



MEMO

Date: 7.21.2021
From: Corinna Cole, Executive Director, Lisle Economic Development Partnership
To: Village Trustees
cc: LEDP Board
Subject: An Economic Development Response to Commercial Real Estate Trends

The purpose of this memo is to inform the Village Board of the significance to Lisle of the trends in commercial real estate outlined during the LEDP's presentation at the 7/19/21 Village Board Meeting.

Summary

The drastic changes in commercial real estate present Lisle with both opportunity and risk. Because it is a remarkable, well positioned community, those opportunities, if taken, may result in significant success. However, Lisle is bookended by other beautiful communities with favorable demographics that are aware of these market realities and will seize upon any of Lisle's missed opportunities to adapt.

The Village should not stand as a barrier to the private sectors' response to a changing market. Lisle must take the long-term perspective: if it does not foster development now through nimble codes and processes, it will lose new and existing businesses to neighboring communities that do. If real estate is not modernized by tenants in the near term, it will be more difficult to attract future tenants and require far more government incentive to bridge the gap. If Lisle does not diversify its sales and property tax base through development, it will be difficult to keep property taxes affordable for its residents and businesses in the future.

Lisle stands only to gain by understanding and adapting to these changing market trends. And, when expressed in potential dollars lost or gained, there is effectively no cost to the changes proposed in this memo, but significant yet unrealized cost -measured in millions of dollars in missed tax revenues- for ignoring the inevitable change in how commercial real estate is used.

Lisle is advantageously positioned:

Lisle's location is enviable from an economic development perspective. Businesses of all sorts seek out proximity to transportation hubs, such as airports, major highways and mass transit. Being located at the confluence of several major arterial highways close to Chicago, Lisle easily satisfies this requirement. Lisle also has abundant office space and other desirable community

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assets, such as a train station in the downtown, hotels and nearby tourist attractions. Because its adjacent to many other well-educated and business focused communities, it is a viable place for employers seeking a central location with available talent.

Lisle has a unique identity and community feel that distinguishes it from neighboring towns, such as Naperville or Downers Grove. It is a beautiful community with extensive parkland and residential greenspace. Its residents are well educated and earn a relatively high median income. The school districts serving Lisle offer different, but desirable educational experiences; District 202 is small and intimate whereas Naperville District 203 has a name brand recognition in Illinois and extensive offerings. In addition, St. Joan of Arc Parish School (preschool to 8th grade) and Benet Academy (high school) have a long history of academic excellence.

Viewed holistically, Lisle's value proposition to businesses and developers is blatantly obvious and the Village is positioned to capitalize on opportunities presented by a changing real estate market environment.

Opportunities and Threats:

Lisle does not exist in a vacuum: it is buffeted by the same market trends that have transformed commercial real estate world-wide. And just as Lisle is rich in assets, it is also vulnerable to some of the foreseeable negative effects of the market changes discussed at the July 19th Village Board Meeting. Outlined below are some of those threats and suggestions on how to re-envision them as opportunities:

1. **Lack of desirable developable land for retail:** In many cases, Lisle's Ogden Avenue commercial frontage does not extend far enough back from the road to be sufficient for the development of large retail centers. There is also not a significant overall amount of land available for retail development. Without a creative approach, Lisle will continue to struggle to make Ogden the sales tax generating powerhouse that it is for other communities.
 - a. **Opportunity:** For the same reasons above, Lisle has not had the problem of vacant big box stores that are expensive to renovate. This frees up Lisle to market to ground-up developers and small businesses. While drive-thru or convenience stores are sometimes controversial, they are excellent uses for a smaller developable footprint and are effective sales tax generators, relying on many out-of-area drivers that travel to and from neighboring communities. Lisle should proactively work with businesses in the community that may be willing and ready to expand on Ogden, particularly if they are sales tax generating.
2. **The corporate corridor:** The corporate corridor is vulnerable to changes in the office sector, especially since vacancies often have a cascading effect. Vacant buildings are

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assessed lower in property taxes, putting greater pressure on residents' taxes to make up the difference. Moreover, it is expensive to adapt large office floorplans originally intended for a single tenant. If the process to undertake such a renovation or adaptive reuse is difficult, the vacancies are persistent and increasingly difficult to reverse.

- a. **Opportunity:** Lisle's close location to Chicago and major highways remain critical factors to its office success. Lisle's goal should be to maximize the number of adaptive reuses available to office building owners to effectively respond to the market. The Village should likewise consider incentives to slightly offset the cost of such reuse, particularly to divide large floorplans for multiple tenants or to outfit buildings with 'smart' amenities, such as automatic bathroom fixtures or other health related features.

Lisle must also focus on attracting or developing improved area amenities such as eating and drinking establishments, biking trails and a vibrant downtown. By doing so, Lisle would increase its overall value proposition to employers seeking a convenient and attractive location that is more affordable than the city, but still offers amenities that help attract and retain talent.

3. **Downtown:** The Family Square strip mall at the corner of Ogden and Main St. is a case study on the changing nature of retail and of the necessity to respond to the market before a site is rendered obsolete. At the moment existing downtown businesses struggle to attract potential customers as the strip mall is not a welcoming sight. Throughout the rest of the downtown, there are persistent vacancies largely due to the lack of downtown foot/vehicle traffic and the cost of outfitting the space.

- a. **Opportunity:** Millennials and Gen Z prioritize convenience and experiences. What is a more compelling blend of these features than the ability to live in a downtown destination thriving with restaurants and easy access to many necessities? Millennials are more likely to rent long term and are therefore a core market for luxury mixed-use rentals. Empty nesters and/or snowbirds also frequently rent in such buildings where they don't have to deal with the maintenance of a single-family house and can easily leave for part of the year. The downtown is also an attractive amenity to employees/employers located on the nearby office corridor.

To some extent, more residents in a downtown help support the local businesses. But more importantly, the revenue from the apartments effectively subsidizes the construction and ongoing tenancy of a mixed-use development's attached commercial spaces. The desire for a large single tenant store in a such a

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development must be tempered by the risk of trying to re-tenant the space, especially considering the trend towards smaller footprint stores and the retail contraction.

Instead, mixed-use developments may offer smaller commercial spaces that foster a diversity of business types. And for many unique small businesses, a downtown space most closely matches their brand and in turn contributes to the unique ‘vibe’ of a downtown. Essentially, a downtown mixed-use building is an important part of a town’s small-business ecosystem.

The Village should prioritize downtown development at Family Square as a catalytic development which connects the Ogden Avenue thoroughfare and Main Street. Residential density directly supports businesses by offsetting the cost of developing viable small-business friendly spaces. Retail fronting Ogden sends a strong message that downtown Lisle is vibrant and ‘open for business.’

Action Items and Next Steps: In addition to the strategic opportunities discussed above, there are several changes that should be pursued by the Village to ensure the successful ongoing development.

1. **Support existing small businesses:** Lisle’s small businesses add character and interest to the town, but they are also an important economic driver of sales and property tax. The village should work with small businesses to retain them, particularly as they seek to reinvest in the community through expansion and real estate development. The LEDP will launch a business retention and expansion program to provide small business with the support it requires
2. **Look to market trends to inform future development and reuse:** Knowing that the retail sector is continuing to contract and change, it would be counterproductive to passively wait for an ideal large scale retail development and bypass more modest, but viable prospects. Similarly, the village should expect more office re-use than new office development. The Village’s Comprehensive Plan anticipates certain uses on sites that have not materialized. In the future, the Village should realistically consider the feasibility of those expectations and consider or proactively seek out proposals that may result in a tax benefit outside of the site’s originally intended use. Economic development efforts will prioritize understanding a site’s highest and best use as well as what the market will support when pursuing development.
3. **Village Zoning Code** Upcoming changes to the Code should facilitate, not obstruct, the private sector’s efforts to adapt to the market. The Code should be driven by the following principles:



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- a. Be reflective of industry best practices, including those adopted by adjacent communities.
- b. Include technical specifications and allowances that provide clear and reasonable guidance to applicants and minimizes provisions that may be subjected to personal interpretation.
- c. Increase the number of as-of-right development uses, provided developers conform to the Code specifications.
- d. Maximize Lisle's flexibility and adaptability to changes in the real estate market.
- e. Balances an esthetically pleasing built environment with a market driven understanding of how real estate development is crucial to diversifying the tax base and preserving low property tax rates for existing residents and businesses.