

THE CORNERSTONE MMX

A CASE STUDY OF SUCCESSFUL MAIN STREET REDEVELOPMENT

Redevelopment of infill sites in urbanized locations often requires profound cooperation between municipalities and the private market, and extreme coordination by the developer and contractor. Smaller municipalities face greater challenges in achieving their planning objectives. The Cornerstone, originally conceived in late 2008 and executed in 2009 and 2010 represents a stunning success story in any market, much less in the economic turbulence of its time. The developer's consultative development process facilitated the municipalities' ability to achieve specific planning and community objectives.



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DEVELOPMENT SUMMARY

The Cornerstone is a mixed-use development located in the village of Shorewood, Wisconsin. With 11,500 square feet of ground floor retail and 24 luxury apartments upstairs, the development has a familiar form. But, its execution required a unique and unparalleled level of cooperation between the developer and the villages of Shorewood and Whitefish Bay and demanded an extreme level of coordination by the developer. Its market success is virtually unmatched by any similar development in the greater Milwaukee area in the past decade.

Originally the site of a car dealership and subsequently a gas station, the previous owner defaulted on its mortgage and abandoned the site, allowing it to fall into disrepair. In the heart of a vibrant neighborhood, the site became a significant blight. Shorewood had previously completed a master plan, and identified the parcel as a priority re-development site.

The developer purchased the note for the parcel from the foreclosing lender and received fee simple title following sheriff's sale several months later. Not only was the land's environmental condition a challenge, but also the municipal boundary between the villages of Whitefish Bay and Shorewood bisected the parcel. Through a rigorous entitlement process, the developer worked with Whitefish Bay and Shorewood to re-draw the municipal boundaries of each village. As a result of that process, the entire parcel came to lie in Shorewood. Shorewood then amended the boundaries of its tax increment district in order to facilitate a TIF to bridge the significant financial gap between costs and value.

In addition to the TIF, with Shorewood's participation the developer also sought and received a Brownfield Grant from the State of Wisconsin. That grant allowed the developer to meet the highest standards in the decommissioning and deconstruction of the gas station improvements and the remediation of impacted soil.

The municipalities required the developer to present a design that could meet the joint approval of the two communities. In a unique solution, the developer agreed that Shorewood and Whitefish Bay could create a joint design review subcommittee to assess and to consider the design in the context of the broader neighborhood's requirements. The resulting design incorporates not only the vision of the architect and developer, but also the expectations of each municipality. The cooperative effort between the villages was unprecedented. Accordingly, the Public Policy Forum recognized Whitefish Bay and Shorewood with an award for Intergovernmental Cooperation.

As the design and entitlement processes continued, the developer concurrently pursued the retailers for the ground floor. Through a dedicated leasing effort and a firm belief in the value created by an appropriate neighborhood-oriented tenant mix, the developer secured leases with a number of prominent and strong local brands. Alterra Coffee, Thief Wine, Boutique B'lou and North Star American Bistro all represent successful local business owners who share the developer's strong sense of community.

With the building designed to the satisfaction of the developer and the municipalities, and with the retail 100% leased, the developer secured and closed on

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BROWNFIELD REDEVELOPMENT

A Brownfield Site is a real property the expansion, redevelopment, or reuse of which may be complicated by the potential presence of a hazardous substance, pollutant, or contaminant. The redevelopment for brownfield sites is a key component of effective urban planning.

The Cornerstone's site was a classic brownfield with substantial contamination from the prior use. Its redevelopment met the highest standards of urban renewal efforts.

traditional financing through First Bank Financial Centre in Oconomowoc. Breaking ground in December 2009, the development progressed smoothly through construction and the first retailer opened in October 2010. The first residential occupants moved in on November 5. With over 30% of the residential building leased prior to marketing or occupancy, and with rents in excess of pro forma, the building is positioned for meaningful success.

DEVELOPMENT DETAILS

Framed by Lake Michigan and the river and nestled into the tree-lined eastside of Milwaukee, Shorewood offers a beautiful neighborhood community that is directly connected to the urban life of the city. Featuring all the residential amenities of award-winning schools, neighborhood boutiques, retailers, restaurants, nightlife and park systems, combined with spectacular housing and eclectic architectural styles – this is one of Wisconsin’s most desirable communities.

Oakland Avenue is Shorewood’s main street. Lined by businesses, retailers, vintage apartment buildings, restaurants and neighborhood services it is the heart of the community. Like most municipalities of its age and near-urban location, Shorewood has developed and evolved such that Oakland Avenue requires re-development to meet the community’s current expectations.

By undertaking an ambitious and comprehensive master-planning process, Shorewood established a strong foundation for how the village should look in the future. But, like most main streets, existing building stock and market conditions have created a gap-toothed built environment that results in distinct re-development challenges. By identifying priority re-development sites Shorewood did what it could to provide clear information and direction to the development community. That master plan informed WiRED Properties of Shorewood’s expectations as it pursued re-development of one of those sites.

Long a valuable member of the Shorewood community, the gas station had declined substantially in recent years. Pump closures, lack of inventory and physical disrepair left the station to blight the neighborhood. Indeed, when the developers purchased the property, the gas station was abandoned. But, this is a terrific corner – anchoring the northern end of Oakland Avenue in Shorewood. It is the gateway to both Shorewood and Whitefish Bay. In many respects, its location is the cornerstone in the ongoing redevelopment of Oakland Avenue.

Though abandoned, the gas station use remained potentially viable. Shorewood and Whitefish Bay residents spoke loudly in opposition a number of years ago when the previous long-time station owner proposed updating the station to include a touch-free automated car wash and a new convenience store operation. But, those uses were fundamental to the future economic success of the operation. The owner then sold the gas station to a Chicago investor. Without a strong operator, the station failed. Despite the poor long-term prognosis for financial viability, another operator would likely have stepped up to continue the gas operations given the shortage of available station sites.

WiRED Properties negotiated with the foreclosing lender to purchase the note for the parcel. However, the purchase price necessarily reflected the gas station use and value. That price was not sustainable for a development that matched the master

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MUNICIPAL REAL ESTATE TOOLBOX

Municipalities have a variety of tools available to them to incent and to shape development of the built environment. Most important may be planning. The Master Plan is a document that describes, in narrative and with maps, the municipality’s overall development expectations.

Financially, the municipality can use Tax Increment Financing (TIF) to bridge economic gaps that developers may face in executing developments consistent with the Master Plan.

A TIF is a payment made by the municipality and then recaptured by the incremental taxes generated by the increased value of the property. As a basic test, the development could not occur but for the TIF.

plan. As a result, the developer faced three distinct options: 1.) drop the purchase contract and walk away; 2.) execute a development inconsistent with the master plan, but financially feasible (i.e. a free-standing drugstore); or, 3.) consult with and partner with the municipality to arrive at a mutually beneficial development.

Based upon the village's commitment to their master plan, and their effective utilization of tax increment legislation, the third option was viable. And, because of the developer's consultative development approach, the partnership proved productive very quickly.

The team designed this building for this location. Most importantly, the developer envisioned and has realized a mixed-use community in which every element adds value to the neighborhood. And, as the first luxury apartments developed in Whitefish Bay or Shorewood in decades, The Cornerstone offers an entirely new way to live in the North Shore.

The Cornerstone neatly matches Shorewood's master plan. With its mix of neighborhood-supported retailers, the development will help to re-shape the north end of the Oakland Avenue retail corridor. With over 150 outdoor seats including a striking courtyard, the building offers a dynamic gathering place for the community. With luxury apartments offering families and individuals a new way to live in Shorewood, the building is accretive to Shorewood's tax base, population, school district and diversity.

Financially, The Cornerstone's impact is significant. Prior to development, the site was divided between Shorewood and Whitefish Bay. The Shorewood portion, which was the gas station, was assessed at ~\$1,200,000. The Whitefish Bay portion, which was vacant, was assessed at ~\$400,000. The Cornerstone will be assessed at approximately \$7,000,000. That increment of \$5,400,000 not only supports the TIF that Shorewood provided but also will catalyze increasing occupancies and rents in nearby commercial spaces and should increase property values in the neighborhood.

THE CONSULTATIVE DEVELOPMENT PROCESS

Smaller municipalities often offer profound opportunity. Strong neighborhood dynamics and compelling small urban environments can match directly to consumer preferences in the market.

Generally, municipalities possess a relatively limited set of tools in their toolbox to engineer and to catalyze redevelopment. Planning is the keystone to the effort, but that planning must be supported by an effective and accessible entitlement process and a variety of financial mechanisms. Smaller municipalities often face longer odds to achieve their desired outcomes due to a shortage of municipal resources in planning and inspection and due to a citizen-led political structure.

As a result of these conditions, the critical path to redevelopment in these municipalities requires concerted planning and creative partnerships. WiRED Properties' consultative development approach presents a process engineered specifically to facilitate development in communities like the Village of Shorewood and the Village of Whitefish Bay.

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NEIGHBORHOOD DESIGN

Traditional Neighborhood Development emphasizes compact, mixed-use, transit- and pedestrian-oriented development. Neighborhoods, sized for easy walking distance, function as the basic building block.

Shorewood and Whitefish Bay offer traditional neighborhood scale. The Cornerstone is located on a transit line that connects directly to the City of Milwaukee to the south and to shopping and other lifestyle amenities to the north.

The Cornerstone itself is woven into the fabric of its neighborhood and has contributed meaningfully to its character and livability. For the residents of The Cornerstone, it is a vibrant community unto itself.

The primary goal of the consultative development process is to empower the municipality to achieve its planning objectives while facilitating the political process necessary for approving the financial mechanisms necessary for the development. The intended outcome is wins for municipality, community and the developer.

In most cases, development occurs when the private market identifies an opportunity and pursues that opportunity according to the needs and requirements of the developer. The developer works within the constraints of the applicable zoning and other regulations, and often uses those regulations to achieve objectives that may run contrary to the desired outcomes of the municipality or neighborhood.

The perfect example of this process can be seen in Shorewood, Wisconsin where a building previously housing a Hollywood Video is being redeveloped into a single-story bank building. Allowed under zoning because it is technically a “renovation”, the municipality does not have a tool in place to prevent the development. The developer is pursuing a development “by right.” As a result, the “new” building will have an anticipated functional life of 30 years and will effectively thwart efforts to match the site to the master plan.

The consultative development process starts with a conversation between the developer and the municipality. The purpose of that dialogue is to identify the community’s objectives for redevelopment. With an effective master plan in place, and with design guidelines that rationally and reasonably direct market appropriate design, developers can contextualize development within the neighborhood. Even then, however, the community’s expectations for a specific site must be re-contextualized with the community’s efforts, successes and failures more broadly.

Prior to their acquisition of the abandoned gas station, WiRED Properties met with the Villages of Shorewood and Whitefish Bay to arrive at a mutual understanding of desired outcome. By meeting with the village presidents, the Village Managers, the chair of the Community Development Authority and the manager of the Business Improvement District, WiRED developed a keen understanding of the specific community needs for the site and the entitlement process.

Municipal and neighborhood desires thus informed directly WiRED’s plans for the site. With that understanding in hand, WiRED felt confident that entitlement could follow. That confidence empowered the developer to push hard for certain key elements that would make the development feasible given the market conditions. And, most importantly, it set the table for a cooperative entitlement process through which the developer could achieve certain necessary financial engineering to make the development feasible.

Recognizing that political pressures significantly impact the ability and willingness of municipalities to provide approvals, WiRED believes it is the developer’s responsibility to drive a process that mitigates those pressures. In order to achieve final approvals, WiRED went through an exhaustive series of neighborhood and municipal meetings including:

- 3 Shorewood Village Board Meetings
- 2 Whitefish Bay Village Board Meetings
- 3 Shorewood Planning Commission Meetings
- 2 Joint Design Review Meetings
- 2 Shorewood Design Review Meetings

- 2 Shorewood CDA Meetings
- 2 Neighborhood Meetings / 3 Notifications

At The Cornerstone, a municipal boundary bisecting the site meaningfully complicated the entitlement process. But, through the consultative development process the developer was able to facilitate an unprecedented level of intergovernmental cooperation. And, the developer provided the municipal officials the political leverage necessary to say “yes” to the proposed agreement.

That agreement resulted from an even-handed negotiation and through the participation of a third-party TIF consultant. In order to compensate Whitefish Bay for the lost tax revenue, the parties agreed to a lump-sum payment representing the net present value of the stream of future cash flows from taxes generated by the parcel. That analysis included three financial models incorporating three sets of assumptions for appreciation, future value and taxation. The agreed upon payment reflected the average of the three models, and represented the net present value of the perpetuity of anticipated real estate tax receipts.

[In an interesting twist, the school district of Whitefish Bay chose not to move their boundary. As a result, The Cornerstone is the only location where the municipal and school district boundaries are not co-terminous. Residents at The Cornerstone can choose their school district by choosing specific apartments.]

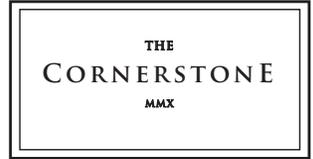
Concurrent with the detachment / annexation agreement, the developer met with the individual municipalities to arrive at an approvable development plan and design. This allowed Whitefish Bay to participate in the approval process while not formally having the right to grant entitlements. In addition, it provided a measure of protection to both Whitefish Bay and Shorewood that the development would meet their high expectations.

As a mixed-use developer, WiRED Properties feels strongly that each element of the community must work. For retail to work, strong locational attributes must be matched by business-supporting rents and physical space with strong retail amenities. At The Cornerstone, WiRED designed a building predicated on the success of its retailers. With new dynamic new construction space and rents at levels appropriate to the market, WiRED attracted high quality retailers.

With a clear understanding of those critical factors, it became possible to generate a financial model that accurately reflected the costs of the development and its anticipated value. That analysis revealed the nature and depth of the financial gap.

Under the enabling legislation for tax increment financing, the developer must demonstrate that “but for” the TIF, the development could not move forward. And, the community must demonstrate that the development is serving a community need. All parties agreed gap was significant. And, it was equally clear that but for filling that gap the development would not and could not happen. Given that the plan so neatly matched the master plan, and could prove catalytic in the community, the public need was neatly expressed.

As a result of this process, the building now neatly matches the master plan for site. The ~\$5.4 million of tax increment facilitated a TIF of \$920,000 to the developer and \$400,000 to the retailers and bridged the substantial gap between costs and



PUBLIC / PRIVATE PARTNERSHIP

A fundamental result of most private real estate development is long-term impact on the public built environment. WiRED believes it is the developer’s responsibility to develop relationships with the municipality in order to arrive at mutually productive ends. At The Cornerstone, the level of public / private partnership was unprecedented.

Whitefish Bay and Shorewood agreed to move municipal boundaries. The developer negotiated design approval with each municipality. And, Shorewood amended its tax increment district and participated meaningfully through tax increment financing.

value. That gap was largely the result of an acquisition price that reflected the underlying value of the gas station, which was not consistent with the master plan.

The 100% leased retail component features three retailers new to Shorewood that neatly match the desires of the neighborhood and one retailer that moved from a functionally obsolete building within the village. In addition, the luxury apartments upstairs represent a new form of housing in the community. Already, with ~40% of the apartments leased, the building is the procuring cause for approximately 10 new students in the Whitefish Bay and Shorewood school districts.

Finally, the visual impact of the building is substantial. Featuring high quality design and materials, the building is widely regarded as a welcomed addition to Shorewood's streetscape. With sensitive attention paid to the pedestrian experience, the neighbors have expressed substantial satisfaction with the results. In short, The Cornerstone has immediately become a powerful and positive influence on the neighborhood and represents the results of a process specifically engineered to advance the community's and the developer's interests.

