

Market Strategy & Preliminary Development Economics

Section 12

12-1

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Overview: Downtown Montgomery

Montgomery's vintage downtown represents a key opportunity to develop not only as a transit locale but to become a central place for the entire community. Downtown's market and economic potential is more modest in scope than Montgomery's other commercial and retail corridors and represents the opportunity to integrate quality redevelopment into its generally established footprint over the long-term. This potential will include the variety of uses that succeed in the traditional downtown environment—service businesses, professional practices, specialized retail, and food and beverage options. This process will be incremental and can be readily enabled and sustained by Village officials.

Again, over the long-term, the integration of higher density residential developments, generally with six (6) units or more per acre, presents another opportunity. This assumes the ability to assemble land parcels of sufficient size to interest residential developers in providing new housing types acceptable to Montgomery's homebuyers. This new residential development would rent at higher rates and sell for higher prices than Montgomery's existing housing stock. It would diversify the community's available housing choices and reinforce the TOD nature of Montgomery's downtown over time.

In considering Montgomery's market potential for certain uses and its related strategic development approach, three potential redevelopment sites were analyzed to consider those market conditions that could be present for success. These three sites are:

1. Northwest Corner of Webster and Main Streets
2. Fox River Waterfront East of River Street
3. Northwest Corner of Mill and River Streets

The analysis of these three sites is intended as indicative only, and it does not assume that either the Village or any interested buyer intends to acquire these sites. The assumptions associated with each site are described below. In the current, uncertain economic environment, it is difficult to estimate the return on projects unlikely to occur soon. These site analyses are "what if" estimates that assume that the relationships between costs, revenues, and developer return on investment will work again, once development resumes in a future, strong economy.

Broader Market Considerations

Today's difficult economy has dramatically slowed development, presenting the opportunity to complete future focused plans and implementation strategies, such as this study. The reduction in new development, the retrenchment in the broader retail sector, and the negative absorption of office space in Montgomery's regional office sub-market (East-West Tollway sub-market as reported by CB Richard Ellis) necessarily dictate an incremental approach to development and redevelopment in the study area. The consumer incomes that support retail and residential sales, and ultimately development, in those two sectors, will likely not rebound until the unemployment rate improves. Depending upon the source, most now seem to agree upon 2013 as the likely timeframe. Related is the consumers' return to their pre-2008 spending behaviors; most retail analysts believe that these behaviors have shifted dramatically and will remain more conservative.

In addition to these market factors, the cost to build a new or infill development for any use in downtown Montgomery is the same throughout the Chicago region. Despite generally lower land costs in the Montgomery area (current range of \$5.75-\$11.00 Per Square Foot, or PSF, according to LoopNet), the commercial rents needed to support Montgomery's new downtown development will need to be more than twice downtown's current commercial rents. The same is true for any residential rents. Until rents are able to support potential development and produce a satisfactory developer return on investment, either projects will not be proposed or a gap requiring some level of local incentive will exist. To build any downtown equity residential units (condominiums and townhomes), estimated sales prices would need to be 10-20% higher than Montgomery's current median residential sales prices.

The Village's work with downtown's businesses and property owners to bring strong tenants to downtown and to create a vision for Montgomery's community place, combined with the initiation of Park-and-Ride service, will serve as important steps in developing downtown's market potential, increasing commercial activity, and engaging the development community over the long-term.

Retail

As markets improve, Montgomery's major retail development will continue to occur on its high traffic corridors. Traffic will likely increase on Route 31 near downtown, but downtown's access, lack of visibility, and low traffic volumes present challenges for typical retail development. Shorter-term development will likely occur along River Street, given the multiple parcels with assembly potential. The replacement of existing businesses with new development on Webster Street will take longer.

Montgomery's current, Village-wide retail situation is noted in the chart in Figure 12-1. This chart compares Montgomery's State of Illinois Sales Tax Data (retail only categories) with Village-wide retail expenditures based upon the 2008 population estimate (17,100). These estimates indicate that the Village of Montgomery is currently capturing 138% of its retail market. Any

Figure 12-1
Retail Estimates for Montgomery

Retail Estimates	2008 Values
Estimated Retail Square Feet - Village	1,500,000 sf
Estimated Retail Square Feet - Downtown	24,000 sf
Estimated Retail Sales - Downtown	\$6,000,000
Estimated Retail Sales Per 208 Village Population	\$124,000,000
Estimated Retail Sales Per 2008 Sales Tax	\$170,000,000
Capture Rate	138%

Source: Montgomery EDC; Illinois Department of Revenue; BDI

rate exceeding 100% indicates that retail expenditures from outside of Montgomery are being captured. This strong capture rate reflects the strength of Montgomery’s retail stores and centers on Routes 30, 34, and Douglas Road. (Montgomery also receives significant sales tax revenues from business-to-business sales categories, specifically manufacturing and agricultural.)

Downtown’s current commercial (office and retail) square footage is estimated at about 110,000 Square Feet (SF), according to Village-wide square footage data provided by Montgomery’s Economic Development Corporation. Of that 110,000 SF, an estimated 63,000 SF is occupied. Most important for downtown, sales tax generating square footage represents about 38% of this 63,000 SF, or about 24,000 SF. Estimating potential retail sales at \$250 PSF for that 24,000 SF yields \$6,000,000. Even if these figures were more significant, downtown will remain, given modest expectations, a minimal sales tax contributor to the Village. The likelihood is that this situation will continue over long-term, and that downtown will never be a significant revenue generator for the Village.

Beyond revenue generation, a modest expansion of downtown retail space, based upon future tenant demand, can occur. Assuming that Montgomery’s population nearly doubles to 33,000, as projected, that downtown’s business mix improves incrementally over the long-term, and that Montgomery’s residents identify more strongly with their downtown, up to 100,000 SF of ground floor space for traditional downtown uses could likely be supported. The numbers and types of businesses potentially occupying this space will reflect their individual ground floor space needs and business operating requirements. It should also be noted that redevelopment will likely replace some existing space, contributing to any net gain of ground floor commercial space.

Residential

The chart in Figure 12-2 provides an estimate of housing units, applying the 2030 population estimate (33,000) for Montgomery compared with existing units and those under construction. The potential for additional housing units exists and was examined in the “Homes for A Changing Region” report

Figure 12-2
Residential Estimates for Montgomery

Residential Estimates	2008	2030
Population	17,000	33,000
Estimated Housing Units	6,800	-
Pipeline	800	-
Projected New Units		
Apartments	-	556
Condos	-	108
Townhomes	-	319
Single Family	-	5,654

Source: "Homes for A Changing Region, 2008"; BDI

released in late 2008. These estimates obviously assume that housing market will rebound in Montgomery and in similar fast growing, suburban markets. Most current residential development is single family homes. Key to higher density development in Montgomery's downtown will be market growth in denser housing products.

As the chart in Figure 12-2 notes, the higher density housing units estimated for Montgomery include provisions for those housing types viewed as primarily long-term development opportunities for downtown Montgomery. Depending upon the site size, most of the condominium or apartment units could be built on those sites with residential potential. The long-term nature of these projections again makes any estimate of units slated specifically for downtown to be highly speculative. In addition, the potential price points needed to justify residential developer interest exceed Montgomery's current home and townhome prices.

Office

As noted earlier, potential office growth will be hampered by a glut of prime office space and negative net absorption of office space in Montgomery's East-West Tollway sub-market. As job creation is not expected to catch up to 2007 levels until 2013, the construction of office space in will likely not occur downtown in the short-term. The Village can begin to affect change on existing non-retail commercial space by working with existing office owners to continuously improve their buildings as one step in initiating plan implementation.

Figure 12-3
Office Space Estimates

Office Space Estimates (Within 1/2-Mile of Downtown)	2008 Current	2030 Projected
Employment	2,400	3,100
Estimated SF	480,000	620,000

The most optimistic scenario for downtown office development is noted in the chart in Figure 12-3.

Downtown’s current employment base within its ½-mile market is just over 2,400. Applying the Illinois Department of Employment Security annual growth percentage (about 1% until 2030), employment would increase downtown by about 700. At 200 SF per employee, this results in an additional 140,000 SF. However, given that unemployment is not projected to decline to 5% until 2013, the potential for new downtown office space is likely in the 75,000-100,000 SF range.

Site Analysis & Estimates

Any analysis of investor economics and future development options is highly speculative. Still, it is important to understand whether the development options shown in the three site concepts near Montgomery’s proposed Park-and-Ride facility are sufficient to support market rate development. The scenario for the three sites noted should be considered an optimistic application of real project economics. The rents used in these estimates reflect the higher end of Montgomery’s retail and office sub-markets as noted in CB Richard Ellis Quarterly Chicago Retail and Suburban Office sector reports. Obviously, larger redevelopment projects could help achieve greater downtown density. Larger projects, given that the market does not yet support the development of smaller projects, are very long-term and even more speculative applying today’s economic realities.

It also is important to begin to consider and understand whether reasonable Village incentives could fill any future gap between long-term development concepts when proposed and any potential market rate development. Later implementation of any suitable funding mechanisms to support redevelopment for certain sites means addressing these potential gaps.

Site 1: Northwest Corner of Webster and Main Streets

This site, along downtown’s primary traffic route, is considered a prime development opportunity. Currently occupied by a gas and service station, the development scenario for this 28,000 SF site includes a 2-story, 16,000 SF structure with a ground floor retail use and second floor offices. The parking requirement (36 spaces) is met on site. The economics for this site are noted in Figure 12-4.

As noted earlier, the analysis indicates that rents for retail and office uses would need to be at least \$22 PSF net to generate sufficient return. The current downtown net rents are in the \$7-11 PSF range. (In a net rent lease, a tenant pays an agreed rent; in addition, to this net or agreed rent, the tenant also pays certain operating expenses, such as real estate taxes, based upon occupied square footage for the property.) It should also be noted that these estimates reflect the lower range of asking prices for land (PSF prices) in and near Montgomery’s downtown. Consequently, to make development work using this optimistic scenario, the market -- meaning increased commercial activity and revenue generation -- needs to identify Montgomery’s downtown

Figure 12-4
Site 1 Economics

Use	Retail/Office
SF	27,966 sf
Building SF	24,000 sf
Floors	3
Rent PSF	\$22.00
Value	\$5,280,000
Land Cost	\$401,490

**Figure 12-5
Site 2 Economics**

Use	Retail (GF- 2 bldgs)
Value	\$2,520,000
Rent PSF	\$22.00
Use	Rental Residential (2 floors)
Value	\$3,168,000
Rent PSF	\$18.00
Land Cost	\$648,000
Site SF	63,000

as a place to make money. This applies to either retail or restaurant pioneers in the short-term and to area developers in the long-term.

Site 2: Fox River Waterfront East of River Street

This site, currently the location of Montgomery’s VFW, presents a signature short-term redevelopment opportunity, given its location above the Fox River, across from Village Hall, and near Site 3. The combination of these two potential developments with the new Village Hall, if completed can become the catalyst for larger, future development. The economics for this site are noted in Figure 12-5.

This site is the largest at 63,000 SF. Two structures with the same building footprint (7,200 SF) are envisioned. One is a one-story structure for possible retail use; the second is a three-story building with ground floor retail and 14 apartments on the two upper stories. When compared with a similar hypothetical building on Site 3, the cost of parking on Site 2 is significantly greater due to the physical challenges of its river bluff location. Consequently, the rent PSF estimates must be higher to accommodate this greater cost. (It should be noted that the rental residential rate is actually \$1.50 PSF, using residential leasing terminology.)

**Figure 12-6
Site 3 Economics**

Use	Retail (GF- 2 bldgs)
Value	\$1,440,000
Rent PSF	\$20.00
Use	Rental Residential (2 floors)
Value	\$1,785,000
Rent PSF	\$15.00
Land Cost	\$260,634
Site SF	24,000

Site 3: Northwest Corner of Mill and River Streets

Of the three sites examined, Site 3, given the minimal land assembly requirement, may offer the best opportunity for a mixed-use development. The economics vary little, but the site has better visibility and access as a potential retail location than Site 2. The development scenario for Site 3 assumes a three-story structure with a 7,200 SF footprint on a 24,000 SF site. Like the additional structure on Site 2, the upper two floors are estimated to include 14 apartments. Parking assumptions include both private and public (off- and on-street) spaces. As noted in Figure 12-6, the site estimates exhibit similar economics to the other sites.

Conclusion

In addition to initiating Park-and-Ride service, these conceptual plan elements serve as a basis for the long-term, ongoing invigoration of Downtown Montgomery. By engaging property owners to continuously improve downtown’s physical appearance, the Village has the opportunity to enhance downtown’s commercial environment. Long-term, property owners and the Village can work together to identify and recruit experienced area business owners as tenants in those traditional downtown categories identified -- service businesses, professional practices, specialized retail, and restaurants. Increased commercial activity of all types will foster developer interest, and ultimately, the quality development projects that will be successful for downtown Montgomery and the community.