

City of Chicago
Department of Housing and Economic Development

STAFF REPORT
TO THE
COMMUNITY DEVELOPMENT COMMISSION
REQUESTING DEVELOPER DESIGNATION
July 10, 2012

I. PROJECT IDENTIFICATION AND OVERVIEW

Project Name:	Pulaski Promenade
Applicant Name:	Pulaski Promenade LLC
Project Address:	42 nd Street and Pulaski Road
Ward and Alderman:	14 th Ward, Edward M. Burke
Community Area:	Archer Heights (57)
Redevelopment Project Area:	Stevenson/Brighton TIF
Requested Action:	TIF Developer Designation
Proposed Project:	Pulaski Promenade is a commercial development that will comprise 152,817 square feet of gross leasable retail space.
TIF Assistance:	\$10,000,000.00

II. PROPERTY DESCRIPTION

Address:	4064-4200 S. Pulaski Rd
Location:	North West Corner of 42 nd street and Pulaski Road
Tax Parcel Numbers:	19-03-201-004/-047/-049/-050/-053/-054
Land Area:	11.53 acres
Current Use:	Vacant Land

Current Zoning: M2-3 Light Industry District

Proposed Zoning: C3-3 Community Shopping District

Environmental Condition: The site does require remediation. The developer will be responsible in remediating the site. Based on a Phase 1 report, there are approximately five suspected underground storage tanks and associated contamination that appear to be related to the historic production of cardboard cartons and associated printing. The developer proposes to obtain a focused NFR letter for volatile organic compounds (VOCs) polynuclear aromatic hydrocarbons (PNAs) and RCRA metals.

III. BACKGROUND

Located on the city's southwest side, Archer Heights is a primarily middle class neighborhood in Chicago, Illinois. One of the 77 official community areas of Chicago, it is located on the city's southwest side. The neighborhood is a center of Polish culture, and home of the Polish Highlanders Alliance of North America as well as Curie Metropolitan High School.

The name Archer Heights comes from the major arterial street, Archer Ave. which runs from south of Chicago's downtown area through the southwest side of Chicago and beyond into the southwest suburbs. The street is built along what was once a Native American trail.

The project site was a former industrial site and home to Rock Tenn. Co. which produced paperboard, packaging and displays. The manufacturing building was demolished in 2004 and the site has been vacant since.

IV. PROPOSED DEVELOPMENT TEAM

Current Owner

The current property owner is RMK Pulaski LLC, which is 90% owned by Roger Keaton. Upon closing of the redevelopment agreement, the property will be acquired by Pulaski Promenade LLC, which are the TIF applicant and the Developer of the proposed commercial Project.

Project Owner/Developer

Pulaski Promenade LLC, ("Pulaski Promenade") will consist of two members, Inland Pulaski Promenade LLC ("IPP") and PTSP Pulaski, LLC ("PTSP"). IPP has an 85% membership interest and PTSP, a 15% membership interest as well as a sponsorship interest in Pulaski Promenade. IBT Group LLC, ("IBT") is the manager of Pulaski Promenade LLC, and will also have a sponsorship interest.

Roles of the Parties

IPP is solely owned and managed by Inland Real Estate Corporation ("Inland"). Inland, as part of the Inland Real Estate Group of Companies, Inc. is headquartered in Oak Brook, IL and is part of one of the nation's largest commercial real estate and finance groups which owns and manages, in total, over 130.1 million square feet of diversified commercial real estate in 48 states, as well as managed assets in excess of \$25.2 billion. IPP role in the

Project is as an equity investor.

PTSP consists of two members, SP Pulaski LLC (“SP Pulaski”), which has a 90% membership interest and PT (Pine Tree) Pulaski LLC (“PT Pulaski”), which has a 10% membership interest. The membership interest of SP Pulaski is held by Mark Walsh, Brett Bossung and Chris Westfahl. The membership interest of PT Pulaski is currently held by Peter Borzak, however additional members are to be added.

Pine Tree Commercial Realty, LLC is a national, privately held retail real estate owner, operator and developer headquartered in Northbrook, Illinois. Since its foundation in 1995, Pine Tree has since developed and acquired 64 shopping centers, with an aggregate value of over \$614 million. PTSP’s role in the Project is as an equity investor.

IBT was founded in 1999 and is a full-service real estate development firm specializing in the development, construction, leasing and management of high quality projects. Currently, IBT is developing projects in the Midwest, Central, and Southwest United States with a value in excess of \$270 million. IBT is solely owned by Gary Pachucki. IBT will serve as the Project Manager of construction as well as handling all marketing and sales associated with the Project.

An organizational chart is included in the exhibits.

General Contractor

Lend Lease is the General Contractor for the project.

Future Owner

After the project has been stabilized, ownership of the property will be transferred from Pulaski Promenade LLC to an Inland related entity, to be held as part of their investment portfolio.

V. PROPOSED PROJECT

Project Overview:

The proposed neighborhood shopping center, to be located at 4200 South Pulaski Road Chicago, IL, (“Property”) development that will comprise of 152,817 sq. ft. (Project). The Project will consist of the following: a) a main retail building, anchored by several national retailers of general merchandise (containing 135,817 sq. ft). a one-story building, containing multiple retail uses located on Outlot F (containing 8,000 sq. ft.), two additional Outlots (E and G) of which will be “pad-ready” and available for construction by those Tenants (collectively 9,000 sq. ft.) and 566 parking spaces.

Retail-includes:

- 133,985 square feet of single level in-line retail including national tenants Burlington Coat Factory, Marshall’s and Michael’s.
- 8,000 square feet of out-parcel small shops located along Pulaski Road.
- 4,000 square foot bank, that will be pad delivered on the corner of 42nd Place and

Pulaski Road.

- 5,000 square foot restaurant located at the main entrance, across from the existing Burger King fast food restaurant.

Retail accessory parking will be provided at a ratio of 4.10 spaces per 1,000 square feet of gross retail leasable area, and include a total of approximately 623 spaces. Construction is planned to start in the Spring of 2013 and complete in Fall 2014. The total project cost is \$33,588,993.97. Developer requesting \$10M in TIF financing (30% of the total project cost). There will be 200 construction jobs and 305 permanent jobs created in this project.

A site plan, floor plans and elevation are provided as exhibits to this report.

Environmental Features

The project will incorporate LEED Core and Shell (CS) Certification and will include 100% green roof.

VI. FINANCIAL STRUCTURE

Undertaking a development of this scope on a parcel with a former industrial use is very costly. The environmental costs along with the costs of installing the appropriate infrastructure are difficult to fund in this market. It is also challenging for retail projects to obtain the construction financing needed to build developments of a superior quality and aesthetic level.

TIF financial assistance will consist of a taxable note B not to exceed \$2,500,000, bearing an interest rate not to exceed 8.5%. This note will be issued at RDA closing but will not accrue interest and will not receive any payments until project completion. There will also be a tax-exempt note A not to exceed \$7.5M, which will be issued at project completion. If there are not enough TIF eligible costs to total \$10,000,000 the TIF assistance will be a combination of a taxable note, a tax-exempt note and TIF eligible construction period interest costs. The total of the TIF assistance will still be no more than \$10,000,000. Note payments and any interest reimbursement will be funded mostly from project increment, with a portion of the Note debt service, not to exceed \$300,000 annually, and funded from the area-wide increment of Stevenson Brighton TIF.

If the Developer does not comply with the occupancy and prohibited uses covenants in any given year then there will be no payments on Note B and no interest reimbursement payments in that year.

Given the difficulty the Developer has had in obtaining financing for this deal the TIF funds are being used as collateral for a portion of the permanent financing. Without the TIF funds this project could not be financed and would not generate an acceptable level of return on investment.

The following table identifies the sources and uses of funds:

Sources and Uses of Funds

<u>Sources</u>	<u>Amount</u>	<u>% of total</u>
Equity	4,088,994.00	12.1%

Bridge Loan backed up by TIF	7,500,000.00	22.4%
Pledge TIF Note	2,500,000.00	7.5%
Construction Debt (Associated/mb financial)	<u>19,500,000.00</u>	58%
Total Sources	33,588,994.00	100%

<u>Uses</u>	<u>Amount</u>	<u>\$/sf of Building*</u>
Land Acquisition (\$15 per sf of land)	\$ 8,100,000.00	\$53.65 psf
Site Clearance and Preparation	\$ 2,741,379.00	\$18.16psf
Hard Costs	\$14,765,065.00	\$97.79 psf
Soft Costs		
Architect=s Fee /Engineer (5% of hard costs)	\$470,000.00	
General Contractor	1,131,878.30	
Developer Fee	647,000.00	
Commissions	895,271.00	
Loan Origination Fee (1% of loan)	\$180,000.00	
Legal Fees (0.6% of total costs)	\$290,666.00	
Marketing (.05% of total costs)	\$20,000.00	
Loan Interest (11.2% of total costs)	\$1,662,938.00	
Other soft costs (2.0% of total costs)	<u>\$1,141,272.00</u>	
Total Soft Costs (18.2% of total costs)	<u>\$ 6,821,025.00</u>	<u>\$45.18 psf</u>
Total Uses	\$33,588,994.00	\$222.47psf

VII. PUBLIC BENEFITS

The proposed project will provide the following public benefits.

Property Taxes: The project will expand the tax base because the investment in the property will result in an increase in its assessed value.

Environmental Features: The project will incorporate LEED Core and Shell (CS) Certification and will include 100% green roof.

Permanent Jobs: The project is estimated to generate 305 permanent retail jobs. The department's workforce development specialists will work with the developer on job training and placement.

Construction Jobs: The project will produce approximately 205 construction jobs.

Affirmative Action: The developer will comply with the requirements of Chicago=s affirmative action ordinance, which requires contract participation of 24% by minority-owned business enterprises (MBEs) and 4% by woman-owned business enterprises (WBEs). The developer has provided notification of the proposed project, by certified mail, to several associations of minority and women contractors. A sample version of the letter and copies of the post office receipts for the certified letters are presented as exhibits to this report.

City Residency: The developer will comply with the requirements of Chicago=s city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago

residents. The developer will also comply with the requirement that all construction jobs are paid the prevailing wage.

VIII. COMMUNITY SUPPORT

Alderman Burke endorses the project and has provided a letter of support (see exhibits)

IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN

The proposed project is located in the Stevenson/Brighton Tax Increment Financing Redevelopment Project Area. The proposed project will satisfy the following goals of the area=s redevelopment plan:

Facilitate assembly, preparation and marketing of vacant and or underutilized sites primarily for industrial development, but also for commercial, residential and/or public institutional development in certain specified locations within RPA.

The implementation strategy for achieving the plan=s goals envisions the need to provide TIF financial assistance for the development of a neighborhood shopping center. The proposed project also conforms to the plan=s land use map, which calls for mixed use development at the subject site.

X. CONDITIONS OF ASSISTANCE

If the proposed resolution is approved by the CDC, HED will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is HED policy that no business will be conducted with a development entity whose any principal has outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses, and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action.

Closing will not occur before the City Council has approved the redevelopment agreement the developer has obtained all necessary City approvals including zoning and building permits, and the developer has presented proof of financing. The documents will include a development timetable.

XI. RECOMMENDATION

The Department of Housing and Economic Development has thoroughly reviewed the proposed project, the qualifications of the development team, the financial structure of the project, its need for public assistance, its public benefits, and the project's conformance with the redevelopment area plan, and HED recommends that the CDC recommend to the City Council the designation of Pulaski Promenade LLC as Developer for the development of a 150,000 square foot neighborhood shopping center at 4064-4200 South Pulaski Rd.

EXHIBITS

TIF Project Assessment Form
Redevelopment Area Map
Neighborhood Map or Aerial
Survey or Plat
Site Plan
Typical Floor Plan
Front Elevation or Rendering
Sample M/WBE Letter
Copies of M/WBE Certified Letter Receipts
Lender=s Letter of Interest
Community Letters of Support
Alderman=s Letter of Support