The New Incentives for 2010: *Building Big in Chicago*

By James E. Matanky – President, Matanky Realty Group & Howard A. Wedren - President, Dayton Street Partners

Chicago has long been known as one of the nation's most thriving and diverse local economies. One of the main reasons for this is a city government that provides substantial economic incentives designed to start, expand, and attract companies to Chicago. This year, we will see more of these financial assistance programs coming online than ever before and their impact on the city's economy promises to be significant.

For landlords and property owners, the incentives will help offset a significant portion of the tenant improvement dollars that need to be spent to attract and retain tenants. For tenants, expansions and relocations will become more affordable, and even suburban and out-of-state companies may be motivated to relocate into the city. However, the caveat to the success of the program will be that banks will have to provide financing to help developers get projects off the ground. The city will need to put pressure on banks to beef up their lending for appropriate, qualified transactions. So which specific incentives will play the most critical role in 2010? We provide an overview below.

Recovery Zone Facility Bonds

Recovery Zone Facility Bonds is a $200 million bond financing category under the American Recovery and Reinvestment Act of 2009 designed to stimulate expansion and create jobs. These tax-exempt bonds will provide lower financing costs to qualified commercial, industrial, and retail projects. All bonds under the program must be issued by the end of 2010 and can be used to cover costs such as build-out and interior improvements for projects located anywhere within the city.

New Market Tax Credit

The New Market Tax Credit (NMTC) program was developed to generate employment and other benefits for low-income communities by providing federal income tax credits to financial institutions who invest in a Community Development Entity (CDE) that in turn uses these funds to provide capital to qualifying projects. Benefits include interest rates that are up to to 2.5 percent below market, loan-to-value ratios as high as 95 percent of development costs, and partial debt forgiveness, in some cases.

The Chicago Development Fund (CDF), a City-controlled CDE, was developed in 2006 with an allocation of $100 million that it uses to finance local projects. These CDF funds will be used to provide loans to existing industrial businesses or developers of new facilities, cultural or community facilities, or grocery-anchored retail developments within low-income neighborhoods.

Howard A. Werden

Their one stipulation is that they are designed to generate new markets, and so are only available in certain geographic areas and must meet specific criteria. (For instance, new construction or renovation/brownfields, or income-depressed areas qualify.) Also, due to their complexity, they require hefty legal fees to complete and only a few lenders will currently agree to lend on them.

6(b) Classification

The 6B classification offers reduced property tax rates on industrial properties to stimulate investment. However, the classification can only be used on projects involving new construction, substantial improvement, or the re-occupancy of abandoned property. It also provides tax rate reductions for as long as 22 years and as much as 20 percent. It will be particularly successful in attracting businesses from the suburbs into the city for this reason.

Dayton Street Partners recently constructed the 104,000 square foot Halsted Pershing Business Center, an industrial and manufacturing facility located at 815 W. Pershing in Chicago's South Side. The firm used the 6(b) Classification to lower the property's tax rate to $1.50 PSF, compared to the $2 to $3 PSF rate used for similar properties.

Special Service Areas

The Special Service Area (SSA) designation funds services and programs within certain industrial, commercial, and residential regions through localized property tax levies. Not-for-profit development corporations, chambers of commerce and business or industrial groups can qualify for this designation and receive monetary assistance for maintenance and beautification, business retention and recruitment, marketing/advertising, small scale capital improvements, and more. The Stockyards Industrial Park is one of the city's prime success stories for the SSA program. The Park has evolved from its cattle pen history to a one million square foot industrial area that counts 80 companies as tenants. The property also is qualified as an Empowerment zone, TIF zone, and Enterprise zone.

Enterprise Zone

Like SSAs, enterprise zones are specific areas within the city that receive various tax incentives and other benefits to stimulate economic activity. Businesses located within them can lower their operating expenses and increase profits through programs such as sales tax exemptions for purchases for machinery and equipment, building materials, investment and jobs tax credits, and utility tax exemptions.

The enterprise zone incentive can also eliminate the need to pay transfer taxes, some construction costs, and eliminates taxes on interior build-outs. For example, Matanky Realty Group developed a community shopping center within the underserved Back of the Yards community using a combination of TIF assistance, New Markets Tax Credits and Enterprise Zone incentives. Given the sales tax rates in Cook County, the Enterprise Zone assistance reduced the costs of construction significantly. This incentive is being used again to bring a new supermarket to this urban food desert.

Conclusion

There are many other financial assistance programs in addition to those listed above. For example, the Illinois EPA provides low interest rate loans for companies that clean up environmentally plagued areas of the city, converting them into and profitable real estate.

Due to their complexity, the most critical aspect of capitalizing on these financial assistance programs is to assemble a team of real estate brokers, attorneys, and other professionals who have a thorough understanding of the incentives as well as what's available in each area. From that point, companies interested in these programs can meet with the Department of Community Development to determine eligibility.

For further information about the Stockyards Industrial Park, and incentives to businesses, please call Martha Jungenberg at 773.523.4416, James Matanky at 312.337.1001 or Howard Wedren at 312.917.1200. More information can also be found at www.bync.org, www.matanky.com, and www.daytonstreetllc.com.