

DEPARTMENT OF PLANNING AND DEVELOPMENT

May 13, 2015

Second Report of the Commissioner

to the Commission on Chicago Landmarks

on the Fulton-Randolph Market Historic District

Introduction

Good morning. For the record, my name is Brad McConnell, Deputy Commissioner for Planning and Operations within the Department of Planning and Development. The purpose of this report of the Commissioner is to analyze the potential economic impact of the proposed Fulton-Randolph Market Historic District, which will complement the historic landmark analysis that has been discussed for the past year. The Commissioner has prepared this second economic report in response to the numerous comments received from the public over the past year since the preliminary designation was made by the Commission. After careful consideration, in the Commissioner's judgment approving a landmark district is the appropriate approach to supporting long-term growth in values in the area, an approach that also protects the vital history upon which much of that value rests in the first place.

This report will first provide the legislative context for this analysis and a summary of previous economic planning efforts relevant to this proposed district. It then provides four different methods through which the economics of the district should be considered. It concludes with a rebuttal of some of the more spurious economic arguments that have been made in opposition to the district.

Legislative Context

First, the legislative context. According to Sec. 2-120-640 of the Municipal Code of Chicago, the Commissioner of the Department of Planning and Development (DPD, or the Department) is called on to evaluate the relationship of a proposed landmarks designation "to the Comprehensive Plan of the City of Chicago and the effect of the proposed designation on the surrounding neighborhood." The Commissioner's report "shall also include the Commissioner's opinion and recommendations regarding any other planning considerations relevant to the proposed designation and the Commissioner's recommendation of approval, rejection, or modification of the proposed designation." The Commission may then "make such modifications, changes, and alterations concerning the

proposed designation as it deems necessary in consideration of any recommendation of the Commissioner of Planning and Development.”

It is in this context that the Commissioner is providing this second report on the proposed landmark designation of the Fulton-Randolph Market Historic District with respect to the following plans: the Comprehensive Plan of the City of Chicago from 1966, the Chicago Wholesale Food Distribution Markets plan from 1989, the Kinzie TIF plan from 1998, the Near West Side plan from 2000, the Plan for Economic Growth and Jobs from 2012, and the Fulton Market Innovation District plan approved in July of last year.

As you know, DPD is in the unique position of having to evaluate the question of preservation from two different perspectives: as a potential landmark district and as an area in which several major development projects are under consideration. With respect to the former, the Department’s landmarks staff has approached the question professionally and carefully, issuing a report to the Commission that suggests that the district meets landmark criteria. The Department must also frame the question in a broader planning and development context as required by the Landmarks ordinance. It is from both of these perspectives that we make this report and the final recommendation noted below.

Planning History

Regarding the planning history of the Fulton area, support for preserving the unique character of the Fulton-Randolph area can be found in numerous City plans written over the past 50 years.

The Comprehensive Plan of the City of Chicago from 1966 identified this general area of the city as a Special Opportunity Area in the Industrial Improvement Plan section of the document, underscoring the fact that even 50 years ago this area was considered important to protect for economic development.

The Chicago Wholesale Food Distribution Markets plan from 1989 contained a summary of a series of interviews with owners who expressed concern over the future of their neighborhood. According to participants, at that time many building owners requested that the area be downzoned, which is why many of the buildings in the district carry low-density zoning today.

The Kinzie TIF plan adopted by City Council in 1998 included as Goals and Objectives the following three statements:

- “Protect the historic food wholesaling and production function of the Fulton/Randolph Market area”
- “Protect existing industrial concentrations, including the Fulton and Randolph Street Markets, from encroachments by incompatible uses,” and
- “Preserve the industrial character of the area and redevelop sites for industrial users.”

The Near West Side Design Guideline Recommendations adopted in 2000 included the following:

- “A critical issue confronting the Near West Side is the physical quality of its built environment. There is a need for the development to be more consistent with the area’s low density building scale, traditional loft district architectural character, and urban streetscape.”
- “Building scale and architectural design for new buildings should be consistent with the physical character of the Near West Side’s distinct land use sub areas: Randolph and Fulton Markets; . . .Traditional brick industrial buildings represent the most common building type in the area and provide an overall context for new architecture.”
- “Buildings should be preserved and renovated where possible to maintain existing building walls along streets.” *and*
- “Rehabilitation/renovation should be sensitive to the original architectural character of the building and surrounding area.”

The Plan for Economic Growth and Jobs released by Mayor Emanuel in 2012 outlined ten transformative strategies to enhance Chicago’s role in the global economy. The Fulton Market Innovation District advances four of the strategies:

- fostering innovation and entrepreneurship;
- becoming a hub for advanced manufacturing;
- making Chicago a premiere destination for tourism and entertainment; and
- increasing the region’s attractiveness for cutting-edge business services and headquarters.

Finally, the Fulton Market Innovation District Plan approved by the Chicago Plan Commission in 2014 proposed the landmark designation which is the subject of today’s formal recommendation. The Landmarks Commission responded to this recommendation by approving a preliminary designation in April of last year.

In addition to these previous planning efforts, since April 1 of last year the Department has communicated with interested parties on at least 22 occasions in the form of public meetings, tours, hearings, letters, and one-on-one conversations. Those activities were summarized in the Chronology offered by Commission staff at the April 30, 2015 public hearing.

In sum, the designation of the Fulton-Randolph Landmark District is in line with previous planning efforts over many years, and City staff has been thorough in their analysis and outreach over the past year since the preliminary designation was approved by the Landmarks Commission in determining that the area meets the criteria necessary for designation.

Four methods of assessing economic impact

But the Department must also analyze this designation from a development perspective. In this regard, the most important question is this: will the designation support long term, stable growth in the neighborhood that will benefit property owners, existing small and medium-sized businesses, residents, and the city as a whole? Four areas of evidence can help answer this question:

- whether sustainable growth has occurred in other designated historic districts over time,
- whether development activity has continued in this area since this designation was proposed,
- whether market reaction since the designation was proposed has continued to support growth in property prices, and
- whether the district will help existing local businesses and help attract other small businesses and jobs to the area.

Sustainable growth in other historic districts over time

First, regarding whether sustainable growth has occurred in other historic districts over time, a review of previous studies provides a clear conclusion.

A report from the Brookings Institution titled “Economics and Historic Preservation: A Guide and Review of the Literature” reviewed basic cost studies, economic impact studies, regression analysis, contingent valuation and choice modeling, and case studies. The report states:

“Historic preservation is typically judged to be a sound investment. By most accounts, it is more efficient and profitable to preserve a historic building than to construct a new one. Designating a landmark or district as historical typically maintains if not boosts the value of the property, and as an economic development tool, historic preservation has proved its worth. Nearly any way the effects are measured, be they direct or indirect, historic preservation tends to yield significant benefits to the economy.”

To cite but three relevant examples – New York’s Meatpacking District (officially the Gansevoort Market Historic District), Cleveland’s West Side Market (at the center of the Ohio City District), and Seattle’s Pike Place Market – areas with similarities to Fulton Market have thrived after designation as a historic district. In Chicago, the Armitage-Halsted district has thrived since its designation in 2003. There are lessons to apply from those previous examples on how to preserve Randolph-Fulton’s unique character, but there’s no doubt that a landmark district not only preserves an area’s distinct history but also make supports an area’s economic growth.

Development activity since this designation was proposed

Second, regarding whether development activity here has continued since this designation was proposed, city permit data is illuminating. Since the designation was preliminarily approved on 04/03/14, over 112 building permits have been approved that conform to the new guidelines. The city sees no signs of a slowdown in development activity occurring any time soon.

Market reaction since the designation was proposed in property prices

Third, regarding whether market reaction since the designation was proposed has continued to support growth in property prices, recent real estate deals provide clear evidence. Madison Capital from New York recently purchased four buildings in the landmark district for \$27 million, which equates to over \$325 per square foot, a price which is more typically expected for Class A office buildings in the downtown district. The purchasers have committed to complying fully with the proposed landmark district’s guidelines. Another building was recently purchased for \$10.5 million by McCaffrey Interests. One local organization estimates that real estate in the district is worth \$350 per square foot on average, and there have been at least nine buildings in the district that have been sold since the preliminary designation was made last April. The landmark protections and district design guidelines will provide welcome certainty to potential purchasers, who will know that their neighbors cannot overwhelm their buildings with out-of-place redevelopments. The market has clearly judged that a historic district will not deflate property values for the foreseeable future.

Helping existing and new local businesses thrive in this area

Finally, it is crucially important that even while development activity and land value growth continue in the district, local businesses who wish to stay in the area should be encouraged to do so. The historic district designation will help small businesses remain because the designation will be another tool to guide sustainable growth, versus more speculative corporate investments that seek maximum returns at the expense of existing character and function. Chain stores, for example, generally prefer large vanilla boxes upon which they can impose standardized footprints, rather than trying to rework their standardized formulas into idiosyncratic older buildings. In particular, food businesses have strong incentives to remain, including avoiding the cost of relocation, retaining proximity to the expressway and neighborhood restaurants, and complying with FDA regulations for which they've been grandfathered in some cases. And the City has an equally strong desire to support these businesses, which is why Small Business Improvement Funds from the local Tax Increment Financing district will be made available to eligible businesses who successfully apply. In fact, the City has allotted \$41M to the area for traffic and streetscape improvements that will benefit both old and new businesses in the district. This is in addition to the powerful financial incentives for which landmarked buildings are eligible.

Rebutting Claims about Revenue Generation for the City

One final point. While the Department is focused primarily on how the designation will benefit the local community, we are also charged with helping to grow the city's tax base. It is therefore important to correct inaccurate assertions that have been made on this topic.

In a letter dated 04/02/15, one neighborhood group speculated that this landmark designation would cost the city \$188 million in lost development value. This statement is based on a thoroughly flawed methodology that wildly overstates the "lost" revenue for which the designation might be responsible, primarily through hypothetical zoning designations that do not and will not exist. In this analysis, the City should support height and density increases on every parcel in the proposed landmark district and in many cases apply a DX-5 zoning classification that was requested by one hotel developer, a request which the Department denied. The analysis implies that doing anything to the contrary would "lose" revenue for the City. (Why an organization purporting to represent the interests of neighborhood businesses would argue for a policy that would lead to rapidly rising rents and therefore mass eviction from existing buildings in order for the City to maximize its tax revenue is a perplexing question that will not be addressed here.) Suffice it to say that the City has no interest in imposing a massive increase in zoning on these 144

parcels, and the City does not view this decision as “losing” tax revenue that would never have been collected in the first place.

Instead, the Department supports the land use parameters identified in the Fulton Market Innovation District plan and applying design criteria that will help to maintain the character of the neighborhood while supporting appropriate building expansion projects. This, in the Department’s judgment, is the appropriate approach to supporting long-term growth in values in the area, an approach that also protects the vital history upon which much of that value rests in the first place. This is the approach that supports the needs of the local businesses who wish to continue operating in the area, which cannot be said of the tax revenue maximization approach for which some groups in the area have advocated.

Conclusion

In conclusion, the Commissioner is highly sensitive to the ongoing balance between preservation and growth. The City’s larger obligation is to manage the landmark process within our long-term planning framework and our continuing responsibility for the economic growth of the city.

Based on the foregoing, therefore, it is the recommendation of the Commissioner of the Department of Planning and Development that the landmark designation for the Fulton-Randolph Market Historic District be approved.

Submitted by Commissioner of the Department, Andrew J. Mooney.