



## MEMORANDUM

---

**DATE:** August 11, 2014

**TO:** Affordable Requirements Ordinance (ARO) Advisory Panel

**FR:** Home Builders Association of Greater Chicago (HBAGC)  
Paul Colgan (312.259.9114 / pscolgan@gmail.com)

**RE:** Producing More ARO Units in Market Rate Buildings

---

To assist the City of Chicago in achieving its publicly stated goal to produce more affordable housing units in market rate rental and for sale buildings in a cost-effective manner, the Home Builders Association of Greater Chicago (HBAGC) proposes the following framework for discussion by the ARO Advisory Task Force. (Note: The framework below is presented in general terms for brevity. More detail on each point will be provided during discussions of the ARO Advisory Task Force.)

### 1. **Linked Development – Production of ARO Units Off-Site**

Under Linked Development, a developer may produce required ARO units off-site in new construction or substantial rehabilitation in a similar proportion to on-site requirements. This creates the desired affordable units in a cost effective manner without increasing density or height of buildings subject to ARO requirements. Developers may partner with either small for-profit builders or non-profit builders to provide off-site units. Further, the City of Chicago should consider making available city

owned vacant lots for linked developments.

## **2. Density Bonus – Allow Greater Building Density to Off-Set Cost of ARO Units**

In areas where greater density and/or height is preferred, such as in Downtown zoning districts, Transit Oriented Development (TOD) districts and other high density areas, developers should be allowed to build additional “bonus units” to offset the cost of including ARO units. The proposed bonus is 5 additional market rate units for each required ARO unit that will be included in the base building. For example, a building that is required to include 5 ARO units would be allowed to build 25 additional market rate units as a density bonus. (5 ARO units x 5 bonus units = 25 additional market rate units.) Density bonuses should also allow building height and Minimum Lot Area increases to accommodate additional units.

## **3. Create ARO “Fast Track” Approval Process – “Time is Money”**

Provide an expedited approval process for buildings that agree to include ARO units either on-site or off-site (Linked Development) in areas where greater density or height is permitted. Priority should be given by the Department of Planning and Development to projects which agree to include ARO units and thus help the City of Chicago achieve its goal of creating more affordable units. By expediting the approval process, holding costs and other pre-development costs are reduced, thus giving developers an economic incentive to include affordable units. For example, the Planned Development process could be changed for ARO buildings by raising the minimum number of units needed to trigger a PD process, and by shortening review and approval schedules.

## **4. Utilize Transit Oriented Development (TOD) Benefits and Incentives**

A number of incentives and benefits were created by the City of Chicago to encourage new development density near Metra and CTA stations. Make available similar incentives, such as elimination of ARO unit parking requirements, for buildings which include ARO units on site. Further, increase the percentage of efficiency units allowed in ARO inclusive buildings by 10% to accommodate this fast growing market segment seeking smaller units at a lower cost.

## **5. Accommodate More “Work Force” Renters and Buyers**

The ARO should accommodate more working families on limited incomes by allowing up

to 50% of ARO rental units to be rented to families at or below 80% of Area Median Income (AMI). Further, eligibility requirements for “For Sale” units should be raised to include families up to 125% of AMI. This will enable more health care, public safety and other similar “work force” families to qualify for affordable rental or for sale properties in developing neighborhoods.

## **6. Property Tax Relief**

The City of Chicago could provide property tax abatements for ARO rental and for sale units to help maintain affordability, and/or seek changes in the Cook County Class 9 assessment process to help lower property tax assessments on ARO units to an affordable level.

## **7. Keep ARO “Fees-in-Lieu” at Current Levels, Allow Market Momentum to Build Fund and Produce Affordable Units**

Only recently has the real estate market begun to rebound from the recession which dropped development to near zero growth levels in the City of Chicago in recent years. There are a substantial number of new developments impacted by the ARO that are currently under construction or going through the approval process. Many of these projects will pay “fees-in-lieu” which will generate millions in new revenue for the Affordable Housing Opportunity Fund. This fund is used by the City to subsidize construction of non-profit affordable housing or to provide rent subsidies.

Arbitrarily raising ARO fees at this time could make many of these developments no longer economically viable, possibly forcing the cancellation of up to \$900 million in planned new construction. The resulting loss of jobs, new tax revenues and new market development could be devastating to the City of Chicago budget and economy. Further, the resulting substantial loss of “fee-in-lieu” revenue to the Affordable Housing Opportunity Fund could also negatively impact the very low-income people the fund was created to help.

To avoid this potential catastrophe, the ARO Advisory Task Force is urged to focus on the suggestions above which can help developers produce the required ARO units, and further, to delay any fee increases until the market has fully recovered.

In other fee issues, small developments should be allowed to pay fractional fee payments to mitigate the adverse impact on their smaller development budgets. Under

this proposal, the “fee-in-lieu” would be paid in proportion to the actual percentage requirement, rather than rounded up to next higher whole unit. For example, a 15 unit building with a 10% ARO requirement (or 1.5 units), would pay 1.5 times \$100,000 (or \$150,000) rather than be required to round up to two whole units, which results in a fee of \$200,000. This proportionately higher fee impact on small builder budgets is a major reason why there are fewer smaller ARO developments in the City of Chicago. This fractional fee payment would be available to developments with 100 or fewer units.

Further, the Advisory Panel should examine the possible reduction of in-lieu fees for new developments in some neighborhoods to help encourage development outside of high-density areas. In some areas of high poverty, the fee could be eliminated entirely to stimulate new development.

The above framework is presented by the Home Builders Association of Greater Chicago (HBAGC) for use by the Advisory Task Force in their discussions of possible changes to the ARO. This framework will enable the City of Chicago to meet its publicly stated goal of providing more affordable rental and for sale units without negatively impacting the current real estate market or without cutting off needed revenue for the Affordable Housing Opportunity Fund.

HBAGC stands ready to provide additional details on each of the suggestions above during the Task Force discussions.

For further information, please contact Paul Colgan at 312.259.9114 or at [pscolgan@gmail.com](mailto:pscolgan@gmail.com).