BUSINESS

New property tax incentive could remake Fulton Market and other neighborhoods into havens for affordable housing

By Brian J. Rogal
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Cody McGraw installs tiles in an affordable unit in The Row Fulton Market at 164 N. Peoria St., Feb. 16, 2023, in Chicago. (Armando L. Sanchez / Chicago Tribune)

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A new property tax incentive meant to create or preserve affordable housing is already generating results within Chicago's newest downtown apartment towers and in neighborhoods across the South and West Sides. City officials, housing advocates and some builders say it could also ensure future development doesn't keep families with modest incomes locked out of downtown's most vibrant neighborhoods.

"This is something Chicago really needed, and that's why we spent years and years working on it and getting it through the legislature," said Curt Bailey, president of Related Midwest, which will soon put the finishing touches on The Row Fulton Market, a 300-unit rental tower in Fulton Market, the city's hottest market. The tower will include 60 affordable units, the first major project using the incentive. “We’re the first, but there will be many, many more.”

The Affordable Illinois incentive package, signed into law by Gov. J.B. Pritzker in the summer of 2021, requires participating developers in high-income areas such as Fulton Market and other downtown neighborhoods to keep 20% of the units affordable for 30 years. They also must provide all affordable units on-site. That’s a big change. The city has for years required developers securing zoning changes or other benefits to provide some affordable housing. But many grouse that building on-site is expensive, and they often fulfill requirements by paying fees or building affordable units in cheaper neighborhoods.

“We are in conversation with many developers contemplating taking the state tax abatement in exchange for placing all of their affordable units on-site,” stated Department of Housing Commissioner Marisa Novara in an email. “In a city with profound racial and economic segregation, we are encouraged by this trend.”

The Lightfoot administration has pushed to include more affordable housing downtown, boosting in 2021 the affordability requirement for many new developments from 10% to 20%. But developers can now receive steep cuts to their new residential buildings’ assessed values, leading to tax cuts, and although the benefits don’t kick in until tenants who qualify for affordable housing occupy the units, several say it helped kickstart the apartment boom reshaping downtown.

Five new apartment towers which will provide a total of 1,612 new units with 20% affordable on-site got underway in Fulton Market after Pritzker signed the legislation, according to Jeff Shapack, CEO of Shapack Partners, including his firm’s 28-story tower rising at 1353 W. Fulton St., and Sterling Bay’s 225 N. Elizabeth St., a $155 million, 350-unit tower.

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"It's great for Chicago, it's going to build a significant amount of affordable housing for Chicago, and Affordable Illinois is the tool that allowed us to do this," Shapack said.

But Affordable Illinois isn't just for sparkling downtown apartments. Owners of existing buildings with 7 or more units anywhere in the county can also secure assessment cuts if they provide affordable housing and made substantial renovations to their properties after 2015.

That's because the coalition of commercial firms, small property owners and activists who backed the legislation made sure there was something in it for everyone, said Stacie Young, president and CEO of Community Investment Corp., a nonprofit lender.

"All of these groups said, 'yes, let's figure out a property tax incentive,'" she said. "So, we put in a tiered model which works for all."

Owners who complete renovations can get assessment cuts of up to 35% based on how many affordable units they preserve. Young said she hopes the law will lighten property tax burdens, spur owners to invest more in their properties, and ensure low-income renters can afford to stay put.

KMW Communities founder Bill Williams bought a pair of empty, dilapidated apartment buildings in Woodlawn and Humboldt Park several years ago, but after making renovations and filling up the 30 total units, the assessed value went up, which meant higher property taxes and fewer resources to maintain the properties. And like every other property owner, he later suffered when supply chain snafus sent construction and material costs soaring.

"We didn't plan for all that, and the buildings were basically working on slim margins and sometimes on no margins," he said. "If I were to do those projects today, they would not be feasible."

Bill Williams, owner of apartments he rehabbed in the West Humboldt Park neighborhood. (Brian Cassella / Chicago Tribune)

Last year, after Cook County Assessor Fritz Kaegi established the Affordable Housing Special Assessment Program, Williams applied and was approved for the 35% cut. He said he now looks forward to years of lighter property taxes.

Landlords need to verify their tenants' incomes, prove the units provide safe and decent housing, and show what improvements were made, according to John McDonnell, a real estate analyst with the county.

"Our priority is helping the providers become compliant so they can receive the incentive and provide affordable housing," McDonnell said. "But we don't want to give out the incentives and then have them not take care of their buildings."

That's one reason the county's program got off to a slow start, approving a handful of applications in its first few months, he added. But approvals accelerated in the second half of 2022.

"This is the first time anything like this has been done on this scale," he said.

"Now, we're cruising along."

Kaegi's office received to date 770 applications from small property owners, most seeking a 35% cut, and has so far accepted 579, county data show. About half the applicants were already part of an old incentive program called Class 9, which many landlords say is now outmoded and confusing. The Assessor is encouraging owners to switch to the new Affordable Housing program.

Young, of the Community Investment Corp., said landlords can't reap benefits by making cosmetic changes. They need to spend money on roofs, elevators, energy efficiency, improving accessibility, adding new units, or revamping other major building systems.

"We tried to be smart about the investments required," she said. "Just putting in marble countertops doesn't make you eligible."

Andrew Levin of Bass Management just secured approvals from the Assessor for four of his buildings in Albany Park, a neighborhood on Chicago's Northwest Side. Each has between 13 and 17 units, many affordable, and needed new masonry, windows, and significant upgrades to the porches and roofs.

"When I bought these buildings, they were in such disrepair," he said.

Levin doesn't know yet how much of a tax break he'll be awarded, but he said he's confident the steep cut in the buildings' assessed values will result in big savings.

Property taxes have been putting a tighter squeeze on Cook County owners. The total amount billed in 2021 was $16.4 billion, about $614 million more than the previous year, according to a December analysis from the county treasurer's office.

The new incentive is already benefiting tenants, Levin added. Even with rents increasing dramatically across many North Side neighborhoods, Bass just agreed to renew a lease in one of the Albany Park buildings and cap the tenant's monthly increase for her two-bedroom apartment at $8.00. Without the program, the increases would probably be $75 or $100, and that might force some families to seek cheaper lodgings in neighborhoods further west.

"All these kids go to the local school, the parents are on the local school council, so this is a nice opportunity for them to stay in the neighborhood," Levin said. "That's what it's all about. It's also a way for me to stay in business as well, and who better to own these properties than a local guy who knows all their stories?"

Chicago Metropolitan Housing Development Corp. owns 58 buildings with a total of 708 apartments, almost all affordable, and mostly in neighborhoods like Rogers Park, Logan Square, Beverly and Morgan Park, as well as Evanston, where market-rate renters are willing to plunk down big bucks for available units, according to Executive Director Rafael Leon. The nonprofit, which paid nearly $1.2 million in property taxes last year, secured approvals for 12 buildings, where in the last five years it's spent about $5 million on renovations. It plans to submit applications for two more buildings after completing some construction.

"We made a decision as an organization that it's better to preserve low-income housing where there is a threat of displacement, instead of going into areas already saturated with low-income housing," Leon said. "Our residents are secretaries, pharmacy workers, people with limited resources who live paycheck-to-paycheck, and our competition are market-rate developers who would say, 'these areas are changing, so we're going to capitalize on that and take a $1,000 a month apartment and increase prices to $1,400 after making minor improvements.' This is what we're trying to stop."

A 2021 study by DePaul University's Institute of Housing Studies found Cook

County had an affordable housing shortage of 159,122 units in 2019, and Chicago's North and Northwest Sides saw a steep decline in affordability over the previous decade.

"The units in my building fill up very quickly," said Natalie Sallee of her Rogers Park home, a CMHDC building. "There is quite a lot of interest in living here and that's because the apartments are so affordable."

Natalie Sallee in the courtyard of her Rogers Park apartment building on Feb. 14, 2023. (Brian Cassella / Chicago Tribune)

Sallee works as a program coordinator for a small, independent suburban park district, arranging activities for the neighborhood children, and her CMHDC unit allows her to live close to a job she loves in an apartment she otherwise could not afford on her own.

"My neighbors are all ages, races, ethnicities, including retired couples, and everyone knows each other," Sallee said. "It's a beautiful representation of what Rogers Park is like as a whole."

Bailey said Fulton Market needs that kind of integration.

"You're going to see affordable units, most importantly, in very high barrier-to-entry, expensive neighborhoods, and that's the key, bringing affordable units to neighborhoods where there are no affordable units today," he said.

Downtown and surrounding neighborhoods like Fulton Market are designated low-affordability communities, allowing developers of new properties to get the steep assessment cuts, that taper off over 30 years, if they keep 20% of the units affordable for families making no more than 60% of area median income.

Without the break, reserving 20% of the units in a luxury development such as The Row Fulton Market at 164 N. Peoria St., would not be feasible, according to Bailey.

"When you add up all the costs, a building like that wouldn't work," he said.

Reserving 60 units in The Row Fulton Market as affordable will offer families with modest incomes an opportunity to live in a vibrant jobs center, home to burgeoning life sciences firms and new office towers, Bailey added.

"There are certainly lots of jobs in Fulton Market, and the holy grail for us is if our residents can walk to work," he said.

Justo Avila installs cabinets in an affordable unit inside The Row Fulton Market on Feb. 16, 2023. (Armando L. Sanchez / Chicago Tribune)

Clouds pass over buildings outside as a kitchen is seen under construction in an affordable unit in The Row Fulton Market on Feb. 16, 2023. (Armando L. Sanchez / Chicago Tribune)

Such incentives have even more potential beyond Fulton Market. About 17,000 units across greater downtown are in the planning stages, including about 2,700 potential apartments at JDL Development's North Union project on the Near North Side and Onni Group's five-tower, 2,700-unit development on the southern end of Goose Island.

"At this time, we are still reviewing some of the tax incentives as it relates to future development projects here," Brian Brodeur, Onni's vice president of development, stated in an email.

Some developers say more incentives, not mandates, are needed to meet affordable housing goals and deal with economic headwinds like higher interest rates.

LG Group CEO Brian Goldberg said his firm was willing to break ground on its 363-unit 210 N. Aberdeen St. in Fulton Market last summer, and include 20% affordable on-site, due to Affordable Illinois, but it was a close call.

“About a year-and-a-half ago, we were questioning whether to move forward because the financials didn’t make sense,” he said. “With the new incentives it did make sense, but just barely. If they provide us with enough incentives, we’d go 30% affordable. We love affordable housing, but it’s expensive to develop.”

Lindsey Senn, executive vice president of Fifield Cos., which developed iconic Chicago apartment towers like K2 Apartments in Fulton River District, called the legislation “a good start” that “provides a real incentive to build affordable housing,” but said the incentives would only cover about half the expense of including affordable units in new developments. Her firm recently decided to concentrate on projects outside the Chicago metro area due to concerns over rising property taxes, the city’s affordability requirements and other issues.

The numbers work for Related Midwest, Bailey said, and the firm will likely apply to use the incentive at future developments, perhaps for 400 N. Lake Shore Dr., the site of the abandoned Chicago Spire project, the lakefront’s infamous “hole-in-the-ground,” where the company now plans to construct two residential towers.

“We foresee the majority of our projects in the city of Chicago will have 20% affordable,” he said.