

ULI Chicago

Young Leaders Roundtable

Carrot & the Stick | The Future of Affordable Housing in Cook County

ULI Chicago's Young Leaders gathered virtually in July to discuss: the issue of affordable housing in Chicago and the surrounding areas; the virtues of different policy approaches to the development of affordable housing; and forthcoming policy changes. The group benefitted from a diverse pool of perspectives on the housing market that included professionals from the fields of architecture, engineering, development, urban planning, and policy administration. The main topics covered included:

1. **The issue of the affordable housing shortage in Chicago**

The discussion began with participants sharing details of the scale of the affordable housing shortage in Chicago. It is estimated that there is an existing shortage of ~100,000 affordable housing units meaning that some 250,000 people are burdened with unaffordable housing. Affordable housing units are built in a highly complex, time consuming way, and require a highly specialized skillset to navigate the priorities of a multitude of different stakeholders and capital sources. One participant noted that it is not unusual for developments to seek upwards of 10 capital sources at a time, each with their own process, timetable, restrictions, requirements, and checklists.

2. **The impact of un-affordable housing on residents and society**

Thereafter, the discussion turned to the multi-faceted and multi-generational impacts on residents who live in unaffordable housing. High housing costs mean residents cannot build up their savings, increasing the likelihood that an emergency—an unexpected medical bill or car repairs—results in bankruptcy or homelessness, creating additional costs for families and society. This also leaves many people, who often have the greatest need for economic opportunity, in a perennial state of instability and uncertainty that makes it harder to develop long term plans. Moreover, moving due to increased rent or eviction places significant frictional costs on residents (moving costs, credit checks, administrative fees) and has the potential to dislocate them from supportive local networks that provide the potential for upward social mobility, such as relatives who provide childcare, schools, and existing employers.

3. **Affordable housing, race, and gentrification**

In the absence of affordable housing options, market forces create upward pressure on rents in gentrifying neighborhoods, displacing existing residents and perpetuating racial segregation. In these circumstances, mixed-tenure housing that combines market rate and affordable units can create more inclusive and integrated development. The discussion of affordable housing in Chicago led to a conversation about the legacy of redlining and other racist policies, implemented by government bodies and financial institutions, that contributed to residential segregation and a lack of economic opportunity for black Chicagoans, which directly impacts many of the residents who require affordable housing today. Professionals at the meeting discussed the importance of fostering emerging developers of color, particularly given the importance of demonstrating a positive track record to external capital sources.

4. **Carrots and sticks**

Participants discussed the merits of different policy approaches to encourage the provision of affordable housing. They compared financial incentives (the “carrot”) to financial penalties and blanket restrictions (the “stick”). With respect to the “stick,” it was noted that historically de-minimis fees payable in-lieu of on-site affordable housing failed to discourage developers from proceeding with 100% market rate housing, while larger fees, which provide the city with greater financial resources to pursue their policy goals, have the potential to encourage developers to pursue loopholes and regulatory arbitrage. This could reduce the level of residential development more generally as marginal development sites become unviable and better suited to other potential uses that are not subject to the same fees, such as office space. Lower levels of supply would further increase upward pressure on rents, benefiting existing landlords at the expense of tenants and

developers. In contrast, the “carrot” approach of incentivizing market participants to deliver affordable housing with real estate tax abatements or reduced costs of capital would act to encourage development. This approach requires government resources, and communities will naturally want to ensure their taxes are being used judiciously when supporting private sector developers.

5. Forthcoming legislation

The discussion turned to House Bill 2621 which seeks to encourage the provision of affordable housing in Illinois. It was reported that the bill passed the State House and Senate and is due to be signed by the Governor shortly. The bill covers all counties in Illinois, although any county except Cook County may opt out if they gain the approval of their County Board. The bill requires that municipalities prepare an affordable housing plan, a new requirement for some areas. It also creates two new programs that provide real estate tax relief for developments that commit to providing affordable housing within long-term mixed-tenure sites. One of these programs specifically targets areas with low levels of affordability. It was noted that a mixed-tenure approach to development, as opposed to a 100% affordable housing development, encourages residential integration, and may result in less community opposition to development.

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