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**FOCUS ON** 🔍

## Focus on: Chicago

**BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC & COMPANY LLP**

The Windy City is in a building boom and Chicago developers and government are working to help the affordable end of the housing market keep up.

“When visiting Chicago’s Central Business District, the first thing you notice is the large number of cranes building high-end residential developments,” said Jack Swenson, who works in community development for Local Initiatives Support Corporation (LISC) Chicago.

“Luckily, given Chicago’s unparalleled number of community-based developers, renewed investment in affordable housing is also happening in the city’s low-to-moderate-income neighborhoods on the south, north and west sides,” Swenson said. “In communities like Washington Park, Little Village, Woodlawn and South Shore, this development is being driven by a number of factors, including attractive investment alternatives, innovative incentives, less competition and plenty of available housing stock.”

Developers aren’t alone. Chicago Housing Authority (CHA) has eight new developments and 654 new apartments being built, in addition to the many project-based vouchers that CHA provides to private developers to ensure affordable housing throughout

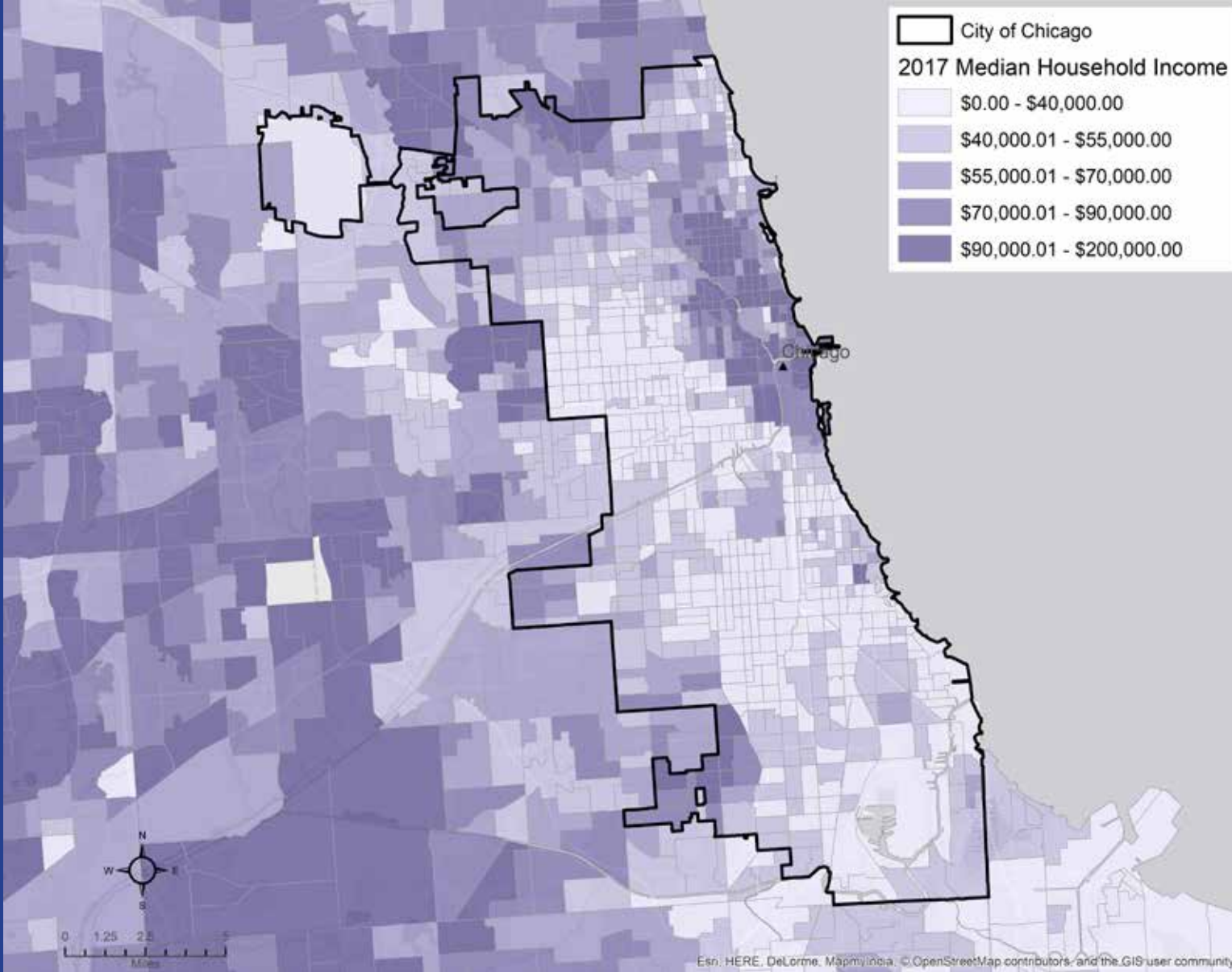
the city. CHA is the largest owner of rental property in Chicago, housing more than 50,000 families and individuals while owning nearly 9,500 apartments for seniors and more than 7,000 units of family housing.

“Historically, the costs prohibited us from participating in development in high-rent communities like River North and Lincoln Park,” said Ann McKenzie, chief development officer at CHA. “Under our affordable requirements ordinance, new construction developers seeking zoning changes or other city assistance are required to provide a percentage of their housing to residents who earn less than 50 percent of the area median income (AMI). This has opened up affordable housing opportunities in high-rent areas.”

### **Boom in New Locations**

The result is a boom in the development of affordable housing in formerly underdeveloped North Side locations such as in Rogers Park, where CHA’s partners are developing the Concord at Sheridan and the adjacent Carolyn Hedger Senior Apartments,

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## Median Household Income in Chicago



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while redeveloping the historic Lathrop Homes in historic Hamlin Park.

“We’re very excited about Concord at Sheridan,” McKenzie said. “The response from the community was incredibly receptive, with aldermanic support for 60 percent of the units to be provided to CHA residents and the other 40 percent to be market rate. Lathrop is one of our most historic and vital communities.”

There are six other developments under construction, including three co-located Chicago Public Libraries and housing.

“We are working with developers on six more buildings, mostly on the North Side, where, historically, we haven’t had much of a footprint,” McKenzie added.

Developers who want to build affordable housing in Chicago have two potential sources of federal low-income housing tax credits (LIHTCs): the city and the Illinois Housing Development Authority (IHDA). Chicago and New York City are the only U.S. municipalities that have their own federal LIHTC allocation.

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“We benefit from the city of Chicago actually having its own credit allocation,” said Rachel Rhodes, vice president and regional manager, Central, at National Equity Fund, an affiliate of LISC. “IHDA has a QAP [qualified allocation plan] and the city does too, so you have a wide range of agendas. IHDA looks at and knows what the city is looking for and IHDA balances that out.”

Applicants can receive allocations from either agency or from both. IHDA also provides state LIHTCs.

The city has made increasing the supply of affordable housing a priority by enhancing its housing financing tools to go beyond the LIHTC. Chicago has done so by creating new pools of financing for affordable housing through laws requiring either affordable housing components or donations from market-rate developers.

### Mixed Market

In the wake of the Great Recession, rental-housing demand in Chicago increased.

However, it’s complicated. A recent study by the housing center at DePaul University documents that from 2007 to 2015, the percentage of renters increased from 37.7 percent to 44.2 percent of the population but says that at the same time the demand for low-income housing diminished. Yet more than 250,000 people who earn less than the AMI applied for housing assistance in the past few years.

McKenzie said Chicago is lucky to have a strong housing authority, plenty of affordable multifamily housing development and a large suburban area that is part of the same metropolitan statistical area (MSA).

“We’re a relatively strong market, but luckily we don’t have geographical limitations like San Francisco or Manhattan,” McKenzie said. “It’s pretty seamless with the suburbs here.”

Bill Eager, vice president for the Chicago area for national nonprofit Preservation of Affordable Housing, sees uniqueness in Chicago.

“Like a lot of places, there is more need than resources,” he said. “I think unlike Boston, Washington, D.C., and other markets where all the real estate is hot, Chicago is still an interesting split between the haves and the have-nots. Neighborhoods are gentrified, and other neighborhoods have tracts of empty land. It’s a different kind of need. ... We have the top and bottom of the market.”

### Chicago History in Brief

Historically considered America’s “second city,” Chicago is the third most-populous city behind New York City and Los Angeles, with 2.7 million residents. It was incorporated as a city in 1837 and grew rapidly, becoming a hub for manufacturing and serving as a transportation hub between the eastern and western United States.

The 20<sup>th</sup> century saw the rise of machine politics, the Great Migration of blacks from the South to the city and the fleeing of many white residents to the suburbs. It also saw the construction of the Sears Tower, the transformation of its public housing into new mixed-income communities, and the growth and decline of manufacturing. Today, Chicago is an international hub of finance, commerce, technology and transportation with an invigorating mix of Fortune 500 and Fortune 1000 enterprises.

### Demographics, Economy

The population of the Chicago-Naperville-Elgin MSA in 2017 was 9.7 million, an annual rate of increase of 0.3 percent since 2010. It is projected to continue to grow at that rate over the next five years, roughly half the rate of growth for the nation over the same period.

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The median household income in 2017 was \$64,719, significantly higher than the national median household income of \$56,124. Income will grow at 2.7 percent annually, which will increase the gap to more than \$11,000 per year per household in 2022.

YEAR	POPULATION			
	CHICAGO-NAPERVILLE-ELGIN, IL-IN-WI MSA		USA	
	AMOUNT	ANNUAL CHANGE	AMOUNT	ANNUAL CHANGE
2000	2,896,070	-	281,421,906	-
2010	2,695,598	-0.7%	308,745,538	1.0%
2017	2,781,116	0.4%	327,514,334	0.8%
2022	2,826,389	0.3%	341,323,594	0.8%

Source: Esri Demographics 2017, Novogradac & Company LLP, May 2018

Unemployment in the MSA is traditionally higher than the federal rate.

**All Politics Are Local**

Chicago has an unusual political system, with 50 elected aldermen overseeing their neighborhoods, 77 in total.

“It’s absolutely critical [to have a good relationship with aldermen],” Eager said. “You can’t do anything without a functioning relationship with the aldermen. They have aldermanic privilege, where they defer to the alderman for local decisions. ... I don’t know of any other city with the equivalent of 50 small-town mayors.”

McKenzie said residents are the beneficiaries. “It’s interesting, the reflection of Midwest community sensibility,” she said. “We want to know who’s going to own what and what are they going to do to improve the community. An

affordable housing development is an investment that impacts the entire neighborhood.”

Case in point is the recent influx of new transit-oriented developments on the South Side. Besides offering quality design, mixed-income housing the properties also feature new retail amenities and greater access to public transportation. These improvements all add up to benefit the entire community.

Like everywhere, there is sometimes community resistance.

“Overall, the biggest challenge is NIMBYism [not in my back yard-ism],” Rhodes said. “In some villages, people are welcoming, but ... in some, it’s about ‘density,’ although really what that means is ‘there are too many of those people.’ You see that a lot throughout Chicago.”

INCOME COHORT	HOUSEHOLD INCOME MSA					
	CHICAGO-NAPERVILLE-ELGIN, IL-IN-WI MSA					
	2017		2022		ANNUAL CHANGE 2017 TO 2022	
	Number	Percentage	Number	Percentage	Number	Percentage
\$0-9,999	244,259	6.9%	232,385	6.4%	-2,375	-1.0%
\$10,000-19,999	302,389	8.5%	282,201	7.8%	-4,038	-1.3%
\$20,000-29,999	312,256	8.8%	298,869	8.3%	-2,677	-0.9%
\$30,000-39,999	298,409	8.4%	286,323	7.9%	-2,417	-0.8%
\$40,000-49,999	280,026	7.9%	271,603	7.5%	-1,685	-0.6%
\$50,000-59,999	254,674	7.2%	248,714	6.9%	-1,192	-0.5%
\$60,000-74,999	345,491	9.7%	338,259	9.4%	-1,446	-0.4%
\$75,000-99,999	446,908	12.6%	450,135	12.5%	645	0.1%
\$100,000-124,999	333,815	9.4%	346,564	9.6%	2,550	0.8%
\$125,000-149,999	221,387	6.2%	246,581	6.8%	5,039	2.3%
\$150,000-199,999	236,982	6.7%	264,907	7.3%	5,585	2.4%
\$200,000+	282,657	7.9%	347,428	9.6%	12,954	4.6%
<b>Total</b>	<b>3,559,253</b>	<b>100.0%</b>	<b>3,613,968</b>	<b>100.0%</b>		

Source: Ribbon Demographics 2017, Novogradac & Company LLP, May 2018

The best advice? Prepare.

“The more you do early with communication with the community, the better,” Rhodes said. “Doing smaller community meetings and things like that sometimes

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make a difference. But you have many ingrained opinions and there are sometimes no changing minds. The other piece is the elected officials. Who is the alderman or mayor? The success of the NIMBY battle is only as good as whoever is listening.”

### Small Properties

While working through neighborhood issues is key, Chicago is unusual in another way: The number of smaller properties.

“Chicago historically has a lot of one- to four-unit properties that are owner-rental,” Swenson said. “In many neighborhoods that was what was built from about 1910 to 1930. To this day, they still provide a high percentage of low- and moderate-income housing in the city.”

According to the DePaul study, more than 45 percent of rentals in Chicago in 2016 were four units or less.

“We’re lucky—there is an opportunity and a challenge to use that asset to reinvest in the existing two- to four-unit or two- to six-unit rental housing because it creates an opportunity to build affordable housing in neighborhoods without tax credits all the time,” Swenson said. “Smaller investors without the wherewithal to get into the market can develop.”

### Conclusion

Chicago is a challenge, but affordable housing is happening.

“I would say it’s not easy, but it’s rewarding,” Rhodes said. “We have a ton of resources. You can build the right project in the right location in Chicago. You can make the dream come true, but the challenge is to convince the community and politicians.” ❖

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