

From Crain's Chicago Business

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Challenges rise in developing Olympic Village

(Crain's) — Real estate developers are starting to get a glimpse of the challenges they'll face in developing the athletes' village if Chicago is chosen to host the 2016 Summer Olympics. Among them is building up to 2,500 residential units that will hit the market all at once, obtaining financing and meeting the needs of the Olympics and those of the private market, which is the final destination for the project. Cassandra Francis, who is spearheading the project for the Chicago 2016 bid committee, offered some details during a luncheon Wednesday sponsored by the Chicago School of Real Estate at Roosevelt University.

The village is the highest-priced item to be built for the games. It's a nearly \$1-billion project on the site of the former Michael Reese Hospital on the city's South Side. Although Chicago is buying the site for \$86 million, the city and the Olympics organizing community are counting on private developers to construct and finance the housing project. That has become an increasingly dicey proposition since London and Vancouver, British Columbia, sites of the next two Olympics, have needed government help to keep privately developed villages on track.

Financing could be hard to line up because banks are no longer lending as generously as they did before, raising questions about whether private developers can handle the project alone. "That's one of the concerns the (International Olympic Committee) has," Ms. Francis said. "We do believe we can get traditional financing." She said the bid committee also is looking into federal financing for portions of the project that involve affordable housing, housing for seniors and student housing.

If Chicago is chosen in October, the city and bid committee will quickly put out a request for developers to lead the project. With commercial and condo developments all but coming to a halt because of weak demand and tight financing, developers are eager for the prospect of the Olympics to keep them working. But they've got plenty of questions.

"Financing is the biggest obstacle," said Jerry Karlik, a principal at Kargil Development, which has done projects in the South Loop and responded to a bid committee request for expressions of interest in the Olympic Village earlier this year. "There's going to have to be some sort of assistance: guarantees, tax credits or something.

Mr. Karlik, who attended the luncheon, said he figures lenders today won't finance more than 60% to 70% of a project, compared with 80% to 90% before the recession. "Someone's going to have to come to the table to fill the void," he said.

The project will be challenging in other ways, balancing the needs of Olympic athletes against the tastes of private owners. The IOC favors buildings not more than 14 stories tall, while developers have favored much larger towers for condos near the lakefront to maximize their returns. Much of the housing, which must be designed and built in just six years, will have to be reconfigured between the time the athletes use it and private owners take possession. A typical two-bedroom condo will require temporary walls so it can house eight athletes in four bedrooms. Kitchens will either be walled off or rendered inoperable because the IOC doesn't allow athletes to eat outside the dining hall. Athlete facilities such as an amphitheater and nightclub will be temporary, as well. ##