



New apartments mix with older buildings at the intersection of California Avenue and Milwaukee Avenue in Chicago's Logan Square neighborhood. *Photographer: Taylor Glascock/Bloomberg*

CityLab | Housing

Chicago Taps Brakes on Gentrification With a Tax on Teardowns

With multi-unit dwellings giving way to single-unit homes, Logan Square leaders pushed for measures to keep the neighborhood's Latino population in place.

By Mackenzie Hawkins

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Right next to the California stop on Chicago's Blue Line, one-bedroom apartments in a new luxury building start north of \$2,000 a month. Recently built single-family homes on adjacent streets frequently go for \$1 million or more. Coffee shops and craft breweries have become neighborhood staples.

Scattered throughout: taquerias marked with a single dollar sign on Google Maps, and traditional duplexes and triplexes. These multi-unit dwellings have housed members of Logan Square's Latino population since a wave of immigration in the 1960s, but lately the flow has gone in the opposite

direction. The Latino population in the neighborhood has diminished to 36% from 65% in 2000, according to the US Census Bureau, as wealthy, and often White, residents find appeal in the area's trendy businesses and proximity to The 606, a 2.7-mile railway-turned-walking and biking path that opened in 2015.

“Living in a gentrifying neighborhood is like living with a live and open wound,” said Christian Diaz, who was born in Mexico but has called Logan Square home for most of his life. “It turns our streets into an emotional minefield because it just seems like our neighborhood is valuable now because White people want to live here. And it wasn’t before, because it was predominantly Latinx.”

Still, Logan Square is not completely transformed. There is new, upscale development here, Diaz said, but less than some surrounding neighborhoods – in part, he added, because community organizers in Logan Square have found a patchwork way to slow the march of gentrification that’s spreading westward from the main commercial Loop. One key tool: a pilot ordinance that charges developers a fee of at least \$15,000 for tearing down existing buildings.



A lot under development on North Milwaukee Avenue in the Logan Square neighborhood of Chicago. *Photographer: Taylor Glascock/Bloomberg*

The ordinance was born of the advocacy of Palenque LSNA, formerly known as the Logan Square

Neighborhood Association, for which Diaz is the housing director. It's one of a suite of policy interventions – including minimum density requirements, home repair grants and allowing additional units – that community organizers and Windy City officials have put forth in recent years to preserve a dwindling supply of affordable residential units. These are often found inside the two- or three-story townhouse-style buildings – like the city's distinctive “two-flat” homes – that occupy the “missing middle” of the housing market.

“We still remain 4 million homes short of housing generally in the US, and so we can't afford to lose any of the existing stock,” said Justin Dorazio, a research associate focused on racial equity and justice at the Center for American Progress, a liberal public policy research group. “But we also have a requirement that we keep the existing stock up to a decent enough quality,” he said – otherwise, unsafe conditions can drive displacement, with a particular impact on low-income people, people of color and people with disabilities.

Nationwide, at least 110,000 Black residents and 24,000 Hispanic residents were displaced from urban areas between 2000 and 2013, according to the National Community Reinvestment Coalition, meaning they won't benefit from the economic growth and services that come with neighborhood revitalization projects. As more cities attempt to address displacement with zoning rules that allow for increased housing density, Dorazio said Chicago's demolition fee and other preservation interventions provide a unique potential solution that works alongside new development.



Traditional “two-flat” housing in Logan Square. *Photographer: Taylor Glascock/Bloomberg*

“We don’t want to replicate a situation where White people with means all live in one area and Brown people, Black people live in poverty in another area,” said Alderman Carlos Ramirez-Rosa, whose 35th Ward includes Logan Square. “Unlike other places where they’re trying to build that ‘missing middle,’ our middle isn’t missing. It’s increasingly disappearing.”

Signs of Displacement

Buildings with two to four units account for around one-quarter of Chicago’s total housing stock. The average is higher in Latino neighborhoods (nearly half) and Black ones (nearly one-third). The loss of those units is a key displacement indicator, as many are converted into single-family homes in gentrifying areas like those surrounding The 606. For residents and researchers aiming to combat displacement, that makes their preservation a matter of urgency. (On the city’s south and west sides, bulldozed buildings often aren’t replaced with anything, instead becoming empty lots.)

Community organizers began sounding the alarm about rising prices around the trail – a clear indicator of gentrification and the risk that longtime residents could be pushed out – long before they had the numbers demonstrating that trend. In 2017, Palenque LSNA advocated for demolition fees to the tune of \$300,000 or more to suppress redevelopment. Organizers knew a fee that high

had no chance of passing, Diaz said, but they wanted to start the conversation.

Three years later, a study from DePaul University in Chicago found that home prices had in fact skyrocketed, up 344% from 2012 to 2018. That number provided a jolt to efforts by progressive city council members who had followed the organizers' lead and were trying to freeze all demolitions around The 606.



A storefront on North Milwaukee Avenue in Avondale, north of Logan Square. *Photographer: Taylor Glascock/Bloomberg*

Chicago Mayor Lori Lightfoot immediately blasted the idea: “We need to use a surgical knife, not a club,” she said. Some aldermen and residents have pushed back against iterations of the proposal, arguing that the ban and a succeeding demolition fee prevent owners from accessing their full property value and unfairly penalize developers in certain areas of the city. Mayor Lightfoot eventually supported a more targeted demolition ban covering just the western part of the trail, which saw the highest price growth among two- to four-unit buildings.

In pilot form, Palenque LSNA's ideas have held up. Aldermen unanimously extended the ban once and replaced it with a pair of longer-term policies in early 2021.

The first policy, a permanent anti-deconversion ordinance, mandates that new construction in areas around The 606 maintain the density of buildings it replaces and requires developers to apply for a zoning change to build single-family homes on blocks filled with two-flats. A similar ordinance went into effect at the same time for the Pilsen neighborhood, where a proposed bikeway called the Paseo Trail has residents and housing researchers worried about displacement pressures.

The second measure is a demolition fee, which is based on a similar “teardown tax” in neighboring Evanston that funds affordable housing development and has been in place more than a decade. Chicago charges developers \$15,000 per building teardown, or \$5,000 per unit, whichever is greater. The teardown fee applies through 2024 to certain areas in Pilsen and around The 606.

The money collected from demolition fees – \$150,000 from 10 demolitions as of late October – goes into a community land trust, which uses the money to acquire and sell homes to qualifying residents at a markdown. The land trust in July sold its first property right next to The 606 to an

income-eligible homeowner for \$217,000, well below its appraised value and a far cry from million-dollar prices common in the area, Diaz said.

To be sure, many corporate real estate developers can afford treat a couple-thousand-dollar fee as nothing more than an annoyance. Palenque LSNA itself figured companies would “just eat the cost and develop anyway,” Diaz said. But the deterrence – or, as Diaz put it, the “invitation for a developer to consider other possibilities” – has proven part of a promising early strategy.

In the year after the anti-deconversion ordinance went into effect, followed two months later by the fee, the city found no deconversions in permit applications in the covered areas, compared to a reduced rate in other parts of the city. And there was a substantial drop in residential demolitions: almost 90% in The 606 area, and 40% in Pilsen, slightly outpacing slowdowns in other areas. (The reduced citywide rates are presumably due to the pandemic, according to Daniel Kay Hertz, policy director at the department of housing, who added that the city has not updated its analysis since February.)

Palenque LSNA wants to see the boundaries of the deconversion fee ordinance expanded – because while fees might create a disincentive to flip properties in Logan Square, Diaz said, it is easy for developers to move to an adjacent neighborhood. But in a city where city council members wield significant control over policy in their wards, that would require getting aldermen on board who’ve expressed concern about fees in the past.

For his part, Alderman Matt Martin said in an interview that he might propose a fee ordinance for the 47th ward, where neighborhoods like Lincoln Square have “already reached the tipping point that The 606 area and Pilsen have started to hit in terms of deconversions.” Funds collected from developers would be used to assist property owners with taxes or maintenance so that they keep their two- and three-flat units rather than selling, Martin said.

Citywide, anti-deconversion efforts expanded dramatically this summer when council members passed the Connected Communities Ordinance, which promotes affordable development near transit stops and establishes minimum density requirements around bus and metro lines.

“Conversion activity is more common near transit,” said Geoff Smith, who heads the Institute for Housing Studies at DePaul. The ordinance, he said, “allows the city to intervene in those situations.”

Helping With Repairs

But even as the city tries to intervene on the developer side, small landlords may still have motivation to sell. Property taxes have more than doubled in the past decade despite a reprieve from proposed hikes for next year. A moratorium on evictions put a strain on incomes during the pandemic. Owners who treat their buildings as investment properties might eventually want to

cash in.

Part of the problem is that property owners – particularly Black and Latino owners who’ve for generations been shut out of opportunities to grow their wealth – simply don’t have the money for a steady stream of repairs. Diaz said he knows one owner of a building with three family-size units “that are sitting empty, deteriorating because our people don’t have the capital to improve on our buildings.”

Kurt Shreffler, a property manager at 606 Realty, said he helped sell a dilapidated two-flat building in the eastern part of Humboldt Park for around \$380,000 last year – most likely for a teardown, he said, after the owner decided she didn’t want to front renovation costs out of pocket. Single-family homes in the same neighborhood have been selling for a couple hundred thousand dollars more, a margin that makes the area particularly attractive for developers trying to flip homes.

The city is trying to help foot repair bills so people can stay rather than sell. But for a program that

helps low- and moderate-income homeowners with roof and porch projects, the need is “at least four times the amount of what the city can offer,” according to Donna Clarke, the chief operating officer at Neighborhood Housing Services, which helps the city administer grants. “Every program is oversubscribed.”

The city is allocating \$18 million to clear the backlog via the Chicago Recovery Plan, a 2021 framework for community development that leverages federal stimulus and bond financing. That money will allow the city, which repaired around 200 roofs and porches last year, to more than double its reach, said Jim Horan, a deputy commissioner at the department of housing.

Chicago is also trying to gently add more housing in gentrifying neighborhoods in the form of accessory dwelling units, which had been banned in the city for seven decades. The pilot program, rolled out in May 2021, requires a portion of new units to be affordable based on area median income. So far, construction has been heavily concentrated on the city’s wealthier north side, but nearly half of several hundred approved units are in owner-occupied properties – especially 2- to 6-unit buildings, indicating that allowing ADUs could help with preservation efforts.

New Units On the North Side

ADU preapprovals issued or under review by the Department of Housing

Source: Chicago Department of Housing

Note: ADUs, or accessory dwelling units, are additional living units including a bathroom and kitchen that are attached to a main residential property. Chicago also allows coach houses, which are detached from the main building.

Low- and moderate-income homeowners who want to build an ADU can receive financial assistance of up to \$35,000. The idea is gaining traction, with 15 aldermen supporting a newly introduced ordinance that would allow ADUs citywide.

Meanwhile, Neighborhood Housing Services, the group that helps administer repair grants, is also in the process of surveying small landlords to determine the best ways to get units back on the market and keep existing ones from falling into disrepair. That work is citywide, Clarke said, but NHS is especially focused on predominantly Black and Latino neighborhoods on the south and west sides that have seen decades of underinvestment. Of particular affordability concern to housing experts is the area surrounding Jackson Park, the soon-to-be home of the Obama Presidential Center, where prices are already growing years ahead of the center's opening.

"We're trying to understand the market pressures," Clarke said. "It takes a wealth of programs and efforts in order to stabilize people's housing, whether they're renters or whether they're homeowners across the city."

– *With assistance by Chloe Whiteaker*