

February 29, 2016

## South Works redo melts down as partners split

By Alby Gallun



The

A 2013 rendering of plans to turn the 589-acre South Works property into the site of 13,000-plus homes and 17.5 million square feet of commercial.

PHOTO BY SKIDMORE OWINGS & MERRILL

developers of one of the biggest Chicago real estate projects in decades, a proposed \$4 billion undertaking on the South lakefront, have split up, throwing the plan's fate up in the air.

Nearly 12 years after teaming up to redevelop the former South Works steel mill site, Chicago-based developer McCaffery Interests and property owner United States Steel have parted ways without constructing a single building on the vacant 589-acre parcel.

With its stock in the dumps and losses piling up, Pittsburgh-based U.S. Steel is no longer in a position to finance a major real estate project. The company and McCaffery terminated their agreement a few weeks ago, said Dan McCaffery, CEO of McCaffery Interests.

"They've been a very responsible and good partner," he said, but "they're running a steel company, and they've run out of gas."

McCaffery and U.S. Steel planned to build more than 13,000 homes, 17.5 million square feet of commercial space and a 1,500-slip marina on the lakefront site between 79th Street and the Calumet



Stretching from 79th to 92nd streets, the two-mile extension of South Shore Drive cuts through the heart of the South Works site.

PHOTO BY CHICAGO LAKESIDE DEVELOPMENT

River. McCaffery also lobbied unsuccessfully to bring the Barack Obama presidential library to the project, which was called Lakeside.

The developer seemed close to launching construction in 2014, when **Mariano's** agreed to open a grocery store to anchor a shopping center on the property's northwest corner. But that commitment was conditional on McCaffery getting commitments from other retail tenants for about 170,000 square feet, McCaffery said.

“We have interest from other tenants, but our partner no longer has an

interest in providing equity to get the project going,” he said.

U.S. Steel declined to discuss the decision to part ways with McCaffery.

“We do not comment on specific business relationships,” company spokeswoman Sarah Cassella wrote in an email. “We are working with affected stakeholders to develop an appropriate path forward for the South Works property.”

At South Works' peak in the 1940s, as many as 20,000 people worked at the steel mill, which U.S. Steel shut down in 1992. The firm picked McCaffery as its development partner in 2004, beginning a planning process that involved countless meetings with city, federal and state officials and endured a real estate crash and deep recession that scared off many potential investors and tenants.

McCaffery said he's “completely disappointed” by the split. He said declined to say how much his firm has invested in the project, saying only that it's in the seven figures.

But he also noted that the joint venture succeeded in its push to **reroute South Shore Drive** through the property, improving access to it. And he hasn't given up completely, saying he would still be willing to develop the property if he could find a new financial partner and cut a new deal with U.S. Steel.



Dan McCaffery

“If I walked in tomorrow with an equity partner that wanted to be part of it, I would say there's a negotiation to be had,” McCaffery said.

Meantime, he has plenty of other work. McCaffery Interests and Houston-based developer Hines are redeveloping the former Children's Memorial Hospital campus in Lincoln Park into as many as 600 residential units and 160,000 square feet of commercial space. After **lining up financing** from Abu Dhabi's sovereign wealth fund, they recently paid \$50 million for the property and plan to start demolishing the hospital in March.

McCaffery also is busy with projects in the South Loop, the Washington area and Pittsburgh.

Though the South Works redevelopment may still seem like a long shot to some, McCaffery doesn't have any regrets about taking the risk.

"If the only things you take on in life are the only ones you think will succeed, how do you get to the moon?" he said.

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**notarussianmobster** → Bucktown · 18 hours ago

"Do you know why the Lucas Dogpile is tapered?"

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**eric299** · an hour ago

There are many reasons this was a bad idea.

For one, they built new residential units right next to the Bloomer Chocolate Factory downtown. Now those people, who have been there maybe 5-6 years, are complaining about the smell from the factory that's been there countless decades. If one little factory is causing that what would people say about the stench coming from refineries and steel mills in Northwest Indiana? And more importantly what could they do about it? They might be able to eventually force Bloomer out but they can't relocate all of Northwest Indiana.

Second, there are concerns over condition of the land. I would never buy property out there. They say it has been "environmentally remediated." But what does that really mean? They scraped off some topsoil and sprinkled a few chemicals around. They made steel on that site for over 100 years, and they did it during a time with no environmental laws. I don't think anyone can say for certain that the land has been fixed. Thirty years from now your whole family might come up with Cancer and then what? That's a big risk just for a home.

Third, it is isolated from downtown. It is even isolated from Hyde Park. An upscale project like

Cabrini Green can work because of proximity. But here there would be a big clash with miles and miles of surrounding area. Some sort of public transit would help. But it is still a stretch from a demographic standpoint.

There was talk some years ago of putting new industrial buildings out here, which makes much more sense. The new "Lake Shore Drive South" makes that even more viable. Hopefully now they will stop trying to put a square peg in a round hole and come back to this idea.

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**troll e troll** • 18 hours ago

Until there is viable transit to the location it will not be developed, but it needs to be developed to get reliable public transit.

It will be amazing once they get it going.

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**Arturo Blake Sr** • 20 hours ago

We need to get some local Chicago Developers involved in that area, immediately. US Steel and McCaffery need to step aside and let some Developers that know what they're doing to take control of this extremely valuable parcel. Obviously, younger and fresher ideas need to move into the area, with a vision of the future. As opposed to wasting years, doing absolutely nothing. Not a single building built in years. The fact that they decided to back out is a great thing. Hopefully, some developers that have backbone and determination, can move this forward, quickly.

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**DanielAMcAllen** → Arturo Blake Sr • 20 hours ago

Do you really think that a prime location like that would sit vacant if there were truly demand? I've driven through it many times. The area immediately around it looks like something out of a post war documentary about Berlin.

This is reality, not Hollywood. Just because you build it doesn't mean that "they will come." Just ask Waukegan, which has an equally amazing lakefront site with an existing marina AND a Metra stop with direct access to downtown, yet still can't get anything built.

I would love to see the site developed, it has the potential to be spectacular. But it is a long way from downtown and homes are unlikely to be cheap and there is simply a very limited number of people willing to spend a lot of money on a home and live that far from downtown in an area with significant urban decay and crime issues.

1 ^ | v • Reply • Share >



**Bob King** → DanielAMcAllen • 2 hours ago

You are entirely correct! Real estate "dreams" without financial backing are just "dreams". Think Old Post Office. The Steel site would have been developed years ago if there had been real potential in the site. And yes the surrounding

neighborhood with gangs, drugs, shootings and sad impoverishment doesn't lend a viable backdrop for a new high income, luxury, far-removed from the Loop neighborhood! This was a crazy pipe dream.

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**CHL111** → Arturo Blake Sr • 20 hours ago

McCaffery is one of the most successful Chicago developers. They don't know what they are doing?

1 ^ | v • Reply • Share ›



**Arturo Blake Sr** → CHL111 • 19 hours ago

Clearly, otherwise why have they been sitting on this parcel for years and have done absolutely nothing with it!? Do you believe that the adjacent communities wouldn't have thrived with the influx of that development? Of course they would have. Unfortunately, most so-called successful developers, are only concerned with their own greedy and greasing pockets. Its never about the long-term good of the community. Look around the US, in most urban cities, that's the American way. Yet, you look at other Industrial Nations, China, Japan, Korea, Germany, Great Briton, and others. They look for the developments that can better the whole, as opposed to the few. Therein lays what is wrong with the US. Greed at the top, that's the Cesspool, that needs to be reined in. Before we become a third world nation, similar to Mexico, Brazil, Greece, Italy, where corruption reins supreme.

^ | v • Reply • Share ›



**DanielAMcAllen** → Arturo Blake Sr • 18 hours ago

Of course they are interested in "lining their pockets" they are private developers, not a charity or public development agency.

And guess what, the ONLY way this site ever gets developed is when someone decides there is good money to be made in doing so. Clearly right now they don't think there is any.

And please feel free to provide some links to successful large scale redevelopment in other countries of large industrial sites to mixed-use that are 15-20 miles away from the city center.

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**CHL111** → Arturo Blake Sr • 18 hours ago

None of that means anything. The property owner (US Steel) ran out of cash.

You clearly underestimate what it takes to get a deal like this completed.

^ | v • Reply • Share ›



**notarusianmobster** → Arturo Blake Sr · 18 hours ago

Are you sure you're not Bernie Sanders?

Did you see the split was due to lack of money? That's the main thing USA has in common with the "third world" you mention. We spent it on a massive welfare state.

Have you considered this is private property?

^ | v · Reply · Share ›



**Arturo Blake Sr** → notarusianmobster · 18 hours ago

No, I'm Hillary Clinton and you're the brash moronic Trump, dipstick. You go on and on about the Unions, or Labor. But, then you keep your big mouth shut when it comes to providing more and more benefits to the likes of the billionaire class, the Trumps, Kochs, Big Oil, Big Pharma, NRA, or Big Corporations in general. But, the Buffoon class, that would be YOU! You're the first to be concerned that the Blacks, other Minorities, or the Poor, may want to get a free lunch, or an equal chance at a better Job. Therein lays the stupidity of people like you. That think because you may have more than others around you, that its their at fault. You greedy piece of garbage!!

^ | v · Reply · Share ›



**notarusianmobster** → Arturo Blake Sr · 17 hours ago

By "benefits" you mean the government might confiscate less of their private property?

By "free lunch, or an equal chance" is that one the 28th Amendment to the U.S. Constitution?

^ | v · Reply · Share ›



**CHL111** → notarusianmobster · 18 hours ago

And the military. Have to include that...

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**john** · 21 hours ago

Look out the City will want to use eminent domain to acquire the property like the Old Post Office.

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**SimonD** → john · 21 hours ago

So should empty property simply lie empty and fallow in perpetuity until the right deal comes along? Next time the Bears want a football stadium, perhaps they can be redirected there, and maybe the city will step up and pay for the practice facility to also go there. The vastness of the space down there is awe-inspiring: that so much city land can be available, next to the lake, with good roads and links to NW Indiana, is something that would normally have people running in with money. But it is on the

South Works developers McCaffery Interests and United States Steel split up - News - Crain's Chicago Business  
 SOUTH SIDE, and development is still stuck on deciding about the Obama library and the filling in the blanks between Hyde Park and McCormick. It'll be a long time before we see this space filled, unfortunately.

1 ^ | v • Reply • Share ›



**CeryChuck** → SimonD • 20 hours ago

Actually, fallow may be the best thing until there is sufficient demand for a project that will make proper use of the property, If someone wants to carve out a piece for retail in the interim (as I believe was proposed), that might be fine for starters. The vision is good, so for the entire site, best to wait until the demand comes along to make it a reality. Otherwise, we are likely to wind up with very sub-par development, at best.

1 ^ | v • Reply • Share ›



**CHL111** → SimonD • 18 hours ago

The post office is a more significant site based on its location to the CBD.

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**john** → SimonD • 20 hours ago

So should Chicago purchase all vacant property in the city?

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**Arturo Blake Sr** → john • 21 hours ago

Good that would be a great thing, not a negative thing. You must be a Republican. That area needs development, not bozo's that don't understand the importance of that development. They have had two Corporations sitting on this property for years, and have done absolutely nothing! If the city wants to do something with it, and it will generate much needed jobs for the area. That's a great thing!! Regardless of who is pushing it forward.

^ | v • Reply • Share ›



**john** → Arturo Blake Sr • 20 hours ago

You absolutely do not understand development. You think US Steel is sitting on this site just to tick off a Democrat controlled City. Wow that is a real stretch. Their motivation would be what?

Let me ask you this question; How is the Michael Reese site working out for the City? How long did it take the City to develop block 37 into a substandard development? Boy those Democrats that took on those redevelopment sites did a real fine job. Nice tone with your jumping right on you must be a Republican. You don't even know me but I can only guess you are a bitter Democrat.

^ | v • Reply • Share ›



**CHL111** → john • 18 hours ago

I agree with you about Arturos understanding of RE development, however Block 37 was developed by a private company, Joseph Freed

however block 37 was developed by a private company, Joseph Freed & Associates.

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**john** → CHL111 • 17 hours ago

The City of Chicago acquired all of the properties that comprised Block 37 and spent decades trying to develop/find a developer to develop it. Yes I know Joseph Freed & Associates finally ended up acting as the developer for most of what was built until the Bank took it back.

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**CHL111** → john • 17 hours ago

Unfortunately for them the project delivered during the recession.

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**Bucktown** → CHL111 • 18 hours ago

Not quite. The City acquired the entire Block 37 by eminent domain for \$40 Million in 1983 and 'sold' it in 1989 for \$12.5 Million after having paid to demolish all the buildings. After rejecting several plans the City took it back in 2001 paying \$32 Million. They then sold it in 2004 to the Mills corp for \$23 Million. Mills corp finally started construction, but Freed bought it from Mills corp. The project was finally ready for occupancy sometime in 2010 of 2011. So if you keeping track that is almost 30 years! And at least \$40 Million of tax payer dollars plus another \$40 Million in TIF dollars and tens of millions they spent on the boondoggle CTA station under block 37. They City has no business getting into the development business.

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**JJ** → john • 13 hours ago

I have tended to lean Democratic but I think we can all agree that Mr Blake is clueless on the topic of capitalism.

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