City mulls message to builders: No affordable units? No permits

By Micah Maidenberg April 28, 2014

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In January, the commissioner of the Chicago Department of Planning and Development revived the idea of forcing developers to include below-market-rate units in exchange for zoning approval of new residential structures.
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Chicago planning guru Andrew Mooney is giving the city's biggest developers night sweats.

In January, Mr. Mooney, commissioner of the Department of Planning and Development, revived the idea of forcing developers to include below-market-rate units in exchange for zoning approval of new residential structures, a proposal that city officials, developers and housing advocates last fought over in **2006 and 2007**.

Such mandates would boost costs for downtown development, potentially making it more difficult to obtain financing, developers say. Currently, **builders can either** set aside 10 percent of units in new structures at below-market rates or pay $100,000 per required unit into a city fund.

Anticipating a battle, developers are arming themselves with research reports, identifying alternatives and preparing to lobby aldermen and the mayor. The Home Builders Association of Greater Chicago hired consultant Paul Colgan to coordinate its response.

“If the city is going to advance policies that could shut down development again . . . I would hope and expect the real estate community would stand up and say, 'We can't do that,' “ Mr. Colgan says.

Even with a compliant City Council, Mayor Rahm Emanuel and **Mr. Mooney** may face a messy fight trying to persuade aldermen to hike property taxes by $50 million every year for five years (to a total of an additional $250 million a year) to fund two city pension systems. It's unclear how hard they'll fight for a measure that also targets large property owners and even is opposed by some housing advocates.

"Throwing this out is like throwing out a fishing line with no hook," says Paul Green, director of the Institute for Politics at Roosevelt University in Chicago.

THE NEXT FRONTIER

Council members are "riveted by the **pension and property tax discussion**," acknowledges Ald. Will Burns, 4th, but he says they are ready to grapple with the affordable housing ordinance.

A member of the council's Committee on Housing and Real Estate, Mr. Burns expects to be in the middle of debates about the law. It would be something of a natural position for him, as his predecessor on the council was Toni Preckwinkle, now president of the Cook County Board of Commissioners, who championed affordable housing issues during her time in City Hall. Mr. Burns hints he's interested in mandating below-market units while perhaps offering developers further incentives to build them. He wants to look at boosting the $100,000-per-unit opt-out fee, too.

Mr. Mooney was unavailable for comment. Spokesman Peter Strazzabosco says the city plans to consider changes to the law later this year "through a consultative process with housing advocates, real estate professionals, aldermen and other community representatives and industry stakeholders."

Mandates or a stiffer penalty would hit downtown developers the hardest, as those firms can charge the highest rents and sell condos for top dollar.

LOCATION, LOCATION, LOCATION

In farther-out neighborhoods, "the difference between about $2 a foot and affordable rents is relatively small, versus if you went to River North, where the difference between affordable rent and $3.25 per square foot is huge," says Alan Lev, CEO of Belgravia Group Ltd., a Chicago-based firm that specializes in condominiums.

For a 50-unit condo it built downtown, Belgravia paid $500,000 into the affordable housing fund rather than include five on-site units. Had the firm included those units, returns on the development would have fallen below the threshold required to finance the building, Mr. Lev says. But the company also is involved in a 150-unit **Ravenswood rental building** that includes 15 affordably priced units.

Some affordable housing advocates may line up with the builders. The Chicago Coalition for the Homeless, for instance, says that if developers are forced to include set-asides, fees the companies pay into the affordable housing fund will dry up. People with little or no income—who don't have money for "affordable" units—can rent apartments using vouchers supported by those fees.

"The money going into the trust fund wouldn't exist but for the ordinance," says Eithne McMenamin, associate policy director at the homeless coalition. "We're at the end of the spectrum that says rental subsidies benefit our folks."

But other groups worry that the supply of lower-cost housing in gentrified and rapidly developing areas will increasingly disappear if developers aren't forced to add below-market-rate units in new buildings.

Kevin Jackson, executive director of the Chicago Rehab Network, doesn't want to lose the fee stream but argues for some inclusion of set-asides. “Affordable housing should be on-site,” he says. “If you want an integrated housing system, if you're supportive of a mixed-income concept, it's got to be done across the board.”

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