

# THE REAL DEAL

## *Related Midwest's Curt Bailey on The 78, plans for the Spire site and life after HQ2*

**In a Q&A, the developer also discusses the surge in mega-projects, affordable housing and whether the end of the development cycle is in sight**

November 16, 2018 | By ALEX NITKIN



It was a week of ups and downs for Curt Bailey and Related Midwest, one of the most active and well-capitalized development firms in Chicago.

On Tuesday, the company learned The 78, its \$7 billion “new neighborhood” planned in the South Loop, won’t be the next home of Amazon’s vaunted HQ2, even though it made the company’s final round of consideration. But two days later, the massive project scored approval from the Chicago Plan Commission, putting it on track for its goal to develop up to 6 million square feet on the site by 2022.

In part one of a two-part sit-down with The Real Deal, Bailey walked through the first phase of The 78’s construction, and discussed how the company will attract residents and employees to what’s now a 62-acre marsh on the South Branch of the Chicago River. He also talked through Related’s strategy of “operating on the fringes of real estate” to acquire properties with problematic histories.

He gave an update on 400 North Lake Shore Drive, where his team is moving forward with a revised plan after the first proposal was shot down by Alderman Brendan Reilly. And he explained why he thinks the current building cycle won’t hit a wall anytime soon, but instead might taper off as construction becomes more expensive.

During part two, The Real Deal will ask Bailey about One Bennett Park, Fulton Market and who’s buying condos in Chicago.

The following conversation has been edited for length.



## The 78

**The last time we spoke was in June, it was fresh off your first public meeting on The 78 ...**

Which was very successful. You rarely leave an initial meeting, especially for a project of that size and scope, and have a feel like that about it. There was so much positive reinforcement that we felt extremely positive about our prospects for moving forward under the parameters that we presented, without any major changes. And that is a function of what we really do well here, which is spending a lot of time thinking about our architecture design, the creation of place, materiality, your sensory perception of where you are, your experience of when you visit someplace. And we also got great ideas and thoughts for people who live there and say, "What about this?" We love to hear those things, and many times we make actual changes to address that feedback, whether it's from the city or the alderman. It's extremely valuable and how you get to the creation of a great place.

**So, keeping in mind that five months may not be a very long time in a project of this scale, can you tell me what's changed since then? Have any of the ideas brought up during the public meeting been applied to the plan?**

What I think we've done since that time is move forward on every single big part of the program. And the good news is that we have gotten an affirmation of all those things. The Wells-Wentworth [connector] is fully engineered and about to begin. And in a couple months you'll see work happening out there on that.

## **And when is that supposed to be finished?**

I believe it's the beginning of 2020.

## **And at that point, the plan is to start building along that Wells-Wentworth corridor, and go out from there?**

Yeah, it's infrastructure and buildings. The buildings will depend on where we are in the market, and the infrastructure will be ongoing. But think about how incredible that will be to drive right down Wells Street, through 62 acres to Downtown Chicago. I think part of the reason the area has sat fallow for so long is that it's very hard to see it today. You're traveling fast on Roosevelt Road and you're 40 feet above it, you can't see it from Clark Street because there's a wall, and there are the Metra trains at the southern part of the site. So unless you're on the river, you really don't see the site. But when you drive through it, you'll see the size and scope and proximate nature of all these big successful buildings all around it.

## **Now the Amazon HQ2 guessing game is officially over, can you tell me how close the 78 was to being chosen? Can you confirm they came back in August for a second look at the site?**

Yes, they made a second visit to our site in the end of August, and the feedback we received was that our site was a top-five site in the country. And so what I would take from that exercise is that of 238 municipalities, you probably had close to 1,000 sites combined, and we were top five. That makes me feel pretty good about our prospects moving forward on The 78 for other companies. Other companies will understand the value of what we can provide there, and what Chicago can provide with access to all these really smart young people who want to live in the city. So I won't say it wasn't a disappointment, but the overall takeaway was that we were extremely high in the running for this, and that's a very positive thing.

## **So when you're looking at turning a barren expanse of land into a whole new community, where do you start? Walk me through the sequence of building a neighborhood from scratch.**

We've taken a lot of guidepoints from several developments. One is King's Cross in London, done by our sister company Argent Related, and the other is Hudson Yards in New York, done by our partners at Related. The delivery of Phase One is critically important. When you move into your office building or residential building, it's got to be a great place to live on day one. So we need to do a number of infrastructure moves before we open a building. And that means the seven-acre park, it means a lot of riverfront, it means the infrastructure connectivity of 15th Street and Wells, so we want those things to deliver in a Phase One deployment. It can be as small as 3 million square feet and large as 6 million square feet. But we want it to be a great place from day one. That's for the DPI [University of Illinois Discovery Partners Institute] when they open their doors...

## **DPI would be part of that first phase?**

Yeah. They want to move very fast. They already have a great ongoing program on Wacker Drive, they're too big for their existing space, and so they want to move quickly. And we want to be very careful about continuing to curate a great place, so we're looking at how we're blocking construction from the rest of the site, so you can live there even though some

cranes will be around. All those things are going to be very important, and we're taking lessons from other places that have already done it.

**So the key will be having all that recreational space in place before any buildings open.**

A hundred percent. We're very focused on this. If you want a big office space and you want to be in a high-rise in Downtown Chicago, I'm not going to be able to compete. But if you want office space with enormous floor plates and connectivity within the building and an incredible environment around you where you can go out one door of your building and you have a seven-acre park, and the other door brings you to the riverfront with a half-mile of this 100-foot-wide riverwalk, we're the act. So we're trying to build out those things and create that environment, but also tell that story that people can understand and see.

**Is there a year you're targeting for the delivery of Phase One?**

If I had to peg it, I'd say 2022. Maybe 2023.

**Last month, Alderman Reilly rejected Related's proposal for 400 North Lake Shore Drive. Where does that project stand now?**

I think we're excited to keep moving through the review process as soon as we can, probably at the beginning of next year. We have revised our plan, and we have a spectacular two-building plan designed by Dave Childs that will be a signature piece of the Chicago landscape forever. They're beautifully designed buildings with terracotta on the outside, something that hasn't been done in Chicago in close to 100 years. It will be a singularly beautiful place to live, and the location just can't be duplicated. We love the location, and we look forward to working with the alderman and the neighbors to produce an incredible development.

**By my count, there are four of these campus-sized mega-developments being planned in the city right now, between The 78, Lincoln Yards, the Tribune River District and the Michael Reese Hospital redevelopment. Why are they all happening at once? Why now?**

I think it's a unique set of circumstances that are bringing all these pieces to the market at once. The viability of them became much more clear with a positive real estate market, and the lack of available land. The knock on Chicago has been that there's always another parking lot to build on, as opposed to New York, which has, like, no available land. But once all those parking lots go away, it becomes much more difficult to find pieces of land to build on. And that's what we're getting. If you look at what the city looked like 15 years ago with the availability of parcels compared to today, there really aren't many left. And it's more difficult to build.

Land is our material. If we were making cars, we would need steel and rubber. But we're building buildings, and we need land. And you look around, and there's not a whole lot of land left. So then you look around and say, "Well there's a big piece of land at the Tribune site." And people have been talking about the Finkl site for years. People have been talking about [The 78] site for years. And for political and different reasons, they never got developed.



**So now developers have no choice but to reach for the higher fruit on the tree.**

Yeah, because the material isn't there anymore, and so you start to try and figure out how you can get to those bigger ones. That's why I think there are a number of these big projects out there. They won't all get done. It's a big lift. It takes a confluence of a lot of different things.

**Let's talk more about the sites that Related has chosen for its big projects since you've been with the company [2008]. You have this 62-acre stretch of barren land with a sordid political history. You have a huge, deteriorating public housing complex in the Lathrop Homes whose future was a matter of real controversy. You have an 80-foot hole in the ground at 400 North Lake Shore that's become this great symbol of failure. 111 West Wacker was not in good shape when Related took over in 2011. Is it on purpose that Related dives head-first into sites with such hardscrabble reputations, or just a coincidence?**

You're forgetting about the land we're building One Bennett Park on, which was another purchase from banks. We also took over three condo buildings in the South Loop during the downturn, rebranded them as Related, put \$25 million into their common areas and units, and made those great buildings. So I think it's more about taking advantage of the downturn to make great real estate plays. And the ability to see past issues to get to great development opportunities. I mean, you can refer to 400 North Lake Shore Drive as an 80-foot hole in the ground, but it's also two acres where the river meets the lake. I think it's one of the best pieces of land in the country. So we got to that through some interesting means. We didn't buy land, we bought debt. We went through the federal bankruptcy process. So we are willing to operate on the fringes of real estate so we can get to these incredible parcels and do special things on them. So yeah, we don't do small as well as others. We don't do easy as well as others. I think, given our history and our level of expertise, we do better when it's big and complicated.

**One of the points that keeps coming up in Related's guiding principles for The 78 is this idea of creating a very inclusive and public and open neighborhood that knits together people from all different walks of life. How do you make that happen? How do you create an entire new neighborhood that's fully inclusive?**

It gets back to the fundamental question of, what makes a great place? I can't think of a great place that isn't all-inclusive and doesn't have people from every walk of life going to it. It's important that you make a place where someone can feel comfortable from every single corner of the city. So that's what we're going to create, and the natural advantage of our site is that we're at the crux between Downtown and the South Side. We're going to be a bridge between Downtown and Chinatown, and Bridgeport, and Pilsen, and Bronzeville and all those different neighborhoods. We want to take different components of all these parts of the city, and bring them into our site. We want people to come from all over the world, all over the country, all over the region, all over Chicago, every neighborhood. Overall success will be determined by whether it can be a place where tourists want to be, a place where people who live and work there want to be, and a place where people from surrounding neighborhoods want to go. That is extremely hard to do, but it's the only barometer for success. Think of Millennium Park. Everyone loves Millennium Park. Tourists love it and Chicagoans love it. People who live around there love to go there. And that is what you take lessons from.

**We recently wrote a feature trying to look at the impact of the affordability pilot zones that were established last year, and during our reporting we heard everything from, “it’s impossible to get anything build inside the pilot zones” to “developers are overreacting, and they can hit the affordability benchmarks if they really want to.” Where do you fall on that question?**

I think I was the only developer who stood up and supported the [2015 affordability requirements ordinance]. And we continue to support any program for affordable housing in the city of Chicago. I think affordable housing is wildly important for us. It’s one of the key barometers of success for any city in the world, and we will continue to get creative and do whatever we can to deliver affordable housing in Chicago. That being said, cooperation is absolutely key, and everybody from the city to the housing department to the aldermen working together is important to be able to being able to get over these ... to build units on these rules, which are important but tough to do sometimes to make the numbers work.

**Complete the following sentence. Over the next 20 years, whether Chicago remains a broadly affordable city will depend on ...**

I think it clearly will be an affordable city. You look at our competitive cities, and we are in the most affordable city on the housing side of it by a mile. New York, L.A., San Francisco, Boston, D.C. ... Chicago is a better city than all of them but New York. It’s bigger, it’s got more culture, it has more interesting things. We are very affordable here in the city.

**Right, but what can developers and city policymakers do to preserve that, to make sure Chicago’s housing market doesn’t become more like any of those other cities?**

We won’t. It’s an impossibility. Because we’re able to build at levels that they’re not able to build at. It would take such a sea change for us to become a market priced at those levels. Chicago is a very affordable place to be today, on the grand scale, and I think that will continue to be the case. I think we’ll see price appreciation here on both the rent and the sales side, but compared against our competitor cities we continue to be an affordable place to live.

**One obligatory last question: do you see an end in sight for the current building cycle? What signs are you watching most closely to see whether we’re getting to that point?**

Well, people have been talking about whether we’re in the seventh or the eighth inning or whatever. We’re not looking at people who opine on what inning it is — we look at the numbers. We look at the growth of the population of Downtown Chicago vis-a-vis deliveries, and that gap is widening, not shrinking. And if you look at the vacancy rates in existing buildings — I mean, is there an available built apartment in Chicago right now? There are more people moving into Chicago than we’re delivering units for. So that makes me feel relatively OK about where we are. The ARO is making it tougher to get financed, building prices are going up, the banks are pulling back a bit. It’s getting harder to build a building than it was several years ago, which means you’re going to slow down in production. And as the population continues to go up, there’s going to be less apartments, and you’re going to see rents go up.