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EXPERT INSIGHTS ON INCLUSIONARY ZONING
An in-depth look at the evidence, policy considerations, and impact

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The ARO is Chicago’s Inclusionary Housing Ordinance

- Creates affordable units in strong markets with no public funding – primary tool to counteract segregation

- Generates funds for affordable housing development through in-lieu payments to the Affordable Housing Opportunity Fund (AHOF)
ARO Requirement

Applies to residential developments that seek *public* tools or assistance which provide a *private* benefit

Residential Projects with 10+ units that seek:
- a zoning change to increase allowable floor area; or
- City land (even at FMV); or
- downtown Planned Development (PD) designation

must include 10% affordable units

Residential projects that receive City financial assistance must include 20% affordable units
Where we Started: 2007 ARO

- 2007 ARO arose out of 2004 Five Year Planning process
- Booming housing market
- 2007 ARO required 10% of units to be affordable
- Developers subject to the 2007 ARO could elect to pay an in-lieu fee of $100,000 per required affordable unit for the entire obligation
- Requirements were the same citywide
Taking another look: 2015 ARO

- 2014: Changing Housing Market started discussion to update ARO
- 2015: Mayor Emanuel named 20-member Task Force to consider changes to the ARO
- Goals:
  - Create more units
  - acknowledge different markets
1. Created three zones in the City to reflect different housing markets and priorities

   Three zones/areas:
   - Downtown
   - Higher Income
   - Low-moderate Income

   Allows differentiation of mandates and flexibility for developers
### What we Changed: 2015 ARO (2015 - today)

2. **Adjusted in-lieu fees** so developers in struggling markets pay less and developers in booming markets pay more

<table>
<thead>
<tr>
<th>Area</th>
<th>2007 ARO</th>
<th>2015 ARO</th>
<th>2015 ARO - starting Jan 1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low/Moderate income areas</td>
<td>$100,000</td>
<td>$50,000</td>
<td>$52,214</td>
</tr>
<tr>
<td>(yellow zone)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher income areas</td>
<td>$100,000</td>
<td>$125,000</td>
<td>$130,534</td>
</tr>
<tr>
<td>(blue zone)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown</td>
<td>$100,000</td>
<td>$175,000</td>
<td>$182,748</td>
</tr>
<tr>
<td>(green zone)</td>
<td></td>
<td>$225,000</td>
<td>$234,962</td>
</tr>
</tbody>
</table>
What we Changed: 2015 ARO (2015 - today)

3. **Increased the number of affordable units** by requiring units

- Require at least 1/4 of the required 10% affordable units (20% if the City provides financial assistance) to be built on-site
- Developers can pay in-lieu fee for remaining 3/4 of the obligation
What we Changed: 2015 ARO (2015 - today)

4. Allowed off-site units

- Developers in Higher Income Areas or Downtown have the option to build their off-site units within two miles – and in the same zone – of the proposed project.

- Downtown For-Sale developers can build their off-site units anywhere in the City.

- Off-site units need to be comparable – and constructed concurrently – to triggering project.
As market continued to strengthen, some neighborhoods were experiencing ongoing gentrification or were susceptible to gentrification.

2015 ARO had not stalled or slowed pace of development.

Created 3 new Pilots.
What we Changed: Pilots (2017-today)

- **Pilots** respond directly to neighborhood-level affordability concerns and test innovative policies

- **Neighborhoods in which:**
  - Planning processes highlighted affordability as community concern
  - High concentration of ARO-triggering developments

- **Pilots targeted to neighborhood-specific concerns, including**
  - More hard units
  - Gentrification concerns for communities adjacent to hot-markets
  - Funds to enable existing homeowners to stay in their homes and neighborhoods
# Measuring Success and Impact of the ARO

<table>
<thead>
<tr>
<th>Hard Units</th>
<th># of projects</th>
<th>ARO units completed or under construction</th>
<th>in-lieu fees collected</th>
<th>Additional ARO units we’re tracking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>196</td>
<td>837</td>
<td>$94 million</td>
<td>4,000+</td>
</tr>
<tr>
<td>NN-NW Pilot</td>
<td>5</td>
<td>155</td>
<td>n/a</td>
<td>755</td>
</tr>
<tr>
<td>MW Pilot</td>
<td>1</td>
<td>16</td>
<td>n/a</td>
<td>78</td>
</tr>
</tbody>
</table>
**Measuring Success and Impact**

<table>
<thead>
<tr>
<th>Affordable Housing Opportunity Fund</th>
<th>Dollars collected</th>
<th>Units subsidized</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall</strong></td>
<td>$159,489,921</td>
<td>+/- 8,100</td>
</tr>
<tr>
<td><strong>Affordable Housing Development</strong></td>
<td>$87,535,331</td>
<td>+/- 2,500</td>
</tr>
<tr>
<td><strong>Chicago Low-Income Housing Trust Fund</strong></td>
<td>$71,954,591</td>
<td>+/- 5,600</td>
</tr>
</tbody>
</table>
Measuring Success and Impact

- Opportunity Investment Fund (OIF)
- Preservation of Affordable Rental (PEAR)
- Micro-Market Recovery Program
- Community Receiver and Neighborhood Rebuild
- Building Neighborhoods and Affordable Homes
- Flexible Housing Pool
- 606 Homebuyers Home Improvement Fund
Measuring Success
**Leveraging the ARO: Mega Developments**

ARO staff worked to secure substantial affordability commitments from three major development projects:

- **Lincoln Yards**: 6,000 proposed residential units with a 1,200-unit ARO requirement at full build out. 50% (600 units) onsite, 25% offsite, 25% ($39MM) AHOF

- **The 78**: 10,000 proposed residential units with a 2,000-unit ARO requirement at full build out. 25% (500 units) onsite, 50% off-site within two miles or the nearby Pilsen/Little Village Pilot Area, 25% ($91MM) AHOF with possible $10million prepayment

- **The River District**: 4,099 proposed residential units with an 820-unit ARO requirement at full build out. All units will be on-site.
Clearly articulate policy goal and draft Legislation and Rules to achieve it

- For example: ARO creates workforce housing in strong markets and reduces segregation. It is not as effective in creating very-low-income units.

ARO can’t be all things to all priorities. Advocates push for:

- More Family-size Units (most market rate developments are 0/1s/2s)
- AMI levels (advocates want to target lower AMIs)
- Affordability Obligation Percentage (advocates want 30% plus)
- Local Preferences (advocates want preference for local/displaced residents)

Message: The ARO is Only One Tool in the Toolbox

- ARO created 837 units and $94 million since 2007
- 5YP: 80,000 units and $3.2 billion since 2009
ARO Lessons Learned

➢ Set in-lieu fee carefully
  ❑ **High** enough in stronger markets to encourage units and approximate cost to construct comparable units
  ❑ **Low** enough to not discourage development in slower markets

➢ Be proactive in telling the in-lieu story
  ❑ In-lieu option repeatedly characterized as “opting out” – when AHOF fees are crucial to providing units for the very-low income population
ARO Lessons Learned

- Enforcement is Important
  - Covenants
  - Violations

- Exercise Caution on Off-Site Units
  - Option has proven difficult to monitor
  - Units need to remain affordable for 30 years: How do we ensure that?
  - How do we ensure that off-site units create mixed-income buildings?
  - How do we ensure off-site units are comparable?

- Set Rules and Stick to Them
  - ARO has a “hardship waiver” – developers use it to circumvent rules