and again on October 19<sup>th</sup> to review the development plan proposed for Pete's in comparison with the other proposals received.

### **Costs/Benefits**

The Jupiter/Pete's proposal requests the contribution of the 700-728 property by the Village of Oak Park, a financial incentive to Pete's in the amount of \$3 million to fund land acquisition costs for the private property at 644 Madison Street, plus any remaining costs related to environmental remediation needed to construct the proposed improvements. Our projections for the proposed development suggest that direct economic benefits from sales and property taxes for the proposed project may total over \$1 million annually upon stabilization, or \$10 million in present value to the local taxing bodies in Oak Park over a 20-year period after the costs of the land contribution, demolition, and the proposed \$3 million incentive have been subtracted (but excluding the benefits of additional development on the south side of Madison or unknown environmental remediation expenses). Even allowing for the possibility that up to 25% of sales at the new store are redirected from other grocery stores in Oak Park, the net benefit to local taxing bodies over a 20-year period (20 years being the typical base lease term for grocery stores) is projected at \$7.4 million including land contribution, demolition, and the proposed \$3 million incentive. Pete's projects the store to support approximately 130 jobs, plus a smaller number of jobs created by additional retail at the corner of Oak Park and Madison. Given the positive net present value of the project after incentives, OPEDC believes the incentive to be reasonable and a responsible investment for the Village.

We also note that the original Jupiter proposal for a Jewel store, residences, and structured parking came with a request for \$8 million to fund structured parking improvements, \$3 million in grocer incentives, Village purchase of Jewel's existing Madison Street store, the land contribution of 700-728 Madison, and payment of environmental remediation expenses by the Village. OPEDC finds the current incentive request far more reasonable and is pleased that the cost of structured parking has been removed from both the development plan and the incentive discussion.



## **Senior Housing**

With its purchase contract for the private property on the south side of Madison (711 Madison Street), Jupiter has proposed a senior housing facility to be constructed by Paragon Real Estate and owned and managed by Essex Communities of Omaha, Nebraska. Essex currently operates ten senior housing communities, including four in Illinois. The appeal and viability of 711 Madison to Paragon and Essex would be enhanced by a full-service, modern grocery with extensive prepared foods and seating areas. In fact, we believe that the new grocery store may be a prerequisite for a senior housing project to achieve rents needed to underwrite the project without Village subsidy.

The proposed \$60 million senior housing facility would contain approximately 201 residential units (30 assisted living, 40 memory care, and 131 independent living), and would add some 45 full-time equivalent jobs to Oak Park. The proposed structure would span the existing Euclid Avenue right-of-way and an additional property to the west.

Paragon Real Estate has requested that the Village of Oak Park provide sufficient funds to conduct environmental remediation activities necessary to construct the proposed senior housing facility, which Paragon has estimated at \$682,000. We note that subtraction of this incentive from the calculation of net benefits to Oak Park's local taxing bodies still results in a highly positive \$6.7 million net present value of projected economic benefits from the combined project, not including property tax benefits from the senior housing building which may add an additional \$400,000 or more per year to local taxing bodies upon stabilization. We further note that Jupiter is uniquely qualified to enable the proposed senior housing development due to its contract to purchase 711 Madison Street.

## **Recommendation**

Both the Jameson/Marquette team and Michigan Avenue presented quality proposals, either of which may be appropriate elsewhere on Madison Street or in the Village. But the opportunity for a new large-format grocery store to anchor Madison Street, along with additional retail and housing for seniors in the Village, make Jupiter the most qualified proposer to deliver a project of greatest benefit to Oak Park.

As a result, the board of OPEDC recommends that Jupiter Realty be named Preferred Developer for 700-728 Madison Street, with the goal of combining the Village-owned property with private property to the east (644 Madison Street) already under contract to Jupiter, to build or cause to be built a full-service Pete's Fresh Market grocery store with supporting retail.

Consistent with the plan put forth by Jupiter and Pete's, OPEDC does not recommend that residential multifamily units be a required component of any development in that location, due to questionable demand and financial viability of such product without significant public subsidy. OPEDC also does not recommend that multi-level structured parking be incorporated in the project, as such parking is generally less attractive to grocery customers and would likely require significant public subsidy to be financially viable for the developer.

OPEDC further recommends that the Village of Oak Park include Jupiter Realty, Pete's Fresh Market, and Paragon Real Estate in a single redevelopment agreement to enable the addition of a senior housing



facility to the south side of Madison Street in addition to the proposed Pete's store. We note that the appeal of this location for seniors, and by extension a developer of senior housing, is greatly enhanced by the prospect of a new full-service grocery store across the street along with proposed street enhancements that would make Madison Street more walkable and safer to cross.

Finally, we recommend that a redevelopment agreement include the following incentives deemed necessary and appropriate to construct the improvements as proposed:

- Contribution by the Village of the 700-728 Madison property at no cost to Jupiter/Pete's for construction of the proposed improvements;
- Public incentive in the amount of \$3 million to Pete's to fund land acquisition at 644 Madison Street;
- Commitment by the Village of Oak Park to fund any remaining costs for environmental remediation needed to construct the proposed improvements on 700-728, 711, and 644 Madison Street;
- Utility relocations and property transfers (or easements) necessary to enable development on existing Euclid Avenue right-of-way both north and south of Madison Street adjacent to the 644 and 711 Madison Street sites; and
- Utility relocations (if applicable) and property transfers (or easements) for approximately five feet of additional right-of-way along the north side of Madison Street between Euclid and Wesley Avenues that would be required to construct the proposed improvements.