

BISNOW

Chicago Mayor's First-Semester CRE Test Results Show Room For Improvement

December 10, 2023 Ryan Wangman, Chicago

Brandon Johnson's half-year commercial real estate report card is out, and there are question marks on whether he scores a passing grade.

Just over six months into the new Chicago mayor's tenure, many in the commercial real estate community are exercising patience as the new leader learns the ropes of city government. Several praised Johnson's open-door policy, energy and willingness to listen and engage, saying it bodes well for CRE's relationship with the mayor's office.

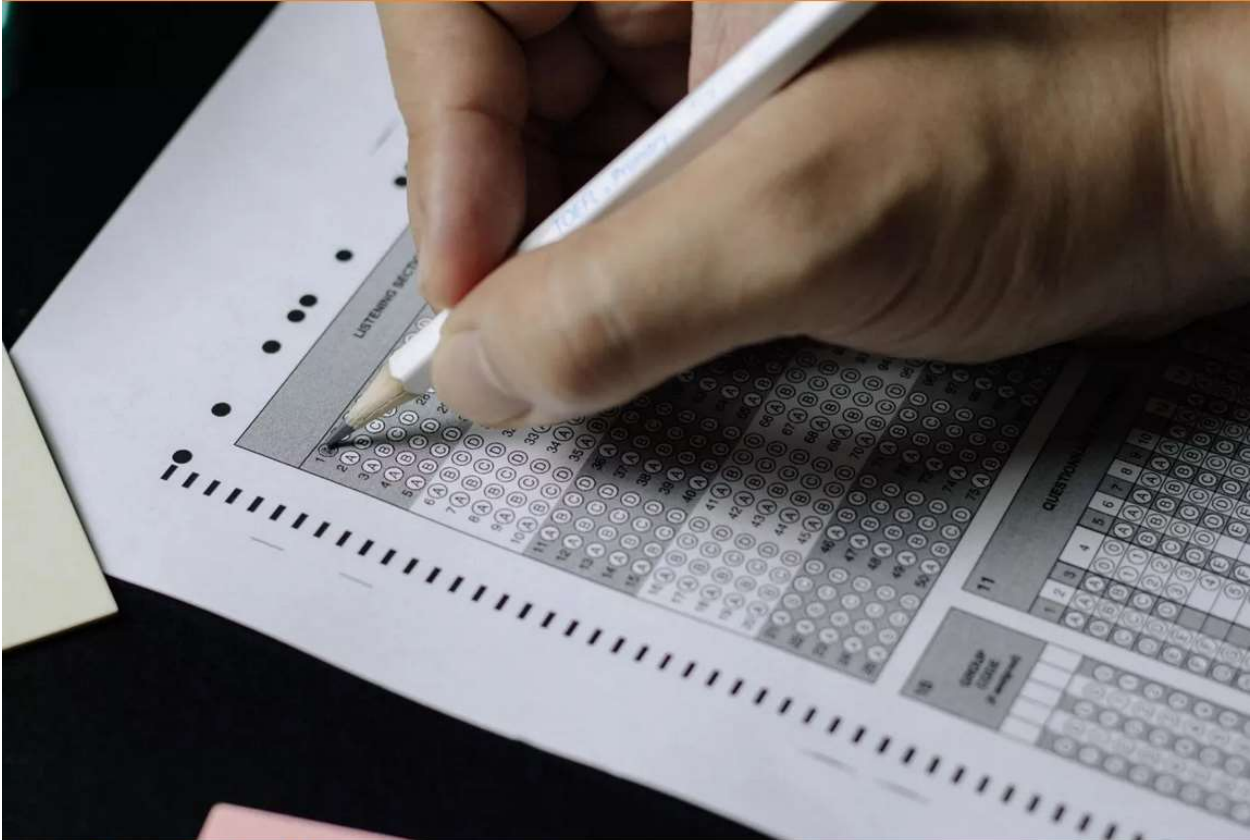
But others are growing increasingly restless with policies like his robust real estate transfer tax plan and the failure to make a meaningful dent in perceptions the city is hostile to business and can't get a handle on its crime issues.

Johnson was inaugurated on May 15 after a hotly contested runoff mayoral election in which he defeated former Chicago Public Schools CEO Paul Vallas by a margin of about 26,500 votes. Vallas had strong backing from the commercial real estate community, with financial support from Sterling Bay executives and prominent developers like Robert Buford and Mike Reschke Jr., along with endorsements from several key industry groups.

Many of the loudest voices in the room shifted to optimism Johnson would be a mayor they could work with just before he took office.

"I can't say enough just of my initial meetings with Brandon and his team," Sterling Bay CEO Andy Gloor told Bloomberg in early May.

Since then, however, sentiment with some has soured.



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A Controversial 'Money Grab'

Many of Johnson's early political priorities have been regulations and legislation that have a negative impact on the business community, Maverick Hotels and Restaurants CEO Bob Habeeb said. CRE is already suffering from a lack of optimism, he said, and while it wouldn't be fair to put the blame for that on Johnson, the mayor has a role to play in improving business sentiment.

"I think [the mayor is] cheerleader in chief," Habeeb said. "He hasn't advanced anything on his agenda whatsoever that could be a positive thing for the real estate community, for the business community. That, I think, is a problem. A little balance would be appreciated."

By far the most contentious policy Johnson has advanced is the real estate transfer tax, which his administration has dubbed a mansion tax. The issue has driven a wedge between the mayor and the commercial real estate community.

The proposed transfer tax, which will go on voters' ballots in March, would create a tiered system that lowers the burden on property sales below \$1M to 0.6% and increases the rate on sales larger than \$1M. The transfer tax on property sales between \$1M and \$1.5M would be 2%, while the transfer tax on property sales over \$1.5M would increase to 3%, quadrupling the current rate.

“The transfer tax money grab will be another hit on suffering commercial property owners — still reeling over the impact of COVID era lock-downs, remote working & soaring vacancy rates, high financing rates, high tax burdens and serious concerns about downtown public safety and quality of life,” corporate site selection research firm Boyd Co. principal John Boyd told *Bisnow* in an email.

The passage of the transfer tax, coupled with the city's commercial property taxes that are the second highest in the nation, would further discourage investment and job creation in the city, said Amy Masters, director of government and external affairs at the Building Owners and Managers Association of Chicago.

The Chicago City Council approved the referendum in November in a process that didn't adequately take commercial voices into account, Masters said.

“This process should have included the organizations that represent the city's commercial real estate industries to align on an effective plan and funding solution to address homelessness,” Masters said. “We live in the greatest city in the world, but this process fell short of that.”

There are about “16 Willis Towers' worth of empty, unleased space in our downtown,” BOMA Chicago Executive Director Farzin Parang said at an October city meeting, adding that office sales shouldn't bear the brunt of the tax increase when sales of buildings in the Loop have slowed significantly.

“Office buildings are not mansions. They're not people. They are economic activity,” Parang said at the meeting. “The core function of our industry is to recruit investment from across the world to Chicago, and that investment directly goes to a union-dominated industry.”

Perception Is Everything

One positive note for CRE stakeholders on the tax front is that Johnson declined to increase property taxes in his 2024 city budget proposal, a break from the steady pace of property tax hikes under former Mayor Lori Lightfoot.

Habeeb said he was relieved the mayor didn't raise property taxes but was reluctant to give him full credit for any pause in escalating rates. Most of the tax impact on the CRE community isn't in his hands anyway and instead centers around increasing valuations from the Cook County Assessor's Office, he said.

Cook County Assessor Fritz Kaegi has been a longtime target for Chicago real estate stakeholders, with real estate professionals consistently ranking his office's leadership among their greatest concerns in DePaul University-Urban Land Institute sentiment reports. The Assessor's Office has evaluated property taxes on hotels with an increasing level of volatility, Habeeb said, pointing to one Cook County hotel that saw its taxes triple in a year.



Wikimedia Commons/TDKR Chicago 101

Brandon Johnson at a Chicago nurses strike in September 2019

“It creates a level of uncertainty that if you try to acquire a hotel and you go to get it financed, that uncertainty really ripples into the lenders,” Habeeb said. “If there's anything that the lending community can't handle, it's uncertainty.”

Jerry Szatan, owner of management consulting firm Szatan & Associates, said Chicago's tax policy helps contribute to an image of a business-averse city that could deter potential investors and companies looking for new facilities in Chicago.

Other site selection experts were blunter.

“The perception of Chicago is one of the least business friendly large cities in the nation,” Boyd said in an email. “[The city's] bureaucracy is viewed as out of touch by many existing employers and the city's struggling commercial real estate community that want accountability from their

officials and to be treated as a partner (not an enemy) in building a viable and sustainable economy.”

‘Waiting To See More’

Still, many in the commercial real estate community are taking a wait-and-see approach with Johnson, saying it is too early to judge the mayor and that many of the problems he is attempting to tackle long precede his tenure.

The business community should focus on collaborating with the mayor and asking what it can do to help him achieve his goals, said Bob Clark, executive chairman and founder of Clayco.

“I try to be optimistic until I have a reason not to be,” Clark said. “I’m committed to the civic progress of Chicago, and I’m going to try to work with the mayor, and I haven’t seen anything that causes me to believe that we’re not going to be able to do that.”



Unsplash/Rihards Sergis
The Chicago skyline

The perception of the city isn’t as positive as the business community would like it to be, which makes some nervous, Clark said. But it is important to give the mayor time because perception isn’t reality, he added.

The mayor has been accessible to the business community, holding meetings with various stakeholders and listening to their concerns, Clark said. The Clayco executive said it would surprise him if there wasn't a positive impact from some of those meetings.

Clark said he hadn't heard of any business leaders who wanted a meeting with the mayor but were unable to get one.

"He's visible," Clark said. "He's up for the challenge. He's a young, vibrant mayor, and he's also charismatic. I would say he'll compare favorably over time."

One significant challenge for the mayor is determining where to focus developmental efforts in the city. Johnson has the right approach in not simply focusing on economic growth in "hot areas" of Chicago like Fulton Market, but in taking a broader perspective that focuses on the entire city, particularly in traditionally disinvested areas, Clark said.

"We haven't done a good enough job as a business community or as a city in general of getting enough economic development in the places where they really need it to start curbing crime," Clark said. "It might take decades and a generation, but you have to start somewhere."

Sana Syed, senior director of strategic initiatives at the Inner-City Muslim Action Network, worked extensively with the Lightfoot administration on the Go Green on Racine project, an equitable neighborhood development initiative at the intersection of the Englewood and West Englewood neighborhoods.

Syed said she hasn't yet heard many details about the mayor's strategy on issues that impact her group directly, like economic investment in disinvested neighborhoods or equitable transit-oriented developments. She remains cautiously optimistic but wants more concrete information, she said.

"This administration is trying to, in some ways, move deliberately, and that also results in a slower release of information on what their approach is going to be towards many things," Syed said. "My general impression is just that I'm waiting to hear more, and I'm waiting to see more."

Despite his criticisms, Habeeb said it is too early to judge Johnson's performance. Johnson has had to deal with a difficult environment with the migrant crisis and the perception of crime in the city, which makes it harder to focus on other issues, Habeeb said.

"The business community is really suffering and is starting to lose confidence that things are going to get better," Habeeb said. "If he could impact that in a positive way, it can make a big difference."