

The CHA and the Marketplace



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By Bill Miller

ABLA, Cabrini, Drexell, Hilliard, Henry Horner, Horseshoe, Lakefront, Madden Park are names ingrained in our collective consciousness.

First thoughts were often of crime, murder or race. Today, images of opportunity are emerging.

Investors, developers, politicians, government agencies, community groups and potential new residents continue to weigh the urban opportunities. The thoughts in the marketplace include:

- While I think redevelopment is great, *everyone else* remains scared.
- Can I *really* make money developing real estate in poor urban areas?
- How much is too much? What percent of public housing will the market accept?
- What will motivate *me* to move here?

As we all know, the **Chicago Housing Authority** is undergoing a transformation. The good and bad can and will be argued; but everyone agrees that the changes will be massive, possibly even historic.

Mayor Daley's appointment of **Phillip Jackson** to head the CHA is continuing the process of transformation. In fact, Mr. Jackson's last job was with the **Chicago Public Schools** - a success story often cited worldwide. Perhaps even more important is the fact that Phillip Jackson lived in public housing and, as he said in his acceptance speech "he knows people who live in public housing today."

The numbers - which are always moving - are impressive. ABLA alone may see 2,900 new homes on 100 acres in a \$500 million redevelopment.

The transformation of the Madden Park Homes, Clarence Darrow Homes, Ida B. Wells Homes and the Wells Extension could see thousands more new homes in a more than \$200 million redevelopment of 75 acres on the southside. The 75-acre zone runs from 35th Street to Pershing Road and from Lake Park Avenue to King Drive. The City is again in control of the CHA and Chicago has learned that planning isn't just about housing. "It's very comprehensive. It's very holistic. It's not just building a home anymore," Mayor Daley said in the announcement. The redevelopment will take into consideration education, security, job training and other quality-of-life issues.

CHA properties tend to be the epicenter of greater neighborhood impact. Reviewing maps and aerial photographs confirms that the surrounding neighborhoods offer acres upon acres of vacant land awaiting new development.

Some Facts

At present, 131,000 people live in CHA housing. The inventory includes 28,000 units of family housing, 10,000 units of housing for the elderly and access to 30,000 Section 8 vouchers.

The Chicago MSA has 103,302 public/subsidized housing units with 51.0% shoehorned into twelve zip codes that comprise only 0.8% of the MSA's land. These neighborhoods have historically been defined as urban and bad places for real estate investment.

Within these poor neighborhoods, the average 1998 home price was \$197,164. These poor neighborhoods are now pricier than Chicago (\$184,061) and the MSA (\$185,525). Even if the high-value areas near the Loop and Cabrini Green are excluded, the average sale price remains a strong \$162,191 - within 12% of the MSA.

Investment Opportunities

Good real estate investment is characterized by appreciating value and income. Appraisal theory divides the forces that influence value into four major categories: *social, economic, government and environmental*.

The population of Chicago has stabilized. The thirty to forty year history of flight to the suburbs has ended. Some neighborhoods are seeing population growth. Economic opportunities abound. City unemployment rates are at record lows. Companies are choosing to locate new facilities in the City. The time, talent and resources of government are leading the process. This is of critical importance; because in the environment of urban Chicago, government is the largest landowner.

Summed up, the marketplace is on the same book and page. **How does the data support the theory? First, people buy houses in these poor neighborhoods at about the same rate as everywhere else.** Within the eleven zip codes that house 45.0% of the public/subsidized housing units (excluding 60610 - near Cabrini and upscale northside markets), the number of sales handled through the MLS is up 117.1% (1994-1998). In contrast, for the MSA the increase is only 40.4%. The idea that its just a few urban pioneers is history.

Second, even with 46,510 public housing units comprising 20.9% of the housing stock within the eleven zip codes, the five-year average price appreciation rate (1994-1998) was 7.5%. The City of Chicago as a whole also did very well, at 5.8% average annual appreciation. The suburbs bring the MSA's average down to 3.4%.

Third, average household income growth rates are also increasing. The inner-city zip codes, the City of Chicago, and the MSA are all at equivalent growth rates of about 5.5% per year.

For owners of urban residential properties, the past five years have proven to be a *very good* investment period. For those who haven't participated, it is clear that the foundation of *social, economic, government and environmental* forces are in place.

Do people in the 1990s fear mixed communities of integrated income and lifestyles? The data says... No!

How Much is Too Much?

The data tells a simple and convincing story. Public/subsidized housing comprises 3.5% of the MSA and 7.7% of the City's housing stock. Within eleven poor zip codes, public/subsidized housing comprises 20.9% of the housing stock. The latter neighborhoods have only slightly lower average house prices, superior appreciation rates, comparable income growth rates, and an expanding marketplace exemplified by increasing transaction velocity.

So, is 20% the magic number? No. Within a smaller than zip-code geography, it could be 100%.

Appraisal theory teaches that a better question is to ask what synergy of social, economic, government and environmental forces will work to optimize a neighborhood's potential? Economic reality is that diversity works. Chicago has an exceptionally diverse economy. Chicago works.

What Motivates People to Move to Formerly Poor Urban Areas?

The popular press likes to focus on yuppies, DINKS, and young-seniors who move back to the city for the urban-lifestyle experience. Yuppies and young seniors age; DINKS form families. This sounds more like a fad than a long-term trend.

The greatest motivators in our free-market economy are the finite resources of money and time. One simple example is that an urban home may reduce automobile dependency. For people who work in the City, living nearby makes sense. At \$0.30 to \$0.40 per mile to own and operate a car, this can translate into significant savings.

There are 168 hours in a week. We work for about 40, sleep for about 56, and tend to life's necessities for at least 14 hours per week. This leaves about 58 hours for everything else. If you can cut your commute from 90 to 30 minutes each way, you will save 10 of those hours each week - 17.2% of your time. This is time that can be devoted to families and friends. To baby boomers, the value of this time is increasing.

For single-parents, the value of this time is immense because the necessity of caring for a family must be largely accomplished in those 58 hours per week.

There will always be individuals and small groups who will move to the City. An affordable price is what will induce large numbers of people to fill in the acres of urban prairie that happen to have excellent proximity to labor markets, transportation systems and basic infrastructure.

Market breadth is the key attribute. The absorption rate for \$400,000 homes is slow; only a limited number of people can afford it. In contrast, it is difficult to find *family oriented housing* with the modern amenity package of a typical suburban development. There are hundreds of thousands who can afford it.

Are there Opportunities?

Most of the redevelopment in Chicago has been for privately owned housing units. While the MSA is 63.2% privately owned, Chicago is 60.8% rental. Quality rental units, affordable to the majority of the marketplace, are not being built. The vast middle of the marketplace remains an opportunity.

An excellent first step is a comprehensive examination of the rental market in the six-county metropolitan area being coordinated by the Metropolitan Planning Council. The \$850,000 study is being funded by the U.S. Department of Housing and Urban Development, the Illinois Housing Development Authority, state Department of Housing, the Chicago Housing Authority and private foundations. The Regional Rental Market Analysis is expected to be the decade's most thorough look at the rental market. Unlike most studies that focus only on large complexes - which account for only about 30% of the rental market, this survey will sample the entire market, including the local two-flat where the owner rents the upstairs.

Perhaps the best market research is being done in the neighborhoods by small local developers. This ongoing study is part of the marketplace of change. A builder constructs a few houses, listens to prospective purchasers, and adjusts the next house (supply) to meet the demand.

A recent survey of 41 southside developments offering 929 units (23 units average) indicates the expected overall range of about \$100,000 to over \$400,000. Fully 75% of the data however, fall below \$219,250 with a median of \$173,900. Where suburban new construction typically exceeds median values in the resale market, the urban market research of builders supports the affordable hypothesis.

Less than 1,000 units of new construction, all for sale, in a 60% rental market however; does not yet appear to supply a product that meets the needs of demand.

If rental housing is to be built, what type will work? At the August 18, 1999 Appraisal Institute seminar on the Conditions of the Chicago Real Estate Market, an analysis of apartment construction costs indicated that hard costs for luxury suburban apartments are about \$75 PSF. A mid-rise will cost about \$110 PSF with a high rise substantially more. Thus, if demand is for affordable units, then low-rise three-story type construction matches the cost of supply with the affordable price point of demand. Mid-rise and high-rise product matches the less populous affluent market of yuppies, DINKS and young-seniors.

Interestingly, low-rise housing is also better suited to families, including single-parent families with limited monetary resources and the need to conserve time that would prefer an urban location - if only an affordable quality development existed!

Even more fascinating is that market studies in decades past reached the same conclusion - build three-story walk-up apartment buildings with English basements. What market studies? Drive through Chicago neighborhoods and see what builders learned by listening to the marketplace and continually adapting their product to meet market demand. Classic Chicago neighborhood development.

Finally, developing large geographic areas (read neighborhoods) with predominantly three and four-story walk-up buildings accomplishes virtually the same density as mid-rise and high rise developments scattered around acres of underutilized concrete and green-space. Chicago as a whole is developed at about a 15 unit per acre density. In an urban environment with an in-place street grid, walk-ups provide ample room for community infrastructure such as parks, schools and grocers at densities of 25 to 40 units per acre. While individual high-rises will clearly exceed this, few high-rise neighborhoods can or do.

Chicago Works

The City of Chicago works, sustaining 28.7% of its population in the sub \$20,000 income brackets. It doesn't work in spite of diversity - Chicago works because of its diversity. The transformation can continue by developing product that meets community needs.

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