ULI Chicago's Front Stoop Series
"Silver Linings: The Chicago Residential Market & the Pandemic"

A Conversation With:
Tim Anderson, *CEO & Founder,* Focus
Mike Golden, *Co-Founder & Co-CEO,* @Properties
Thad Wong, *Co-Founder & Co-CEO,* @Properties

On May 6th, ULI Chicago members convened virtually for the Front Stoops Series to discuss "Silver Linings: The Chicago Residential Market & the Pandemic." The conversation was held between Tim Anderson, *CEO & Founder,* Focus; Mike Golden, *Co-Founder & Co-CEO,* @Properties and Thad Wong, *Co-Founder & Co-CEO,* @Properties. Three key takeaways from the conversation:

What is going on with construction costs?

One recurring theme of the conversation was rapidly rising construction costs and the impact they have had and will have on the city's residential market. Lumber costs have increased almost five times year-over-year and the cost increases are starting to affect other materials such as PVC. Tim noted that material shortages and pricing volatility can increase a project's construction budget by as much as $800,000 overnight. To date, construction costs are increasing at a much faster rate than rents are growing. The panelists were optimistic about Chicago's ability to keep up with these costs because it is a relatively affordable market. However, these cost constraints make it very difficult to build new entry-level housing in the city, which is why we have seen an abundance of luxury supply over the past several years. While it is difficult to say exactly how long elevated construction costs will persist, the panel agreed that this is not "a new normal." Because the price increases were mostly driven by factory and mill shutdowns caused by COVID-19, prices should fall as production picks up again. Although it is not likely that they return to pre-pandemic levels, prices will come down as production catches up with demand which could take at least a year.

Are people really "fleeing" from the City to the suburbs?

Demand in suburban markets has grown over the past 18 months, however the panelists agreed that the "fleeing the city" narrative doesn't hold up in Chicago. Suburban residential markets have benefitted from people's increased perceived value of homes during the pandemic, as well as the acceleration of Millennial's home-buying trends. There has also been never-before-seen absorption in some further-out suburban markets, likely because people are now more comfortable with a longer commute if they are just going into the office a few days per week. This fact led to some discussion about how expanding Chicago's commuter ring (which is relatively small) could enable the market to add more affordable residential markets as far as southeast Wisconsin and northwest Indiana.

What will the Affordable Requirement Ordinance (ARO) do for affordability long-term?

Finally, the panelists discussed the efficacy of the City's new Affordable Requirement Ordinance (ARO) which requires all residential developments in the City (larger than 10 units) that receive financial assistance from the City, certain zoning approvals, or City-owned land to provide as much as 20% of their units at an affordable rate or pay an in-lieu fee (the number of units that may be paid out will reduce from 75% to 50% with the new proposal). The general consensus was that the ARO will actually slow affordable development in the City. It is very difficult to make projects with a large share of affordable units feasible without incentives such as density bonuses or more liberal building codes. This coupled with the City's larger fiscal issues and property tax uncertainties have dissuaded many national developers and investors from the Chicago market, which only adds to housing shortages. The panelists noted that it may take years for people to realize that this "symbolic solution" to affordability is not working. In the meantime, it will likely hinder affordable housing development while also stifling growth and the City's tax base.

Summary written by Annie Trucco, Associate, Research, Heitman.