HISTORICAL EFFORTS TO LINK MARKET DEVELOPMENT TO HOUSING NEEDS

1986

THE NETWORK BUILDER

The Chicago Rehab Network Newsletter

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Local groups press Pres. Towers demands

by Tom Carlson

On October 22, more than 200 people demonstrated at the site of Presidential Towers, to call attention to the developers' misuse of public funds and to demand that they create low-income housing in exchange for favorable treatment from city and federal officials.

The Chicago Coalition for the Homeless, the Balanced Growth Coalition, the Statewide Housing Action Coalition and the Chicago 1992 Committee participated in the action. Linda Haley, a spokesperson from South Austin, said the developers used taxpayer dollars to build luxury apartments for the rich, while demolishing housing for the poor.

Since McHugh, Levin and Shannon plan to construct a second phase — Presidential Towers II — the demonstrators aimed their demands at future development. Presidential Towers II should not go forward, they say, unless the following conditions are met:

- Save the Major Hotel: This is the last remaining single-room occupancy hotel on the near west side, and is scheduled to be demolished by the developers. Instead, McHugh, Levin and Shannon should pay for its reha-

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Presidential Towers

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bilitation.

• 620 low-income housing units: The developers should either provide these units in Presidential Towers or fund neighborhood nonprofits to develop the units.

• Jobs: There must be an affirmative action plan for both construction and permanent jobs. The plan must include quotas for city residents, minorities and women. There must also be a strong affirmative action plan for construction and commercial contracts resulting from the new development.

• Public review process: The city must provide a public review process involving neighborhood hearings on all major, publicly-subsidized developments.

The demonstration has led to meetings with officials from the Mayor's office and the city's Dept. of Housing. The developers are currently in negotiations with the city to purchase additional land for the project's expansion. Coalition members are also pressing for a meeting with the developers. If there is an inadequate response to demands, coalition members have vowed to stage repeated actions.

The coalitions involved in the demonstration bring a number of different concerns into the effort. The Coalition for the Homeless has been fighting for the past two years to save SROs, which are a rapidly-disappearing affordable housing option for lower-income single individuals. SHAC is working statewide to expand affordable housing. The 1992 Committee has watchdogged Presidential Towers and protested the misuse of public resources.

The Balanced Growth Coalition is a newly-formed effort on the part of Chicago community-based organizations to redress the imbalance in Chicago's economy so that neighborhood growth and development receives as much attention as downtown development.

Chicago's Central Business District is booming. Many are pointing to this explosion of new development, calling it economic revitalization. But simple growth in one area of the city does not make a healthy city, say coalition members. Not when there are disenfranchised communities who suffer with the reality of boarded-up housing, empty storefronts and manufacturers gone elsewhere.

There is no doubt that bold steps must be taken to improve Chicago's economy. But redevelopment should be balanced in a way that enables Chicago residents to build communities where they can live and work. The Balanced Growth Coalition members met during this past summer to draft the following platform:

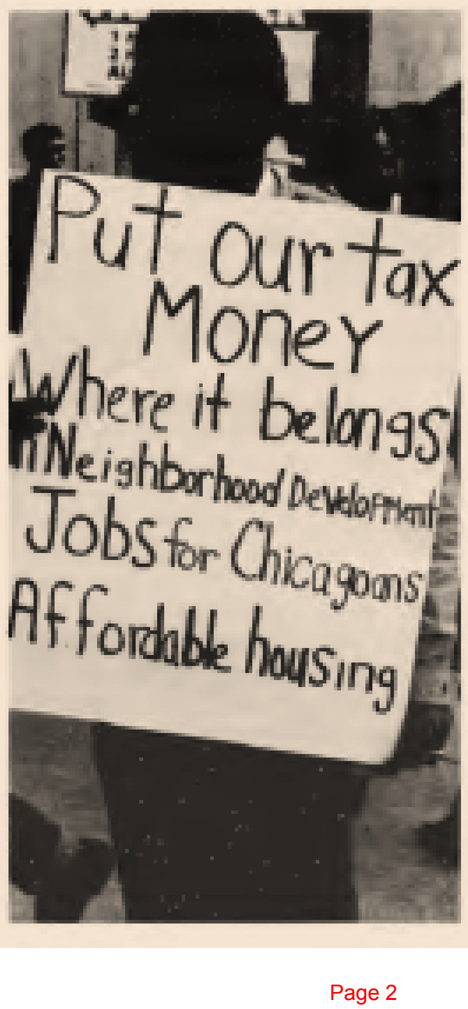
• *Local economic development:* That a fair share of capital improvements and other public subsidies be targeted to low- and moderate-income neighborhoods to support the creation of jobs and affordable housing.

• *Jobs:* That all publicly-subsidized development projects adopt a "First Source" hiring policy, offering Chicago residents a first crack at filling jobs created by the project.

• *Housing:* That the city enact a mandatory Linked Development program, with funds designated for affordable housing. That more public funds be targeted for low-income housing.

• *Neighborhood empowerment:* That neighborhood residents gain greater authority in setting priorities for local economic planning.

• *Anti-displacement:* That new development must not displace existing housing or jobs (directly or indirectly).



BALANCED DEVELOPMENT PRINCIPLES

Members of the Public Private Finance Initiative assembled a set of principles to guide the investment of resources developed through the Initiative. These principles are grounded in the belief that balanced development will make healthier communities throughout the region. It is the role of government & private institutions to establish priorities, provide leadership and develop policies for the use of resources to support development consistent with these principles, beginning with housing for people with the greatest need.

The principles are:

- Racially, culturally & economically diverse people can thrive within the same community.
- All parts of the metropolitan area are appropriate for affordable housing and all areas are appropriate for market rate housing.
- All workers should have opportunity to live in close proximity to employment.
- Housing units and types should be heterogeneous so that different housing needs are met (ie. senior, family, purchase, rental).
- Subsidized and market rate housing in the same development are designed to be indistinguishable to the greatest extent possible.
- Long term residency & neighborhood stability should be supported.
- Opportunities for the community to come together should be created.

The principles should be used to create a common understanding of the need for balanced development in planning and resource decisions. The principles will be forwarded to the decision making bodies of local and state governments. They should be incorporated into the evaluation of applications for resources created through the Public-Private Finance Initiative. They should also be incorporated into the development process on publicly and privately owned land whenever possible, and in the development of larger planning documents such as Consolidated Plans for the Department of Housing and Urban Development. The Public Private Finance Initiative will pursue a public education campaign to recognize projects developed in accordance with these principles.

From Public Private Finance Initiative Final Report released January 2000.

25% Housing Set-Aside

Concept Paper

<u>Our Vision</u>

25% of the units in all new residential developments, substantial rehabilitations and condo conversions will be **set aside** for individuals as affordable. This will ensure that market rate development in all parts of the city includes a fair share of affordable housing. In addition, we will develop new strategies and resources for creating rental housing.

<u>Our Proposal</u>

1. General Requirements
In all new construction, substantial rehabilitation or condo conversions developments of 4 or more units, affordable housing must be supported through the following actions:

- **4 to 10 units** - 25% of the units must be set aside as affordable <u>or</u> the developer may make an in-lieu-of payment to a Neighborhood Housing Trust Fund (see below).
- **11 units or more** - 25% of the units must be set aside as affordable.
- **Special Exceptions** – While there is a clear preference for on-site set asides, in certain cases, in-lieu-of payments can be made to the Neighborhood Housing Trust Fund (see below).

2. Definition of Affordability - Rental
As a minimum, set aside rental units must be affordable to individuals at or below 50% of the median income (currently $35,250 for the Chicago PMSA) with rent at 30% of monthly income. In recognition of the need to serve individuals with very low incomes, fewer units will be required if they are set-aside at lower income levels.

3. Definition of Affordability – For Sale
All set aside for sale units will be priced at a pre-determined affordable square foot construction cost for the housing type (attached, detached, multifamily), not including land costs.

4. Right of First Refusal – Create Rental Opportunities
Non-profit developers and public agencies will have a right of first refusal to purchase half of all set aside for sale units at the affordable sales price to operate as affordable rental units.

5. Construction and Floor Area Standards
Set aside units may have a smaller floor area and more modest finishes than market units, but should have a similar number of bedrooms. Construction standards will be established to ensure durable housing with mid-grade finishes.

6. Term of Affordability
Set aside rental units must be kept affordable for 30 years. In for-sale developments, resale prices will be limited to the increase in the Chicago Consumer Price Index by for 20 years with a deed restriction. New buyers must also be income eligible.

7. Neighborhood Housing Trust Fund
Developers may be permitted to pay into a Neighborhood Housing Trust Fund in lieu of creating affordable units. This Trust Fund money will create a new resource for affordable housing and not replace any existing public funds. Trust Funds will be created for all of Chicago's 77 community areas. Funds will be earmarked for use in the community area that the original development is located in. Use of the Trust Fund will be limited to rental housing development (including the purchase of setaside for sale units), limited equity co-op development and rental subsidy. All trust fund money will be targeted to tenants earning under 30% of the median income (currently $21,150 for a family of four). The Trust funds will be administered by an accountable body such as the Chicago Low Income Housing Trust Fund.

What is a housing set-aside?

A housing set-aside is a requirement that developers keep a portion of new or rehabilitated units affordable to people with low incomes. Sometimes called 'inclusionary zoning', set-asides *include* the cost of building affordable housing into the housing market. As communities develop, set-asides help create housing opportunities for a variety of income levels. With set-asides, new development will be more equitable and displacement of existing residents will be reduced.

What is the cost of not providing affordable housing?

Housing, like health care and education is foundational for family, community and regional success. *Building new affordable housing in Chicago can:*

- *Prevent a family from becoming homeless.*
- *Keep children from switching schools due to family moves.*
- *Allow companies to stay in Chicago, near their workforce.*
- *Slow down suburban sprawl.*

One out of every five renters in Illinois spends more than 50% of their income on rent[1]. For them, 'affordable housing' translates into increased ability to put food on the table and clothes on their child's back.

How many units could this create?

Set-asides work with the private market to create mixed income communities. Over the last 25 years, the City of Chicago issued 262,333 building permits. Had a set-aside been in place, the private market would have created over 19,000 units[2]. The units would be located in the communities that have gained housing units such as Near South Side, Loop, Armour Square, West Town and Bridgeport[3].

> *"Housing is central to everything we're trying to do in this city, because when people live in affordable, high-quality houses and apartments, they work harder to keep their neighborhoods clean, safe and livable."*
>
> -Mayor Richard M. Daley
> May 15, 2001

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Where has this strategy been successful?

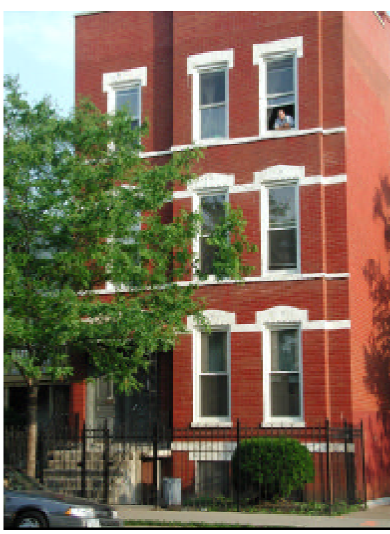
Montgomery County, Maryland's housing set-aside has produced over 10,000 units of affordable for-sale and rental housing since 1974. In Boston, a Mayoral decree enforcing a set-aside is currently producing affordable units and payments to the city's housing trust fund. Like Chicago, Boston is experiencing a residential boom downtown that is forcing rents up across the city. Developers have the choice of setting aside affordable units or paying a $52,000 per unit fee to the trust fund.

"When building commercial buildings, the law demands that the builder set aside a certain amount of space for parking and for places to walk, for public gardens, for all kinds of good things. In the same way, in the same exigent manner, we have to demand that affordable housing be protected by law itself."

-Cardinal Francis George
Valuing Affordability Conference
June 28th, 2001

Has this strategy ever worked in Chicago?

Yes. The City of Chicago has required some developers to set-aside units in exchange for tax increment financing (TIF), but not always. At the Montgomery Ward's redevelopment site 11% of the units will be affordable including some new CHA public housing. Alderman Walter Burnett and the Department of Planning and Development deserve praise for their hard work to craft a deal with the master developer, but affordability shouldn't come on a case-by-case basis. Chicago needs a set-aside law which applies evenly to all developers in the city.



Why now?

Chicagoans are being priced out of their neighborhoods. According to Census figures, Chicago is the only large city in the nation to gain population while losing rental housing over the last ten years. While Chicago lost 2,852 rental units, New York and Los Angeles gained 97,269 and 45,993 units each[4]. Unfortunately, new for-sale developments and condominium conversions are no longer an affordable option. The median sales price for condos and town homes sold in the last five years has grown 58% to over $200,000, according to the Chicago Association of Realtors[5].

1. *2000 Supplementary Survey*, **U.S. Census Bureau**, Table H067: Gross rent as a percentage of household income in th past 12 months.
2. City of Chicago permit data and basis for set-aside estimate from *Expanding Housing Options through Inclusionary Zoning*, **Campaign for Sensible Growth** Ideas@Work vol. 3, June 2001. Set-asides estimates are based on the Montgomery County, MD inclusionary zoning ordrinance, which has created over 10,000 affordable units since 1974.
3. Top 5 Chicago community areas gaining housing units from *Summary Tape File 1*, **U.S. Census Bureau**, 1990 and 2000.
4. *Profile of General Demographic Charachteristics*, **U.S. Census Bureau**, Table DP-1, 1990 and 2000.
5. *Historical Home Sales Data*, **Chicago Association of Realtors**, comparison of median homes sales prices of single family attached units,1996-2000.

Inclusionary Housing in Chicago:

the Affordable Housing Zoning Bonus

The Affordable Housing Zoning Bonus – or Density Bonus – was created in 2004 to enable developers in certain downtown zoning districts (DC, DX, and DR) to build additional square footage in exchange for providing on-site affordable housing OR contributing to the City's Affordable Housing Opportunity Fund. Downtown developments that are subject to the Affordable Requirements Ordinance (ARO) may meet their ARO requirement by purchasing a Density Bonus.

Developments with on-site units receive four square feet of market-rate bonus space for every foot of affordable housing provided. The maximum allowed bonus is 20% of base FAR in dash-5; 25% in dash-7 or -10; and 30% of base FAR in dash-12 or -16 (www.cityofchicago.org/zoning for zoning info).

Because of the high cost of downtown land, however, many exercise the in-lieu donation option. The formula for calculating the amount of that donation is here ►

Formula for Off-site Affordable Housing Zoning Bonus

Financial Contribution = *Bonus floor area achieved via affordable housing bonus* *x 80%* *x* *Median cost of land per buildable square foot**

**cost will be updated regularly*

Submarket (Table for use with the Density Bonus fees-in-lieu calculations)	**Median Land Price per Base FAR Foot**
Loop: Chicago River on north/west; Congress on south; Lake Shore Dr on east	$31
North: Division on north; Chicago River on south/west; Lake Shore Dr. on east	$43
South: Congress on north; I-55 on south; Chicago River on west; Lake Shore Dr. on east	$22
West: Lake on north; Congress on south; Chicago River on east; Racine on west	$29

Units must be affordable to households earning 100% of the area median income, as defined by the Department of Housing and Urban Development (HUD). Using these maximum incomes as a guide, the City defines affordable pricing for each development, based on the market price, assessments, and property taxes projected for the units. Affordable units must reflect the building's overall unit mix.

HUD Median Income for Unit Type/Family Size *(as of 2/2012)*				
Number of Bedrooms	Assumed Family Size	60% of Median	80% of Median	100% of Median
Studio	1	$31,860	$42,500	$53,100
1	1.5	$34,140	$45,525	$56,900
2	3.0	$40,980	$54,600	$68,300
3	4.5	$47,310	$63,100	$78,850

Affordable units are typically placed in the **Chicago Community Land Trust** (CCLT), which ensures the unit's long-term affordability. The Department of Housing & Economic Development income-qualifies purchasers/renters, and may provide marketing assistance. **For more information** contact Kara Breems (312.744.6746 or Kara.Breems@cityofchicago.org).

Inclusionary Housing in Chicago:
the Affordable Requirements Ordinance (ARO)

The ARO was created in 2003 and revised in May, 2007, to create affordable units in private-market developments. Developments subject to ARO (see below) must set aside 10% of residential units as affordable housing OR donate $100,000 per required unit to the City's Affordable Housing Opportunity Fund. For projects receiving financial assistance from the City, 20% of the units must be affordable.

Projects are generally subject to the ARO if they include ten or more residential units AND:

- ☐ Receive a zoning change that:
  - permits a higher floor area ratio (FAR);
  - changes from a non-residential to a residential use;
  - permits residential uses on ground floor, where that use was not allowed;
- ☐ Include land purchased from the City (even if purchase was at the appraised value);
- ☐ Receive financial assistance from the City; **OR**
- ☐ Are part of a Planned Development (PD) in a downtown zoning district.

Generally, **Projects are exempt from the ordinance** if

- ☐ Land was purchased between May 13, 2005 and May 13, 2007; **OR**
- ☐ Zoning Changes or PDs filed with the Zoning Administrator before August 21, 2007.

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For-sale housing must be **affordable** to households earning 100% of the area median income (AMI) as defined by the US Department of Housing and Urban Development (HUD). Using these income guidelines, the City's uses a formula, based on the market price, assessments, and projected property taxes specific to each development to determine the unit's maximum affordable price. Rental housing must be affordable to households earning 60% of the AMI.

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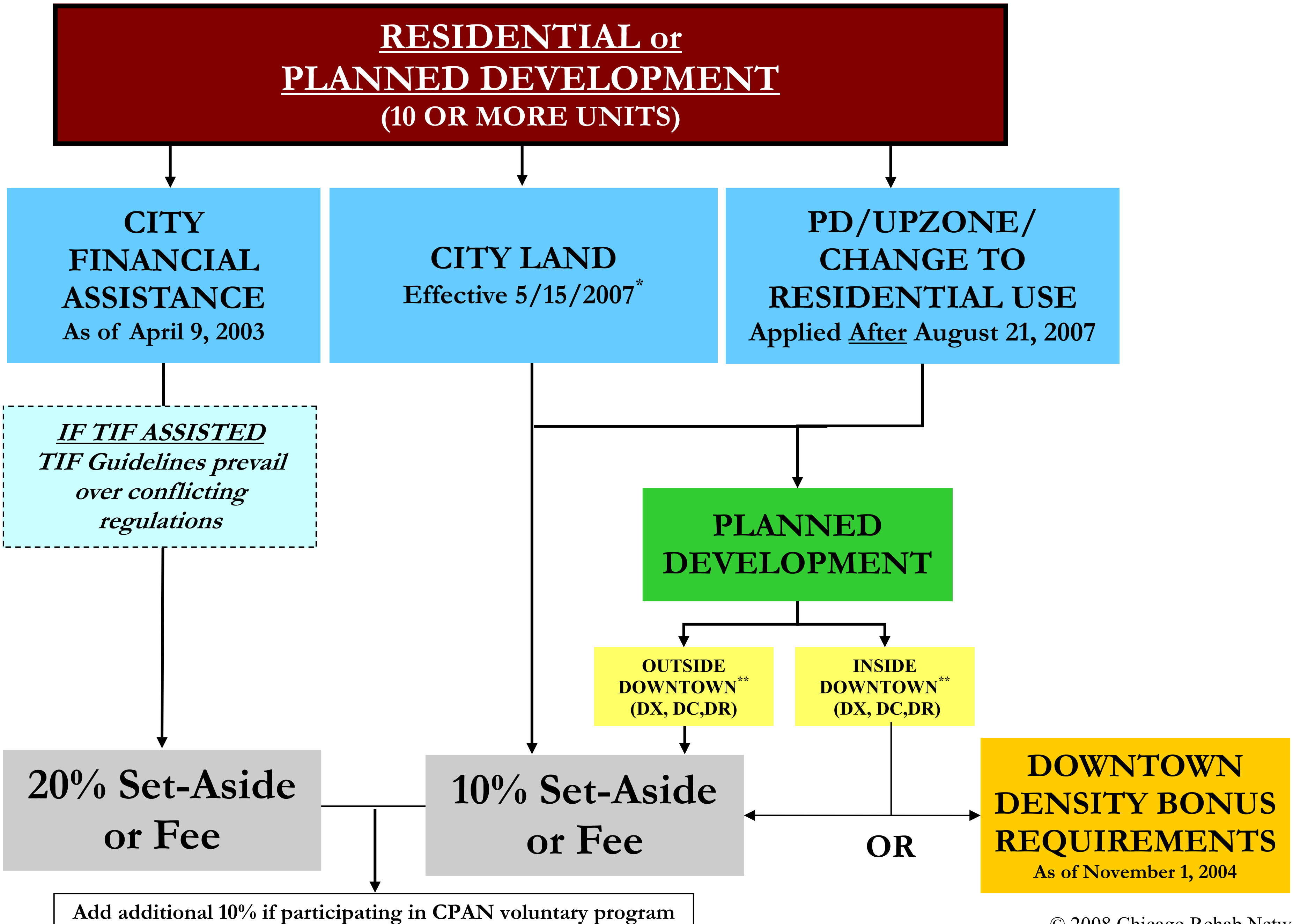
Affordable Requirements Ordinance Flow Chart



* Discounted City Land 4/9/2003 - 5/13/2007

** *Downtown* is defined as areas within the DC, DX, and DR zoning districts.