



AGENDA ITEM EXECUTIVE SUMMARY

Title:	Consider Retail Sales Tax Reimbursement to Incentivize Sears Home Appliance Showroom at Foxfield Commons
Presenter:	Chris Aiston

Please check appropriate box:

	Government Operations		Government Services
X	Planning & Development		City Council

Estimated Cost:	N/A	Budgeted:	YES		NO	
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If NO, please explain how item will be funded:

Executive Summary:

Sears Authorized Hometown Stores, LLC (wholly owned subsidiary of Sears Roebuck and Co.), has approached the City requesting a Retail Sales Tax Reimbursement incentive to locate a 5,300-square foot Sears Home Appliance Showroom store in the Foxfield Commons (in-line and immediately south of the Butera Market space).

Sears, and specifically the company’s appliance product lines, has had a presence in the City of St. Charles for many years and it is the corporation’s desire to locate a Home Appliance Showroom store within St. Charles, itself. However, the corporation has also identified competing sites located at RT 59 and RT 64 in West Chicago (see attached lease rate comparisons). With respect to trade area demographics and the number, make-up and overall mass of retailers in near proximity, the Foxfield Commons location is superior to that of the shopping centers at RT 59 & RT 64. However, according to Rohit Jacob of Sears Holdings Management Corporation, the differential in leasing rates is so vast that, “but for” some financial incentive from the City, Sears Holdings will not choose the St. Charles location over one of the alternative commercial space opportunities in West Chicago.

It is likely that if Sears were to locate its Home Appliance Showroom at a West Chicago site, much of the City’s demand for appliance sales and service, and particularly its east side demand, will be met by the new West Chicago store. The City should act to head-off this potential sales leakage. Further, supply and demand is not the only force at play here. A retailer’s success is also affected by surrounding mass and diversity of shopping opportunities. Filling this prominent east side shopping center space with a retailer meeting a specific product demand and having a nationally recognized brand would represent a significant enhancement to the E. Main St. commercial corridor.

Since its original submittal, Sears has modified its request, to wit: **50% reimbursement of the City’s municipal retail sales tax revenues for a period of five years, conditioned on annual sales of no less than \$1.6M and capped at no more than \$10,000 in total reimbursement amount.** Sears has provided information indicating that the corporation will lease the Foxfield Commons space for a period of five (5) years (two, 5-year options to extend).

Attachments: *(please list)*

Cover Letter; Project Narrative; Lease Comparisons; Aerial & Bldg Photos; Sears Hometown Stores Description

Recommendation / Suggested Action *(briefly explain):*

Recommend for approval a sales tax reimbursement agreement, as modified and reflected above, and to direct staff to prepare a formal Agreement with Sears to that effect.

<i>For office use only</i>	<i>Agenda Item Number:</i>
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Rohit Alexander Jacob
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Sears Authorized Hometown Stores, LLC
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Hoffman Estates, IL 60179
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Mar 25th, 2011

To, Christopher C. Aiston, Director
Economic Development Department
City of St. Charles, IL

Subject: Application for Sales Tax Incentive for Sears Appliance Showroom

The purpose of this letter is to request a sales tax incentive for a new Sears Appliance Showroom in the Foxfield Commons, 2712 East Main Street, St. Charles, IL. The space is currently empty and has been since the departure of Blockbuster Video from the location. The proposed store would be 5,400 sq ft, employ 5 associates to start with and have a projected sales of \$2M. Sears has had a long standing relationship with the town of St. Charles with the Sears store in Charlestown Mall. Unfortunately, due to economic circumstances, we had to close down the store in the mall but wanted to maintain the relationship with the community, carrying the entire selection of Sears appliances in the proposed showroom.

The closing of the Sears mall store created a gap in the community and nearby areas without any major retailer selling large appliances. We evaluated a location in West Chicago on the intersection of North Avenue and Route 59 for which the asking rent was \$10 psf with \$2.9 NNN. The space in Foxfield Commons is available for \$22.50 (including NNN). Though significantly more expensive than the West Chicago location, we opted to pursue this location to preserve our long standing relationship with the City of St. Charles and we have a letter of intent to lease this space contingent on getting an economic incentive.

The difference in rent between the above two locations amounts to approximately \$53,000/- per year. We are projecting to generate \$20,000/- of incremental tax revenue for the City of St. Charles. We request that we be given a sales tax incentive of 50% of the sales tax to be capped at \$100,000/- or 10 years whichever comes first.

Please find enclosed the following

1. Project Narrative including Timeline, Description of Public Benefits and Demonstration of Need
2. Request for Incentives
3. Letter of intent for leasing the space in Foxfield Commons
4. Proposal for alternate location in West Chicago.

Thank you,

Rohit Jacob.



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Sears Appliance Showroom, St. Charles, IL

Project Narrative

Sears Appliance Showrooms are smaller format stores typically between 4,500 – 6,000 sq ft located in Metro and Suburban areas. Currently there are 61 stores across the country with an additional 20 planned for this year. The stores carry primarily large household appliances (refrigerators, cooking ranges and ovens, dishwashers, washers and dryers) as well as accessories and some small kitchen appliances. An average store generates \$2.0M in sales and employs 5 associates full time to start with. In the Chicagoland area, there are 3 Showrooms in S. Elgin, Oswego and N. Aurora.

The stores have a very consultative sales approach with a very high degree of customer satisfaction. Shoppers in the Showrooms are typically in their 40s, have young kids and like shopping close to home (the average distance between a consumer and the store is 3 miles for these stores). The Home Appliance Showroom chain has also recently launched a “Green Consultation” program that helps consumers choose between various green and energy efficient appliances. With the closing of the Charlestown Mall store, we feel that the City of St. Charles and surrounding areas are underserved in the major appliance segment and consumers will have to travel greater distances to get these products.

Project Timeline (Target Dates)

LOI Signed:	Complete
Lease Signed:	May 15 th , 2011
Build Out Complete:	June 15 th , 2011
Merchandising Complete:	July 15 th , 2011
Store Soft Opened:	July 18 th , 2011
Store Grand Opened:	August 12 th , 2011

Public Benefits

The proposed project will benefit the consumers and community of St. Charles in several ways.

1. *Creation of new Permanent Jobs:* The store will employ 1 Store Manager and have a total of 9-10 associates including sales leads.
2. *Creation of new retail choices:* The Sears Full Line Store in Charlestown Mall was the primary retailer of appliances in St. Charles. With the closing of the mall store, consumers in St. Charles have to travel to Geneva or S. Elgin to buy appliances. The Sears Home Appliance Showroom will fill a vacuum that has been created for purchase of appliances.
3. *Increased Sales Tax Revenue:* The store is projected to have a sales volume of \$2M per year which will give the community increased sales tax revenue of \$20,000 per year.
4. *Incorporation of Environmentally Friendly Features:* Sears has been named the Energy Star partner of the year for the second consecutive year. The Showroom also has a green consultation program that gives consumers advice on and helps them choose between various energy efficient appliances.
5. *Re-occupancy of Vacant Building:* The space that we are proposing to rent in Foxfield Commons has been empty since the closure of the Blockbuster Video.

Demonstration of Need

The retail real estate in St. Charles is more expensive than the surrounding location of West Chicago where we have also reviewed real estate for a new Sears Home Appliance Showroom. Both the markets would be mutually exclusive and if we open a store in West Chicago, we would not need to open one in St. Charles. However, due to the long standing relationship that Sears has had with the City of St. Charles and the consumers here, and with the proposed sales tax rebate, we can make the store viable.

Request for Sales Tax Assistance

The Showroom would is projected to generate sales tax revenue of \$20,000 per year for the City of St. Charles. The cost difference between the location and St. Charles and the location in West Chicago is \$53,000 per year. We are requesting a Sales Tax Assistance of 50% of the sales tax revenue to the City (projected to be \$10,000 per year) for a period of 10 years or \$100,000 whichever comes first.

Other Subsidies

Sears is not receiving any other subsidies from the City of St. Charles.

**Sears Request for Sales Tax Reimbursement
Foxfield Commons, East Main Street, St. Charles**

**Comparing Foxfield Space with
Alternative/Competing Sites in West Chicago**

Foxfield "Gross Rent", per LOI between Sears and Landlord

Initial Term:						<u><i>5-Year Total</i></u>
Year	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
SF Cost	\$22.50	\$22.65	\$22.81	\$22.97	\$23.15	
Total Cost						
@ 5310 SF	\$119,475	\$120,272	\$121,121	\$121,970	\$122,927	\$605,765

**The Shoppes of West Chicago, West Chicago, IL
(NW Corner, RT 64 and RT 59)**

Estimated Gross Rent

(Note: Asking Rent is \$14.00 + \$4.23 for CAM, Taxes & Insurance)

Initial Term (estimated low end):						<u><i>5-Year Total</i></u>
Year	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
SF Cost	\$15.23	\$15.44	\$15.66	\$15.90	\$16.14	
@ 5310 SF	\$80,871	\$81,986	\$83,155	\$84,429	\$85,703	\$416,145

Initial Term (estimated high end):

Year	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
SF Cost	\$16.23	\$16.44	\$16.66	\$16.90	\$17.14	
@ 5310 SF	\$86,181	\$87,296	\$88,465	\$89,739	\$91,013	\$442,695

Asking Rent: \$18.23
@ 5310 SF \$91,150

**Mosaic Crossing/Oliver Square, West Chicago, IL
(NE Corner, RT 64 and RT 59)**

Estimated Gross Rent

(Note: Asking Rent is \$10.00 + \$2.95 for CAM, Taxes & Insurance)

Initial Term:						<u><i>5-Year Total</i></u>
Year	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
SF Cost	\$11.95	\$12.10	\$12.25	\$12.41	\$12.59	
Total Cost						
@ 5310 SF	\$63,455	\$64,251	\$65,048	\$65,897	\$66,853	\$325,503

Asking Rent: \$12.95
@5310 SF \$64,750

Aerial Photo of Site



Photo of Building
(proposed Home Appliance Showroom space is shown)





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Mar 31st, 2011

To,

The Economic Development Division,
City of St. Charles, IL

Sears Hometown Stores Description

Sears Authorized Hometown Stores, LLC is a Delaware limited liability company which is a wholly owned subsidiary of Sears Roebuck and Co. There are no officers of the company, Sears Roebuck and Co is the only Member of Sears Authorized Hometown Stores LLC.

Sears Hometown Stores have over 950 independently owned and operated stores and 61 Sears Home Appliance Showrooms. In 1993, 122 Sears Catalog Stores were converted to privately owned Sears Dealer Stores, offering tools, lawn and garden items and appliances in off-mall locations to rural America. Since then, the format has grown steadily and currently has over 950 stores in the continental United States. In 2007 Sears Holdings Corporation opened its first Home Appliance Showroom Stores in Houston, TX. These conveniently located appliance-only stores bring the selection, convenience, and customer service that loyal Sears appliance customers have been accustomed to for over 120 years. In 2008 the Dealer Stores name was retired and Hometown Stores were born. The name change was important to create a customer friendly name that resonated in our smaller communities.