

Developers: Politicians, taxes and headlines dogging Chicago

by Meg White November 22, 2019



Scott Goodman, founding principal of Farpoint Development; Tom Scott, CEO of CA Ventures; Alan Lev, chairman of Belgravia Group; Keating Crown, managing principal of Sterling Bay; and Leon Walker, managing partner of DL3 Realty.

It's fair to say the developer community is not exactly feeling the love right now.

"The city doesn't seem to care," Alan Lev, chairman of Belgravia Group, told the audience of the Lincoln Park Builders' 31st annual Real Estate Forum yesterday. No matter how often the development community warns state and local officials that higher taxes and fewer incentives for building will dampen Chicagoland's economic growth, "They don't believe it."

Lev was the moderator for the event's panel discussion, which was comprised of like-minded developers and commercial real estate professionals. There was general agreement in the room about the looming specter of commercial real estate assessments and a possible property tax hike, and a few ideas for what could go right in the coming months and years.

Potential fixes

In a segment they called "king for a day," featuring a plastic crown and allowing panelists to submit their solutions for the fiscal problems facing Chicagoland, CEO of CA Ventures Tom Scott suggested a value-added tax and raising the income tax as alternatives. "We need to get off the real estate tax drug," he said. "You're killing that person who's buying a house."

Scott Goodman, founding principal of Farpoint Development, suggested more new construction as part of the budget gap solution. "The other answer is to fill the hole with development," he said, acknowledging that "it's incremental and it takes time."

Leon Walker, managing partner of DL3 Realty, agreed. His company is focused on projects that bring economic development to underinvested communities on the south and west sides of the city, which he said will bring more tax dollars into the city's coffers. "We need to repopulate neighborhoods to attract investors," he said. "We focus on high-impact projects. ... Those projects are a catalyst."

AROs loom large

Another item high on the threat list of the developers gathered for the forum was the recently announced composition of Mayor Lori Lightfoot's task force examining the city's Affordable Requirements Ordinance. "There's not a single developer on the list," Lev said, though he did acknowledge that a data analyst who is a member of the Lincoln Park Builders group was included. "They stacked the deck entirely against us."

Walker agreed, noting that, when a policy is debated, it's important to have all stakeholders at the table. "You need all the voices in the room," he said. "They need to see the private business community as partners."

One company that often comes up in the affordable housing debate these days has been Sterling Bay, due to the controversy surrounding the incentives and plan for the massive Lincoln Yards development. Keating Crown, the firm's managing principal, claimed that the reason the city hasn't seen any development in Fulton Market, where his company has created a large proportion of the new projects that have sprung up in recent years, is because the city singled the area out for a higher requirement under the ARO – a 20 percent share of affordable units, rather than the 10 percent required in most of the rest of the city. "If they move it to 10 percent for the time being, you'll have hundreds of affordable units," he said, adding that the ordinance is also preventing them from including more housing to the plans for the mega-development further north. "We could build 6,000 [residential] units at Lincoln Yards."

But affordability is in the eye of the beholder. "We really don't have an affordable housing crisis in Chicago," said Walker. He said there are still many areas that are affordable in the city, but that they're just not on the North Side. He said he hopes to entice more Chicagoans to consider moving south.

Working without enticement

As many big developers consider how to build without attracting the ire that tax-increment financing and other incentives bring in public perception and media coverage, the owners of these big firms that took the stage last night agreed that their smaller competitors are often more efficient engines of economic development.

"Most deals start at the local level," said Scott, who noted that he started small by buying and redeveloping three flats in the city. Small owners and developers have more flexibility when it comes to choosing investments than he does, having to now answer to institutional investors. But still, "It's probably more difficult to scale ... that's the stress" for smaller players.

Walker added that small developers are "not usually using public incentives... they're using their own money," adding, "that's how you build neighborhoods."

Perception and reality

All of these difficulties are causing investors to see Chicagoland as a risky place to set up shop. "Right now, Chicago is just not on their list," said Scott, whose company does a fair amount of development work outside the state.

Walker characterized this as partially a problem of how the city and state are portrayed in the media. "Here in Chicago, we have headline risk," he said, calling it a "narrative of bad news."

For those who head up Chicago-based Sterling Bay, "It's painful to say, 'Yeah, we're looking other places,'" said Crown. He noted that it's not just the financials that make it hard to develop here, but the need for municipal investments. "We need the infrastructure. ... Over the next two years, both the Webster Bridge and the Cortland Bridge are going to go down" for repairs.

Still, the panelists all agreed that Chicagoland appears to be succeeding in spite of itself, as developers see the strength of its workforce, institutions and strategic placement in the relatively affordable Midwest.

"Chicago has been passed over for a long time," Goodman said, noting that there are many good opportunities for new projects on the horizon, including the old Michael Reese Hospital site and other underutilized near-South Side areas. "We're being discovered now."

Crown agreed. "Certainly we have headwinds," he said. But "this city has a lot going for it."

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