

Village of Palatine TOD Plan

Market Analysis Technical Memorandum



Prepared for



March 2016

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I. Executive Summary

Background to the Assignment

Goodman Williams Group is part of a team headed by Solomon Cordwell Buenz that has been retained by the Regional Transportation Authority (RTA) under its Community Planning Program to provide a Transit-Oriented Development (TOD) Plan for Downtown Palatine, Illinois. The goal of the plan is to help Palatine realize the full potential of its downtown district in a core area surrounding its Metra station.

This **Market Analysis Technical Memorandum** by Goodman Williams Group presents information on the residential and commercial markets within the Village of Palatine. It provides current conclusions regarding market conditions and identifies opportunities on select sites in the defined TOD area. The study area shown below is outlined in orange. This analysis builds upon the Market and Demographics chapter in the **Existing Conditions Summary**, submitted to the Steering Committee in January 2015.



Source: Solomon Cordwell Buenz

Methodology

As part of this assignment, Goodman Williams Group completed the following tasks in the winter of 2015/2016:

- Analyzed demographic, household, and economic trends to better understand market fundamentals within the Village of Palatine.
- Assessed the current residential and commercial markets within the Village and the larger market area to identify current usage, market gaps, and longer-term market potentials.
- Participated in community workshops and in meetings with the project team and Steering Committee.
- Interviewed civic leaders, representatives from the real estate industry, and other stakeholders to learn about their plans and ideas for improving the Village.

We also reviewed a number of past studies related to planning in Palatine, including:

- 2011 Palatine Comprehensive Plan
- 1994 Downtown Palatine Revitalization Plan
- 2013 Homes for a Changing Region
- Downtown Palatine Land Use Guide and Design Guidelines
- 2006 Market Potential Report, Melaniphy & Associates, Inc.

Residential Market Conclusions and Recommendations

New Transit Oriented Development in Downtown Palatine will be led by demand for residential units, both multifamily rental and for-sale products. Proximity to the Metra station, existing residential developments, and convenience retail and dining options make this an attractive residential location.

The Village of Palatine's Downtown redevelopment and revitalization initiatives – together with the availability of Tax Increment Financing (TIF) – fostered the development of more than 1,000 condominium units and townhomes beginning in the late 1990s, adding new vitality to the Downtown District. The housing market collapse and ensuing recession brought an abrupt end to this period of robust development. Beginning in 2007, the Village experienced rapid devaluation of its Downtown condominium units, and foreclosure rates spiked.

Now, market metrics are returning to more normalized levels, with sales volumes at or above 2007 levels, foreclosure rates falling, and home values moving slowly upward. Downtown Palatine is now positioned to build on the successes of the past, while implementing lessons learned in the wake of the housing market crisis.

Downtown Palatine offers many key assets that will provide strength to the localized housing market over the long term. These include a walkable TOD environment with proximity to mass transit, access to major employment concentrations, an enhanced level of commercial amenities, and highly acclaimed schools.

Population growth and changing demographics Village-wide will drive demand for new homes in Downtown Palatine over the next five years. In addition, the need to replace units facing obsolescence and to increase rental options will create market opportunities. Over the next five years, opportunities for Downtown housing development will exist in both the for-sale and rental sectors. Given the evolving demographic profile within the Village, new home demand will be driven primarily by 65-74 year old householders, with 35-44 year old householders serving as a secondary source of demand.

Our analyses of housing market conditions within Palatine and its environs suggest that over the near term (i.e., 1-3 years) sufficient market support will exist for the introduction of up to 100 new rental apartments within the Downtown District. These new units will provide needed balance within the Study Area, where many older apartments face obsolescence and newer rental options consist exclusively of condominium and townhome units that were placed onto the rental market in the wake of the housing market crisis.

Over a longer term planning timeframe (i.e., five years and beyond), with the continued strengthening of the regional housing market, demand for new condominium units – driven primarily by significant growth in the number of downsizing empty-nester and retiree households – is expected to emerge. Condominium market potentials within Downtown Palatine will be quite limited initially – amounting to just 25-35 units annually – but are expected to grow over time.

Finally, well-conceived townhome programs at a scale of 15-30 units will always have a place in Downtown Palatine, appealing primarily to young families who desire ample living space in a walkable TOD environment. The most marketable townhomes will be those priced, on average, 25-30% below comparable newly constructed detached homes within the greater Palatine market area.

Commercial Market Conclusions and Recommendations

Downtown Palatine has a comparatively vibrant commercial core located proximate to the Metra station. The blocks to the north side of the railroad tracks are more densely developed with newer residential and commercial projects, and have several noteworthy restaurants and entertainment destinations. The commercial node south of the tracks is contained primarily in older storefronts that line the south side of Slade Street and older centers located along both sides of Palatine Road. The Jewel-Osco located on Plum Grove Road south of Palatine Road is an important amenity for Downtown residents.

In its 2006 commercial market study, Melaniphy & Associates reported that Downtown Palatine contains approximately 275,000 square feet of restaurants, retail, and service-oriented businesses. In addition, the downtown has 210,000 square feet of professional office space, including the 100,000 square foot Gateway Center, completed in 2003. The inventory of Downtown business establishments completed for this assignment includes a total of 127 commercial spaces, 20 of which are restaurants and bars, and 16 are retail stores.

An assessment of supply and demand fundamentals suggests that there is demand for a limited amount of new retail and service uses that would occupy the ground floor of new mixed-use buildings. Rents will need to be competitive with existing space in order to attract tenants. Sites within the following Downtown opportunity zones would be most desirable:

- The current site of the temporary Village Hall and associated surface parking north and south of Wilson Street immediately east of Smith Street. If the adjacent BMO bank site is redeveloped, future commercial uses should be oriented to Slade Street.
- The north side of Wilson on both sides of Bothwell, east of the Tap House Grill. New commercial space at this location would further activate and connect the retail along Wilson Street leading to the Metra station.

Given the 24,000 SF of vacant office space at The Gateway, additional speculative multistory office development is not supportable in the near term in Downtown Palatine. Medical, educational, and other non-retail service uses are best accommodated in existing ground floor spaces and new mixed-use developments.

The Downtown Palatine TIF expires in 2022. TIF funds have been used extensively to support both residential and commercial developments. Extending the TIF will ensure that Palatine has the resources going forward to continue to enhance and support the Downtown as a desirable residential neighborhood, business location, and dining and entertainment destination.

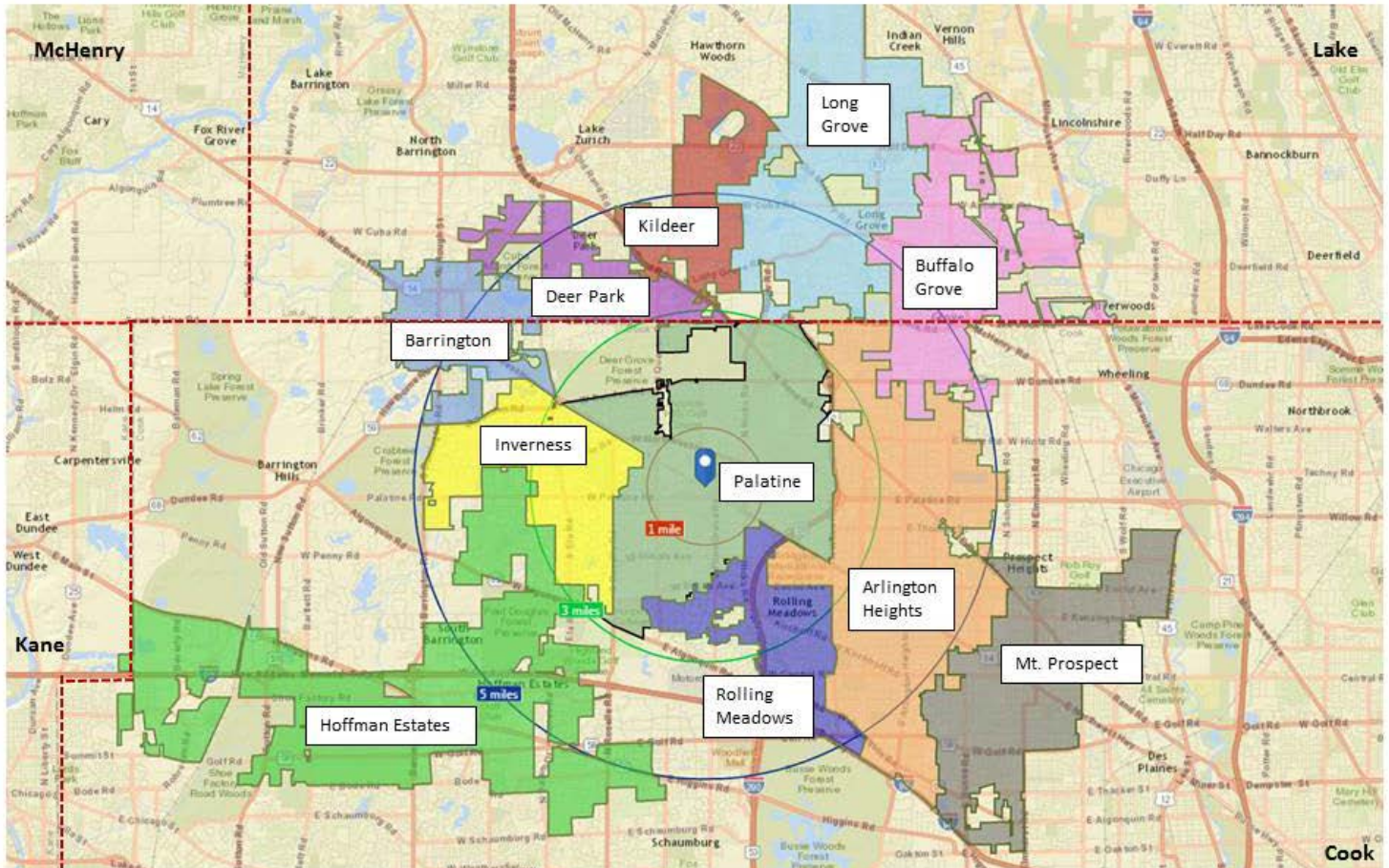
II. Socioeconomic Overview of Palatine and Neighboring Communities

Palatine is located 30 miles northwest of Downtown Chicago. It can be accessed from the Jane Addams Memorial Tollway (I-90) via State Route 53 and U.S. Route 14 (Northwest Highway).

The UP-NW Metra line runs through Downtown Palatine. Palatine has the sixth highest ridership of all Metra stations outside Downtown Chicago, bringing 2,300 daily passengers to and from Palatine.

Goodman Williams Group gathered socioeconomic information on Palatine and its neighboring communities located roughly within a five mile radius: Hoffman Estates, Inverness, Barrington, Deer Park, Kildeer, Long Grove, Buffalo Grove, Arlington Heights, Mount Prospect, and Rolling Meadows.

Palatine and Surrounding Communities



Source: Esri Business Analyst, produced by Goodman Williams Group December 2015

The following table presents some comparative metrics on Palatine and these surrounding communities.

Comparative Metrics on Palatine and Surrounding Communities

Community	2015 Population Estimate	2015 Household Estimate	2015 Median Age Estimate	2015 Median HH Income	2014 Annual Retail Sales Tax	SF Units Permitted (2012-2014)	MF units permitted (2012-2014)
Long Grove	8,182	2,557	45.6	\$176,350	\$974,474	54	0
Kildeer	4,115	1,320	45.9	\$142,932	\$1,427,051	49	0
Deer Park	3,189	1,106	43.9	\$137,030	\$1,808,795	11	188
Inverness	7,436	2,751	48.8	\$127,116	\$69,312	45	0
Barrington	10,439	3,981	45.2	\$112,073	\$4,619,406	31	0
Buffalo Grove	41,506	16,377	44.3	\$94,573	\$5,602,290	29	0
Hoffman Estates	52,388	18,452	38.1	\$77,368	\$8,047,456	4	0
Arlington Heights	75,311	31,248	43.8	\$76,386	\$11,934,596	187	4
Palatine	70,019	27,608	38.0	\$75,070	\$8,761,622	118	58
Mount Prospect	54,307	20,746	40.9	\$66,353	\$13,285,441	15	143
Rolling Meadows	24,613	9,147	38.4	\$60,952	\$3,318,967	12	0

Sources: Esri Business Analyst (2015 estimates), IL Dept. of Revenue, Censtats

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- The table above is sorted by 2015 Median Household Income. Palatine's estimated median household income of just over \$75,000 is lower than the median in most of these communities. Only Mount Prospect and Rolling Meadows have lower household median incomes. However, Palatine median household income is nearly 25% higher than that of Metropolitan Chicago as a whole, at \$60,085.
- With an estimated population in 2015 of more than 70,000, Palatine is the second largest of these northwest suburban communities.
- Palatine's annual retail sales tax is comparatively high at \$8.7 million, trailing only Mount Prospect and Arlington Heights.
- 118 single family and 58 multifamily units have been permitted in the past three years, ensuring a continuing supply of new housing in Palatine. This is higher than most of its surrounding suburbs.

Demographic Characteristics

The population of Palatine in 2015 is estimated to be 70,019, an increase of 6.9% from 2000. Since 2010, the population has grown by 1,462 persons, and the community is expected to grow by another 1,322 between 2015 and 2020.

An estimated 75.4% of the population in Palatine identifies as White. Asians comprise 11.0% of the population. The Hispanic population (a Census category separate from race) has increased significantly since 2000 and is now estimated at 20.1% of the population.

The table below presents 2000 and 2010 Census findings for select demographic characteristics for the Village of Palatine, 2015 estimates from Esri Business Analyst, and Esri's 2020 projections. Calculations show the percent change over the past fifteen years.

Palatine Demographics Trends						
Summary	2000	2010	2015 Estimates	2020 Projections	% Change 2000-2015	
Total Population	65,479	68,557	70,019	71,341	6.9%	
Total Households	25,518	26,876	27,608	28,212	8.2%	
Average Household Size	2.56	2.54	2.53	2.52		
Household Characteristics						
Family HHs	16,592	17,646	17,988	18,291	8.4%	
Median Age	34.3	36.8	38.0	38.9	10.8%	
Population by Race					% Change 2000-2015	% of 2015 Total
Population Reporting One Race						
White	54,381	52,736	52,775	52,637	-3.0%	75.4%
Black	1,407	1,869	1,678	1,519	19.3%	2.4%
American Indian	147	190	198	210	34.7%	0.3%
Asian/Pacific Islander	4,980	7,100	7,736	8,771	55.3%	11.0%
Some Other Race	3,327	5,082	5,857	6,287	76.0%	8.4%
Population Reporting Two or More Races	1,237	1,580	1,774	1,917	43.4%	2.5%
Total Hispanic Population	9,247	12,347	14,043	15,302	51.9%	20.1%

Source: 2000/2010 data from U.S. Census Bureau. Where Census Data are not available, estimates and projections are from Esri Business Analyst

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Age Distribution

The median age of residents in the community has increased 10.8% since the 2000 Census, from 34.3 to 38.0 years. CMAP estimates the median age in the 7-county region to be 36.0 years. The population of children (0-19) remains stable, while the number of young adults is decreasing.

The following segments of the population in Palatine increased during the past 15 years:

- Those aged 45 – 54, who are typically in their peak earning years
- Seniors, both those age 55 -74 and those 75+

As the population continues to age, the municipality will have to plan accordingly for these growing sectors.

Palatine Age Distribution						
Age Range	2000	2010	2015	Change from 2000-2015	% Change from 2000-2015	% of 2015 Total
0-19	17,628	17,751	17,633	5	0.0%	25.2%
20-24	4,219	3,871	4,049	-170	-4.0%	5.8%
25-34	11,759	10,863	10,263	-1,496	-12.7%	14.7%
35-44	11,679	10,186	10,024	-1,655	-14.2%	14.3%
45-54	8,968	10,803	10,078	1,110	12.4%	14.4%
55-74	8,728	11,906	14,351	5,623	64.4%	20.5%
75+	2,498	3,177	3,623	1,125	45.0%	5.2%
Median Age	34.3	36.8	38.0		10.8%	

Source: ESRI Business Analyst

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Employment

Esri Business Analyst estimates that there are 2,562 businesses in Palatine with a total of 24,729 employees. Palatine does not have a concentration of large private businesses. Educational services and public administration make up almost 20% of the Village's employment. The highest percent of businesses (13.7%) are associated with the retail trade industry, which employs 16.8% of Palatine's workers, second only to educational services. In combination, retail and restaurants/bars employ 23.0% of the total Village employees. These industries tend to have lower-paying jobs.

2015 Palatine Employment Summary				
Total Businesses:	2,562			
Total Employees:	24,729			
Total Residential Population:	70,019			
Industry	Businesses	Businesses	Employees	Employees
Educational Services	60	2.3%	4,233	17.1%
Retail Trade	350	13.7%	4,152	16.8%
Administration)	309	12.1%	2,048	8.3%
Construction	253	9.9%	1,899	7.7%
Health Care & Social Assistance	152	5.9%	1,674	6.8%
Professional, Scientific & Tech Services	318	12.4%	1,620	6.6%
Food Services & Drinking Places	126	4.9%	1,521	6.2%
Manufacturing	80	3.1%	1,461	5.9%
Finance & Insurance	250	9.8%	1,100	4.4%
Administrative & Support & Waste Management & Remediation Services	152	5.9%	884	3.6%
Real Estate, Rental & Leasing	139	5.4%	852	3.4%
Arts, Entertainment & Recreation	54	2.1%	808	3.3%
Transportation & Warehousing	68	2.7%	660	2.7%
Wholesale Trade	89	3.5%	590	2.4%
Public Administration	14	0.5%	477	1.9%
Information	50	2.0%	314	1.3%
Unclassified Establishments	80	3.1%	262	1.1%
Accommodation	10	0.4%	86	0.3%
Agriculture & Mining	4	0.1%	56	0.3%
Management of Companies & Enterprises	3	0.1%	26	0.1%
Utilities	1	0.0%	6	0.0%
Total	2,562		24,729	

Source: Esri Business Analyst

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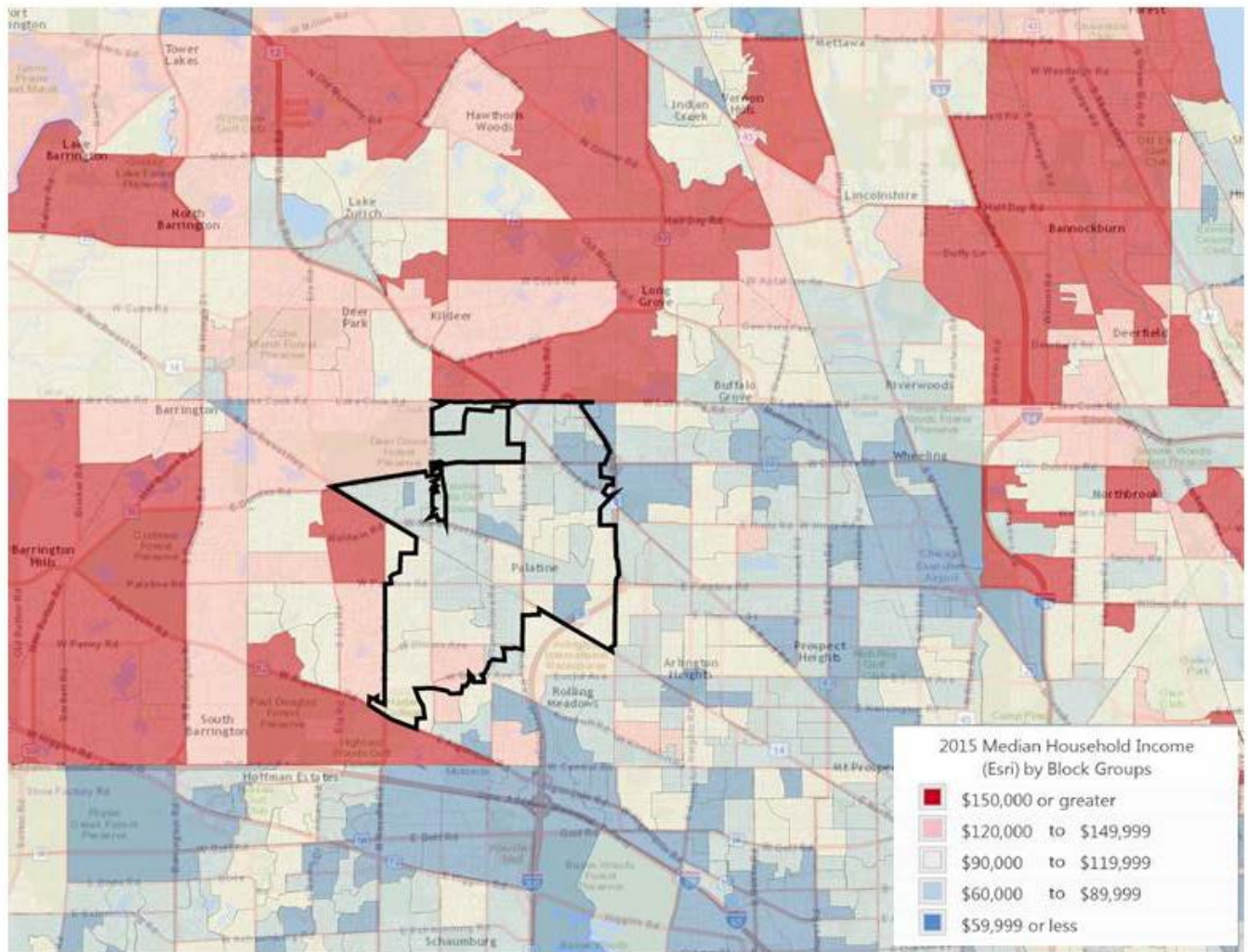
According to the Village's Comprehensive Annual Financial Report, three of the top five largest employers in Palatine are related to educational services. UPS is the largest private employer, and USPS is the largest public sector employer due to the location of the USPS Processing and Distribution Center at 1300 Northwest Highway.

Largest Employers in Palatine (2014)	
<u>Employer</u>	<u>Number of Employees</u>
Community Unit School District 15	2,200
Township High School District 211	2,057
United Parcel Service (UPS)	1,000
United States Postal Service (USPS)	1,000
Community College District 512	980
Intec Group, Inc.	425
Schneider Electric - Square D	355
Village of Palatine	355
Weber-Stephen Products	200
Arlington Plating	110
<i>Source: Village of Palatine 2014 Comprehensive Annual Financial Report</i>	

Household Incomes

The 2015 median household income in Palatine as estimated by Esri Business Analyst is \$75,070, lower than the median in many of the surrounding communities. The following map illustrates median household incomes by Census block groups for Palatine (outlined in black) and surrounding areas. Most of the block groups in Palatine are in the \$60,000-\$120,000 range of median incomes, shown in white and light blue on the map.

2015 Median Household Income by Census Block Group

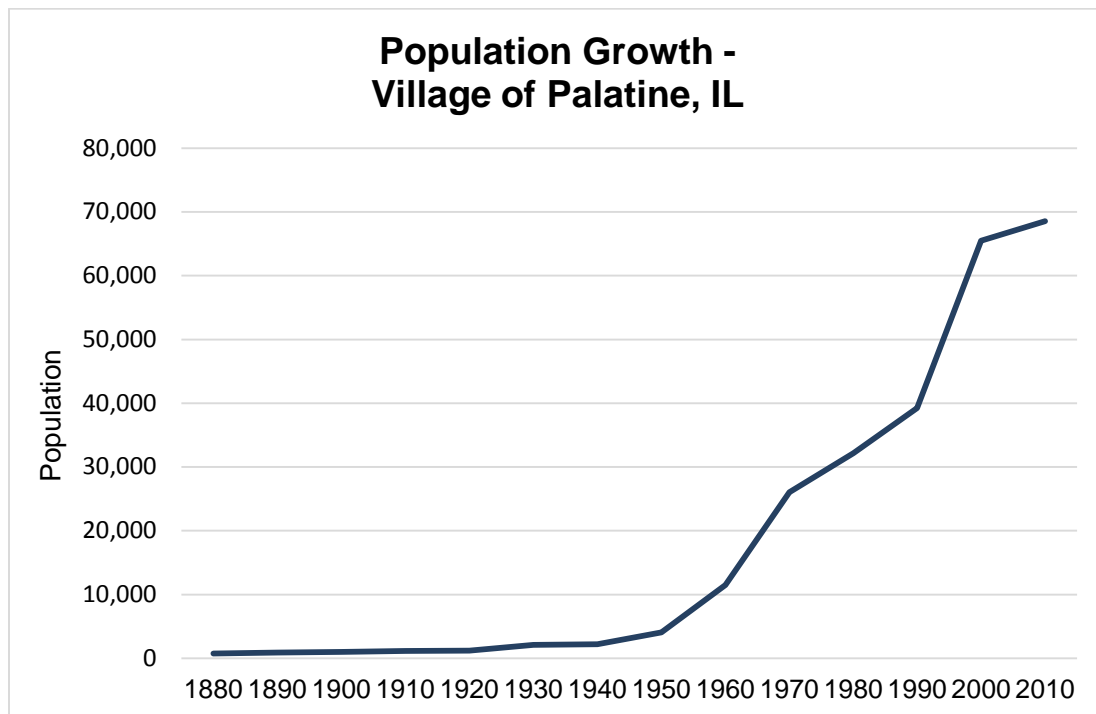


Source: Esri Business Analyst

III. RESIDENTIAL MARKET ANALYSIS

Introduction to Housing in Downtown Palatine

Typical of many second-ring suburban communities, the Village of Palatine experienced rapid growth in the latter half of the 20th century, growing from just 11,504 residents in 1960 to 65,479 residents by 2000. During this time, thousands of new housing units were built – primarily in single family subdivisions and conventional style rental apartment communities – to accommodate the Village’s new residents.



Source: U.S. Census Bureau

As demonstrated previously in the Market & Demographics section of the *Existing Conditions Summary* report, more than 50% of the Village’s housing units were built between 1970 and 1989. After this, as land available for development grew more scarce, Village growth moderated. However, an uptick in residential construction occurred when Downtown redevelopment and revitalization efforts spurred the construction of hundreds of new multifamily units and townhomes in the late 1990s and early 2000s prior to the collapse of the housing market in 2007 and 2008.

Downtown Palatine Housing Characteristics

The Downtown Palatine Study Area offers a wide variety of housing types. Owner-occupied units include condominiums built in the 60s and 70s and older single family homes, with newer condominium and townhome units introduced in conjunction with the Village's Downtown redevelopment and revitalization efforts beginning in the late 1990s. In total, 16 developments have been built Downtown since that time, encompassing 1,009 units. Five are townhome developments with 161 units (shown in purple on the accompanying map), and 11 are condominiums with 848 units in total (shown in blue on the accompanying map).

Recent Residential Developments Downtown Palatine

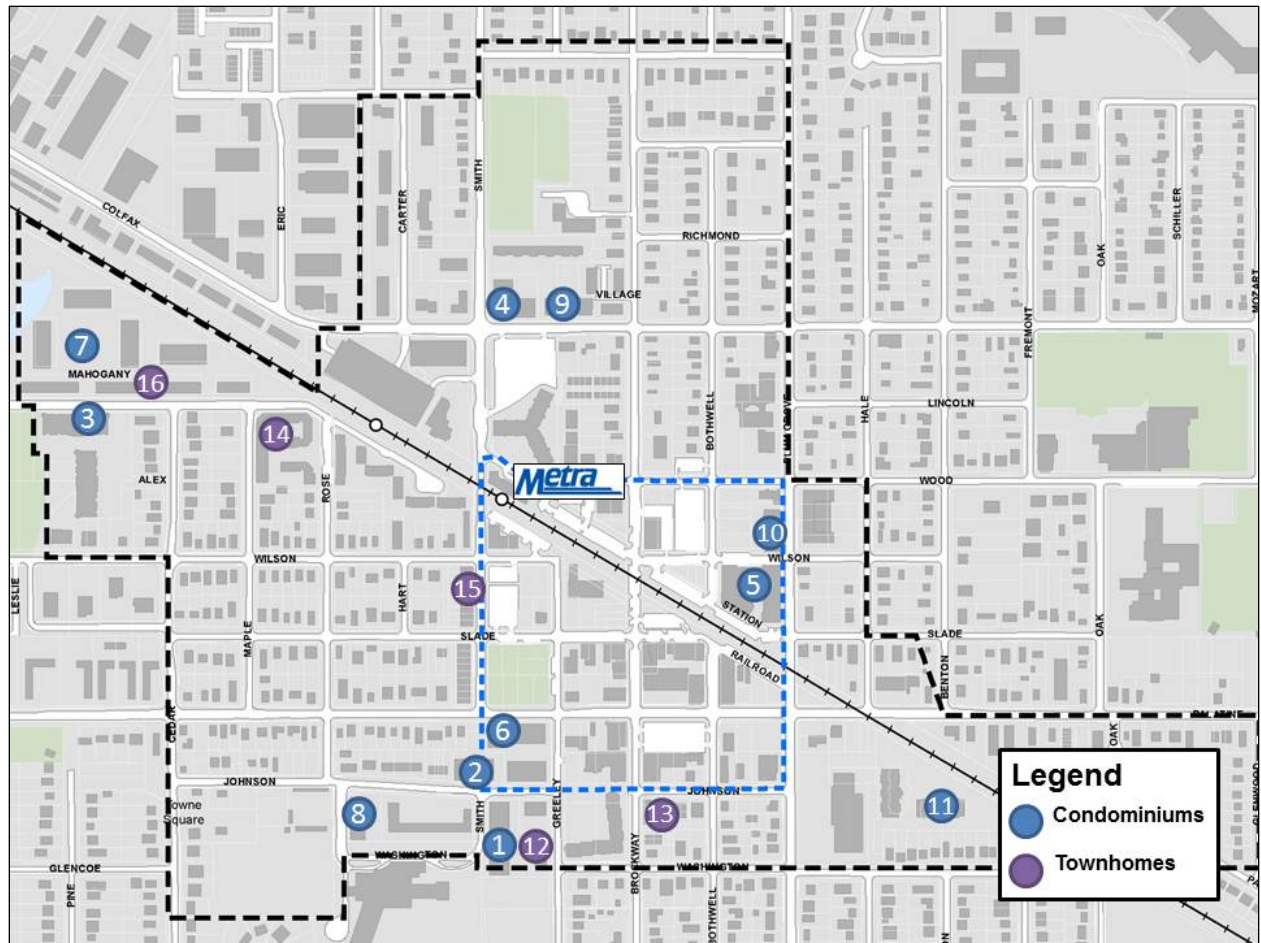
<u>Map</u>	<u>Development Name</u>	<u>Reference Address⁽¹⁾</u>	<u>Type</u>	<u>Units</u>	<u>Yr. Built</u>
1	Heritage of Palatine	50 S. Greeley St.	Condo	48	2008
2	Stratford of Palatine	190 W. Johnson St.	Condo	32	2007
3	Preserves at Hilltop of Palatine	435 W. Wood St.	Condo	100	2006
4	Metropolitan	235 N. Smith St.	Condo	68	2006
5	Providence	24 W. Station St.	Condo	112	2006
6	Benchmark	133 W. Palatine Rd.	Condo	72	2005
7	Groves of Palatine-MF	470 W. Mahogany Ct.	Condo	240	2003
8	Washington Square	245 W. Johnson St.	Condo	28	2003
9	Wellington Court	124 W. Colfax St.	Condo	40	2002
10	Plum Court	104 N. Plum Grove Rd.	Condo	32	2000
11	Mirmonte Pointe	59 S. Hale St.	Condo	76	1998
12	54-78 S. Greeley St.	54 S. Greeley St.	TH	7	2010
13	Brockway Place	35 S. Brokway St.	TH	4	2006
14	Palatine Station	133 N. Rose St.	TH	92	2004
15	Brownstones of Palatine	72 N. Smith St.	TH	18	2004
16	Groves of Palatine-Townes	480 W. Wood St.	TH	40	2002
Total				1,009	
Condo Total				848	
TH Total				161	

⁽¹⁾Some developments contain multiple addresses.

Source: *Village of Palatine, Goodman Williams Group*

The majority of the new developments are clustered around the Metra station and aligning the railway. While recent Downtown residential development stretched from 1998 through 2010, the majority of the developments were built between 2002 and 2006, during the housing bubble years. No new significant development activity has occurred within the Study Area since 2010.

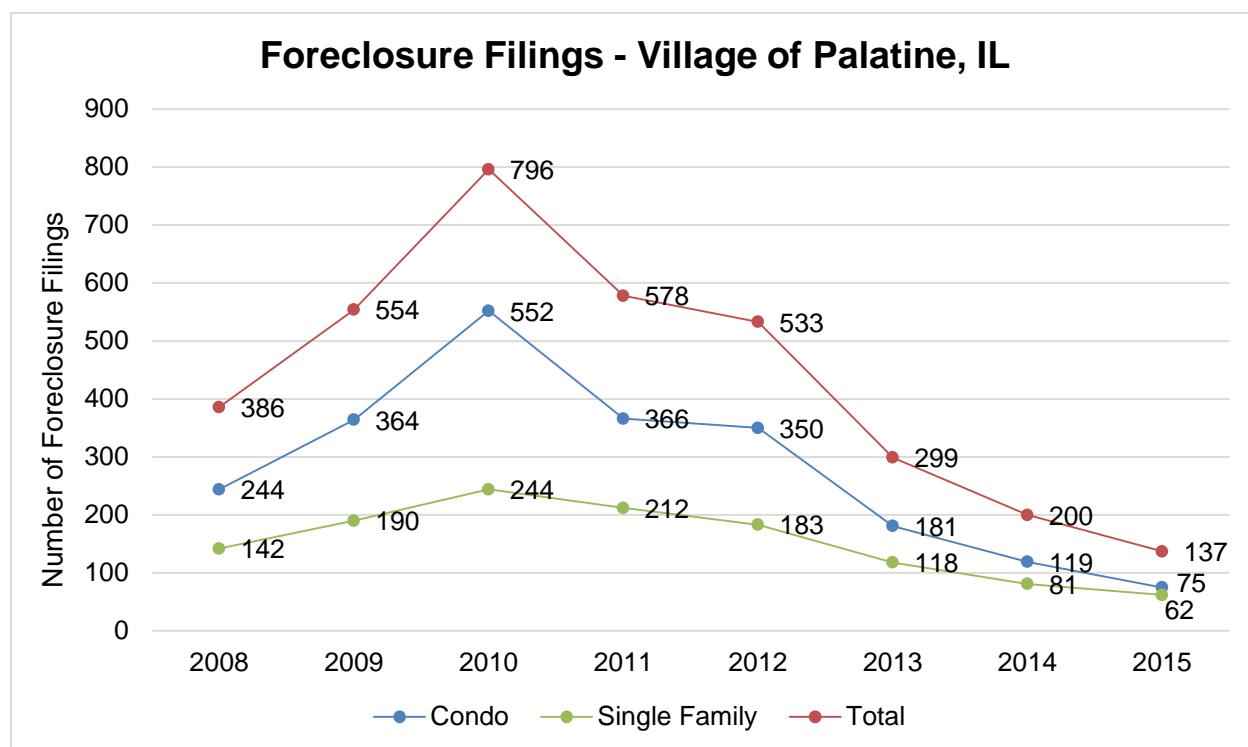
Map of Recent For-Sale Residential Developments Downtown Palatine



Source: Village of Palatine, Goodman Williams Group

Renter-occupied units in the Downtown area include a large number of apartments in smaller scale buildings of two to four units, generally constructed in the 1960s and 1970s. Additionally, roughly ten apartment buildings of larger scale (i.e., 5-49 units) occupy the Study Area. No conventional rental apartment developments of recent vintage exist Downtown. However, in the aftermath of the housing market collapse and foreclosure crisis, many of the newer units built as for-sale condominiums have been placed – by investors or individual unit owners – onto the rental market (see *Rental Market Overview* below). The Village maintains a rental dwelling licensing program, and approximately 485 units within the Downtown Study Area are currently registered as rental units, with 275 of these consisting of traditional apartments and 210 encompassing other “built-for-sale” units (including condominiums, townhomes, and single family homes) that are currently being rented.

Generally speaking, the newer housing stock within the Study Area is of high quality, and the Village should be applauded for its efforts to improve Downtown density while enhancing the community with well-conceived land usage and zoning policies. With its redevelopment efforts, Downtown Palatine emerged during the housing bubble years as one of the most robust downtown residential markets in northwest Cook County. However, the rapid construction (and in some cases over construction) of condominiums during the housing bubble run-up made the Downtown area vulnerable once the market collapsed and the foreclosure crisis ensued. Foreclosure activity Village-wide spiked in 2010, when more than 550 condominium owners received foreclosure filings – an increase of 126% from levels two years before.



Source: Woodstock Institute

The number of new filings began falling dramatically after 2010, with 2015 seeing more normalized levels for both condominiums and single family homes.

The foreclosure experience notwithstanding, the strength of the Downtown Palatine market is predicated on several key assets, including access to major employment concentrations located primarily along the I-90 corridor, access to mass transit via the Palatine Metra station, an enhanced level of desirable commercial amenities within the area, and a highly acclaimed school system. These primary assets will continue for the foreseeable future to serve as catalysts for household growth in Palatine, spurring demand for new housing units.

Homes for a Changing Region Report

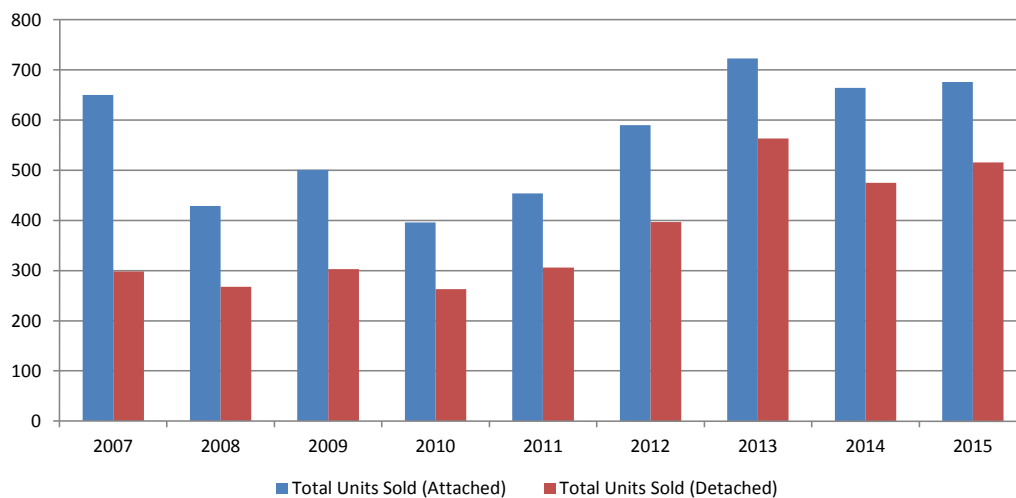
As described in the *Existing Conditions* report, Palatine was a participant in the *Homes for a Changing Region* initiative, led by the Metropolitan Mayors Caucus in collaboration with CMAP and MPC. The final report, issued in 2013, notes that Palatine could experience the addition of 9,600 households between 2010 and 2040 and concludes that, in planning to accommodate this growth, the Village will need, in particular, to address the needs of lower income renters as well as seniors. It further found that gaps in housing supply currently exist for both the lower and higher ends of the household income spectrum.

The report provided several recommendations, including working to maintain high quality rental housing, expanding viable housing options for low and moderate-income households, and continuing the redevelopment of the Downtown area with new high density housing options for all income groups.

For-Sale Market Overview

In 2015, according to area Multiple Listing System (MLS) data, 1,192 homes were sold in the Village of Palatine, of which 676 were attached forms (including condominiums, duplexes, and townhomes/rowhomes) and 516 were detached single family homes. Home sales within the Village have recovered well since the housing market crisis and recession, with current volumes achieving parity with 2007 levels in the attached sector and rising well above them in the detached sector.

Home Sales - Village of Palatine, IL

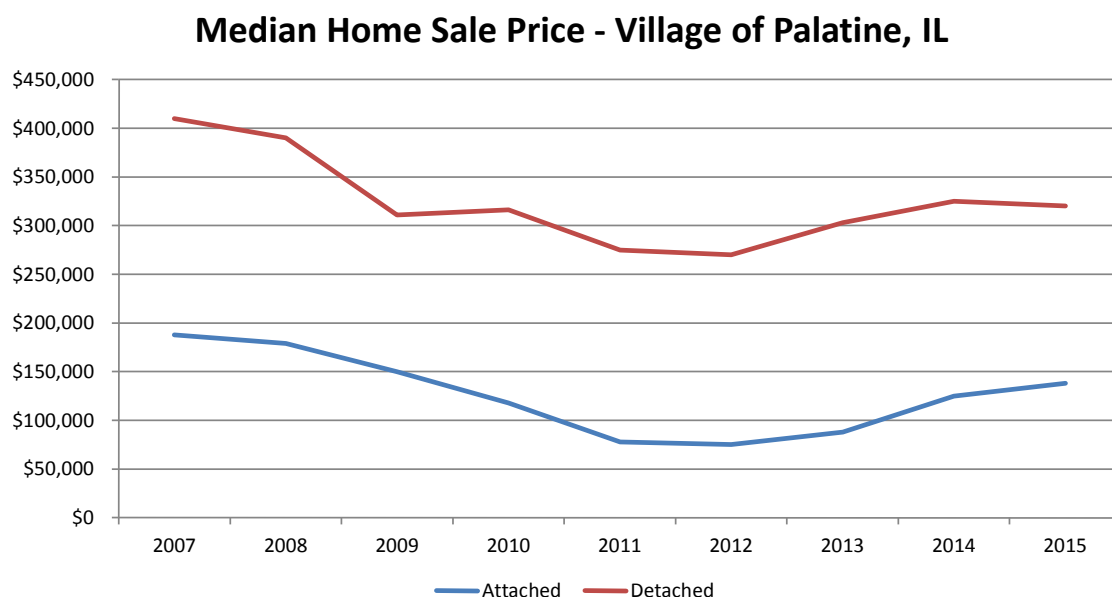


Source: Midwest Real Estate Data

Of note, attached home sales in Palatine have averaged 60.4% of total home sales over the last nine years – an unusually large proportion for a suburban market, where detached home sales

generally eclipse the attached sector. This is attributable primarily to the large number of attached homes constructed downtown since the late 1990s.

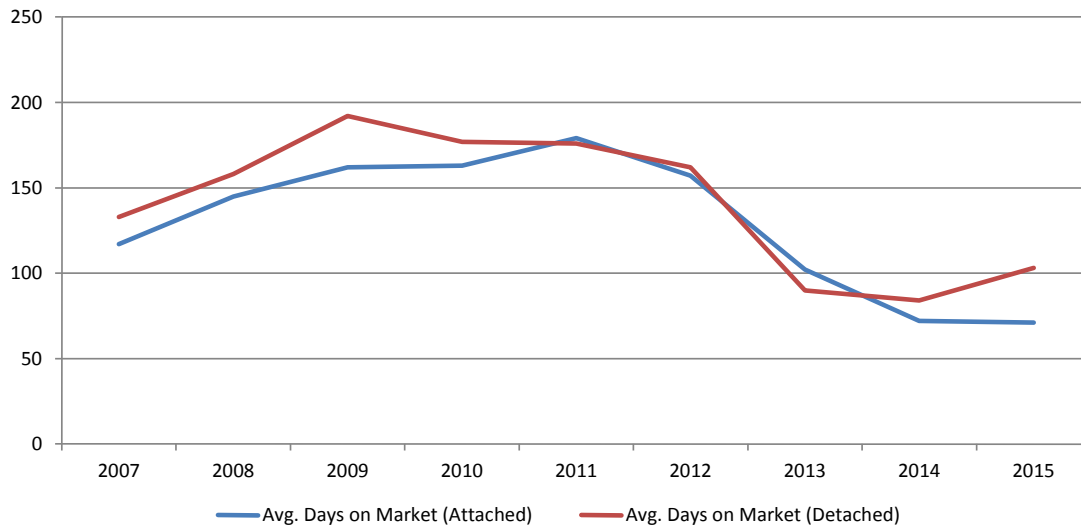
While sales volumes within the Village have returned to more robust levels since the market crisis, sales prices remain well below pre-recession levels. More specifically, the median price of detached homes sold in 2015 stood at \$320,000 – 22.0% lower than that in 2007. Likewise, the median price of attached homes sold in 2015 stood at \$138,000 – 26.5% lower than 2007. Losses in value have been most severe within many higher end condominium communities located in the Downtown area. Units at **The Providence**, for example, have recently sold at levels tens of thousands below those for comparable units sold shortly after the development was built in 2006.



Source: Midwest Real Estate Data

The time it takes to sell a home (expressed as “days on market”) is an additional measure of market strength. Market times for homes sold in Palatine have generally trended lower since meaningful market recovery began. Specifically, the average days on market for detached homes sold in 2015 was 103, compared to a cyclical peak of 192 in 2009. Likewise, that for attached homes sold in 2015 was 71, compared to a peak of 179 in 2011.

Home Sale Market Time - Village of Palatine, IL



Source: Midwest Real Estate Data

In terms of current for-sale inventory, there are 174 detached homes and 129 attached homes listed for-sale Village-wide through the local brokerage network. At 2015 sales velocities, these listings represent supplies of 4.0 and 2.3 months, respectively. Inventory conditions in this range are considered extremely tight, and generally presage rising home values. (By comparison, an inventory level of approximately six months is generally considered balanced for most markets.)

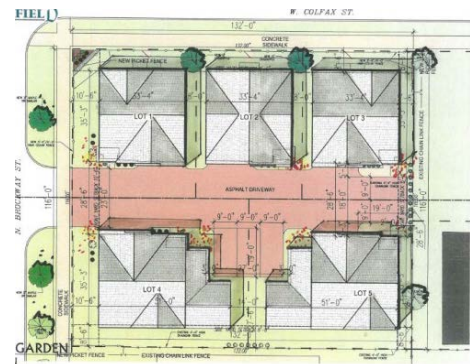
Within Downtown Palatine's newer condominium and townhome developments there are currently 30 homes listed for-sale in 14 separate developments. Among the 26 condominium units listed, the average asking price is \$246,538 for 1,394 square feet of living space, or \$180.11 per square foot. Among the four townhomes, the average asking price is \$384,725 for 2,154 square feet of living space, or \$176.26 per square foot.

**Currently Listed Newer Attached Homes for Sale
Downtown Palatine, IL**

<u>Address/Unit</u>	<u>Development</u>	<u>Yr. Built</u>	<u>Unit Type</u>	<u>Size (SF)</u>	<u>Price</u>	<u>Price/SF</u>
470 W. Mahogany Ct., #202	Groves of Palatine - MF	2003	Condo	--	\$215,000	--
470 W. Mahogany Ct., #212	Groves of Palatine - MF	2003	Condo	1,443	\$189,000	\$130.98
435 W. Wood St.	Preserves at Hilltop of Palatine	2006	Condo	1,523	\$289,000	\$189.76
245 W. Johnson St., #108	Washington Square	2003	Condo	1,400	\$200,000	\$142.86
190 W. Johnson St., #508	Stratford of Palatine, The	2007	Condo	1,481	\$265,900	\$179.54
190 W. Johnson St., #501	Stratford of Palatine, The	2007	Condo	1,273	\$269,900	\$212.02
133 W. Palatine Rd. #202	Benchmark	2005	Condo	1,565	\$289,999	\$185.30
50 S. Greeley St., #302	Heritage of Palatine	2008	Condo	1,518	\$289,900	\$190.97
50 S. Greeley St., #310	Heritage of Palatine	2008	Condo	1,512	\$282,500	\$186.84
50 S. Greeley St., #315	Heritage of Palatine	2008	Condo	1,515	\$279,000	\$184.16
55 S. Hale St., #105	Miramonte Pointe	1998	Condo	1,296	\$199,000	\$153.55
59 S. Hale St., #104	Miramonte Pointe	1998	Condo	1,150	\$189,500	\$164.78
59 S. Hale St., #208	Miramonte Pointe	1998	Condo	1,486	\$209,000	\$140.65
59 S. Hale St., #308	Miramonte Pointe	1998	Condo	1,486	\$209,900	\$141.25
59 S. Hale St., #402	Miramonte Pointe	1998	Condo	1,486	\$219,000	\$147.38
59 S. Hale St., #101	Miramonte Pointe	1998	Condo	1,831	\$329,500	\$179.96
59 S. Hale St., #302	Miramonte Pointe	1998	Condo	1,486	\$219,000	\$147.38
24 W. Station St., #216W	Providence, The	2006	Condo	950	\$215,000	\$226.32
50 N. Plum Grove Rd., #703E	Providence, The	2006	Condo	--	\$264,900	--
24 W. Station St., #409W	Providence, The	2006	Condo	700	\$189,500	\$270.71
104 N. Plum Grove Rd., #503	Plum Court	2000	Condo	1,200	\$250,000	\$208.33
124 W. Colfax St., #504	Wellington Court	2002	Condo	1,300	\$229,000	\$176.15
124 W. Colfax St., #401	Wellington Court	2002	Condo	1,255	\$245,000	\$195.22
235 N. Smith St., #407	Metropolitan, The	2006	Condo	1,768	\$340,000	\$192.31
235 N. Smith St., #511	Metropolitan, The	2006	Condo	1,409	\$249,000	\$176.72
235 N. Smith St., #205	Metropolitan, The	2006	Condo	1,416	\$282,500	\$199.51
480 W. Wood St.	Groves of Palatine - TH	2002	TH	1,830	\$285,000	\$155.74
133 N. Rose St.	Palatine Station	2004	TH	1,800	\$319,000	\$177.22
154 N. Rose St.	Palatine Station	2004	TH	2,250	\$384,900	\$171.07
35 S. Brockway St.	Brockway Place	2006	TH	2,736	\$550,000	\$201.02
Average		2003		1,502	\$264,963	\$179.56
Condo Avg.		2003		1,394	\$246,538	\$180.11
TH Avg.		2004		2,154	\$384,725	\$176.26

Source: Realtor.com, Goodman Williams Group

Finally, while no new development activity has taken place Downtown since the housing market collapse, one new residential development has recently received approval from the Village. **Stone Garden**, to be developed at the southeast corner of Colfax and Brockway streets by Stonefield Group, will consist of five small-lot detached single family homes. The homes will utilize traditional architecture and will include approximately 2,000 square feet of living space. Three of the homes are currently listed for \$469,900.



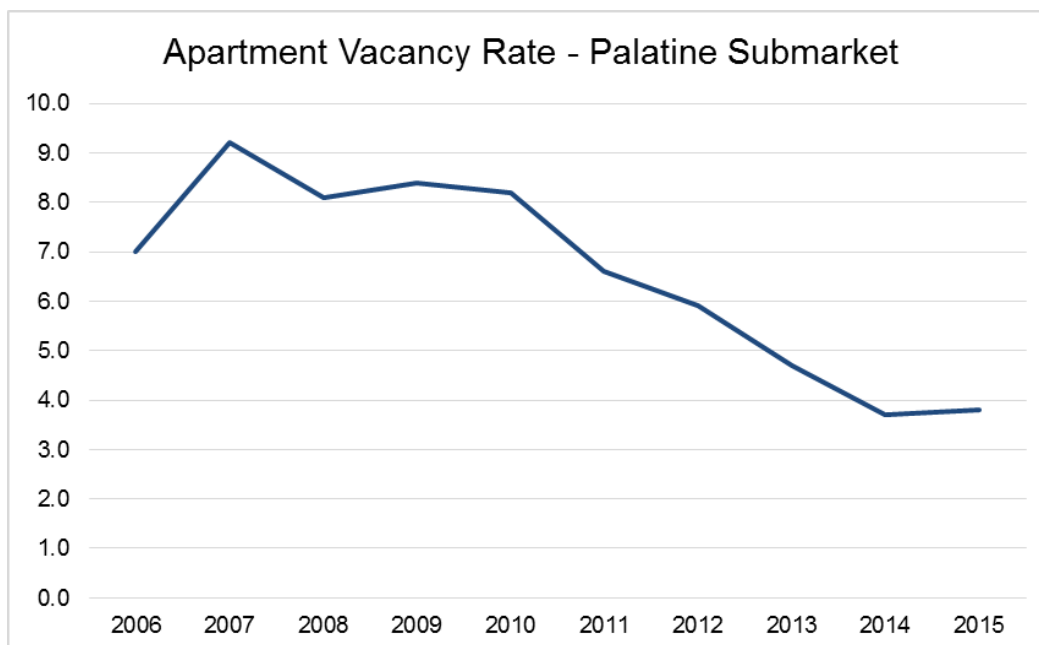
Stone Garden Rendering
Source: Stonefield Group

Rental Market Overview

For the purpose of multifamily rental market analysis, the Village of Palatine is located within the wider *Palatine Submarket*. This submarket (as defined by the national multifamily market information provider Reis) covers all market rate rental apartment developments with a scale of 40 or more units in an area bounded roughly by Lake Cook Road to the north, Illinois Route 53 to the east, Interstate 90 to the south, and the Cook/McHenry county line to the west. (While this is a relatively large area geographically, a large majority of the apartment communities within the submarket are located within the Village of Palatine itself.)

The total apartment inventory within the submarket currently stands at 13,930 units distributed among 17 developments. The inventory is, in general, quite old, with a median age of 43 years (median year built 1973), and virtually all the developments in the submarket were built prior to 1990. In fact, apart from 84 units completed in 1995, the submarket has seen no new completions in the last 25 years. Meanwhile, more than 1,000 units were subtracted from submarket inventories through condominium conversions during the housing market bubble years.

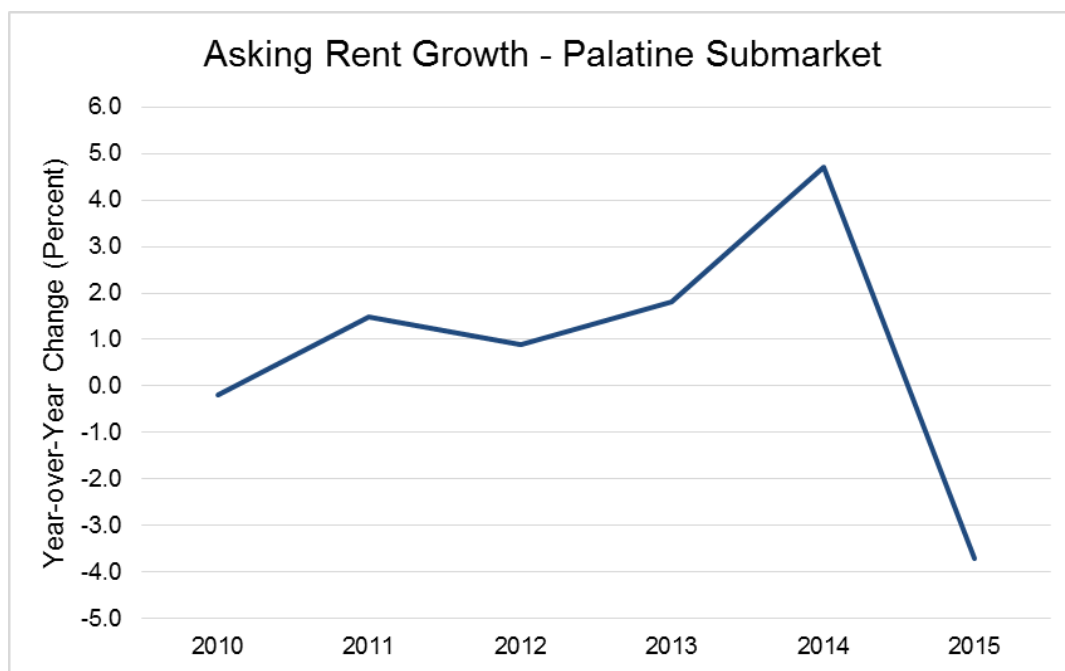
The current vacancy rate submarket-wide stands at 3.8%, which is slightly higher than the Metropolitan Chicago region as a whole, at 3.6%, and essentially flat to 2014. Like many other Chicago submarkets, vacancy rates peaked near the height of the housing bubble, but have fallen dramatically since that time as historic shifts in tenure rates have led more households to rental housing.



Source: Reis, Inc

Current average asking rents submarket-wide stand at \$1,221, with the average concession on a twelve month lease equating to \$57 per month, yielding an average effective rent of \$1,164 per month. As a group, however, the newest communities within the submarket (i.e., those built after 1980) command significantly higher rents than the market average, at an average of \$1,475 per month.

Rent growth within the submarket has been tepid in recent years, averaging just 1.0% per year over the last five years and turning negative for 2015, likely due to increased competitive pressure from new multifamily development outside the submarket. By comparison, rent growth for all Metro Chicago submarkets averaged 2.9% over the last five years and 3.9% for 2015. At these levels, the Palatine Submarket ranks near the bottom of all Metro Chicago submarkets in terms of apartment rent growth.



Source: Reis, Inc.

Downtown Palatine Rental Market

As mentioned previously, the rental market within the Downtown Palatine Study Area consists largely of older small and medium scale buildings, with no market rate apartment developments of recent vintage. However, a number of units within the condominium and townhome developments built since Downtown redevelopment and revitalization efforts began have been entered into the rental market.

Currently, 16 such units in seven developments are available and listed through conventional apartment listing services. These include 15 condominium units and one townhome. Asking rents among the group range from \$1,650 to \$2,250 per month and average \$1,879 for 1,466

square feet of living space, or \$1.28 per square foot. On a whole dollar basis, the average asking rent for the group thus stands 54% higher than that for the conventional apartment market within the Palatine submarket (at \$1,221) and 27% higher than the newest conventional apartment communities as a group (at \$1,475).

Currently Available Rental Units Newer Downtown Palatine Developments					
<u>Address/Unit</u>	<u>Development</u>	<u>Dev. Type</u>	<u>Sq. Ft.</u>	<u>Mo. Rent</u>	<u>Rent/SF</u>
77 N. Quentin Rd., #303	The Enclave at Quentin	Condo	1,690	\$2,100	\$1.24
77 N. Quentin Rd., #212	The Enclave at Quentin	Condo	1,524	\$1,975	\$1.30
77 N. Quentin Rd., #308	The Enclave at Quentin	Condo	1,356	\$1,950	\$1.44
77 N. Quentin Rd., #202	The Enclave at Quentin	Condo	1,560	\$1,950	\$1.25
470 W. Mahogany Ct., #209	Groves of Palatine-MF	Condo	1,533	\$1,800	\$1.17
470 W. Mahogany Ct., #407	Groves of Palatine-MF	Condo	1,480	\$1,690	\$1.14
410 W. Mahogany Ct., #301	Groves of Palatine-MF	Condo	1,443	\$1,700	\$1.18
410 W. Mahogany Ct., #607	Groves of Palatine-MF	Condo	1,330	\$1,700	\$1.28
390 W. Mahogany Ct., #502	Groves of Palatine-MF	Condo	1,400	\$1,650	\$1.18
480 W. Wood St.	Groves of Palatine-Townes	TH	1,830	\$2,100	\$1.15
455 W. Wood St., #211	Preserves at Hilltop of Palatin	Condo	1,483	\$1,850	\$1.25
132 W. Johnson St., #304	Benchmark	Condo	1,628	\$1,900	\$1.17
133 W. Palatine Rd., #202	Benchmark	Condo	1,565	\$2,250	\$1.44
132 W. Johnson St., #107	Benchmark	Condo	1,230	\$1,650	\$1.34
190 W. Johnson St., #205	The Stratford	Condo	1,311	\$1,900	\$1.45
24 W. Station St., #206	The Providence	Condo	1,100	\$1,900	\$1.73
Average			1,466	\$1,879	\$1.28

Source: Realtor.com, Zillow, Trulia, Apartments.com and Goodman Williams Group

New Home Demand Potentials

New home demand is supported first and foremost by household growth—that is, the increase in the total number of resident households either by in-migration (movement into a market area) or the formation of new households within the market.

As discussed in the Market & Demographics section of the *Existing Conditions Summary* report, the Village of Palatine is expected to add approximately 600 new households over the next five years, creating demand for new housing. Further, as any housing stock ages, homes inevitably fall into obsolescence and disrepair and are subject to demolition. Others are destroyed by fire or man-made or natural disaster. On average, in markets across the nation, roughly 0.26% of the existing housing stock is lost each year, creating replacement demand for new homes.

Finally, a third (though smaller) factor contributing to new home demand based on household growth is the need to retain a certain amount of vacancy within the market for the purpose of efficient unit turn.

Our derivation of new home demand potentials supported by household growth – factoring in current housing tenure rates, expected housing unit loss due to abandonment and demolition, and the need to retain vacancy balance – suggests that over the next five years the Village will experience demand for approximately 680 ownership units and 330 rental units, as shown in the following table.

Derivation of New Home Demand Potentials	
2016-2020	
Village of Palatine, Illinois	
Households, CY Estimate	27,608
Households, 5Y Projection	28,212
Projected HH Growth	604
Expected Loss, Units (0.26%/year)	376
Gross Housing Demand, Units	980
Ownership Units (68.5%)	671
Vacancy Requirement (1.5 Percent)	10
Total Owner-Occupied Demand	681
Average Per Year	136
Rental Units (31.5%)	309
Vacancy Requirement (7.4 Percent)	23
Total Renter-Occupied Demand	332
Average Per Year	66

(Household and housing tenure estimates and projections from Esri, Inc.)

Source: Goodman Williams Group

Demographic Changes & Housing Market Opportunity

The demographics information provider Esri provides estimates of current household makeup by householder age as well as projections of five-year changes in demography. As shown in the following table, three householder age cohorts are expected to see significant increases over the next five years, including those age 35-44, 65-75, and 75 and older. Conversely, the 24-34 and 45-55 year old cohorts are expected to experience decreases during the same period. Finally, the under 25 and 55-64 year old cohorts are expected to remain essentially unchanged.

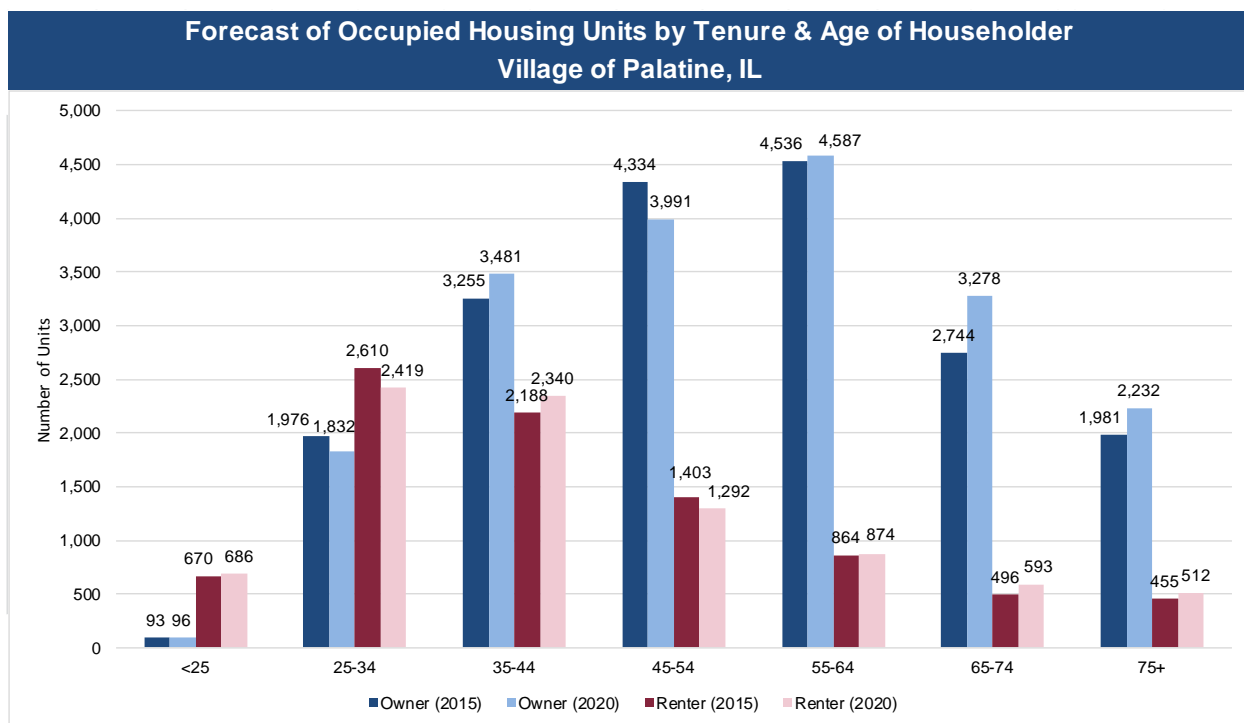
**Households by Age of Householder
Village of Palatine, IL**

Age of Householder	2015	2020	Change	
			No.	%
<25	763	782	19	+2.5
25-34	4,586	4,251	-335	-7.3
35-44	5,443	5,821	378	+6.9
45-54	5,737	5,283	-454	-7.9
55-64	5,400	5,461	61	+1.1
65-74	3,240	3,871	631	+19.5
75+	2,436	2,744	308	+12.6
Total	27,605	28,213	608	+2.2

Source: Esri, Inc. (2015 estimates, 2020 projections)

Utilizing these estimates and projections and incorporating Census estimates of housing tenure by age of householder (from the 2014 American Community Survey), we have produced a model predictive of current and future occupied housing units by housing tenure (ownership or rental) and age of householder. (Note that this model should be seen as illustrative of potential housing needs and market opportunities. It is not meant to serve as a forecast of absolute market demand.)

The results, presented graphically below, suggest that the housing needs and desires of householders age 35-44 and 65+ will exert particular influence on the character of new home demand within the Village over the next five years in both the for-sale and rental segments of the market.



Note: U.S. Census estimates are from the 2014 American Community Survey 5-Year Estimates

Source: U.S. Census (tenure estimates); Esri Business Analyst (2015 estimates, and 2020 projections); Goodman Williams Group

The strongest demand will accrue to the for-sale sector among 65-74 year old householders. Housing needs for householders 25-34 and 45-54 (i.e., shrinking householder age cohorts), will exert little to no influence in either housing sector.

The 35-44 year old age cohort is associated with increased household affluence (relative to younger years) and “move up” housing choices – most often moving from rental to ownership housing, but also to more expensive housing within both tenure segments. The 65-74 and 75+ age cohorts, on the other hand, make up the classic “move down” household groups – including both “empty nest” working households and retirees. As noted within the *Homes for a Changing Region* report, many of these older householders will look for opportunities to “age in place” (i.e., in their current homes). Others, however, will look for new housing. Housing choices within these age cohorts are most often driven by a desire for a comfortable and affordable lifestyle in, if possible, a maintenance-free environment. With an eye on lifestage transition, these households often seek housing that offers single level, barrier-free living.

Housing Market Conclusions

Our analyses of the housing market within Downtown Palatine and its environs, together with projections of market conditions over near to mid-term (i.e., 1-5 years), yield the following broad conclusions:

- Palatine has made great strides towards achieving its Downtown redevelopment and revitalization goals. These include fostering the development of more than 1,000 new residential units as well as increased commercial activity and other amenities that elevate quality of life and the desirability of the Downtown District as a place to live.
- In keeping with home sales projections region-wide, sale prices in Downtown Palatine are expected to increase modestly over the near term (i.e., 1-3 years), while sales volumes – though subject to fluctuation based on prevailing market sentiment – will generally trend higher.
- The Downtown condominium market (like others across the Metropolitan Chicago region) was battered by the housing market collapse and protracted foreclosure crisis. Now, however, market fundamentals are returning to more normalized levels – as evidenced by increased sales volumes, rising (albeit slowly) home values, and reduced foreclosure activity. From a regional perspective, we anticipate a return to more robust conditions for the multifamily for-sale sector within a three to five year time period. Locations such as Downtown Palatine will be among the first to benefit, given the following: 1) Income strength among its homeowner households; 2) A growing empty nester/retiree household base; 3) A walkable and inviting transit-oriented environment; 4) A welcoming regulatory environment with the potential for TIF support; and 5) Relatively high existing home values.
- Balancing these positive factors, however, is a potential inventory of 200 or more condominium units (and, to a much smaller degree, townhomes) currently occupied by renter households that could – and likely will – filter back onto the for-sale market as conditions improve and tenant leases expire. The transition of these units back to owner-occupancy will create gaps in the Downtown rental inventory that could be filled with new apartment development, but will also soak up a significant portion of demand for Downtown owner-occupied homes.
- While apartment market conditions within the Palatine Submarket can be characterized as tepid in terms of rent growth (particularly when compared to many surrounding submarkets such as Arlington Heights and Schaumburg/Hoffman Estates), this is at least partially due to the total lack of new completions that would, had they been built, have driven market rents higher. Current submarket vacancy rates, moreover, appear largely balanced to tight. While built-for-sale rental units (i.e., condominiums and townhomes) in the Downtown District provide a measure of higher-end rental inventory, more rental options would provide additional choice for households at varying income

levels, as well as providing stability to the rental market overall as current condominium rentals filter back to the for-sale market.

- Finally, townhomes will remain a viable option for the foreseeable future throughout the Downtown, offering additional housing choice and flexibility for otherwise hard-to-develop assemblages. Townhomes can be particularly successful when they provide an option for younger families looking for a large amount of living space in an urbanized neighborhood environment.

Recommendations

Based on our analyses of housing market conditions and potentials within Downtown Palatine and its environs, including near to mid-term opportunities as well as limitations inherent in the market, we suggest the following residential planning framework to serve as a set of guidelines for continued TOD in the Downtown District.

- **Rental Apartments:** Within a near term (i.e., 1-3 years) planning timeframe, adequate market support is expected to exist for the development of up to 100 new rental apartments, equating to roughly 25-30% of projected five-year rental demand Village-wide. Such development would be most viable as mixed-use buildings with ground floor commercial space (potentially serving as an amenity for building residents) and adequate parking for both uses.

A prime location for a new mixed-use development of this type would be the parcels north and south of Wilson Street immediately east of Smith Street—the current location of the temporary Village Hall facilities and associated surface parking. This location would offer convenient access to the Metra station and much of the Downtown retail inventory. The primary target market for the new apartments will be renters age 35-44, with a secondary target market consisting of downsizing empty nesters and retirees age 65 and above.

After lease-up of an initial development – and allowing a hiatus period of approximately 12 months for market incubation – additional units could be supported at a similar scale in other locations proximate to the train station. The sites on either side of Bothwell north of Wilson would be good candidates for a rental building with ground floor retail. Over the longer term, additional rental apartment options Downtown could draw younger millennial householders age 25-34, providing additional vitality to the Downtown District.

- **Condominiums:** Within a three to five year planning horizon, strengthening fundamentals within the for-sale market will support the development of new condominiums in *smaller scale* buildings Downtown. Market potentials will be limited initially – particularly as condominium units currently rented make their way back to the for-sale market. However, the growth of the empty-nester/retiree target market in Palatine is expected to provide adequate support for 25-35 units per year in the mid-term, with potentials rising higher thereafter. These units should be built in prime

locations, including the southern side of Colfax Street between Smith and Brockway streets (i.e., across Colfax from the existing Metropolitan and Wellington Court condominium developments).

- **Townhomes:** Well-conceived townhome developments of small scale (i.e., 15-30 units) could be developed at any time as land becomes available in the Downtown. The most marketable townhomes will be those priced generally 25-30% below comparable newly constructed detached single family homes within the greater Palatine market area. The primary target market for the townhomes will be householders age 35-44.

For all three housing product types, care must be taken to not “out-build” the market both in terms of number of units as well as localized price tolerances.

Additional Considerations

The recommendations presented here will provide for the continued redevelopment and revitalization of the Downtown District. While the recommendations are based solely on our market observations and analyses, it should be noted that they are, generally speaking, in concert with the “balanced housing profile” provided within the *Homes for a Changing Region* report in terms of product type and scale.

Downtown redevelopment on its own, however, cannot be expected to bring full balance to Palatine’s housing profile. Most notably, given the anticipated costs of land acquisition and new construction, it will be difficult for any new development Downtown to address the housing needs of the lowest income households without significant subsidies. Nevertheless, the introduction of new apartments properly scaled (in terms of unit size) to the rental market, will, by its very nature, bring a measure of balance to the Downtown rental market, where the current stock of built-for-sale condominiums and townhomes are generally over-sized for rental units – and thus carry rental rates well above market averages, as demonstrated previously. Moreover, the vast majority of built-for-sale units currently listed for rent are two bedroom, two bath units. Thus, new apartment development could introduce needed variety in available unit types, including one bedroom and even studio units.

Finally, the Village should continue to consider the needs of seniors – particularly the growing number of residents age 75 and older – who may need help with activities of daily living. Downtown Palatine is currently home to one senior living facility (Tamarack, located at Washington and Brockway streets). Built in 1987, this facility offers independent living units only. Given the anticipated addition of over 900 householders age 65 and over in the course of the next five years, additional senior living facilities offering more advanced levels of care (assisted living, in particular) should be considered – whether in Downtown locations or elsewhere within the Village.

IV. Commercial Market Overview

This chapter examines the retail and commercial market trends in Palatine and the larger market area. Recommendations are offered to enhance the competitive position of the Downtown Study Area.

Introductory Overview of Market Indicators in Northwest Suburbs

The global real estate firm CBRE provides quarterly overviews of retail market trends in the City of Chicago and ten suburban submarkets. The Village of Palatine falls into their Northwest Suburbs submarket, which is situated west of I-94 and north of I-90 (Jane Addams Tollway).

Chicago Retail Statistics

Submarket	No. of Properties	Gross Building Area (Sq. Ft.)	Vacant Area (Sq. Ft.)	Vacancy Rate (%)	Average Asking Lease Rate Range (\$/Sq. Ft./ Yr)	
					low	high
N.W. Suburbs	86	14,025,611	1,944,735	13.9%	\$17.32	\$19.18
Total	719	121,564,207	11,354,494	9.3%	\$16.77	\$19.36

Source: *Chicago Retail MarketView Q42015 CBRE*

The vacancy rate for the 14.0 million square feet of retail space in their inventory is 13.9%, high compared to the average for the metropolitan area (9.3%). Net rents in the Northwest suburban market are on par with other suburban submarkets. Retail rents overall have continued to climb in 2015 across all markets.

CBRE notes that consumer confidence is up and retail sales are increasing throughout the region. In general, rents are also increasing and vacancy rates dropping in the Chicago market, based in part on continued leasing from grocery stores. New restaurants, both quick-service national chains and locally owned establishments, are also helping to fuel demand.

Retail sales tax trends for Palatine and neighboring communities

Goodman Williams Group compared Palatine to its neighboring communities along the UP-NW line. In 2014, the Village of Palatine collected \$8.8 million in retail sales tax, according to the Illinois Department of Revenue. This is lower than Mount Prospect and Arlington Heights, but considerably higher than Barrington.

All four municipalities had a dip in retail sales tax during the recession and have now recovered and exceeded prerecession levels.



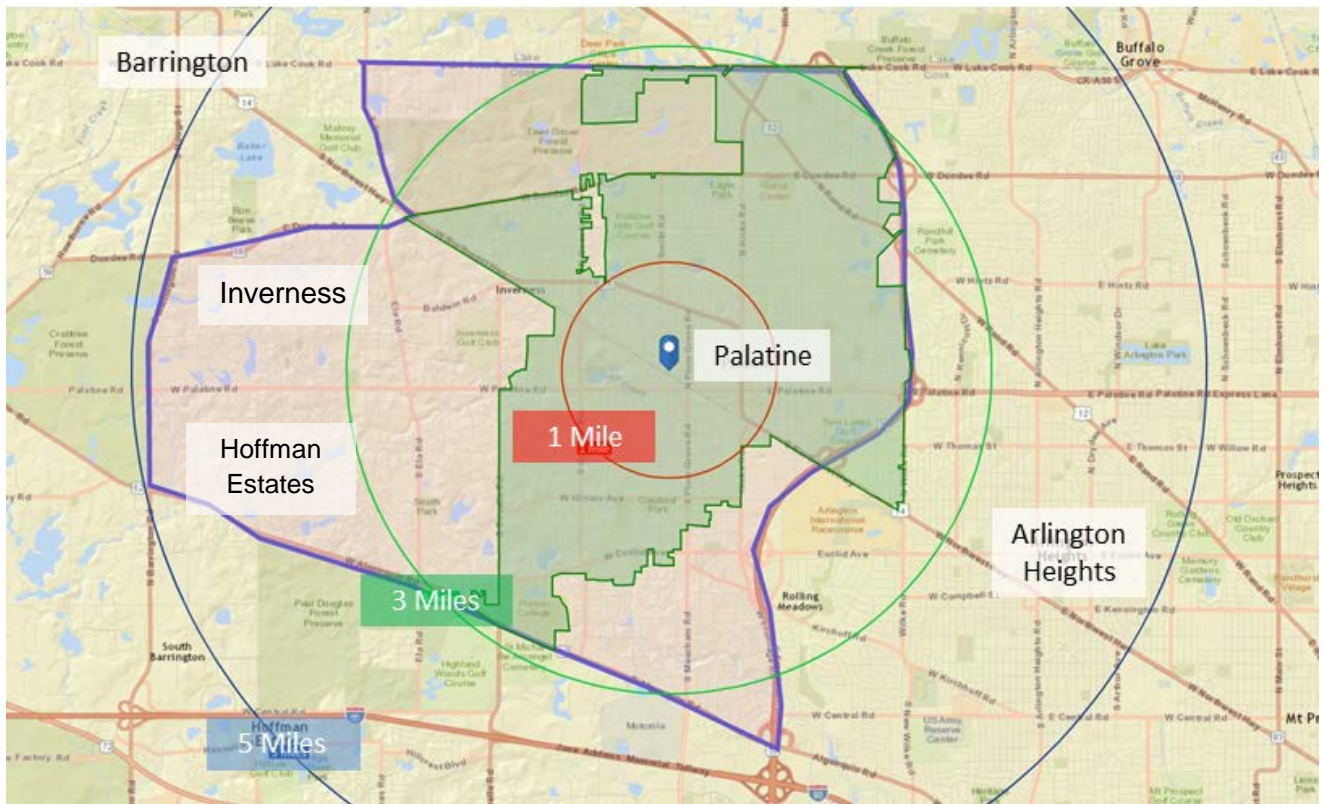
Source: Illinois Department of Revenue

Primary Market Area

Goodman Williams Group delineated a retail Primary Market Area (PMA) for Downtown Palatine. According to the definition from the International Council of Shopping Centers (ICSC), a Primary Market Area provides 60% - 80% of the patronage for area businesses.

Our delineation of the market area is based on nearby commercial areas, interviews with stakeholders, natural boundaries, and the origins of riders that use the Palatine Metra Station and commute via the Union Pacific Northwest Service Line.

Primary Market Area Downtown Palatine



Source: Goodman Williams Group

As shown on the accompanying map in pink, the Primary Market Area (PMA) includes the entirety of Palatine. It is roughly within 3-5 miles from the Palatine Metra Station, excluding Downtown Barrington. The boundaries of the Primary Market Area are N. Barrington Road to the west, W. Algonquin Road to the south, IL-53 to the east and W. Lake Cook Road to the north. Much of the Village of Inverness and portions of Hoffman Estates are included in the Primary Market Area because Palatine Road directly connects many of these residents to Downtown Palatine. Existing retail establishments in Downtown Palatine serve the downtown residents. In addition, restaurants are also a destination for residents from throughout the PMA.

Competitive Retail Corridors in the Primary Market Area

An analysis of opportunities for additional retail in Downtown Palatine must consider the other commercial districts and shopping centers located in and near the Primary Market Area. These various destinations are competing with Downtown Palatine for retailers as well as for residents' dollars.

- **Northwest Highway.** Northwest Highway (U.S. Route 14) circumvents Downtown Palatine and is lined with various sized auto-oriented shopping centers. Located only a mile from the Downtown Metra station, NW Highway has average daily traffic counts ranging from 29,000 to 33,000, substantially higher than the Downtown streets. With good visibility and affordable rents, these shopping centers directly compete for retailers with Downtown Palatine. Asking rents range from \$10/SF/Year NNN at Eurofresh Plaza Shopping Center built in 1970 to \$16/SF/Year NNN at the newly constructed United Center Plaza at the intersection of N Smith Street and NW Highway anchored by Dunkin Donuts and Subway. Mariano's Fresh Market opened in early 2012 and is located at the intersection of NW Highway and Hicks Road. It now serves the grocery needs of residents in and near Downtown Palatine and competes with the Jewel-Osco downtown.

These centers of various ages have a mix of national retailers including Ace Hardware, Hobby Lobby, CVS, 7-11, but also include many locally owned commercial businesses. Local businesses such as Billy's Pancake House, Brandt's of Palatine, Pizza Bella, and D'Vine Wine and Gifts are located along NW Highway as well as various local offices and service-oriented businesses.

- **Rand Road and Dundee Road Intersection.** Dundee Road and Rand Road within Palatine have a number of big box retailers that make this area a shopping destination. Target, Wal-Mart, Home Depot, TJ Maxx, and Petco are all located near this intersection. Traffic counts range from 28,000 to 33,000 average daily vehicles on these streets. Advertised rents are as high as \$33/SF/Year NNN at the newly constructed (2014) Deer Grove Crossing Center anchored by Starbucks and Home Depot, and as low as \$15/SF/Year NNN at the Rand and Dundee Shopping Center which opened in 1980.

The accompanying map shows the location of major retailers on these corridors and around the Primary Market Area. The land highlighted in red on the map shows retail land use identified by CMAP in 2010 through its periodic survey of the region's land uses. The numbers on the map correspond to the entries in the table, which provides more detail on selected shopping centers to better understand the various commercial options in the PMA.

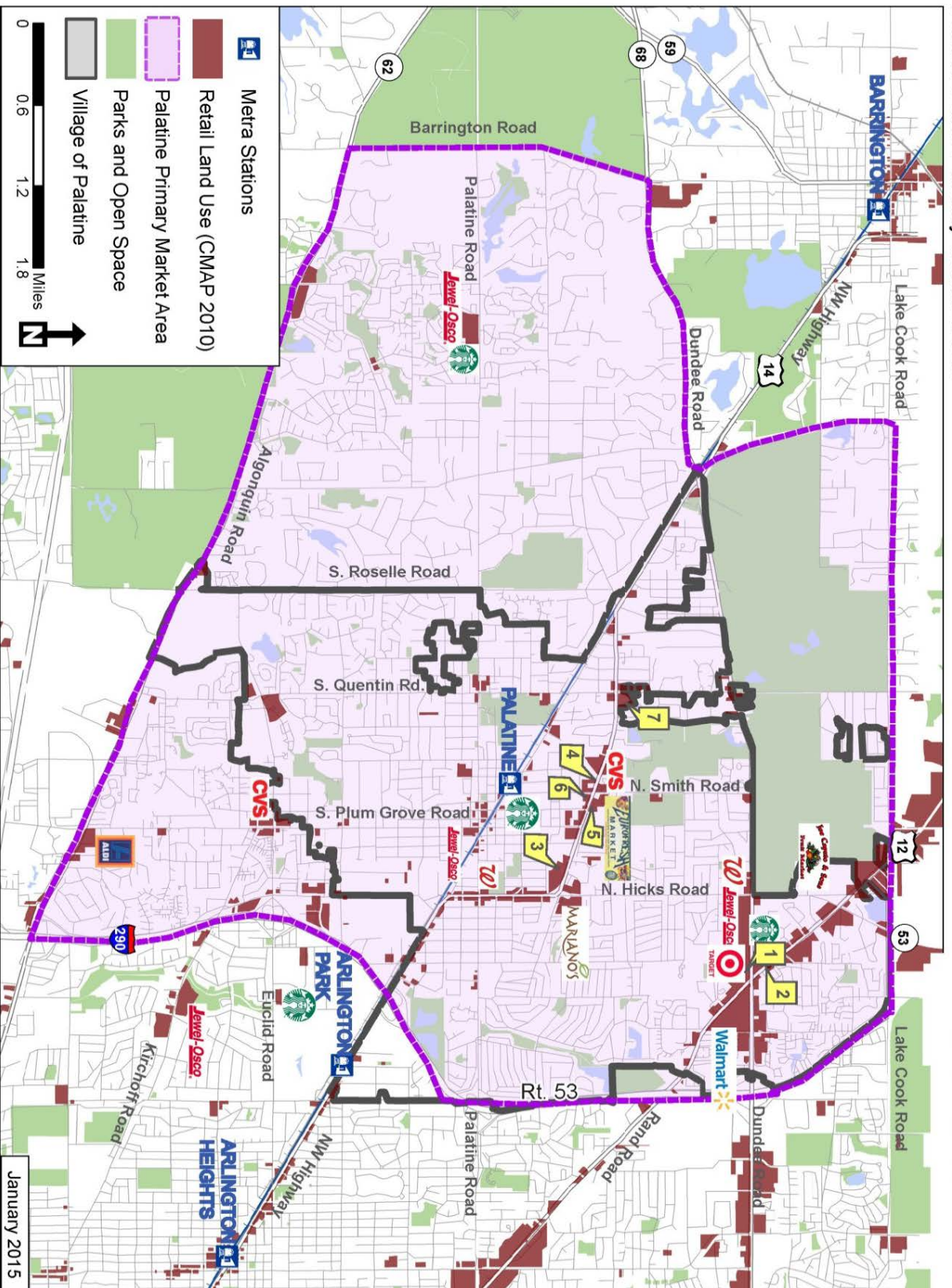
Selected Competitive Retail Centers within PMA

<u>Map</u> <u>Label</u>	<u>Retailer</u>	<u>Address</u>	<u>Corridor</u>	<u>Type</u>	<u>GLA</u>	<u>Anchors</u>	<u>Vacancies</u>	<u>%</u> <u>Vacant</u>	<u>Asking Rent</u> <u>\$/SF</u>
1	Deer Grove Crossing	1590 N. Rand Road	Rand Road	Power Center	24,608 SF (excl. outlots)	Home Depot, Starbucks	4	29.7%	\$12-33/ SF/ Year NNN + \$8 Pass Throughs
2	Rand Dundee Plaza	1703-1715 Rand Road	Rand Road	Strip Center	13,816 SF	Boost Mobile Ace	1	40.5%	\$15/SF/Year NNN
3	Palatine Plaza	NW Highway	NW Highway	Community Center	137,187 SF	Hardware, Dollar Tree	2	5.6%	\$17/SF/Year NNN
4	United Center	211 NW Highway	NW Highway	Strip Center	6,000 SF	Dunkin Donuts, Subway	1	25.0%	\$16/SF/Year NNN + \$11 Tax+CAM
5	Eurofresh Plaza Shopping Center	130-156 NW Highway	NW Highway	Community Center	52,800 SF	Eurofresh, Chase Bank	6	44.7%	\$10-\$12/ SF/Year NNN
6	Plaza 14	167 NW Highway	NW Highway	Strip Center	15,600 SF	LA Tan, State Farm	1	7.7%	\$16/SF/Year NNN
7	Corners Shopping Center	780 NW Highway	NW Highway	Strip Center	45,500 SF	Papa Johns, Anytime Fitness	5	16.9%	\$12-\$15/ SF/ Year NNN

Source: Village of Palatine, Loopnet, CityFeet, Goodman Williams Group based on sources deemed reliable, 2016

Existing Retail Palatine and Primary Market Area

GOODMAN WILLIAMS GROUP
— REAL ESTATE RESEARCH —



Leakage Analysis for Primary Market Area

One approach to quantifying the potential demand for additional retail in Downtown Palatine is to determine the expenditure potential of households within this Primary Market Area and compare it to estimates of actual sales. If certain categories are “leaking” sales to other shopping districts outside the trade area (shown in green on the table), it may represent an opportunity for additional stores. Conversely, if sales exceed the trade area’s expenditure potential in various categories (shown in red on the table), the existing stores are attracting dollars from a larger area.

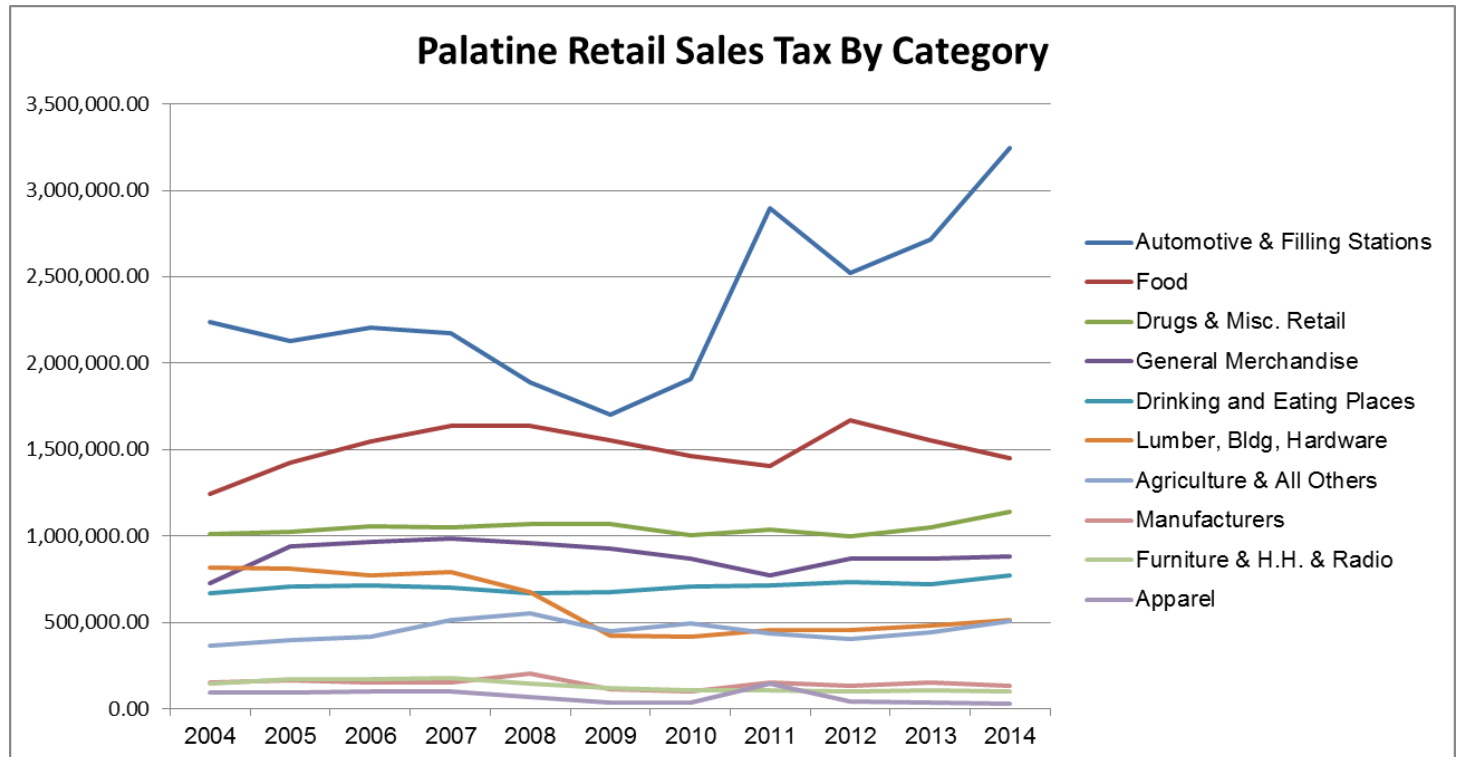
The following leakage analysis of the Primary Market Area indicates that the 40,100 households in the PMA spend nearly \$2.3 billion annually on retail purchases and food and drink. Existing establishments within the PMA have sales totaling around \$1.3 billion, indicating that \$1 billion are indeed being “leaked” to stores located outside the market area. The only categories in the trade area that are not leaking sales (shown in red) are electronics stores and drinking places.

Leakage Analysis for Palatine Primary Market Area			
Summary Demographics			
2015 Population			103,626
2015 Households			40,100
2015 Median Disposable Income			\$59,216
	Demand	Supply	
	(Retail	(Retail Sales)	
Industry Summary	Potential)		Retail Gap
Total Retail Trade and Food & Drink	\$2,336,474,972	\$1,281,503,422	\$1,054,971,550
Total Retail Trade	\$2,095,968,671	\$1,171,711,154	\$924,257,517
Total Food & Drink	\$240,506,301	\$109,792,268	\$130,714,033
By Category:			
Motor Vehicle & Parts Dealers	\$477,952,012	\$350,912,463	\$127,039,549
Gasoline Stations	\$139,303,677	\$57,643,358	\$81,660,319
Furniture & Home Furnishings Stores	\$63,507,504	\$48,288,377	\$15,219,127
Electronics & Appliance Stores	\$108,187,619	\$114,947,829	-\$6,760,210
Bldg Materials, Garden Equip. & Supply Stores	\$108,053,086	\$52,942,236	\$55,110,850
Food & Beverage Stores	\$392,890,208	\$209,739,651	\$183,150,557
Grocery Stores	\$346,971,105	\$172,743,865	\$174,227,240
Specialty Food Stores	\$21,110,699	\$20,840,123	\$270,576
Beer, Wine & Liquor Stores	\$24,808,403	\$16,155,663	\$8,652,740
Health & Personal Care Stores	\$102,331,383	\$61,968,162	\$40,363,221
Clothing & Clothing Accessories Stores	\$116,961,287	\$13,443,792	\$103,517,495
Sporting Goods, Hobby, Book & Music Stores	\$63,294,667	\$21,968,726	\$41,325,941
General Merchandise Stores	\$383,873,333	\$132,034,028	\$251,839,305
Miscellaneous Store Retailers	\$70,100,294	\$39,899,325	\$30,200,969
Food Services & Drinking Places	\$240,506,301	\$109,792,268	\$130,714,033
Full-Service Restaurants	\$133,054,441	\$48,899,909	\$84,154,532
Limited-Service Eating Places	\$91,731,929	\$44,475,132	\$47,256,797
Special Food Services	\$5,423,580	\$2,781,026	\$2,642,554
Drinking Places - Alcoholic Beverages	\$10,296,351	\$13,636,200	-\$3,339,849

Source: Esri Business Analyst

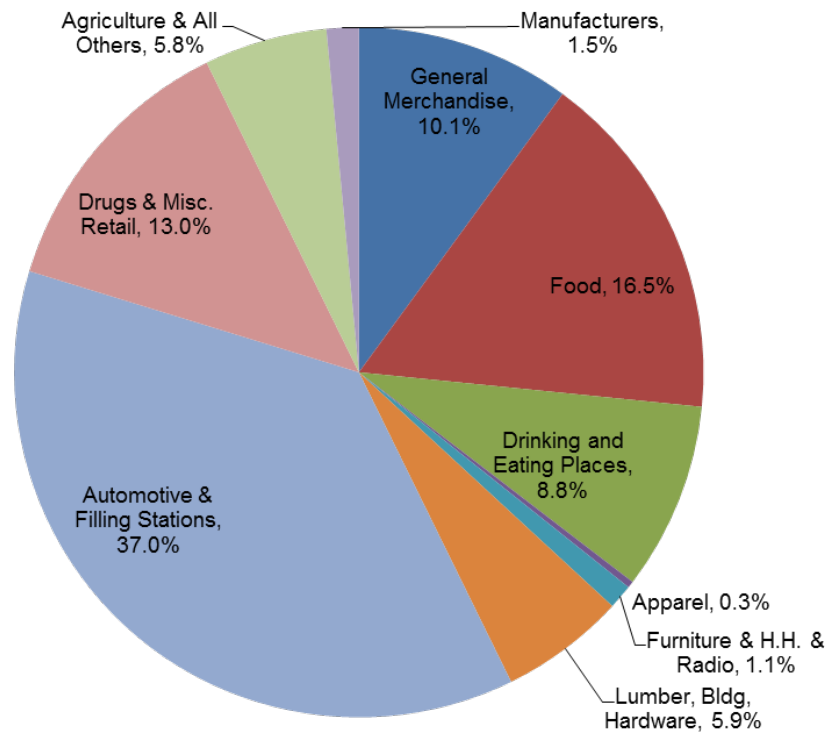
Palatine Retail Sales Tax

In 2014, Palatine's retail sales tax revenue was \$8.76 million as reported by the Illinois Department of Revenue. The graph below shows the breakdown over the past ten years by retail category. Automotive and Filling Stations generated the most retail sales tax since 2009. Stores selling Apparel and Furniture, as well as Manufacturers generated the least. Apart from the significant volatility within the automotive sector, most of the remaining categories have remained fairly consistent in their sales tax generation over the past ten years.



Source: Illinois Department of Revenue

Palatine 2014 Retail Sales Tax



Source: Illinois Department of Revenue

Palatine Leakage Analysis

Similar to the leakage analysis for the larger Primary Market Area, Palatine is leaking retail sales in most retail categories (shown in green on the accompanying table). This indicates the extent to which the 27,608 households living in Palatine are spending their dollars at establishments located outside the Village boundaries. The exceptions, where establishments are attracting patrons from outside Palatine (shown in red), are in the following categories:

- Electronics & Appliance Stores
- Specialty Food Stores
- Drinking Places – Alcoholic Beverages

Leakage Analysis for Palatine			
Summary Demographics			
2015 Population			70,019
2015 Households			27,608
2015 Median Disposable Income			\$55,763
2015 Median Household Income			\$75,070
Industry Summary			
	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap
Total Retail Trade and Food & Drink	\$1,430,443,789	\$965,124,158	\$465,319,631
Total Retail Trade	\$1,283,258,495	\$889,761,924	\$393,496,571
Total Food & Drink	\$147,185,294	\$75,362,234	\$71,823,060
By Category:			
Motor Vehicle & Parts Dealers	\$291,852,159	\$285,773,184	\$6,078,975
Gasoline Stations	\$86,125,088	\$37,748,877	\$48,376,211
Furniture & Home Furnishings Stores	\$38,546,802	\$26,339,920	\$12,206,882
Electronics & Appliance Stores	\$65,997,955	\$69,381,880	-\$3,383,925
Bldg Materials, Garden Equip. & Supply Stores	\$64,676,962	\$35,117,066	\$29,559,896
Food & Beverage Stores	\$242,417,230	\$151,604,044	\$90,813,186
Grocery Stores	\$214,201,303	\$117,329,080	\$96,872,223
Specialty Food Stores	\$13,036,022	\$19,896,747	-\$6,860,725
Beer, Wine & Liquor Stores	\$15,179,905	\$14,378,217	\$801,688
Health & Personal Care Stores	\$62,615,939	\$53,454,743	\$9,161,196
Clothing & Clothing Accessories Stores	\$71,609,629	\$8,566,562	\$63,043,067
Sporting Goods, Hobby, Book & Music Stores	\$38,676,279	\$20,734,383	\$17,941,896
General Merchandise Stores	\$235,521,952	\$125,434,006	\$110,087,946
Miscellaneous Store Retailers	\$42,905,754	\$26,024,447	\$16,881,307
Food Services & Drinking Places	\$147,185,294	\$75,362,234	\$71,823,060
Full-Service Restaurants	\$81,374,717	\$29,683,918	\$51,690,799
Limited-Service Eating Places	\$56,303,241	\$33,282,070	\$23,021,171
Special Food Services	\$3,260,537	\$2,368,299	\$892,238
Drinking Places - Alcoholic Beverages	\$6,246,799	\$10,027,947	-\$3,781,148
Source: Esri Business Analyst			
GOODMAN WILLIAMS GROUP — REAL ESTATE RESEARCH —			

Downtown Palatine Commercial Overview

Northwest Highway, with an average daily vehicle count of 30,000, bypasses Downtown Palatine. Palatine Road near the Downtown has an average daily traffic count of 14,000 vehicles. While the lack of a major commercial artery traversing the Downtown may be a limiting factor for certain types of retailers and other businesses, it does help preserve the walkability and pedestrian environment in Downtown and around the Railwalk.

The UP-NW Metra line is the major asset that runs through Downtown Palatine. Palatine has the sixth highest ridership of all Metra stations outside Downtown Chicago, bringing 2,300 daily passengers to and from Palatine. These commuters, as well as a number of banks and professional offices, attract a daytime population that helps support the local commercial market.

In its 2006 commercial market study, Melaniphy & Associates reported that Downtown Palatine contains approximately 275,000 square feet of restaurants, retail, and service-oriented businesses. In addition, the downtown has 210,000 square feet of professional office space, including the 100,000 square foot Gateway Center, completed in 2003.



Railwalk Landscaping
Source: The Lakota Group

Downtown Palatine is bisected by the Metra tracks. Generally speaking, the north side is more densely developed with newer residential and commercial developments, including the six-story mixed-use Providence Building, and the Gateway and Hummel office buildings. It also has several noteworthy restaurants and entertainment destinations, including Tap House Grill, Emmet's Pub, and Durty Nellies. The newer commercial spaces north of the railroad tracks benefit from their proximity to the TIF-funded streetscaping project "The Railwalk."

The commercial area south of the tracks is generally comprised of older storefronts and centers. Along the south side of Slade Street, a number of smaller independent retailers are located in repurposed older spaces. Several strip centers are located along Palatine Road, as well as the Jewel-Osco located along Plum Grove Road south of Palatine Road.

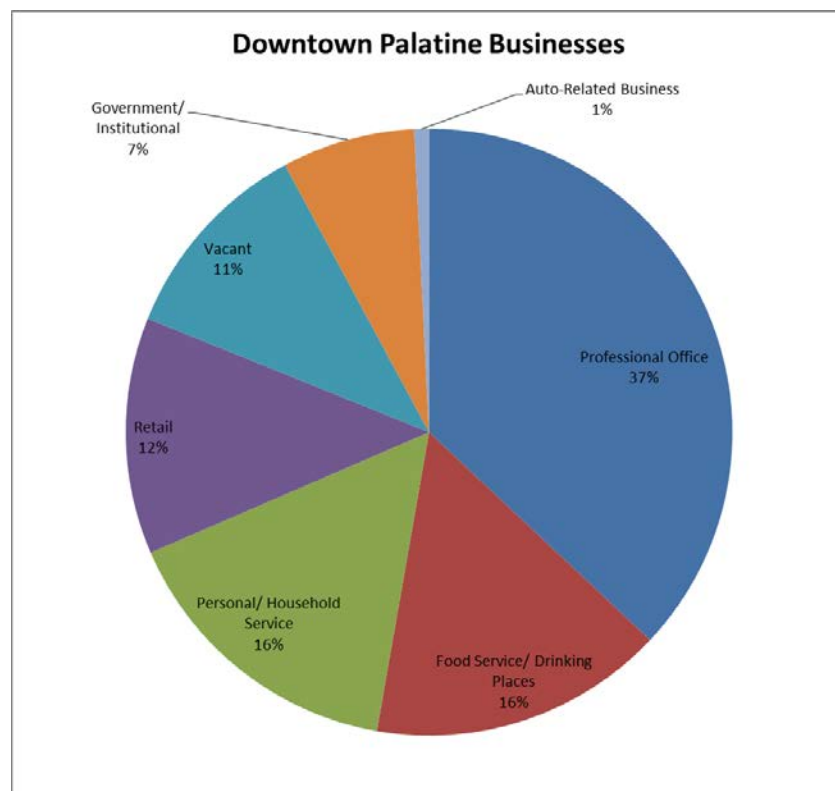
Business Inventory

A current inventory of business establishments within the commercial core of Downtown Palatine shows a total of 127 commercial spaces. Each individual business or vacancy is counted as one entry regardless of the size (square footage) of the business. Their locations are shown on the accompanying map.

Downtown Palatine Business Inventory

Category	Number of Establishments	Percentage
Professional Office	47	37.0%
Food Service/ Drinking Places	20	15.7%
Personal/ Household Service	20	15.7%
Retail	16	12.6%
Vacant	14	11.0%
Government/Institutional	9	7.1%
Auto-Related Business	1	0.8%
Total	127	

Source: Goodman Williams Group field work December 2015 and Village of Palatine



Source: Goodman Williams Group field work December 2015 and Village of Palatine

Commercial Business Inventory and Anchors Downtown Palatine



Source: SCB based on Goodman Williams Group Fieldwork, December 2015

Retail Market Conditions

Downtown Palatine has 20 restaurants and bars, as well as 16 retail stores. Together, these two categories comprise 28.3% of total establishments. These uses are split between various types of spaces in locations both north and south side of the tracks.

The Providence, constructed in 2006, has 19,000 SF of ground floor retail beneath 112 residential units. Currently, 33.7% of the retail space is vacant, including a 5,000 SF corner space that has never been leased. Businesses such as Snap Fitness, Gianni's and Salon M have been present since the building opened.



A total of 15.7% of businesses Downtown are personal and household service businesses. Included in this category are salons, gyms, yoga studios, dry cleaners, and a photography studio. Service oriented businesses do not pay sales tax, but do meet important needs of local residents as well as bring people into Downtown Palatine.

Goodman Williams Group counted 14 vacant storefronts in the commercial core of Downtown (11.0% of the inventory) as of December 2015.



The retail node south of the tracks is contained in primarily older storefronts. A concentration of smaller, mostly independent retailers and service businesses are located on the south side of Slade between the Towne Square and the train tracks. Destinations include The Music Room and TJ O'Brien's Bar & Grill.

Several older strip centers are located along the more heavily trafficked Palatine Road. The Village Square Strip Center, located on the north side of Palatine Road between Brockway and Bothwell, is 40% vacant. Destinations along Palatine Road include Cook, Cork & Fork, Garfield's Beverage Warehouse, and the Artistic Cuisine restaurant. The recently renovated Jewel-Osco on S. Plum Grove Road south of Palatine Road is a major asset to the residents of Downtown Palatine, and competes with the Mariano's that opened in 2012 off of NW Highway five minutes away.



Retail Vacancies

Based upon information from the Village of Palatine, active listings available on Loopnet.com, CityFeet.com, and conversations with brokers, Goodman Williams Group identified 10 available retail spaces Downtown containing a total of more than 21,000 SF of vacant space. The table below provides information on each of these active listings within the Study Area.

Downtown Palatine Retail Space on the Market							
Location	Property Type	Address	Type of Space	Total Building Square Feet	Available Square Feet	# of Vacancies	Asking Rent
South of RR - Within the Study Area	Village Square	60 W Palatine Rd	Retail Spaces in Older Strip Center- Opened 1968	14,955	5,862	3	\$15/SF/Year Modified Gross
	Bothwell Building	1 N Bothwell	Ground Floor Retail space	12,000	1,200	1	\$18/SF/ Year Modified Gross
	Retail Property	109 W Slade Street	Freestanding storefront	4,800	2,400	1	\$17.50/ SF/ Year
	Retail Property	117 W Slade Street	Retail spaces within historic fire station building	9,000	5,380	3	\$18.50/ SF/ Year Gross
North of RR - Within the Study Area	The Providence	Wilson Ave	Retail Spaces	19,000	6,400	2	\$22-25/SF/Year Gross Imperial Realty

Source: Village of Palatine, Goodman Williams Group based on sources deemed reliable, 2016

Totals 59,755 21,242 10

The rents for spaces south of the tracks are significantly lower than north of the tracks in The Providence. Rents range from \$15/SF/Year modified gross at Village Square on Palatine Road to \$18.50/sf/year gross in the former historic fire station building, which was previously occupied by Edward D. Jones offices.

Rents for the two spaces available at The Providence are \$22-25/SF/year on a gross basis. This includes the 5,000 SF corner space that has never been occupied.

Downtown Palatine Office Market

Professional offices make up 37.0% of all Downtown businesses. These office spaces are mostly clustered on the north side of the tracks in newer office developments.



The 101,827 SF 4-story Gateway Center opened in 2003, and has three floors of professional office space in addition to ground floor retail. Joseph Freed & Associates developed the project and it housed their offices until 2007. The project cost \$36.3 million to build, with the Village of Palatine contributing \$14.8 in TIF dollars for site improvements and the public parking garage. Currently, The Gateway is 23.7% vacant.

The nearly 40,000 SF mixed-use Hummel Building anchored by Emmett's Tavern and Brewing Company was constructed in 2000 and has seven Class A office spaces on the second and third floors. The building has two small spaces available for lease and is currently 95.9% occupied. The Hummel Building markets its adjacency to the Metra station and access to a skilled labor pool as part of its appeal.

There are 9 office spaces on the market in the Downtown Palatine Study Area. This information is based upon information from the Village of Palatine, active listings available on LoopNet.com, CityFeet, and conversations with brokers. The available spaces total nearly 27,000 square feet. The following table provides information on these active office listings.



Rent for an office space in the BMO Bank building south of the railroad tracks is listed at 16/sf/year gross. The rents for space in newer buildings north of the railroad tracks are higher than for space south of the tracks. The office spaces in the upper floors of The Hummel Building are asking \$22.50/sf/year on a modified gross basis. The Gateway has not been fully occupied since Joseph Freed & Associates moved out in 2007.

Downtown Palatine Office Space on the Market							
Location	Property Type	Address	Type of Space	Total Building Square Feet	Available Square Feet	# of Vacancies	Asking Rent
South of RR - Within the Study Area	BMO Harris Building	50 N Brockway	Third floor office space in BMO building	22,883	1,015	1	\$16/SF/ Year Modified Gross
North of RR - Within the Study Area	Hummel Building	110 N Brockway	Office spaces in Mixed-Use Building. Completed 2000	39,530	1,607	2	\$22.50/ SF/ Year Modified Gross
	The Gateway	220 N Smith Street	Office spaces in Mixed-Use Building. Completed 2002	101,827	24,109	6	Upon Request
Totals				164,240	26,731	9	

Source: Village of Palatine, Goodman Williams Group based on sources deemed reliable, 2016

Downtown Palatine Employment

The UP-NW line has a fair number of reverse commuters. According to the 2014 Metra Origin-Destination Survey, most reverse commuters (30%) in Palatine walked to their destinations in the Downtown core and industrial/manufacturing areas along Colfax and Wood Streets. Palatine has an estimated 222 reverse commuters daily, third highest on the UP-NW line after Des Plaines and Arlington Heights.

The entire Study Area has a workforce of 2,243 in 239 total businesses according to Esri Business Analyst's 2015 estimates. This daytime population helps support the downtown commercial sector.

Esri estimates that the majority of downtown employees work in education and healthcare/social assistance related fields. There are a number of schools and religious-affiliated institutions in Downtown Palatine that contribute to this total. The retail sector employs 238 people, about 10% of the Downtown workforce. Bars and restaurants employ 189 or 8.4% of the total.

The professional workforce included in the NAICS industries are: Professional, Scientific, & Tech Services, Finance & Insurance, and Healthcare and Social Assistance. Combined, they account for 30% of Downtown employment, or 674 employees.

Village Hall will be returning to its previous location on Wood Street in 2016. Its employees also currently contribute to the downtown daytime population.

**Downtown Palatine
Industries with Greater Than 50 Employees**

Total Businesses:	239
Total Employees:	2,243
Total Residential Population:	2,715

Industry	Employees	% of Total Employees
Educational Services	315	14.0%
Health Care & Social Assistance	265	11.8%
Retail Trade	238	10.6%
Professional, Scientific & Tech Services	232	10.3%
Other Services (except Public Administration)	203	9.1%
Food Services & Drinking Places	189	8.4%
Finance & Insurance	177	7.9%
Construction	169	7.5%
Manufacturing	139	6.2%
Administrative & Support & Waste Management & Remediation	72	3.2%
Transportation & Warehousing	71	3.2%

Source: Esri Business Analyst

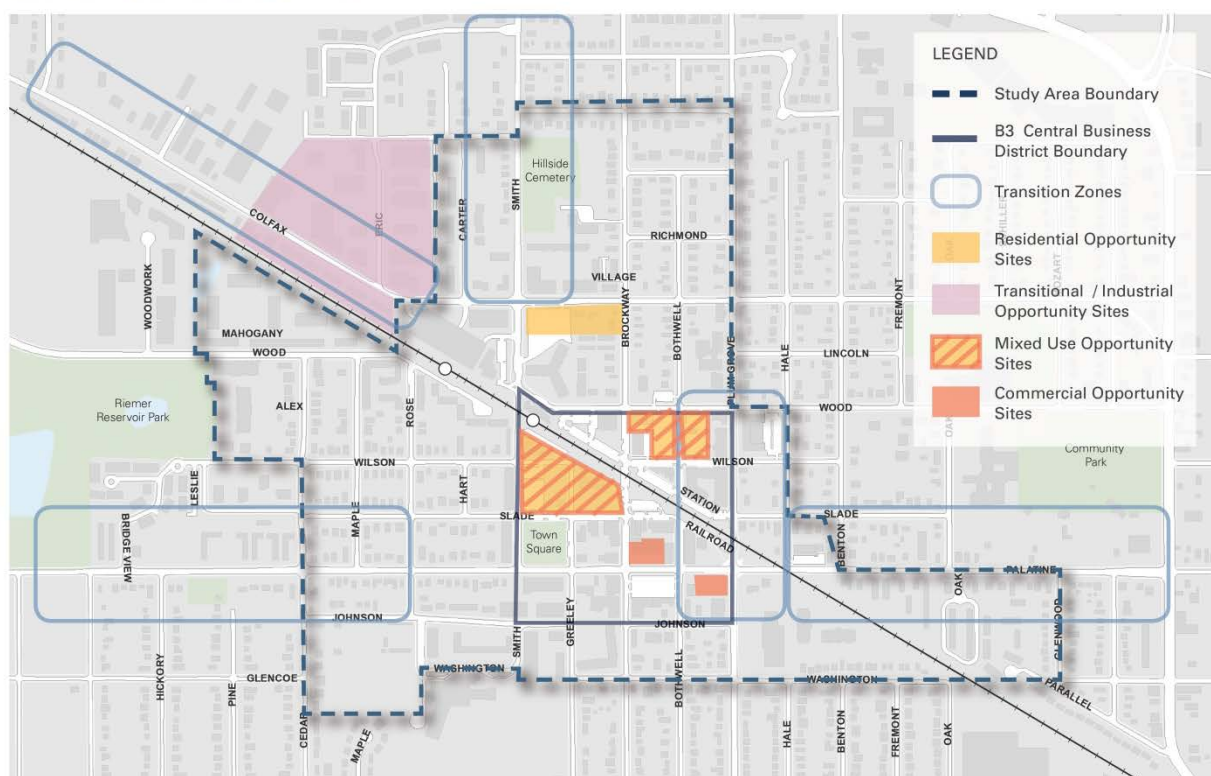
Industrial Properties

Industrial land uses predominate along Colfax leading into Downtown Palatine, and building conditions vary. Current users include Grace Auto Body, Metro Self Storage, and the US Post Office. In recent years, special uses have been permitted along Colfax including CrossFit Pally and Baxter and Beasley pet grooming. The industrial zoning along Colfax terminates at The Gateway development, which marks the entrance into Downtown.

Commercial Market Conclusions and Recommendations

An assessment of the commercial market in Downtown Palatine suggests that there is a market for a limited amount of new retail and service uses on several of the opportunity sites shown in the accompanying map. Rents will need to be competitive with existing space in order to attract tenants. Enhancing the commercial core, particularly proximate to the Metra Station, will reinforce the Downtown as a desirable residential neighborhood as well as a dining and entertainment destination.

OPPORTUNITY SITES MAP



Source: SCB based on Goodman Williams Group input

On the northside of the tracks, eating and drinking establishments have been well-received. Despite the 5,000 square foot vacant corner ground floor space in The Providence, the potential exists for additional commercial uses on the north side of Wilson at Bothwell, east of the Tap House Grill. Preferably as part of a mixed use building with rental units above, new commercial space would further activate and connect the retail along Wilson Street leading to the Metra station. Additional restaurants and neighborhood-serving convenience retail and services would be appropriate uses.

South of the train tracks, the opportunity exists to enhance the existing retail, which is concentrated along Slade and Palatine Roads east of Town Square. Façade improvements to the existing buildings on Greeley between Palatine Road and Slade would help reduce vacancies and enhance this visible block.

The Village Square shopping center on Palatine Road is in need of upgrades and currently has a 40% vacancy rate. Adequate parking needs to be provided, as does the opportunity for pedestrians to safely cross Palatine Road to visit multiple downtown commercial destinations.

A limited amount of new ground floor commercial space could be included as part of new residential development located on the temporary Village Hall, surface parking lot, and BMO Bank sites. On the site of the BMO bank parking lot, commercial space should be oriented toward Slade Street, extending and strengthening the existing retail node. If a new rental building is developed on the current Village Hall site, a small amount of convenience-oriented commercial could be oriented so that it serves the 2,300 daily Metra commuters as well as nearby residents.

Despite the fact that Jewel-Osco is a strong anchor on Plum Grove, there is no near term potential for significant new retail development at the Palatine Road / Plum Grove intersection. A car repair shop currently occupies the southeast corner. The southwest corner might be attractive to an auto-oriented quick-service restaurant.

Given the 24,000 SF of vacant office space at The Gateway, additional speculative multistory office development is not supportable in the near term in Downtown Palatine. Medical, educational, and other non-retail service uses are best accommodated in existing ground floor spaces and new mixed-use developments.

Additional Considerations

In addition to development in the core of Palatine's downtown, improvements to the Colfax industrial corridor leading into downtown should be considered. More flexible zoning would allow new uses to enter this transitional zone. These uses could include recreational uses, incubator spaces, and small-scale alcohol production facilities such as microbreweries or distilleries.

Palatine's Downtown TIF was enacted in 1999 and has six years left before it expires. It has been used widely used, with expenditures benefitting the downtown totaling more than \$82 million. Renewing this TIF in 2022 will ensure that Palatine has the resources going forward to continue to enhance and support a vibrant Downtown Palatine.