Chicago Rehab Network Legacy 35

Analysis of the First Quarter 2015 Housing Report

***Bouncing Back:* Five Year Housing Plan, 2014-2018**
Presented June 8, 2015

Introduction

Chicago Rehab Network is pleased to present our review of the Department of Planning and Development's first quarter of 2015 Housing Progress Report to the members of the Committee of Housing and Real Estate and Chicago City Council at large. We congratulate Alderman Joe Moore on assuming the chairmanship of this critical committee. The Rehab Network, joined by over two hundred allies, led the fight for the 1993 Housing and Community Jobs Ordinance that established both the practice of creating five year affordable housing plans and requiring the Department of Planning and Development to report quarterly to aldermen and the public on its progress toward these goals. Today, we are reporting on the fifth five year affordable housing plan, "Bouncing Back". We look forward to working together with Chairman Moore and this committee through this next chapter to advance policies that strengthen Chicago communities.

Earlier this month at a subject matter hearing before members of the Illinois House, CRN released a new report, *Illinois Housing by the Numbers*, which outlines changes in housing and quality of life indicators in all 102 Illinois counties between 2000 and 2010. The report finds that housing insecurity has increased in the majority of counties for both renters (92 out of 102 counties) and owners (98 out of 102 counties). Households struggling with housing insecurity experience consequences in all dimensions of financial well-being, including paying for health care and prescriptions, meeting debt obligations, saving for retirement and purchasing healthy food. They are also more likely to move frequently, more vulnerable to homelessness, and less likely to make some consumer purchases that stimulate the local economy. We have attached the executive summary of this report for your information.

This research demonstrates that mounting housing insecurity is impacting families across Illinois—not just in Chicago. The need in our communities is growing, while the resources available for assistance from a federal level are shrinking. For this reason, CRN has lobbied throughout the spring to renew the Illinois Affordable Housing Tax Credit (IAHTC), which is also known as the Donation Tax Credit. The IAHTC encourages private investment in affordable housing by providing sponsors with a tax credit equal to 50% of the donation on their Illinois tax liabilities. Without action by the lawmakers in Springfield, this innovative and flexible source of financing will sunset in 2016. In FY2015, IAHTC allocations to the City of Chicago were over $6 million.

CRN encourages all aldermen to contact their state representatives to let them know how important the renewal of the IAHTC is to Chicago. Even in these fiscally difficult times, we cannot balance the budget on the backs of the poor and the middle class. Growing research demonstrates the economic fragility of our families. For instance, the just-released Federal Reserve Board of Governor's annual survey of the economic wellbeing of U.S. households found that nearly half (47%) of respondents say they either could not cover an emergency expense costing $400, or would cover it by selling something or borrowing money.[1] Regardless of the precariousness of many families' position in the wake of the Great Recession, housing and utility cost continue to rise at a rate that far outpaces income growth. The National Low-Income Housing Coalition estimates that workers need to $21.02 per hour to afford the typical two bedroom apartment in Cook County, or—in the alternative—work 102 hours per week at minimum wage.[2]

City Council took an affirmative step in the right direction by raising the wage floor for Chicago workers. The key support to leverage this decision is to continue to fight for the resources to provide cost controlled housing to anyone who wants to live in and contribute to Chicago's future. We look forward to the leadership of this committee in advancing policies that help build a more sustainable and equitable Chicago.

Analysis of First Quarter 2015 Housing Activities

Since 1994, the Chicago Rehab Network has analyzed the City of Chicago Department of Planning and Development's quarterly housing reports, which are produced in accordance with the City's five year housing plans and follow the Housing and Community Jobs Ordinance. This report covers the first quarter of 2015.

EXECUTIVE SUMMARY

- In the first quarter of 2015, DPD reached 29% of planned spending on this year's housing goals, investing $73.7 million on affordable rental, home ownership and preservation goals.
- City support impacted 318 new construction or rehab affordable apartment units (including units produced through multifamily projects, the Neighborhood Stabilization Program and inclusionary zoning ordinances) in 2015-Q1. This is 25% of the annual goal.
- Of the net-new units committed in 2015-Q1, 43% were for families and 15% were for veterans.
- Of the net-new rental units, the majority (65%) were for households making 50-60%AMI, or between $38,000 and $45,600 per year for a family of four.
- There were three new projects greenlighted by DPD in the first quarter: one family, one veteran, and a minor emergency rehab.
- So far in 2015, five SRO Hotels have come up for sale and are subject to the SRO Preservation Ordinance through July or October of this year.
- The Illinois Supreme Court overturned the finding of a lower court to confirm the constitutionality of the recordation fee that form the basis of the Illinois Rental Housing Support Program, a major source of funding of the Chicago Low-Income Housing Trust Fund.

AFFORDABLE RENTAL UNIT PRODUCTION SUMMARY– The Department of Planning and Development is off to a good start in 2015, meeting 29% of its overall annual resource allocation goals through the end of the first quarter (table 1). Investment in affordable rental programs led the funding picture, while improvement and preservation initiatives lagged. This is a normal structural feature of the

[1] Federal Reserve Board of Governors (2015) "Report on the Economic Well-Being of U.S. Households in 2014", available online at http://www.federalreserve.gov/econresdata/2014-report-economic-well-being-us-households-201505.pdf

[2] National Low-Income Housing Coalition (2015) "Out of Reach 2015", available online at http://nlihc.org/oor/illinois

Department's yearly investments, as annual rental subsidies through the Chicago Low-Income Housing Trust Fund (CLIHTF) are counted as expended in Q1, while investments in the homeownership and repair programs continue throughout the year, with many ramping up in later quarters. Nonetheless, the Department is on track with homeownership programs through the first quarter, investing $7 million in 77 affordable units for purchase—22% of the annual resource allocation goal.

Table 1 – Affordable Housing Dollar Commitments Compared with Annual Goal, 2015-Q1

2015-Q1 Affordable Housing Investment Picture	Total Anticipated Funds by Year End	First Quarter Commitments	Percent of Goal Met
Rental	$206,436,492	$64,447,714	31%
Ownership	$33,048,328	$7,203,170	22%
Improvement and Preservation	$14,648,694	$2,015,463	14%
Total	***$254,133,514***	***$73,666,347***	***29.0%***

Source: CRN Analysis of DPD 2015 First Quarter Progress Report

The impact of recording CLIHTF investments in Q1 is even more easily seen in the City's progress toward annual unit commitments: 2,809 (84%) of the rental units funded in 2015-Q1 were CLIHTF subsidies. Accounting for these contracts drove much of DPD's achievement of multifamily goals (63%) through the end of Q1 (table 2).

Table 2 – Affordable Housing Unit Commitments Compared with Annual Goal, 2015-Q1

2015-Q1 Units Served	2015 "Bouncing Back" Projected Units	2015-Q1 Units	Percent of Goal Met
Multi-Family*	5,625	3,544	63%
Single-Family	473	77	16%
Improvement and Preservation	2,137	278	13%
Total	*8,235*	*3,899*	*47%*

** For Q1, the vast majority (89%) of these units are annual CLIHTF subsidies, which support approximately 3,000 households every year*

Source: CRN Analysis of DPD 2015 First Quarter Progress Report

The CLIHTF is an important, flexible source of public-private housing support for some of the most vulnerable families in our city. However, counting these units in the same way as new construction or rehabilitation projects receiving City support obscures the number and proportion of new projects moving forward. To get a clearer look at net-new affordable rental units funded by the City through non-profit and for-profit developers so far in 2015, CRN strips away CLIHTF subsides and two key preservation programs that do not directly add to the affordable housing stock in Chicago (table 3).

Table 3 – Net-New Affordable Housing Unit Commitments Compared with Annual Goal, 2015-Q1

2015-Q1 Affordable Apartment Production	Year to Date Units Committed (Actual)	0-15%	16-30%	31-50%	51-60%	60-80%	81-100%	101+%	Total Units Planned by Year End (Goal)
Total Subsidized Rental Units	3,544	1,620	1,199	65	625	-	-	35	5,625
Less CLIHTF Rental Subsidy Units	*2,809*	*1,620*	*1,189*	-	-	-	-	-	*3,000*
Less Heat Receivership Units	*312*				*312*		-	-	*600*
Less MF Troubled Building Initiative Units	*105*	-			*105*			-	*750*
Net New Rental Units**	318	-	10	65	208	-	-	35	1,275

** This figure represents multi-family affordable 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 some other assistance, including the City's Heat Receivership and Troubled Building programs.

Source: CRN Analysis of DPD 2015 First Quarter Progress Report

In order to calculate how many units receiving City funds this quarter expand the net availability of income-limited apartments, the Rehab Network starts with the City's projected number of rental units planned to receive subsidy this year (5,625), as well as the City's report of units completed in the various income brackets so far to date (3,544). We then subtract the units covered by those housing programs that are not constructing or rehabilitating rental housing, including rental subsidies under the CLIHTF (-2,809). Next, we compare year-to-date units actually funded (318) with the number of new construction or rehab units the City plans to fund in 2014 (1,275). 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.

From this stripped down analysis, we see that the City has provided resources for 318 net-new affordable rental units so far in 2015 (table 4). This is right on track for the first quarter: 25% of projected net-new units for 2015. This quarter, these units come from three main sources: on-site rental units covenanted through the Affordable Requirements Ordinance, Neighborhood Stabilization Program rental units, and three new projects receiving multifamily loans or tax credits directly from the Department of Planning and Development.

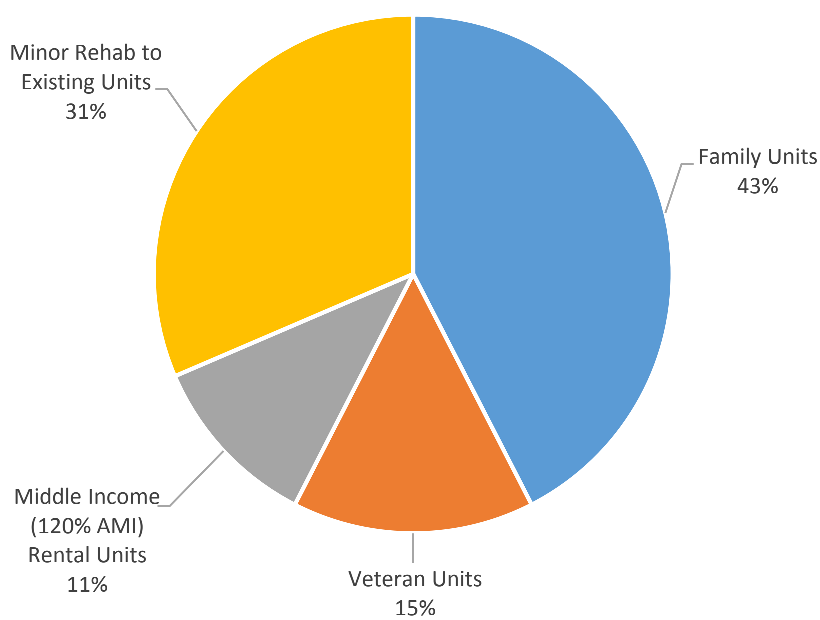
Table 4 – Description of Net-New Affordable Housing Unit Commitments, 2015-Q1

Quarter	Project / Source of Units	# Units
Q1	ARO Rental Units Covenanted	24
Q1	Multifamily Neighborhood Stabilization Rental Units	67
Q1	65th Infantry Regiment Veteran's Housing	49
Q1	Park Place Family Apartments	78
Q1	Hilliard Homes Window Replacement	100
	Total Net-New Affordable Rentals	**318**

Source: CRN Analysis of DPD 2015 First Quarter Progress Report

Among the 318 net-new rental units that were funded this quarter, the majority were for families (43%) (Chart 1) with incomes below 60% AMI—$45,600 per year for a family of four. CRN commends DPD for continuing to invest in family housing in 2015.

Chart 1 – Net-New Affordable Rental Units by Type, 2015-Q1



Source: CRN Analysis of DPD 2015 First Quarter Progress Report

APPROVED RENTAL DEVELOPMENTS - *City Council approved financing for three affordable rental project this quarter:*

<u>65TH INFANTRY REGIMENT VETERANS HOUSING</u>

This new construction project by CRN member Hispanic Housing will add 48 affordable units for veterans and their families in the 26th Ward near Humboldt Park. 65th Infantry Regiment Veteran's Housing will operate through the HUD-Veteran's Affairs Supportive Housing (HUD-VASH) program, which combines Housing Choice Voucher (HCV) rental assistance for homeless veterans with case management and clinical services through the Department of Veteran's Affairs. In coordination with the Jesse Brown VA Medical Center, neighboring Norwegian American Hospital (the donor of the land for the project) will provide supportive services for tenants. This four story elevator building will include environmentally friendly features, such as low VOC paint and energy efficient systems and appliances, as well as onsite amenities, including fitness and community space. To support this project, the City has provided a $1.5 million 0% loan and 9% LIHTCs generating over $11.6 million in equity.

Income targets:

- 10 one-, two- or three-bedroom units at or below 30% AMI
- 38 one-, two- or three-bedroom units at or below 60% AMI

Total development cost: $14.9 million Cost per unit: $305,645

<u>PARK PLACE FAMILY APARTMENTS</u>

Brinshore Development is building 78 affordable family units in a combination of 14 walk up buildings near Archer and Pulaski in the 14th Ward. The project is the first phase of a multi-phase development that will ultimately include affordable senior apartments, for-sale townhomes, a community center, and a park on the 14.2-acre site. Bank of America provided a $1 million grant to support Park Place Family Apartments. City support for this project includes a $6.5 million 0% loan, $875,000 in Illinois Affordable Housing Tax Credit (Donation Tax Credit) equity, and 9% LIHTCs generating over $16.8 million in equity.

Income targets:

- 32 one-, two- or three-bedroom units at or below 50% AMI
- 46 one-, two- or three-bedroom units at or below 60% AMI

Total development cost: $25.9 million Cost per unit: $332,358

<u>HILLIARD HOMES WINDOW REPLACEMENT</u>

Hillard Homes, landmark low-income housing designed by Marina City-architect Bertrand Goldberg, must have the windows replaced in 100 units. Although the 654-unit development was completely rehabilitated in the early 2000s according to established historic preservation standards, many elliptical windows on lower four levels of the iconic towers have deteriorated considerably and must be replaced. The City is providing a $561,373 0% loan to facilitate this rehab.

Total development cost: $1 million Cost per unit: $10,276

Policy Updates

ILLINOIS SUPREME COURT UNANIMOUSLY UPHELD THE CONSTITUTIONALITY OF THE ILLINOIS RENTAL HOUSING SUPPORT PROGRAM – In a unanimous opinion filed May 21, 2015, the Illinois Supreme Court overturned the ruling of a lower court that found the $10 real estate recordation fee that funds the state's Rental Housing Support Program (RHSP) unconstitutional (*Marks v. Vanderventer*, 2015 IL 116226). Created in 2005 to address pressing need statewide for housing affordable to extremely low-income individuals, approximately 43% of the annual RHSP allocation goes by formula to the Chicago Low-Income Housing Trust Fund (CLIHTF)[3]. Along with resources delivered through the Affordable Housing Opportunity Fund, the RHSP is critical to the continued operation of the CLIHTF, which provides rental subsidies to approximately 3,000 extremely low-income Chicago households every year.

Writing for the court, Justice Anne Burke recognized the foundational role of affordable housing in communities, noting that

> *By helping provide affordable housing to low-income Illinois families throughout the State, the statute provides needed housing security to Illinois residents. In addition, by providing financial stability to vulnerable residents, lowing tenant turnover by subsidizing rents, and providing a more stable income stream to landlords, the statute decreases the number of vacant and abandoned buildings and increases opportunities for building owners to maintain their property. This improves property values.* [4]

The Court went on to find that the real estate surcharge achieves the "legitimate goals" of providing affordable housing and improving property values, which are, in the opinion of the Court, "legitimate government interests."

The Rehab Network applauds the Illinois Supreme Court for defending this critical source of housing security for our most vulnerable neighbors.

SINGLE ROOM OCCUPANCY (SRO) PRESERVATION ORDINANCE ACTIVITY – One new property has triggered the Notice of Intent to Sell or Transfer Property under the Single Room Occupancy Preservation Ordinance (Chicago Municipal Code Title 5 / Chapter 5-15) since DPD's last quarterly hearing. It joins four more SRO hotels already in the preservation period[5]:

Notification: April 17, 2015 — End of SRO Preservation Period: October 14, 2015

Mark Twain Hotel at 101-13 W. Division in the 27th Ward

Contact: Laura Eisenberg | 702-860-5777

[3] Center for Community Change (2015) "Chicago Low-Income Housing Trust Fund Celebrates 25 Years" http://housingtrustfundproject.org/chicago-low-income-housing-trust-fund-celebrates-25th-anniversary/

[4] *Marks v. Vanderventer*, 2015 IL 116226, ¶27, available online at http://www.illinoiscourts.gov/Opinions/SupremeCourt/2015/116226.pdf

[5] 180 days (6 moths) after DPD communicated the notice of intent to sell under the SRO Preservation Ordinance.

Notification: January 16, 2015 End of SRO Preservation Period: July 15, 2015

2001-03 N. California in the 1st Ward

Contact: Sperry Van Ness / Chicago Commercial | 312-756-7332

Notification: January 28, 2015 End of SRO Preservation Period: July 27, 2015

Marshall Hotel at 1232 N. LaSalle in the 2nd Ward
Carling Hotel at 1512 N. LaSalle in the 27th Ward
Darlington Hotel at 4700 N. Racine in the 43rd Ward

Contact: Lawrence Dolins | 312-664-3080

The City's leadership is needed to convene a conversation around and generate solutions to impediments to mission-based organizations making use of the preservation period to divert SRO units from condo conversion. Identifying impediments and generating strategies to overcome them will help increase the capacity of preservationist to take advantage of the 180 day waiting period and requirement for "good faith negotiations" in the ordinance. Without these gap-filling measures, the SRO preservation periods will pass unused and the city will continue to hemorrhage SRO units at a time when the demand for affordable housing is at a record high.

ONGOING REPORTING ON THE AFFORDABLE REQUIREMENTS ORDINANCE AND AFFORDABLE HOUSING OPPORTUNITY FUND – CRN applauds DPD for responding to criticisms presented in previous quarterly reports regarding accurate reporting of revenues and units delivered by the Affordable Requirements Ordinance (ARO) and Density Bonus. New in 2015-Q1, DPD is no longer counting in-lieu fees collected as affordable housing resources committed, adjusting their practices to instead count these monies as committed when loans are made from the Affordable Housing Opportunity Fund. Along with the "projects in pipeline" reporting introduced in 2014-Q4, this reporting refinement shows real DPD responsiveness to community concerns over government transparency and accountability.

We are confident that this trend will continue as DPD gathers stakeholder input on the implementation of the ARO Zone map specified in the revised ordinance passed in April. The 2015 ARO replaces the currently existing in-lieu fee structure ($100,000 for each unit not built) with a tiered fee structure based on existing zoning or local measures of income. The ordinance itself does not define the criteria for the zones, but instead provides for the Department to define a custom map with stakeholder input. This month, DPD announced a framework for the zones and released three versions of their zone map for public comment.

The three zones / fee tiers include:

> **DOWNTOWN** – For properties currently in the downtown zoning category, a $175,000 to $225,000 per unit opt-out fee.

HIGHER-INCOME – For properties located in communities where more than half of households make more than 60% AMI ($31,920 for one person, $45,600 for a family of four) and less than a quarter of households are living in poverty, a $125,000 per unit opt-out fee.

LOWER-INCOME – For properties located in communities where more than half of households make less than 60% AMI ($31,920 for one person, $45,600 for a family of four) and more than a quarter of households are living in poverty, a $50,000 per unit opt-out fee.

These zones relate not only to the tiered opt-out fees, but also dictate a number of additional rights and responsibilities for the developer, including the ability to build some units offsite and to contract with the CHA (table 5).

Table 5 – Developers Rights and Responsibilities by Zone, 2015 ARO

Options to meet the ARO	Low-Moderate Income Areas: Rental and For-Sale	Higher Income Areas: Rental and For-Sale	Downtown: Rental	Downtown: For-Sale
Construct required units on-site and pay no in-lieu fee	X	X	X	X
Place at least 1/4 of the required 10% affordable units (20% if the City provides financial assistance) on-site and pay a fee-in-lieu per any remaining units	X $50,000 in-lieu fee	X $125,000 in-lieu fee	X $175,000* in-lieu fee *$140,000 through April 15, 2016	
ARO Transit-Served Location bonus	X	X	X	X
Lease or Sell Units to the CHA or other authorized agency and receive a $25,000 In-Lieu Fee Reduction		X	X	X
Off-Site Option: within two miles and in a higher income area		X	X	
Off-Site Option: anywhere				X
No on-site units – with $225,000* in-lieu premium *$160,000 through April 15, 2016				X

Source: DPD Announcement: "Public Comments for ARO Map and Rules/Regulations Open Through June 26"

In all three zone maps provided by the Department for comment (see the appendix), these same criteria are used. However, differences in the map persist based on how the information is aggregated. Map 1 compares incomes and poverty rates by census tract, while map 2 and map 3 use households and physical area, respectively, to normalize the information presented in map 1. In this case, normalization is a statistical approach intended to make community areas of unequal size and population comparable.

DPD is collecting public comments on their proposed zone maps through June 26, 2015.[6] The Rehab Network is preparing formal comments that address the details of the proposal. In the interim, however, it may be helpful to think about two issues arising out of the zone designation: time and gentrification pressures. Once adopted, this map will define the fee zones for the purposes of the ARO for a five year period. Are these indicators stable enough to persist as meaningful for five year periods? Understanding that the development community needs a predictable regulatory framework to move projects forward, is five years too long to "lock in" certain census tracts or community areas with a lower opt-out fee? There is concern among community development practitioners that this scheme may unintentionally accelerate gentrification in rapidly changing neighborhoods.

[6] *Comments about the maps and the rules and regulations should be submitted to ARO@cityofchicago.org or delivered or mailed to ARO Public Comment, 121 N. LaSalle St., 10th Floor, Chicago IL 60602. All comments must be received by 4 p.m. Friday, June 26, 2015.*