



Department of Planning & Community & Economic Development  
**Office of the Director**

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Website: [www.cityofmadison.com](http://www.cityofmadison.com)

Madison Municipal Building, Suite LL100  
215 Martin Luther King, Jr. Boulevard  
P.O. Box 2985  
Madison, Wisconsin 53701-2985  
FAX 608 267-8739  
PH 608 266-4635

**DATE:** June 2, 2011

**TO:** Madison Common Council

**FROM:** Steven R. Cover, Director  
Department of Planning & Community & Economic Development

**SUBJECT:** Public Market Pre-Development Planning Contract

### **BACKGROUND**

On May 3, 2011, the Common Council voted to reconsider and refer to a future meeting for consideration of a contract authorizing the Mayor and City Clerk to enter into an agreement with Common Wealth Development, Inc. to provide \$250,000 for pre-development expenses associated with the development of the Madison Public Market including:

- Preparation of a detailed business plan
- Fundraising plan and strategy
- Organizational plan
- Select design/rendering services
- Outreach
- Project management

The City has also issued an RFP to select a team for a separate, but related three-phase planning effort to look at a new parking structure, bike station, public market, air rights development in the block 88 and block 105 area and - in phase three - a broader 12 block master planning effort. The City is in the final stages of selecting a consulting team for this effort.

In our initial review, there appeared to be an overlap of responsibilities in scope for these two work efforts. This became more apparent during our interviews with the finalists for the Block 88/105 Project. Therefore, we felt it necessary to reconsider the \$250,000 contract.

In addition, the City has experienced substantial turnover and has a new Mayor, six new Alders, a new Director of Planning and Community and Economic Development, a new Economic Development Director, and has recently lost the staff person responsible for the City's Public Market efforts (Michael Gay).

### **DISCUSSION**

The Public Market is proposed as a year-round indoor/outdoor medley of local owner-operated shops, stalls, and day-tables focused on the sale of a diverse array of fresh and prepared foods and related products.

After a variety of site analyses, the first floor area (approximately 52,000 square feet) of the future mixed-use redevelopment on the Government East Parking Ramp site (Block 105) was selected for the Public Market.

Staff has reviewed the information prepared to date for a Public Market. While no new market analysis or additional research has been commissioned or conducted, our purpose is to pull together what we have learned about a Public Market project and its probability for success.

We have analyzed four critical success factors: vision and goals, cost, market and fund raising potential.

### Vision and Goals

The idea of a public market is to create a distinctive public physical space that symbolizes a community and agglomerates demand for niche products and offers small retail venues to unique, local and food-oriented businesses and producers. Markets typically seek to support locally owned businesses and to provide lower cost opportunities for entrepreneurs to launch new businesses.

There doesn't appear to be consensus on the vision for a Public Market. Some view the market as a diverse regional destination for locally-flavored shopping and dining while others view it as a local grower and producer-oriented market offering a year-round farmers' market style venue. The questions initiated by the Downtown Business Improvement District (memo attached) illuminate this observation. The question of whether a Public Market helps or hurts downtown retailers is not settled, however, and is not likely to be answerable.

One of the reoccurring themes in the documents is the hope that the market will catalyze entrepreneurship. To ensure that there is an entrepreneurial impact, additional financial support may be required to reduce occupancy costs for these fledgling enterprises, placing further pressure on project resources and the need for public support.

### Cost

The initial 2004 feasibility study suggested that construction costs of a public market might be \$125/SF. A subsequent estimate from Miron Construction included in a 2010 economic impact analysis performed by NorthStar Economics suggested a construction cost of \$200/SF (including tenant improvements and soft costs). Based on this initial estimate, it is reasonable to assume that Government East Public Market will cost at least \$10.5 million to construct. This is a conservative estimate recognizing that no dedicated parking is allocated for the market.

Funding sources from a 2007 business plan call for numerous public investments (Federal/State/City) as well as philanthropic support at the local and national level. While a Public Market appears to be something that would be appealing in Madison, public resources are under increased pressures at all levels and prior assumptions about support may no longer be valid.

### Market

The business plan for one of the earlier recommended sites, the Brayton Lot site, anticipated a range of rents based on type of tenant with an average rent of \$24/SF.

The footprint of the Government East site is approximately 52,272 SF. The Madison Public Market team's consultant, Aaron Pohl-Zaretsky, states that approximately 40,000 SF of leasable space is required to allow

the market to achieve a sustainable positive cash flow without a subsidy. Accounting for loading docks, parking, elevator cores, public space, etc., the Madison Public Market team has estimated that there will be sufficient space of 36,000 SF of leasable space plus additional spill-out and bulb-out space. Further site specific analysis suggests that the space available for the market will likely be smaller which the previous analyses have suggested to be a problem.

On a national level, few public markets are considered vibrant. Please see the attached summary from Larry Lund, public market expert. The public markets that are successful are either much smaller in size and/or have a much larger, local population base of residents and office users (New York, Chicago, etc.). The original programs for many public markets are often readjusted based on market realities following occupancy.

Madison's desire to focus on the expansion of the regional food economy, which will necessarily include the provision of lower cost spaces in the Public Market (e.g. day tables and free standing carts for some market occupants) creates the need to receive higher rents from other tenants to achieve the overall average rent of \$24 per square foot identified in an earlier study as a break-even point. These rents may not be achievable and may stress the Public Market's financial feasibility from the start.

#### Fundraising Potential

The 2007 Business Plan for the Brayton Lot site (as revised in 2009) identified \$19,417,902 in potential sources of funds for the public market. These sources assumed that the City would donate the land, award a \$500,000 CDBG grant, and provide \$2,000,000 of TIF assistance. Anecdotal evidence suggests the same economic forces pressuring public budgets are also posing challenges for philanthropic fundraising.

#### **CONCLUSION**

**Staff believes the Public Market should be deleted from the land uses to be studied in the redevelopment of Block 105.**

Based on the preliminary work, the Public Market is likely to cost at least \$10 million to develop on the Government East site. Initial plans had the City of Madison contributing land and at least \$2 million of TIF assistance. The capital budget currently anticipates a City investment of \$5.25 million in the Public Market. Given the changes in the budget environment, this is a tall order. Eliminating the Public Market from the plan would save the \$250,000 contract now and avoid incurring additional expenses for development of the Public Market. Planning for the Government East site would proceed without a Public Market component.

To the extent the City wishes to pursue a Public Market concept in the future, the City could establish a process to solicit community input on the type of market desired by the community and conduct a study to understand the feasibility and potential sites for the type of market selected.

Respectfully submitted,

Steve Cover, Director  
Department of Planning and Community and Economic Development



Madison's Central Business Improvement District (BID)

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May 9, 2011

TO: Mayor Paul Soglin  
Anne Monks, Mayoral Aide  
George Austin, consultant to the city  
Steven Cover, Director of Planning and Community and Economic Development.  
Aaron Olver, Interim Director, Economic Development Division  
Matt Mikolajewski, Manager, Office of Business Resources

FROM: Board of Directors of Madison's Central Business Improvement District (BID)

RE: Proposed Public Market Project, Feasibility Study

Dear Mayor Soglin and City Staff,

The Board of Madison's Central Business Improvement District (BID) has followed the proposed Public Market Project with great interest. We are excited by the vision for the Public Market downtown, but share the Mayor's expectation for a careful evaluation of the costs and feasibility of the project. The Board agrees with the decision to reconsider the Public Market pre-development consultancy contract, and to refer it for further review and study. We also agree that the key question is not "should we put a public market on Block 105," but rather, "what is the highest and best use for the site?"

The BID Board formed a Public Market Subcommittee with members representing and with experience in downtown development, retail, restaurant, hospitality and residents to look at the proposed project from the BID perspective. We offer the observations and recommendations of the Subcommittee as a resource for your analysis of the project and agreement to prepare recommendations for further action by Council.

**About Madison's Central BID**

Madison's Central BID is a special assessment district that encompasses the greater State Street and Capitol Square areas. It includes some 220 commercial properties and 370 retail, restaurant, entertainment and service businesses, many of which are locally-owned and/or small businesses. The aim of the BID is to increase the vitality and health of the district and promote business within it. Our constituents are commercial property and retail business owners in the district, and their customers, both residents and visitors. The BID works to create a rising tide and bigger market for all downtown businesses and the district as a whole.

The proposed Public Market is immediately adjacent to the BID and would have a variety of impacts on the district. The BID Board is interested in the economic impact of the project for the central downtown retail district as well as for the city as a whole. The BID wants any proposed project in the central downtown—and its prospective tenants—to be positioned optimally for financial viability and market success (which benefits the entire district). The BID is happy to offer its expertise to help the city ask the right questions and make the best decisions.

## **BID Public Market Subcommittee Members**

Subcommittee members bring expertise in downtown development and retail management and leasing; retail, restaurant and hospitality ownership and operation; and the perspective of downtown residents.

Retail – Jeanette Riechers (Madison Sole)  
Restaurant – Traci Miller (L'Etoile/Graze)  
Hospitality & Development– Stacy Nemeth (Fiore Companies)  
Hospitality & Development – Chris Schramm (ULI)  
Hospitality & Development – Sue Springman (Mullins Group)  
Downtown Resident - Teresa Werhane (Capitol West)

Staff: Mary Carbine (BID Executive Director)  
Susan Schmitz (DMI President)

## **BID Public Market Subcommittee and Board Recommendations**

A downtown Madison Public Market is an exciting concept that captures the imagination and generates enthusiasm for its many proposed benefits (incubator for new businesses, opportunity for minority vendors, local food movement, economic development). To insure the best possible project for the city, downtown, and potential tenants and customers, the BID Subcommittee and Board recommend careful consideration of the financial feasibility, i.e., capital and operational costs, and projected funding and revenues.

Subcommittee members reviewed the 2007 Business Plan and Feasibility Study by Common Wealth Development, one of the studies that formed the basis for the 2010 Madison Public Market Site Analysis. The Subcommittee recognizes the 2007 study was for the Brayton Lot site, and that the current consulting scope of work requests an update on costs and assumptions. We believe many of these will be the same for Block 105. Based on their experience in development and retail leasing and management, Subcommittee members have questions about the assumed funding sources, revenues (i.e., rental rates), and expenses for the project, both capital and operational.

- Can the Public Market be built without significant public debt?
- Are the private sources of funds realistic today given the economy and competing interests with the Central Library, Central Park, etc.? Are Dane County funds identified earlier still available?
- Can the Public Market operate without ongoing public subsidy? There are losses the first three years of the pro forma, and in year four almost full occupancy needs to be achieved to break even. How will those losses be paid for, and what is the plan if occupancy is not achieved?
- Are the proposed rental rates (\$26 PSF+) affordable for the type of business tenants the Public Market hopes to attract (start ups with limited or no capital or lines of credit)?
- In the current tight credit market, will prospective tenants (start ups) be able to obtain the credit necessary for year-round operations in the Public Market (when even established businesses cannot get expansion loans)?
- Will the Public Market (as a publicly subsidized project) strengthen or dilute the overall customer base for existing downtown retail and restaurant businesses? Some of the proposed tenants have products already sold by existing businesses. What happens if the Market concept and tenants are not successful (as has happened in other cities), and the management has to retrofit the space and lease to market-driven concepts that compete with existing downtown businesses?

- Is there an existing location/building that would be better suited for the market or could house a program achieving similar goals (incubator, local foods, business mix) with less financial risk?

The BID Board recognizes the city's budgetary constraints, and also recommends that careful consideration be given to the scope of the Public Market consultancy contract. Specifically:

- 1) Revise the scope of work and break the analysis into phases. Do an initial limited financial feasibility study and proceed to subsequent phases only if warranted.
- 2) In the initial feasibility study, update potential funding sources, customer demographics and spending potential, and fully vet construction costs and rental rates. Use the 2007 Business Plan and Feasibility Study and pro forma as a basis. Evaluate the physical design, including whether the space is adequate for the proposed program. Significant street-level requirements for loading and underground parking entry and exit lanes, as well as elevators, stairs and lobbies serving the parking ramp and any uses located above the market, could significantly subtract from the available leasable space. In addition, while desirable to have other uses above the first floor Public Market, it is very expensive to build office or residential above a clear span first floor. Those uses need to be anticipated at the time the underground parking and the market are designed and constructed.
- 3) In any further feasibility study, look at Public Markets in primarily comparable cities, their current costs, funding, and public subsidies.
- 4) Can city staff accomplish Phase 1 (Master Planning Design Assistance) and possibly Phase 2 (Business Plan and Feasibility), saving consultant costs?
- 5) Obtain competitive bids for the contract for a revised scope of remaining work.
- 6) To avoid any conflict of interest with the study, make it clear that the organization (s) hired to perform consulting services cannot be considered as the construction manager/developer or future property manager of the Market,

The BID Subcommittee and Board looks forward to the city review of the project and consultancy agreement, and offers its partnership and expertise for further review and discussion. If we can be of further assistance or you would like to meet to discuss further, please do not hesitate to contact us.

Respectfully submitted on behalf of the BID Board of Directors,



Mary Carbine  
Executive Director  
Madison's Central Business Improvement District (BID)  
P.O. Box 2136  
Madison, WI 53701  
t: (608) 512-1340  
[mcarbine@visitdowntownmadison.com](mailto:mcarbine@visitdowntownmadison.com)

# Markets in America

## (Built since WW2)

Erie Street Market, Toledo, OH	40,000 sf (now closed)
Dallas Public Market	40,000 sf (struggling)
Global Marketplace, Minneapolis, MN	30,000 sf (losing money)
Portland City Market, Portland, ME	20,000 sf (now closed)
Wilmington Public Market, Wilmington, DE	20,000 sf (struggling)
Milwaukee Public Market	20,000 sf (repositioning with more fast-food)
Chelsea Market, New York City	20,000 sf (combo wholesale retail)
Oxbow, Napa, CA	20,000 sf (struggling)
Ardmore Public, Market, Ardmore, PA	15,000 sf (doing well)
Capitol Market, Charleston, WV	15,000 sf (doing very well)
French Market, Chicago	15,000 sf (struggling)
Grand Central Market, New York City	5,000 sf (doing very well)
Fruitvale Market, Oakland	5,000 sf (just has one bakery) TOD
Fire House Market, Philadelphia	3,500 sf (now closed)
Ferry Terminal Market, San Francisco, CA	(restaurants subsidizing market)
Emeryville Public Market, Emeryville, CA	(now a food court)
Housewives Public Market, Oakland, CA	(no info on market)
Little Rock Public Market, Little Rock, AK	(struggling)
Dayton Public Market, Dayton, OH	(struggling)
30th Street Market, Philadelphia, PA	(closed) TOD
Burlington Public Market, Burlington, VT	
Melrose Market, Seattle, Washington	3,500 sf (collection of stores)
Belvedere Square Marketplace, Baltimore, MD	5,400 sf (repositioned)
Phoenix Store	3,000 sf (struggling)
5th Street Market, Eugene, OR	

The last four "markets" on the list are not really markets, but a hybrid of stores in a retail development.