



# Analysis of the Fourth Quarter 2014 Housing Report

*Bouncing Back: Five Year Housing Plan, 2014-2018*

Presented March 19, 2015

## Introduction

HUD Secretary Julian Castro shocked the crowd at the City Club this past Monday with the fact that the number of low-income American households spending more than half their income on housing but receiving no subsidy exceeds the combined populations of Chicago, LA and Dallas.<sup>1</sup> This staggering reality confirms the enormity of the affordable housing crisis facing America today—something those in this body doubtlessly see playing out every day in the communities you serve. But rather than to elicit a lament, this destabilizing condition underscores the need for a greater response.

On Wednesday, March 18, the City Council unanimously passed the amended Affordable Requirements Ordinance (ARO). This amendment strengthens the municipal code, using balanced development principals to increase resources for and production of affordable housing through the vigor of the private market. Let us use the passage of the ARO as a spring board for redoubling our efforts to rebuild public and private commitment to the agenda of equitable development that is a necessary cornerstone of democratic life.

## Analysis of Third Quarter 2014 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 fourth quarter of 2014 and looks back at 2014 in its entirety.*

### EXECUTIVE SUMMARY

- DPD ended 2014 spending 30% more overall on housing programs than initially planned, reaching \$344,116,173 in total spending for the year.
- Most of this additional investment comes from public-private spending on multifamily programs, where more than expected generation of LIHTC equity and collection of funds through the ARO helped tip DPD to 148% of the 2014 spending goal.
- DPD failed to reach affordable ownership goals, committing only 53% of the funds budgeted for single family and other ownership programs.
- Out of its net-new affordable rental unit production goals (including units produced through new multifamily projects, TIF purchase-rehab and the ARO), DPD reached 66% of goal, falling short by 499 units.

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<sup>1</sup> Esposito, Stephan (2015) "HUD chief: U.S. faces crisis in affordable housing." *Chicago Sun-Times*. Available online at <http://chicago.suntimes.com/news/7/71/425763/hud-chief-u-s-faces-crisis-affordable-housing>

- Of the net-new units funded in 2014, 39% were for families, 32% were for seniors, and 13% were for CHA tenants. The remainder were dedicated to supportive/accessible housing (8%), the market-rate component in mixed-income developments (7%), or were for artists (1%).
- Of the net-new rental units, the majority (54%) were for households making 50-60%AMI, or between \$36,200 and \$44,160 per year for a family of four.
- There were four new projects greenlighted by DPD in the fourth quarter: two family and two senior.
- So far in 2015, four SRO Hotels have come up for sale and are subject to the SRO Preservation Ordinance until July of this year.

**AFFORDABLE RENTAL UNIT PRODUCTION SUMMARY**– The Department of Planning and Development achieved substantial and greater than expected investment in affordable housing programs in 2014. The greatest driver of this investment was an additional \$101 million dollars the Department brought to bear in multifamily programming, where it reports achieving 148% of resource allocation goals for the year (table I).

**Table I – Net-New Affordable Rental Units Funded the City of Chicago, 2014**

2014 Affordable Housing Investment Picture	Total Anticipated Funds by Year End	First Quarter Commitments	Second Quarter Commitments	Third Quarter Commitments	Fourth Quarter Commitments	YTD Commitments	Percent of Goal Met
<b>Rental</b>	\$209,421,492	\$34,144,476	\$56,458,613	\$105,464,572	\$114,785,477	\$310,853,138	148%
<b>Ownership</b>	\$40,528,328	\$7,815,094	\$4,409,997	\$3,279,188	\$5,947,013	\$21,451,292	53%
<b>Improvement and Preservation</b>	\$14,762,500	\$2,432,922	\$3,264,801	\$3,416,570	\$2,697,450	\$11,811,743	80%
<b>Total</b>	<b>\$264,712,320</b>	<b>\$44,392,492</b>	<b>\$64,133,411</b>	<b>\$112,160,330</b>	<b>\$123,429,940</b>	<b>\$344,116,173</b>	<b>130.0%</b>

In a city with serious budget concerns, it can be surprising to see \$101 million in extra investment anywhere. Table 2 below describes in detail program spending that deviates from the goals DPD set out for 2014. A closer examination shows that 81% of this extra \$101 million comes from greater than expected generation of LIHTC equity (\$64.3 million) and collection of funds through the ARO (\$17.7 million).

**Table 2 – Multifamily Spending Compared with Goal, 2014**

Multifamily Housing Initiatives	% of Goal	\$\$ value +/- goal
LIHTC Equity - 4% Credits	436.1%	\$ 26,885,687
LIHTC Equity - Other	-	\$ 19,182,061
LIHTC Equity - 9% Credits	130.9%	\$ 18,204,036
Affordable Requirements Ordinance (ARO Rental Units)	690.0%	\$ 17,700,000
Multifamily Loans - HOME	190.0%	\$ 12,870,862
Mortgage Revenue Bonds	119.0%	\$ 11,400,000
Multifamily Loans - TIF/Corporate	139.7%	\$ 7,934,878
Illinois Affordable Housing Tax Credit (value of donations/equity)	196.5%	\$ 3,668,251
Multifamily Loans - CDBG	210.3%	\$ 1,654,887
MAUI Capital Funds - AHOF	290.3%	\$ 590,000
Heat Receiver	141.0%	\$ 410,068
Troubled Buildings Initiative -- Multi-family	105.3%	\$ 143,268
Chicago Low-Income Housing Trust Fund Rental Subsidy Program	97.6%	\$ (356,979)
MAUI Operating Funds (Affordable Housing Opportunity Fund)	38.1%	\$ (674,200)
MAUI Capital Funds - LTOS (IHDA)	0.0%	\$ (780,000)
Neighborhood Stabilization Program -- Multi-family	0.0%	\$ (1,791,492)
Multifamily Loans - AHOF	0.0%	\$ (4,200,000)
City Land	14.3%	\$ (5,145,000)
TIF Purchase + Rehab -- Multi-family	10.5%	\$ (6,264,681)
<b>Total</b>		<b>\$ 101,431,646</b>

Source: CRN analysis of the 2014-Q4 report; A-4

It is wonderful to see these public-private tools work as intended, harnessing the market enthusiasm of private actors to generate resources for affordable housing. Can the Department share the processes and procedures that have allowed for this additional investment in multifamily buildings? If there is an emerging best practice driving the success of these tools—particularly the 4% LIHTCs—it would be helpful to share among local and statewide stakeholders.

Despite excellent achievements in multifamily goals, investment in affordable ownership opportunities only reached 53% of the City’s goal in 2014. The major drivers of this lower-than-planned spending were a \$16.4 million gap in certificates issued through the Tax Smart Mortgage Certificate program and \$6.1 million not lent through the Neighborhood Lending Program in 2014. Can the Department clarify the reason for this significant gap in single family spending? Are there needed partnerships or market conditions that could help these programs achieve their full potential?

In addition, among high levels of multifamily spending, DPD has only funded 66% of its net-new affordable rental unit commitment. (Table 3).

**Table 3 – Net-New Affordable Rental Units Produced Compared with Goal, 2014**

2014-Q4 Apartment Production	2014 Total Units Produced (Actual)	0-15%	16-30%	31-50%	51-60%	60-80%	81-100%	101+%	Total Projected Units by Year End (Planned)
Total Subsidized Rental Units	5,090	1,692	1,488	609	653	505	64	79	5,625
Less Rental Subsidy Units	2,813	1,636	1,177	-	-	-	-	-	2,813
Less Heat Receivership Units	526	53	129	257	59	28	-	-	600
Less MF Troubled Building Initiative Units	788	-	48	137	77	462	64	-	750
Net New Rental Units**	963	3	134	215	517	15	-	79	1,462

\*\* 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.

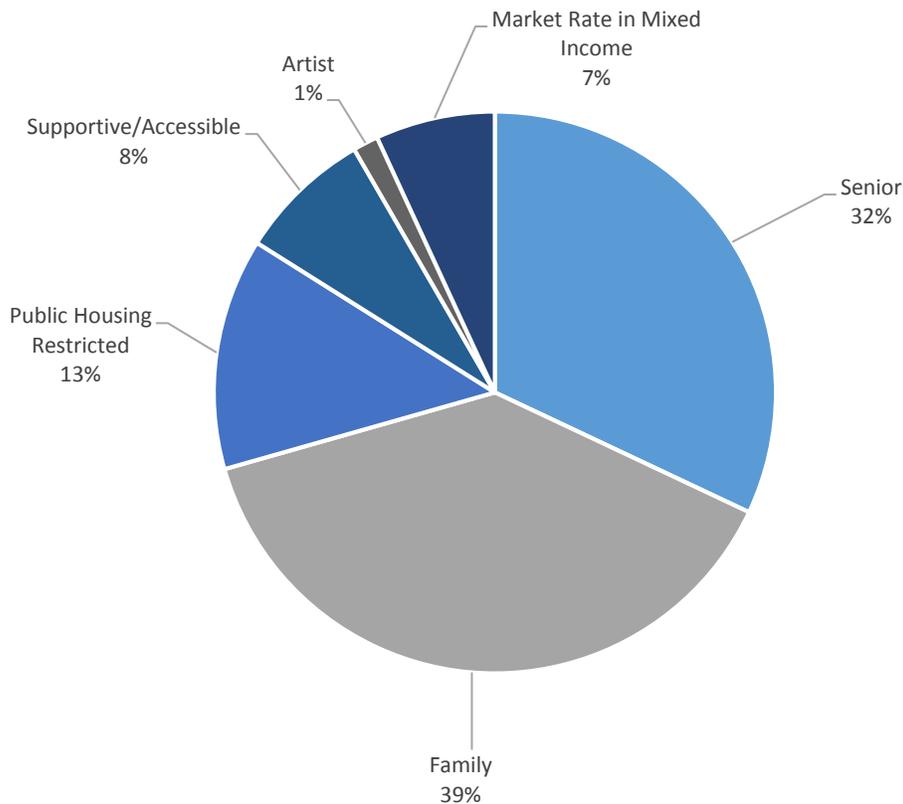
Source: CRN analysis of the 2014-Q4 report

How did we reach this number? While City funds support a number of housing-related programs that contribute to the quality, affordability and preservation of Chicago housing—such as rental subsidies through the Chicago Low-Income Housing Trust Fund (CLIHTF), or safety and code enforcement under the Heat Receivership program and the Troubled Buildings Initiative— we separate evidence of the City’s quarterly production of rental housing from these programs because they do not actively contribute to net-new affordable rental units in our city.

In order to calculate net-new rental units that do expand the availability of affordable housing, 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 (5,090) (Table 3). We then subtract the units covered by those housing programs that are not constructing or rehabilitating rental housing, such as rental subsidies under the CLIHTF (-2,813). Next, we compare year-to-date units actually funded (963) with the number of new construction or rehab units the City planned to fund in 2014 (1,462). 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.

Among the net-new rental units that were funded in 2014, the majority were for families (39%) and seniors (32%). (Chart I). CRN commends DPD for improving its share of investment in family housing in 2014.

Chart 1 - Units in Affordable Developments by Type, 2014



Source: CRN analysis of the 2014-Q1-Q4 reports

As has been the case in the past, the majority of net-new units receiving investment from DPD were in the 50-60% AMI bracket (54%), or for households making \$36,200 to \$44,160 for a family of four. (Table 4). This does not include DPD’s primary program for supporting extremely low-income households (below 30% AMI, or making less than \$21,700 for a household of four): subsidies through the Chicago Low-Income Housing Trust Fund, where 2,813 households received subsidy in 2014.

**Table 4 – Incomes Served by Net-New Affordable Rental Units, 2014**

2014-Q4 Apartment Production Distribution by Income	Year to Date Total Units Produced	0-15%	16-30%	31-50%	51-60%	60-80%	81-100%	101+%
Net New Rental Units**	963	3	134	215	517	15	-	79
Distribution of Units Produced by Income	100.0%	0.3%	13.9%	22.3%	53.7%	1.6%	0.0%	8.2%

Source: CRN analysis of the 2014 affordable housing production reports

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

**CASA QUERETARO**

This new construction project by CRN member The Resurrection Project will add 45 affordable family units in the Pilsen community at 17<sup>th</sup> and Damen. Planned on a previously City-owned vacant lot requiring extensive environmental remediation, Casa Queretaro is seeking LEED Silver status and will feature many environmentally friendly features, such as low VOC paint, permeable pavers and energy efficient systems and appliances. In addition, all of the units in this development are designed to be either accessible or visitable to people with disabilities. One third of the total units will be reserved for CHA tenants. To support this project, the City has provided a \$1.2 million HOME loan, \$4.3 million in TIF dollars and 4% LIHTCs generating over \$5.2 million in equity.

*Income targets:*

- 15 one- or two-bedroom units reserved for CHA tenants
- 9 one-, two- or three-bedroom units at or below 30% AMI
- 4 one- or three-bedroom units at or below 50% AMI
- 18 one-, two- or three-bedroom units at or below 60% AMI

Total development cost: \$15.3 million

Per unit cost: \$340,755

**SENIOR RESIDENCES AT KEDZIE**

This new construction project will add 50 affordable senior units near Kedzie and Irving Park in the Albany Park community. This 6 story senior building will feature 1 bedroom units complemented by community facilities, such as offices and a fitness center, along with landscaped outdoor areas. To support this project, the City has provided a \$4 million HOME loan and 9% LIHTCs generating over \$11.1 million in equity.

*Income targets:*

- 50 one-bedroom units at or below 60% AMI

Total development cost: \$15.9 million

Per unit cost: \$312,095

**STERLING PARK APARTMENTS**

Mercy Housing Lakefront will rehab a portion of the former Sears & Roebuck corporate campus in North Lawndale near Kedzie and Roosevelt to create 181 affordable rental units. This project will achieve historic preservation goals while also adding to existing investments in Homan Square. 66 of the units will be reserved for CHA tenants, and all of the units in this development are designed to be either accessible or visitable to people with disabilities. To support this project, the City has collaborated with CHA on tax-exempt bond financing and provided a variety of tax credits generating over \$26.6 million in equity.

*Income targets:*

- 66 one-, two-, three- or four-bedroom units reserved for CHA tenants
- 115 one-, two-, three- or four-bedroom units at or below 60% AMI

Total development cost: \$54.8 million

Per unit cost: \$302,689

### **HOMAN SQUARE RENTALS PHASE VI**

As the sixth and final phase of the Homan Square mixed-income rental development, the Shaw Company will add 52 apartments to this development at the former Sears & Roebuck headquarters Near Roosevelt and Central Park in the North Lawndale community. Completing a total (all phases) of 237 affordable apartments, this phase of Homan Square Rentals will include 46 affordable apartments. To support this project, the City has provided a \$2.9 million HOME loan, \$3.1 million in TIF dollars and 9% LIHTCs generating over \$5.5 million in equity.

*Income targets:*

- 12 one-, two- or three-bedroom units at or below 50% AMI
- 34 one-, two- or three-bedroom units at or below 60% AMI
- 6 one-, two- or three-bedroom units at market rate

Total development cost: \$12.9 million

Per unit cost: \$248,980

## **Policy Updates**

**SINGLE ROOM OCCUPANCY (SRO) PRESERVATION ORDINANCE ACTIVITY** – Four properties have triggered the SRO preservation ordinance since DPD’s last quarterly hearing. While the City received notification of intent to sell in the first quarter of 2015, it is relevant to discuss these buildings now due to the time-sensitive nature of the ordinance. Four North Side SRO buildings representing nearly 400 market-rate affordable units<sup>2</sup> have registered their intent to sell so far in 2015:

Notification: January 16, 2015

End of SRO Preservation Period: July 15, 2015<sup>3</sup>

### **2001-03 N. California in the 1<sup>st</sup> Ward**

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

Notification: January 28, 2015

End of SRO Preservation Period: July 27, 2015<sup>4</sup>

**Marshall Hotel at 1232 N. LaSalle in the 2<sup>nd</sup> Ward**

**Carling Hotel at 1512 N. LaSalle in the 27<sup>th</sup> Ward**

**Darlington Hotel at 4700 N. Racine in the 43<sup>rd</sup> Ward**

Contact: Lawrence Dolins | 312-664-3080

Questions to consider as the execution of this ordinance moves forward:

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<sup>2</sup> Brown, Mark (2015) “Sale of North Side SROs tests new city preservation law.” *Chicago Sun-Times*. Available online at <http://chicago.suntimes.com/mark-brown/7/71/368052/sale-north-side-sros-first-test-new-city-preservation-law> .

<sup>3</sup> 180 days (6 months) after DPD communicated the notice of intent to sell under the SRO Preservation Ordinance.

<sup>4</sup> 180 days (6 months) after DPD communicated the notice of intent to sell under the SRO Preservation Ordinance.

1. Who is receiving this notification? Are there interested or relevant parties who are not receiving the notice?
2. What steps are being taken to increase the capacity of preservationist developers to take advantage of the 180 day waiting period and requirement for “good faith negotiations”? Most affordable housing developments take several years from concept to completion due to the complexity of accessing and layering different tools of public finance. Considering this reality, some affirmative and supportive steps to help CDCs save SROs might include a partnership with the Cook County Land Bank to hold the buildings tax-free while financing is assembled or priority tax credit allocations.

**ONGOING REPORTING ON THE AFFORDABLE REQUIREMENTS ORDINANCE AND AFFORDABLE HOUSING OPPORTUNITY FUND –** CRN applauds DPD for adding “projects in pipeline” to its Affordable Housing Opportunity Fund (AHOF) reporting. It makes sense, considering the length of development of most affordable housing projects, that there would be some period—perhaps many years long—where the gap financing available through the AHOF would be earmarked, but not strictly speaking committed.

Nonetheless, DPD continues to report on revenues and units delivered by the ARO and Density Bonus in a way that is confusing. This report states that DPD reached 690% of its “commitment in comparison to plan” in 2014 on Appendix-4. However, it appears that this figure actually refers to \$20.7 million collected through in-lieu payments to the AHOF in 2014. Since this money being deposited into the AHOF is for use later by CLIHTF and as gap financing for projects, it should be counted only when it achieves those funding goals. Otherwise a form of double counting will occur wherein money is counted once when it comes in to the AHOF and again as it goes out through multifamily loans or payments to CLIHTF.

**Table 5 – Projects Contributing In-Lieu Payments to the AHOF, 2014<sup>5</sup>**

<b>Date of Payment-in-Lieu</b>	<b>Type of Development (Rental or For-Sale)</b>	<b>Project Address</b>	<b>Ward</b>	<b>Total Units</b>	<b>In-Lieu Payment Collected</b>
12.01.14	Rental	1515-1517 W Haddon	2	39	\$400,000
20.02.14	Multi-Family Sale	1116-1132 W Adams	2	50	\$500,000
06.03.14	Multi-Family	2740 W North	1	15	\$200,000
11.04.14	Rental	832-838 W Erie 640-652 N Green	27	20	\$200,000
24.04.14	Multi Family	2435-53 W Irving Park	47	30	\$300,000
30.04.14	Single Family For-Sale	901-937 W 37th St	11	15	\$200,000
20.06.14	Mixed-Use Rental	1-39 S. Green 815-823 W. Madison 6-40 S. Halsted	27	167	\$1,700,000
30.07.14	Rental	1811 W. Division	33	33	\$400,000.00
21.08.14	For Sale	3739-55 S Morgan	11	14	\$200,000.00
20.10.14	Rental	1-15 E 9th St 901-1007 S State	4	396	\$4,000,000
30.10.14	Rental	400-418 E Grand 529-549 N McClurg 401-429 E Ohio	42	540	\$5,400,000
09.12.14	Rental	25 W. Randolph 108 N State	42	690	\$6,900,000
12.12.14	Rental	2938-48 N Halsted	44	25	\$300,000
<b>Totals</b>				<b>2,034</b>	<b>\$ 20,700,000</b>

Source: CRN analysis of the 2014-Q4 affordable housing production report, Appendix-64.

## Conclusion

With one year down of “Bouncing Back”, it is heartening to see the City working following through on objectives stated in the five year plan. Strategies to expand funding sources brought us the ARO Task Force, which brought together leaders of diverse backgrounds and interests to hammer out a compromise ordinance that enhances the City’s municipal code. Strategies to treat vacant land brought about the Large Lots program, moving vacant lots off City book and back on to the tax rolls through the engagement and control of local residents in three communities so far. CRN looks forward to DPD’s convening of a task force to examine the per unit building costs in affordable developments, and hopes that the Department will bring together a similarly diverse group as those brought together to reform the ARO. With commitment and diligence, all the people engaged in this field can move this and other issues forward with the help of the aldermen for the betterment of the people of the city of Chicago.

<sup>5</sup> This does not include a project at 3001 N California Ave, which appears to have switched to building units onsite.