Analysis of the Third Quarter 2013 Housing Report

***Accepting the Challenge:* Five Year Affordable Housing Plan, 2009-2013**
Presented December 12, 2013

Introduction

In 1990, less than a quarter of Chicagoans were paying more than they could afford for housing; today that number is over fifty percent. This crisis knows no geographical or racial barriers: households in every class and community across the city are dealing with increased housing insecurity. Just to give you a quick example, in the South Loop, 56% of renter households making $50,000 to $75,000 per year—your downtown office staff—are paying more than they can afford for housing. Fully 75% of households that own their homes in that income bracket in the South Loop are in the same situation: paying more than 30% of their income for housing. It is not only communities on the South or West sides that are struggling with housing insecurity; this crisis has touched every corner of our city. As long as our neighbors' resources are overcommitted to housing costs, we can continue to expect an anemic recovery in the housing market, retail sales and new business starts citywide, along with increased demand for frontline City social services.

In light of this mounting housing insecurity, it is more important than ever to continue to create new and defend existing affordable housing. Yet, we are not even sustaining the funding commitments of the past. The second draft of the new Five Year Housing Plan that is sitting in limbo allocates $800 million less for housing over the next five years, only 57% of the resources provided through the previous plan.

When cuts that deep are made, it is fair to expect that some neighborhoods will be getting substantially smaller pieces of the community reinvestment pie. How will that happen? What will be the criteria for picking where to invest? Those are questions worth talking about in a public forum, and something you may want to discuss with your constituents. Yet, the 2014-2018 Housing Plan "*Bouncing Back*" is still a confidential draft, even though much of it was de facto passed with the 2014 Budget that allocated one year of its funds. In this, the long-standing practice of working with community and providing an opportunity for citizens' voices and participation appears to be off the table.

We all know the financial challenges the City is facing today. No doubt, the hurdles to overcome are great. That just makes the need for leadership even greater. The City needs real investment that demonstrates innovative, organic solutions to these long-term funding issues for housing and meets the future in meaningful ways. We can do more with the dollars we already have while also generating ideas for new funding sources. Today in Chicago, successful program models, local and accountable developers, and community housing needs exist. These elements can be harnessed—along with currently under-tapped sources like Section 108 dollars, NSP Program Income, Infrastructure Trust dollars, New Market Tax Credits, short term carve outs from Real Estate Transfer and Hotel Taxes, and startup dollars from the Corporate Fund—to begin rebuilding our communities.

Bottom line: we have to work together eliminate the impact of empty properties on existing residents, rebuild the City's revenue and property tax collections, and create opportunities for households in at-

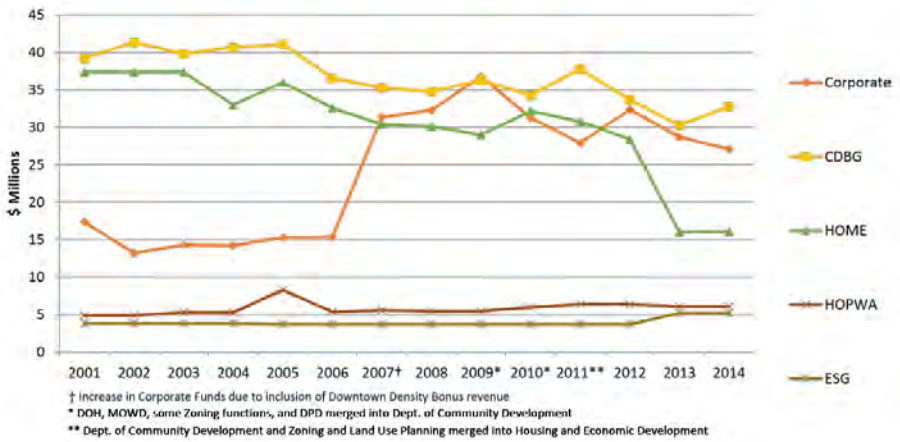
risk rental or substandard housing situations to be stabilized. Prosperity *can* be achieved. However, we know that to achieve it, there is no other choice but to find the resources required to prevent further destabilization of our communities.

Analysis of Third Quarter 2013 Activities

2014 CITY BUDGET - The Chicago Rehab Network testimony at the CDBG Draft Action Plan Hearing at the Cultural Center and presented frequently is attached as an appendix to this report. As an overview, our analysis contains four main points:

1. The City has not made any significant increase in the proportion of funds committed to housing from either Corporate or CDBG funds since the beginning of the financial crisis.

Chart 1. City of Chicago-Controlled Dollars Devoted to Housing, 2001 to 2014



2. In 2014, the percentage of CDBG dollars devoted to housing will remain flat. Even though the amount of CDBG funds available will increase by $15 million, the City will allocate for the first time over $8 million dollars from this key *community development* source to fund the Police Department and the Department of Streets and Sanitation, rather than spreading it among groups that deal with housing, homelessness, or any of the other key anti-poverty initiatives at work in the city today.

3. Even before devoting these 2014 CDBG resources to City services, the City of Chicago was already using more of those resources for public services than any of the other top 10 cities receiving CDBG funds. The most recent data available from HUD in 2011 show that Chicago used 48% of its CDBG funds for public services, compared to just 13% used the same way in New York City. Four other cities—Dallas, Philadelphia, Phoenix and New York—used a larger proportion of their CDBG dollars for housing during this same period.

4. Finally, in 2014, CDBG funding for the frontline delegate agencies that provide housing services is stretched the thinnest of any group of delegate agencies, with an average award of only $25,476 per agency next year.

As the Mayor very correctly pointed out during his Budget comments on 11/26/13, "the Budget is a reflection of our values." This is clearly a budget that is not concerned about the growing housing insecurity—especially among the fast-vanishing middle class—the continuation of the foreclosure crisis, or the tax base erosion that accompanies population loss.

NEIGHBORHOOD STABILIZATION PROGRAM UPDATE – As the initial phase of NSP draws to a close, it is important to consider the effectiveness of this program in accomplishing the stabilization of neighborhoods devastated by the foreclosure crisis. (See Map 1, attached, for more information about the distribution of these properties). Although this chapter of NSP is ending, there will be substantial NSP program income available over the next 10 or more years derived from the sale or lease of NSP properties redeveloped or demolished since 2008. Recommitting those dollars to affordable housing in smart ways that incorporate lessoned-learned will be pivotal moving forward.

What has NSP accomplished in the city so far over 6 years and with over $137 million? According to this quarterly report,

- 860 units in 194 buildings have come under contract through NSP since its inception in 2008.
- 653 units (67% of units under contract) were completed. Of those:
    - 39 units were demolished, and
    - 614 units were rehabilitated.
        - Of the 614 units rehabilitated,
            - 114 units (19%) were sold,
            - 200 units (33%) were rented, and
            - <u>300 units (49%) are completed but still vacant</u>.

During the DPD Budget Hearing last month, the Department indicated that there may be room to improve property-by-property neighborhood stabilization activities while also reducing per-project costs. An examination of average cost per unit by NSP developer (Table 1) bears out the need for diligent review. While many factors—such as the need for environmental remediation or serious unexpected renovation costs—can drive up the cost of redevelopments, it is important to analyze these deals in order to develop best practices to help us achieve maximum impact from all the housing dollars we have.

To this end, the Rehab Network suggests that DPD make two additions to its NSP reporting structure: first, devolve Total Development Costs into Acquisition and Rehabilitation/Demolition costs to help show whether high per-unit costs flow from high acquisition or rehabilitation costs. This information is currently tracked by the Department but not recorded in the ongoing "Status of Chicago Neighborhood Stabilization Program Properties" reporting. Second, we suggest that DPD also add a column noting the sale price or monthly rent of units that have reached their final disposition to aid in the calculation of return on investment for program dollars.

Table 1. Average Cost Per Unit in NSP1-3 Dollars by Developer, 2008-2013 (Q3)

Developer	Units	Total Development Cost	Average Cost Per Unit
Unity Enterprise Development Corporation	2	$ 1,048,581	$ 524,290
Keaney Construction	2	$ 839,155	$ 419,578
Revere Properties Development	18	$ 6,620,051	$ 367,781
Restoration Development, LLC	6	$ 2,164,735	$ 360,789
Genesis Housing Development Corp	2	$ 668,497	$ 334,248

Chicago Neighborhood Initiatives	18	$	5,272,706	$	292,928
Latin United Community Housing Association	2	$	584,398	$	292,199
JML Development Inc.	9	$	2,595,600	$	288,400
K.L.E.O Community Family Life Center	6	$	1,707,821	$	284,637
1600 Investment Group LTD	6	$	1,623,877	$	270,646
Westside Urban Development & Joy's Construction	3	$	794,062	$	264,687
Chicago Metropolitan Housing Development Corp	6	$	1,574,012	$	262,335
DMR Investments LLC	8	$	2,028,055	$	253,507
PMG Chicago Group II, LLC	20	$	4,893,446	$	244,672
Team 4 Construction, LLC	10	$	2,433,995	$	243,400
CDGII, Inc	14	$	3,234,283	$	231,020
Anchor Group Ltd. of Illinois	5	$	1,065,939	$	213,188
Breaking Ground	21	$	4,228,918	$	201,377
KMW Communities LLC	46	$	8,975,460	$	195,119
Bronzeville Renovations, LLC	8	$	1,507,803	$	188,475
Vesta Property Development LLC	4	$	735,028	$	183,757
Hispanic Housing Development Corporation	7	$	1,161,074	$	165,868
St. Edmund's Oasis, LLC	36	$	5,901,738	$	163,937
Brinshore Development	86	$	13,883,701	$	161,438
KMA Holdings	31	$	4,983,419	$	160,755
New Homes by New Pisgah	19	$	2,977,805	$	156,727
IFF	22	$	3,432,479	$	156,022
Karry L.Young Development, LLC	73	$	10,646,661	$	145,845
New Directions Housing Corporation	9	$	1,291,247	$	143,472
Celadon Holdings, LLC	49	$	6,979,005	$	142,429
Community Male Empowerment Project	6	$	849,584	$	141,597
Three Corners	38	$	5,262,338	$	138,483
Claretian Associates, Inc.	10	$	1,370,305	$	137,030
LCDC	15	$	1,916,862	$	127,791
POAH	130	$	15,664,793	$	120,498
New West Realty	21	$	1,912,195	$	91,057
Jarrell Lawndale Restoration	22	$	1,828,937	$	83,133
HB House Only	6	$	353,231	$	58,872
HB House + Assistance	13	$	636,338	$	48,949
HB Assistance Only	1	$	39,040	$	39,040
No Developer Listed	53	$	1,485,538	$	28,029
Grand Total	***863***	***$***	***137,172,712***	***$***	***158,949***

Source: Chicago Rehab Network Analysis of Third Quarter 2013 Progress Report, A-67-A-69

These kinds of analyses can help identify lessons to refine the programs that follow NSP. For instance, the City has stated that the Micro Market Recovery Program (MMRP) will pick up where NSP leaves off,

accomplishing neighborhood stabilization by coordinating the efforts of private and non-profit partners to leverage available City resources in small areas particularly affected by foreclosure and vacancy. While the Rehab Network strongly endorses the spirit of City's decision to engage the talent of local neighborhood leadership through MMRP, the resources provided through this program are miniscule compared to the scale of the foreclosure crisis. According to the 2014 Budget and Draft Action Plan, MMRP will have $600,000 to make single family home purchase grants, $600,000 to make single family rehabilitation grants, and $1.5 million for the purchase and redevelopment of vacant or foreclosed homes in Chicago Lawn, North Pullman and West Woodlawn.[1] This level of funding for MMRP reaches about 12% of the resources made available each year through six years of NSP. Planned to leverage other programs already at work, these MMRP resources are projected to assist about 80 buildings in 2014. Yet, 4,197 more foreclosed properties became Real Estate-Owned in our city in the first half of 2013 alone.[2] More resources are certainly needed to make an impact on the scores of foreclosures that plague almost every neighborhood in Chicago.

CHANGES TO FUNDING THROUGH THE TAXSMART PROGRAM – In a difficult housing finance environment where using every dollar available to the fullest is critical, it is disappointing to see a reduction in the number of homeowners that will be assisted through the TaxSmart Mortgage Certificate Credit Program (MCC). The TaxSmart Program assists first-time homebuyers in buying 1 to 4 unit buildings to use as their primary residence by providing an income tax credit worth 20% of the interest on their mortgage. Since potential buyers pre-qualify for this program with the City's designated financial partners, those same lenders often use this credit as proof of additional income to help borrowers qualify for their mortgage. Couples making less than $90,960 and families making less than $106,120 living anywhere in the city can qualify for this credit to purchase buildings that cost up to $727,800, or $889,533 in targeted areas. This credit is available every year as long as the buyer continues to reside in the building. This program is a key tool supporting Chicago's middle class families and stabilizing communities.

This quarterly report reduced the total funds anticipated for the use of the TaxSmart program this year by $7.4 million, a 22% reduction overall of resources available to support affordable homeownership. The cause of this reduction is an open question to which the Rehab Network encourages the Department to respond.

AFFORDABLE RENTAL UNIT PRODUCTION SUMMARY – While City funds support a number of housing-related programs that contribute to the quality and affordability of Chicago housing—such as rental subsidies through the Chicago Low-Income Housing Trust Fund (CLIHTF), safety and code enforcement under the Heat Receivership program and the Troubled Buildings Initiative, as well as accessibility enhancements under the Site Improvement program—evidence of the City's quarterly production of rental housing should be separated from these programs because they do not contribute to net-new rental housing production or preservation.

In order to calculate net-new rental units, the Rehab Network starts with the City's projected number of rental units planned to receive subsidy this year, as well as the City's report of units completed in the various income brackets so far to date. We then subtract the units covered by those housing programs

[1] This money will leverage investments being made by the award of the Attorney General's community revitalization grants as a consequence of national foreclosure litigation.

[2] According to the Woodstock Institute's H1-2013 Chicago City and Regional Completed Foreclosure Auction Activity Fact Sheet, available online at http://www.woodstockinst.org/sites/default/files/attachments/foreclosurefactsheet_1H2013_woodstock.pdf

that are not *constructing or rehabilitating* rental housing, such as rental subsidies under the CLIHTF. Next, we compare year-to-date units produced with the number of new construction or rehab units the City planned to fund in 2013. Looking at the production numbers in this stripped-down way lets us understand how many affordable rental units are actually being added in Chicago throughout the year. We are pleased to announce today that three quarters of the way 2013, DPD has exceeded its commitment to new rental units. Through the first, second and third quarters, *the City has surpassed its goals by reaching 104% of its projected net-new rental units for 2013*. (Table 2).

Table 2. Rental Unit Production by Income, 2013 YTD (Q1 to Q3)

	YTD Total Units	0-15% AMI	16-30% AMI	31-50% AMI	51-60% AMI	60-80% AMI	81-100% AMI	101+% AMI	Total Projected Units by Year End
Total Subsidized Rental Units*	5,071	1,781	1,152	715	772	473	124	54	5,571
Less Rental Subsidy Units	*-2,668*	*-1,742*	*-926*	*0*	*0*	*0*	*0*	*0*	*-2,666*
*Less SI and HEAT***	*-482*	*-18*	*-80*	*-243*	*-128*	*-13*	*0*	*0*	*-892*
Less Troubled Buildings Initiative	*-764*	*0*	*-43*	*-134*	*-78*	*-447*	*-62*	*0*	*-900*
Net New Rental Units***	**1,157**	21	103	338	566	13	62	54	**1,113**

** Number of units is adjusted to account for a single unit's participation in more than one DPD program.*

*** Less Site Improvement and Heat Receivership units*

**** This figure represents affordable rental housing units created or preserved, and is adjusted to discount both annual rental subsidies (through the Chicago Low-Income Housing Trust Fund), and some other assistance, including the City's Heat Receivership, Site Improvement, and Troubled Building initiative programs.*

Source: CRN analysis of Third Quarter 2013 Progress Report, A-8

The City is similarly on-track to meet its planned spending on Multifamily rental production, with 97% of this years' spending goals met. Unfortunately, due to the retooling of the TaxSmart program, the City has only reach 61% of its single-family housing goals for 2013. (Table 3).

Table 3. Affordable Housing Commitments Compared to Goal, 2013 (Q1 to Q3)

	Total Projected Funding by Year End	First Quarter Commitments	Second Quarter Commitments	Third Quarter Commitments	Progress Year-to-Date	Percent of Goal Met
Multifamily	$266,302,599	$102,505,229	$76,605,322	$78,695,650	$257,806,201	97%
Single-Family	$33,460,056*	$11,108,172	$4,142,555	$5,078,596	$20,329,323	61%
Improvement and Preservation	$12,074,500	$1,515,128	$3,649,047	$3,774,864	$8,939,039	74%
Total	*$304,426,664*	*$115,128,529*	*$84,396,924*	*$87,549,110*	*$287,074,563*	*94%*

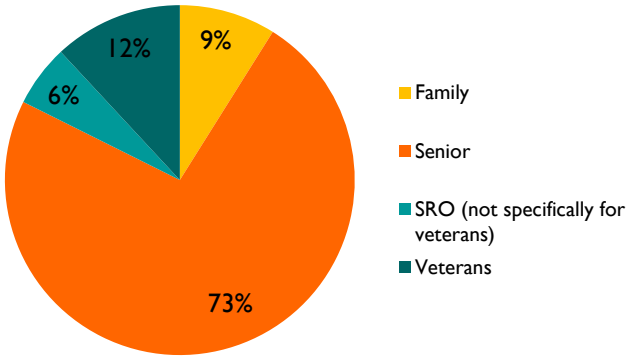
**$33,460,056 was the original amount planned to spend in 2013 on homeownership initiatives. This quarter it was reduced to $26,049565 to account for a $7.4 million reduction in the TaxSmart Program. Current single-family commitments ($20,329,323) are 78% of that reduced single-family spending goal.*

Source: CRN analysis of Third Quarter 2013 Progress Report, A-5 – A-7

Although the City has exceeded the number of its planned net-new rental units, those units are still small and predominantly intended for seniors. Of those rental units financed in 2013, 153 (14%) were studios, and 701 (62%) were 1-bedroom. Only 129 (11%) were 3-bedrooms, and 6 (1%) were 4-

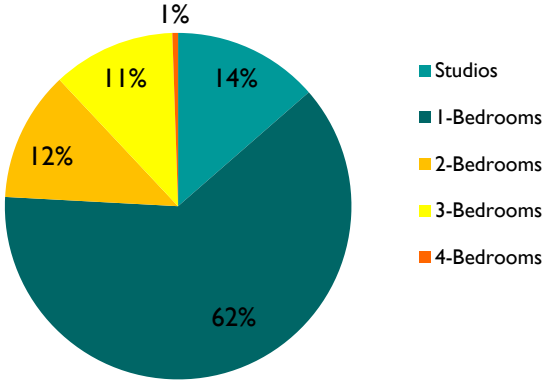
bedrooms. (Chart 2). In addition, although only 15% of Chicagoans living in poverty are 55 or older[3], 73% of the affordable rental housing built this year was intended for seniors. (Chart 1). In a city having trouble holding on to family households, this continues to be a troubling fact.

Chart 1. Rental Units Produced by Type, 2013 YTD



Source: CRN analysis of 2013 Progress Report, Progress Summaries

Chart 2. Rental Units Produced by Size, 2013 YTD



Source: CRN analysis of Third Quarter 2013 Progress Report, A-8; A-11

This trend toward small unit sizes and a preponderance of senior housing is not new. To date, 60% of the units provided under the 2009-2013 Affordable Housing Plan were studios or 1-bedrooms. The Rehab Network urges the City to make family housing a priority in the 2014-2018 Plan.

Table 4. Affordable Rental Units Financed by Size, 2009 to 2013YTD (Q3)

Year	Number of Developments	Studios	1-Bedrooms	2-Bedrooms	3-Bedrooms	4-Bedrooms	5+-Bedrooms
2009	8	76	421	126	106	19	-
2010	13	131	682	464	334	23	-
2011	9	189	178	161	103	28	-
2012	7	91	307	177	102	20	2
2013 - Q1	3	44	247	38	84	5	-
2013 - Q2	4	-	284	72	32	-	-
2013 - Q3	5	109	170	27	13	1	-
All Years	***49***	***640***	***2,289***	***1,065***	***774***	***96***	***2***
Percentage	***100%***	***13%***	***47%***	***22%***	***16%***	***2%***	***0%***

Source: CRN analysis of "Approved Multifamily Developments" in Affordable Housing Progress Reports from 2009 to 2013 (Q3)

[3] *According to the 2013 American Community Survey (B17001)*

Approved Multifamily Developments

The City Council approved financing for five multifamily projects this quarter:

Senior Suites of Norwood Park

Through the adaptive reuse of the 103 year-old Passionist Fathers Monastery at Harlem and Talcott, Senior Suites of Chicago will develop 84 units of senior housing. 80 of these units will be affordable to seniors with incomes less than 60% of AMI, or about $31,000 for a single senior. 30 apartments will be inside the monastery itself, while an additional 54 will be constructed in a new building added on the site. The project will feature studio, one- and two-bedroom units. A neighborhood landmark on the National Register of Historic Places, the conversion of the Passionist Fathers Monastery to rental housing was able to tap $1.5 million in historic preservation tax credits for this project.

Income targets:

- 21 studio, one- or two-bedroom units at or below 30% AMI
- 13 studio, one- or two-bedroom units at or below 50% AMI
- 46 studio, one- or two-bedroom units at or below 60% AMI
- 4 market rate one- or two-bedroom units

Total development cost: $23.9 million **Per unit cost**: $284,468

Veterans New Beginnings

Directly south of its property near 82nd and Racine, New Pisgah M.B. Church will construct a 54 unit SRO building serving homeless veterans. This 100% affordable development will also provide extensive on-site supportive services, including case management, substance abuse counseling and GED preparation. Veterans New Beginnings was primarily financed by equity derived from LIHTCs provided both by the City and the State of Illinois.

Income targets:

- 14 studio units at or below 30% AMI
- 19 studio units at or below 50% AMI
- 21 studio units at or below 60% AMI

Total development cost: $13.9 million **Per unit cost**: $257,420

Lake Street Studios

Through a partnership between Interfaith Housing and Mark IV Realty, 61 SRO units will be constructed on Lake Street at the Kennedy Expressway. This new 9-story building topped by a roof garden will be constructed on the cleared former site of the Mellos Peanut Factory. The Lake Street Studios development will deliver 54 Project-Based Section 8 units, and provide on-site supportive services for single adults who are homeless or at-risk of homelessness. The City provided $3.1 million in TIF funds for this project.

Income targets:

- 7 studio units at or below 30% AMI
- 54 studio units at or below 50% AMI

Total development cost: $17.1 million **Per unit cost**: $281,779

The Kilpatrick Renaissance

This new senior development will add 91 affordable apartments near Cicero and Milwaukee on the northwest side. This four-story building features townhouse-style facades and numerous amenities to facilitate independent living for low-income Chicagoans 55 and above. The City provided $900 thousand Multi-Year Affordability Through Upfront Investment (MAUI) dollars from the CLIHTF to subsidize the cost of ultra-low cost units in this development.

Income targets:

- 5 studio units at or below 15% AMI
- 5 studio units at or below 30% AMI
- 26 studio units at or below 50% AMI
- 54 studio, one- or two-bedroom units at or below 60% AMI
- 7 market rate studio, one- or two-bedroom units
- 1 caretaker unit

Total development cost: $21.4 million **Per unit cost**: $218,366

Bronzeville Family Apartments II

This development will complete the replacement of the aged Paul G. Steward Apartments near Pershing and King Drive, which were damaged by extensive foundation settlement. In order to preserve this long-time Project-Based Section 8 development, Phase II of this redevelopment will consist of 24 affordable units for families inside 2 new 3-story walk-up townhouse-style buildings. Phase I and II combined provide 90 units of affordable family housing.

Income targets:

- 7 two- or three-bedroom units at or below 30% AMI
- 17 two- or three- or four-bedroom units at or below 60% AMI

Total development cost: $9.6 million **Per unit cost**: $399,000

Conclusion

Today in Chicago, our research shows that 50% all households pay more than 30% of their income for housing. We are not alone in this condition. In the past ten years, housing insecurity has swept the nation, due in part to declining middle-class incomes, to increased demand for rental housing post-crash, and to reductions in key federal resources that support housing. HUD Secretary Shaun Donovan acknowledged this disaster, noting Monday that "we are in the midst of the worst rental affordability crisis this country has known."[4]

New research released this week by Harvard agrees, stating that "the time has come to recommit [to the nation's] longstanding goal of assuring that every American can afford a decent home in a suitable living environment."[5] This study goes on to point out that the public sector must spearhead this process by finding new resources for housing, since "greater efficiency and better targeting alone are not enough to bring existing assistance programs to the scale necessary to meet the country's spiraling need for affordable housing."

Housing needs in Chicago are no less acute than across the nation. We are, however, particularly well-placed to face these challenges. Chicago's rich CDC capacity, paired with our vibrant business community, native financial centers, and long history of fruitful collaboration between the City and communities prepares us to lead the nation in innovative solutions to this affordability crisis. This Five Year Affordable Housing Plan can be an instrument for claiming that future, but only with a full commitment from the City to fully fund housing and develop new resources. Let's all work together to make sure we protect housing as a fundamental right and the critical building block of strong communities in 2014.

[4] Lowrey, A. (2013 December 9). "The Poor are Squeezed as Rental Demand Soars," *New York Times*. http://www.nytimes.com/2013/12/10/business/economy/the-poor-are-squeezed-as-rental-housing-demand-soars.html

[5] Joint Center for Housing Studies at Harvard. (2013) *"America's Rental Housing: Evolving Markets and Needs"*. http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf