Making Buildings Last

PRIDE Pioneers a Turnaround Plan

As we head into the 21st century, one of the biggest challenges to affordable housing developers will be stabilizing and preserving what property we’ve already built. How many properties will need stabilization, and how much will it cost to fix them? No one in Chicago knows – at least not beyond the projects in their own portfolios. What causes projects to fail in the first place? Is it bad projections, bad management, a flaw in the concept of CDC ownership itself? There is no one answer to that question either. A few years ago, funders and investment partners seemed to assume the latter, though those assumptions are changing as more projects are mired in crises that are harder to turn around. Nevertheless, our failure to grasp the scope of the stabilization problem may help reinforce unspoken assumptions, making stabilization efforts in Chicago even harder than they have to be.

In 1992, funders in Minneapolis and St. Paul came together to form the Interagency Stabilization Group (ISG) and to create a systematic process for stabilizing troubled properties: one that would begin with an area-wide assessment of the need, address individual projects in the context of whole portfolios, and carry a long term commitment to seeing the stabilization through. Chicago looked at ISG when it was beginning to plan for the Property Stabilization Fund (PSF), though in the end, Chicago’s PSF would be just that – a fund to help pay for stabilization, not a process for enacting it. That means turn-around plans in Chicago will be highly individualized – and considering the diversity among developers and developments, that may be how it ought to be.

Last year, CRN member PRIDE worked out a turnaround plan that included assistance from the PSF. One year later, we asked PRIDE how that turnaround is working out. We know that many other developers will need stabilization assistance in years to come even if we don’t know how many, and that means PRIDE’s success or failure has significance beyond the fate of the 495 housing units PRIDE owns in Austin. What conclusions can be drawn from PRIDE’s experience thus far, and to what degree can PRIDE’s individual experience be compared to the process described in the Twin Cities to build our stabilization efforts in Chicago?

Chicago: An Individual Experience

With about $36 million invested 14 projects, containing 495 units of affordable housing, PRIDE is one of the largest landlords in Austin, large enough that the West Side cannot afford to see PRIDE fail.

Yet by the time Marion Coleman became the Executive Director in the spring of 1997, PRIDE had been subsidizing the operations of some of its properties for years. A number of funders and industry leaders joined PRIDE’s Taskforce 2000 in 1995 to look at the overall viability of the organization, but their assessment did not succeed in stemming PRIDE’s losses, in fact, PRIDE would pay off about $125,000 in unmet project expenses in 1997 alone.

Continued on next page
Looking back over PRIDE's past, Marion says its problems are similar to those of a lot of other CDCs whose chronic shortage of operating capital has pushed them to do new development to raise developers fees. In the chase for the deal, developers and investors took risks to finish projects, basing financing on assumptions that would never be realized (one of PRIDE’s projects never attained the base year rents in the pro forma). These shaky foundations give way under a variety of stresses — from management problems to collapsing infrastructure to deteriorating neighborhoods. The variety of the problems may mean that any stabilization process will remain a highly individualized combination of adjustments to unanticipated changes.

In PRIDE’s case, the pursuit of fees brought the organization to an impasse with the Madison Renaissance project. PRIDE’s application for tax credits for the Madison Renaissance was turned down three years in a row, but PRIDE had already invested a substantial predevelopment loan in the project. PRIDE had to move forward on the project just to pay the loan. In 1997, one of Marion’s first acts as director was to sit down with then Housing Commissioner Marina Carrott to work out the kinks of securing tax credits. They were awarded that fall, but PRIDE had already begun to stumble. By September, it missed payments on several of its private mortgages. Marion says PRIDE’s funders did not panic, but when the equity investor pulled out of its commitment to buy the Madison Renaissance tax credits in December, that was the signal to everyone else that PRIDE was sure to fail. Marion says that as PRIDE connected the outlines of a stabilization plan, PRIDE’s funders looked to each other throughout the negotiations: when push came to shove, no one backed out, but if anyone had, Marion believes all the others would have thrown up their hands too.

Today, Marion emphasizes that PRIDE is not the first organization in Chicago to go through a workout process, though it might be the first one to call it that publicly. The Woodlawn Organization had solved its problems with a name change — Woodlawn Gardens became Grove Park, to be managed by a new development entity. The Neighborhood Institute’s workout was mediated by its large parent. Shorebank took over the buildings and dissolved the organization, and when that didn’t work out, it got out of property management altogether, passing its property on to a for profit development corporation and turning its

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The Network Builder is published by the Chicago Rehab Network (CRN) and is available to individuals and organizations concerned with the continuing supply of decent housing opportunities for low and moderate income residents of Chicago. Address inquiries to: The Chicago Rehab Network 53 W. Jackson, Suite 742 Chicago, IL 60604 (312) 663-3936

CRN President: Joy Aruguete Bickerdike Redevelopment Corp.
CRN Vice President: John Mitchell Uptown Habitat for Humanity
Executive Director: Kevin F. Jackson
Director of Operations: Rachel Patterson Johnston
Policy Director: Joyce Probst
Coordinator of Organizing and Advocacy: Gené Moreno
Senior Program Officer: Ken Oliver
Office Manager: Hervenia Mitchell
Administrative Assistant: Ava Watson
Editor: Kristin Ostberg
Printing by Salsedo Press
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Our mission at the Chicago Rehab Network (CRN) has two principle considerations: the strength of non profit community development corporations, and the need for affordable housing among citizens with limited or fixed incomes. These intersect where CDCs lead the way in promoting affordable housing development as an asset to build communities. CRN provides technical assistance and advocacy to reinforce their success in these efforts.

CDCs have a rich history of successful development of affordable housing to assist families and individuals, but one wouldn’t know it today. Affordable housing and its success are an untold story. We hear only of the failures, as with public housing, where the discussion is skewed by tales of the worst projects.

I recently heard Bethel New Life’s Mary Nelson tell a class in our Urban Developers Program with UIC that the biggest difference between for profit development and community based development is location.

A for profit developer works wherever he can build, and make a profit. What all CDCs share is a commitment to make their housing succeed in place. That is to say, CDCs start with the housing needs of the individuals, families and communities where they currently reside. That tradition remains an anchor of community development, which is not simply housing development, but the creation of safe, decent housing as a foundation for the development of individuals and families. This has meant CDCs have been at the forefront of creating housing where the market and private development have not engaged.

Today, location is also the source of the most difficult challenges that face CDCs. In gentrifying neighborhoods, the new desirability of the location impacts CDCs ability to continue to do development, as aldermen and other leaders ignore the housing needs and income realities of some residents of their wards in favor of the prejudices of others.

In the poorest neighborhoods, location makes buildings harder to operate, and social distress itself can be the single biggest obstacle to sustainable development. Crime and social problems add to the expense of maintaining a decent building, and economic hardship means the families CDCs set out to serve can’t afford the rents developers and investors once counted on to make their projects work.

The articles in this issue address these issues from two directions. Two of them deal directly with sustainability. One of these focuses on CRN member PRIDE, and on its turnaround plan. One draws on information from a member survey to approach what might give rise to stabilization needs in the first place. The third article deals explicitly with location itself, by mapping out where DOH assisted housing is now, with the understanding that project siting issues impact the long term success of affordable housing and community development in very poor neighborhoods and gentrifying neighborhoods alike.

Leaders from all sectors agree on the importance of building decent, affordable housing and sustaining it in healthy, mixed income communities. But these claims ring hollow as legislators and key officials at both the state and federal levels refuse to respond with resources required to preserve and maintain development. Even as the federal government proposes to stick to unrealistic budget caps, the state of Illinois has left affordable housing conspicuously absent from its $24 billion Illinois First Legislation, whose whole purpose is to deal with the state’s infrastructure needs.

Meanwhile, nothing has done more to prevent discrimination by location than CRA. In withdrawing from this essential community development tool as it is presently, the federal government withdraws from its commitment to see that private sector does its part in developing our communities.

In the face of these trends, it is all the more important that we shore up existing stock through aggressive retention strategies. CRN is responding with technical assistance, like that we extended to assist PRIDE in its turnaround, and in the research gathered through our member survey. We continue to back that up with advocacy on the state and federal level. We need others to join in with our call for more resources through enlightened partnerships, like our new Public Private Initiative with the city of Chicago, that safeguard the housing viability of the affordable stock.

If we are persuasive enough to develop the resources to create affordable housing where it presently doesn’t exist, we want to use them do it right – from the siting to the development to maintenance for the long term. Despite the obstacles, CDCs have demonstrated that it can be done.

-- Kevin Jackson
Where Assisted Housing Goes
Maps of DOH Production 1994-1998

As a coalition of community based developers, CRN has long supported the efforts of CDCs to build decent, affordable housing for low income families in the neighborhoods where they live. From that perspective, the maps on these pages are good news. They show where Chicago has built DOH assisted housing for the period of the city's first five year plan, and when they are juxtaposed with a map of very low income census tracts (where the average family income is under 50% of the area median income) they show that affordable housing developers are doing development where the need is the greatest.

These maps also resemble other maps we've seen over the past year, however. They are similar to the map the Chicago Tribune made of the placement of scattered site public housing, and to the map the Chicago Reporter made of where families displaced from public housing were taking their Section 8 rental vouchers. Those maps have been criticized for the concentrations they show in African American wards, and it would be hard to ignore the fact that that pattern is repeated here.

The pattern of concentration may reflect the areas of greatest need, but it does not reflect the only areas of need. In 1995, the area affordable housing gap for low income families (with average incomes below 80% of the area median) topped 130,000 units. The second income map shows that these families are suffused through virtually every ward of Chicago. Together, these maps call out for a more even distribution of assisted housing throughout Chicago, and the region.
The map on the opposite page shows the placement of new units of affordable housing created through the city's multi-family loan program, loans for single family development, and the Chicago Low Income Housing Trust Fund. Together, these programs created 11,621 units of housing. Most wards have received some DOH assisted housing over the past five years, but if DOH’s investment had been spread evenly, every ward would have received 232 units. In fact, very few of them did.

At the last hearing on DOH’s quarterly production, no fewer than three aldermen asked questions about programs to address the needs of bungalow belt communities. With the exception of the 43rd, the only wards on the map that received no units appear to be the bungalow belt communities on the far northwest and far southwest sides. Yet these aldermen recognize DOH assisted housing programs as a tool to meet needs of existing homeowners who live in their wards.

Census Tracts Where
Median Family Income Falls Below
50% of the Area Median Income

But not everyone sees it that way. More and more of our members are reporting obstructions to siting new projects, extending even to political harassment during the development process. Often, the opposition comes from aldermen and community groups who claim their communities already have their fair share of low income housing. These maps demonstrate that their claims are simply not true.

The loudest protests of assisted housing come from changing neighborhoods where affluent urban professionals are moving in and property values are skyrocketing. The 1st (Granato) and 43rd (Bernardini) are two of the wards where CDCs face the most active obstruction. Gentrifying communities are precisely the ones where the city has the best opportunity to realize its goal of creating mixed income communities by helping existing low income residents stay, and particularly by improving the affordable housing they live in so it can be a positive part of a changing neighborhood. These are also the wards where new residents most frequently mobilize to prevent this from happening.
In the next five years, the city plans to multiply its commitment to decent affordable housing. The struggle to build that housing will not end with financing it. The city and CDCs will have to focus new attention on siting strategies to ensure these new units contribute to the creation of vibrant communities throughout Chicago.

As we looked for patterns that might inform such strategies, we wondered if wards where assisted housing is unpopular might be more willing to receive certain types of housing than others. For instance, some wards may embrace the development of owner occupied assisted housing, but not rental housing. Or they may accept rental housing if it’s built for seniors, a less threatening population than families with children. To check, we broke the city’s five year production down by type of housing. In fact, a few wards did get single family units but no multi-family ones (16 - Shirley Coleman; 31 - Ray Suarez; 34 - Carrie Austin; 37 - Percy Giles), and few more got rental housing for seniors, but not for families (21 - Leonard De Ville; 24 - Michael Chandler; 30 - Michael Wojcik; 33 - Richard Mell).

Chicago’s housing needs are diverse, and no one type of housing is inherently more valuable than any other. Yet we were particularly interested in the placement of affordable rental housing for families, because there is a great need for it, and because it is housing the market does not build on its own. Between condo conversions, deterioration and gentrification, decent rental housing for low income families is becoming more and more scarce. Yet these units might also be the hardest to site. A comparison between this map and the map on page four reveals that many wards that sited some assisted housing still failed to site any family rental units at all.

It would be wrong to suggest community acceptance is the only factor that contributes to these patterns: maybe some wards received little multi-family housing because single family housing dominates the existing stock, because there is little land available for new development, because of zoning restrictions, or because property values, or even parking restrictions make development too expensive. Developers report that in some neighborhoods where zoning rules require one parking space for every ten units of housing, the city insists that the match be one for one.
Such a requirement is not just prohibitive to the development of affordable housing, especially in expensive neighborhoods, it is also a particularly ironic limitation on low income households, who often own fewer cars than their richer neighbors. Through the fall, CRN will be investigating what impacts the siting of assisted housing in greater detail, and we will be looking at strategies for doing it better.

In the meantime, the maps speak volumes for themselves. By revealing patterns in government sponsored affordable housing, they can be used in conjunction with other research on Chicago's housing market to create a better understanding of Chicago's affordable housing stock, and help lay the foundation for future plans.
What Makes Buildings Work?
First Results of the CRN Member Survey

This article is derived from a detailed analysis by CRN Research Assistant Ron Hesselgrave.

CRN conducted a survey of its members to make a preliminary assessment of the stability of their properties and of the factors that impact them. The survey looked at current income/expense statements and compared them to pro forma projections. Currently, about half the survey sample is operating at a surplus, though the other half showed some level of operating deficit. Obviously, none of the pro formas predicted things would work out that way. When projections aren’t realized, what’s to blame? Is it flaws in the original financing, unrealistic projections, or even unexpected environmental factors? We found evidence of all of these.

For instance, we found that where incomes fell short (and they did in a lot of projects, both the successful and the unsuccessful ones) they were undercut less by stagnant rents than by high vacancy rates — and we found that properties with higher vacancy rates cost more to operate, suggesting a decline that feeds on itself as income shortfalls make it harder to meet repairs, which makes it harder to fill vacancies and causes income to drop further.

We found evidence of unrealistic projections as well: for instance, projects in our sample that were the most successful kept their expenses down to $3,000 per unit per annum (p.u.p.a.), probably because they were underwritten to operate at this level, but for a lot of projects, this number is far too low. In fact DOH tells us projects it finances today average about $4,500 p.u.p.a. Projects in our sample whose expenses exceeded $3,000 p.u.p.a. did progressively worse, suggesting these were also underwritten to operate at a lower expense, and then found those projections to be inadequate.

Finally, we found evidence that sources of financing, and how they are balanced, may have long-term impact on project stability as well. For instance, we found that projects with Section 8 rent subsidies did better as coverage increased (that is, projects with more units covered by Section 8 did better than those with less); and projects financed with more private debt did worse than those with moderate coverage. These correlations were especially pronounced in Low Income Housing Tax Credit properties.

These results are preliminary, but they point in intriguing directions. As we add more properties to our sample and ask more questions, the results could inform the way we stabilize existing properties, and the way we develop new ones.

The Sample

Thus far, 11 member organizations have taken part in CRN’s member survey, providing a sample of 52 housing development projects. This sample represents about a quarter of CRN’s membership, which means that the results reflect some quirks of those members who participated — most notably, 86% of the survey sample are multi-family projects, a proportion that would not be borne out by a survey of the full membership. In addition, organizational reporting and recording of data varied from one CDC to the next, and in some cases, original pro formas were not available, making comparisons between projected and actual revenues and expenses impossible. However, these difficulties notwithstanding, enough information was compiled to arrive at some meaningful, albeit preliminary findings.

Table 1 illustrates some of the general characteristics of the survey sample.

While the 11 organizations surveyed have continued to build new housing over the years, they have built less multi-family housing in the last five years than in the previous periods. There is significant variation among projects, but overall, both the number of units per project and the size of the units themselves have decreased over the same period. The latter reflects a significant increase in percentage of SRO and studio apartments and a significant decrease in the number of family units. While this data is partly shaped by the members surveyed and could change significantly as more members weigh in, it also reflects the trend toward smaller units CRN has observed in DOH’s quarterly production reports.

In terms of affordability, the sample projects have a median rent of $456, which is about 15% lower than the average median market rent of $559. However the relative affordability of sample projects rises considerably as one moves from smaller to larger units. The difference between median project and market rents is only 7% for studios and 12.7% for one-bedroom apartments, compared to 19% and 17% for two-bedroom and three-bedroom units respectively.
### Table 1. Characteristics of Sample Properties by Year of Closing

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<tbody>
<tr>
<td>Number of Multi-unit Projects</td>
<td>11</td>
<td>19</td>
<td>14</td>
<td>44</td>
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<tr>
<td>Number of Units</td>
<td>523</td>
<td>1,152</td>
<td>686</td>
<td>2,361</td>
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<td>Average Project Size</td>
<td>47.5</td>
<td>60.6</td>
<td>49</td>
<td>53.7</td>
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### Distribution by Project Size

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<tr>
<td>1-49 units</td>
<td>7</td>
<td>10</td>
<td>8</td>
<td>25</td>
</tr>
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<td>50-99</td>
<td>2</td>
<td>7</td>
<td>5</td>
<td>14</td>
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<tr>
<td>100 and over</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>5</td>
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### Distribution of Units by Bedroom Count

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<tr>
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<tbody>
<tr>
<td>SRO</td>
<td>6.5%</td>
<td>13.6%</td>
<td>27.5%</td>
<td>15.4%</td>
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<tr>
<td>0 Bedroom</td>
<td>5.3%</td>
<td>24.6%</td>
<td>26%</td>
<td>20%</td>
</tr>
<tr>
<td>1 Bedroom</td>
<td>31.6%</td>
<td>16.6%</td>
<td>11.7%</td>
<td>19%</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>38.5%</td>
<td>16.7%</td>
<td>16.6%</td>
<td>22.3%</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>12.4%</td>
<td>14.5%</td>
<td>17.2%</td>
<td>14.7%</td>
</tr>
<tr>
<td>4 Bedroom</td>
<td>10.5%</td>
<td>4.4%</td>
<td>4%</td>
<td>5.7%</td>
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<tr>
<td>5 Bedroom</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
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### Average Number of Bedrooms

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<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Before 1990</td>
<td>1.9</td>
<td>1.5</td>
<td>1.1</td>
<td>1.5</td>
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</table>

### Financial Performance of Sample Projects

When CRN’s Property Management Task Force first charged CRN with conducting this survey, it envisioned that the survey would test a thesis about the sustainability of low income housing developments: that subsidized housing developments in Chicago are primarily healthy, but when they are not, their property management has been undermined by unrealistic income-expense projections. Some say that this fact is more generally recognized than it was just a few years ago, and that funders are less likely to blame or remove CDC partners from troubled projects. Nevertheless, it is still important to understand what factors impact actual income and expenses in order to better stabilize existing projects and better underwrite new ones.

To test its thesis, CRN chose to look at two key indicators of the financial stability of the sample projects: income/expense balances and reserve levels. The relevance of the first indicator is obvious. The level of surplus or deficit gives a snapshot of how a building is performing now — or at its last audit. The level of reserves indicates how well prepared a building is to face the future — to meet regular capital improvements, like roof and boiler replacements, or unanticipated needs, like the heightened security demands of deteriorating neighborhoods.

Judged by these two indicators, the survey sample presents a mixed picture. The projects are divided equally between those operating with a budget surplus and those operating with a deficit, though the amount of surplus and deficit varies considerably among projects.

About 22% of the projects for which information is available have no operating or replacement reserve accounts; another 26% have reserves at less than 10% of total operating costs. On the other hand, 37% of this sample have reserve levels of 20% or higher. As might be expected, we found these indicators are also highly correlated. Projects with operating surpluses have higher operating/replacement reserves than those projects with budget shortfalls — in fact, two and a half times higher on average.

Obviously, a building that is straining just to meet its basic expenses won’t be making adequate deposits in its reserve accounts. These figures also suggest that projects struggling now are heading for deeper trouble later. Clearly reserves need to be addressed in stabilization efforts and in underwriting for the future, though this recommendation begs the question of what went wrong in the first place. All of these projects were underwritten with projections showing income that would cover expenses, with money left over to build reserves. Why weren’t these projections realized?

The answers might be buried somewhere in the income and expense...
figures themselves. Was it that income fell short, or expenses ballooned? The short answer is that it was both. For instance, 75% of the sample fell short of their income projections, and the success of a project is also directly correlated to its ability to keep expenses down to $3,000 p.u.p.a. – a figure about $1,500 less than current industry standards – suggesting expense projections themselves may have been drawn too low. This report looks more closely at the factors that held actual income down and inflated actual expenses, looking also for clues to how these deviations are related.

**Project Income/Expense**

Funders sometimes blame managers of unsuccessful properties for ruining their own budgets by failing to make necessary rent increases. In fact, 75% of properties in our sample fall short on their income relative to pro forma projections, though this turns out to be a problem both successful and unsuccessful properties have in common. Projects operating at a deficit are more likely to have over-estimated that income by a larger margin in their pro forma projections, but this could be due to higher vacancies rather than a failure to raise rents.

To see how rents have met projected annual increases, we compared how closely projects met their projected Gross Potential Income (GPI) – that is, what their income would be before they tallied any vacancy or collection losses. In 1997 the sample fell short of projected GPI by about 5.7% on average, or $386 p.u.p.a. Significantly, there is not a substantial difference between projects operating at a surplus and those operating at a deficit in this regard. That is, projects operating at a deficit fell short of projected GPI by 5.8% on average ($418 p.u.p.a.), while those projects operating with a surplus fell short of projected GPI by 5.6% ($371 p.u.p.a.). Raising rents does appear to be a much bigger problem for older properties – among those five properties in our sample that closed before 1990, actual GPI for 1997 fell short by an average of $1,007 p.u.p.a., contributing to an average operating deficit of $876 p.u.p.a.

Projects that are failing are not necessarily falling much further short of the rent levels indicated by their GPI than those projects that are successful, but projects that have the most trouble reaching their projected GPI are also the ones with the highest vacancy rates. For instance, properties with vacancies of 5% or less show discrepancies between actual and projected GPI that average $187; as vacancies rise to 20%, that discrepancy also rises to $430, and once vacancies top 20%, average discrepancies leap to $1,230. This correlation suggests that the soft hearts of non-profit property managers are not necessarily to blame for stagnant rents: owners don’t raise rents when they are having trouble filling the units.

Anecdotal evidence tells us that even in some of Chicago’s most troubled neighborhoods landlords could raise their rents, but only if the units themselves are attractive to the higher income families who continue to live in those neighborhoods – and by turning to those families, the projects would no longer be in compliance with the income guidelines of the programs that funded them. Of course it would also defy the owners’ original purpose in building them.

Common sense would suggest that rent subsidies would help make properties more successful, both by making units more affordable to more people, and also allowing landlords to make projected incremental rent increases. In our sample, we found that rental subsidies are not directly correlated with financial well-being. In fact, projects that receive

![Figure 1. Vacancy Rates and Maintenance Costs per Unit](image-url)

*Higher vacancy rates are directly correlated with higher maintenance costs, feeding a cycle of deepening income shortfalls and accelerating expenses.*
Table 2. Itemized Operating Costs Among Financially Stable and Unstable Properties

<table>
<thead>
<tr>
<th>Deficit/ Surplus Per Unit</th>
<th>Maintenance Costs</th>
<th>Utilities</th>
<th>Property Taxes</th>
<th>Insurance Costs</th>
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<tbody>
<tr>
<td></td>
<td>Per Unit</td>
<td>% of Total Oper. Costs</td>
<td>Per Unit</td>
<td>% of Total Oper. Costs</td>
</tr>
<tr>
<td>$1,000 to $1,999</td>
<td>$649</td>
<td>19%</td>
<td>$466</td>
<td>12.5%</td>
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<tr>
<td>$0 to 999</td>
<td>$669</td>
<td>21%</td>
<td>$584</td>
<td>18%</td>
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<td>$0 to -999</td>
<td>$911</td>
<td>26%</td>
<td>$735</td>
<td>21.5%</td>
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<tr>
<td>$-1,000 to $-1,999</td>
<td>$1,119</td>
<td>28.5%</td>
<td>$786</td>
<td>21%</td>
</tr>
<tr>
<td>$-2,000 and Above</td>
<td>$802</td>
<td>24%</td>
<td>$899</td>
<td>27%</td>
</tr>
</tbody>
</table>

Section 8 or Chicago Low Income Housing Trust Fund (CLIHTF) rent subsidies are more likely over all to have operating deficits than those without. But success is directly related to the proportion of units receiving subsidy: In those properties with Section 8 that are operating at a deficit, the subsidies only cover an average of 44% of the units, compared to an average coverage of 80% in successful properties.

Those projects with Section 8 subsidies that do have deficits are the ones that suffer high vacancy rate costs — 4 times higher than other projects with Section 8 on average, which brings us back to vacancy losses as the culprit behind income shortfalls and raises questions about what causes them.

One possibility might be that rents are too high for low income families in the neighborhoods to afford, though again, we found little difference between rents of those with high vacancies and those with low ones — in fact, median rents among projects with high vacancies are, if anything, lower than the survey average.

We found a strong correlation between vacancies and maintenance expenses per unit, particularly among older properties, supporting the obvious proposition that the physical deterioration of a property makes it harder to rent the units out, and that a vacancy depleted income can’t keep up with repairs. Both factors feed a cycle of disrepair and income shortfalls that only build on each other as buildings become progressively less attractive to tenants (causing their incomes to drop) and more expensive to repair. The question is, which comes first? Or, more practically, how best to intervene once the cycle has started, and how best to prevent it from starting at all?

Without even looking at how actual operating costs compare to projections, we found a direct relationship between project success and operating costs themselves: those properties in our sample with operating costs that are a little more than $3,000 p.u.p.a. do best, those doing the worst average $4,000 p.u.p.a. Yet DOH acknowledges that when it underwrites new projects, operating expenses average closer to $4,500. It is probably more realistic to conclude that the projects in our sample are being constrained by low operating cost projections then to assume $3,000 is a particularly propitious figure in its own right.

Why are expenses so much higher than developers once thought? Anecdotally, CDCs attribute it to the costs of deteriorating neighborhoods, including vandalism and security needs, reinforced by the correlation between project deficits and project age. In addition, though, we found that properties with the highest deficits have real estate taxes that are two to three times more burdensome — as a proportion of total operating costs — than those supported by the most successful properties. They also have debt service obligations that take up a larger share of net rental income, and account for a larger percentage of total expenses than among successful properties. The significance of debt service in project stability is reinforced as we shift our analysis from operating incomes and expenses to the original financing, where projections used to underwrite the project become permanent factors in the project’s sustainability.
Project Financing

Private financing is an important source for most affordable housing projects developed today, and its importance may grow as the federal government retreats from its commitment to affordable housing. But private debt is also expensive. Developers say that expensive debt service makes for tighter budgets, giving owners less room to respond to unfulfilled projections, or unanticipated crises that arise especially in troubled neighborhoods. These assumptions were born out by our sample.

Other things being equal, the financial vulnerability of the projects in our sample appears to be directly correlated to the percent of development costs covered by private lenders. Projects with deficits had private loans that averaged 23% of development costs, while the most successful projects had private debt at only 9%, and moderately successful projects were financed at 18% on average. Projects that finance a higher portion of their development costs with private mortgages also have significantly lower per unit developers fees and operating reserves and therefore fewer resources overall to sustain ongoing activities.

Our survey sample indicates that projects that use more sources of financing are likely to have bigger operating surpluses, possibly because more sources means deeper subsidy and less reliance on expensive debt. On the other hand, more sources are also associated with higher operating costs. Projects financed with more than five sources average $3,640 p.u.p.a. in expenses, vs. $3,370 p.u.p.a. for those with less. By subtracting costs of utilities, taxes and maintenance, we narrowed that difference down to administrative costs.

These tendencies are magnified in Low Income Housing Tax Credit (LIHTC) properties. The LIHTC properties in our sample tend to have higher per unit developer fees and operating reserves and lower vacancies and mean deficits than properties without them, but these boons evaporate if debt service rises too high. On average, 38% of development costs of the LIHTC projects in our sample came from tax credit equity, and 15% from private mortgages. But when the private mortgage exceeds 20%, LIHTC deficits average $192 p.u.p.a., compared to a $215 surplus typical of non-LIHTC projects.

LIHTC projects also suffer if they are not fortified with Section 8 subsidies. LIHTC properties with relatively shallow Section 8 subsidies (i.e. 50% or less of units covered) are weighed down by deficits, $773 p.u.p.a. on average, and by vacancies over 18%. By contrast, LIHTC properties with deeper rental subsidies (i.e. more than 50% of units) show an average surplus of $564 p.u.p.a., and vacancies of 5.5%.

Those with no rental subsidies also show a profit, probably because their mean debt service is significantly lower than that of the LIHTC projects which receive rental assistance.

Future Directions:

These preliminary results point in compelling directions for further research. For instance, by expanding our sample and asking new questions, we might begin to identify what factors lead to high vacancy and low collections in the first place. What are adequate operating costs, and how do they vary among different kinds of projects, in different kinds of locations, and over time? How do projects interact with their surrounding environments to make them more or less difficult to manage?

Better information will build better projects. And by replacing some of the myths and rumors about what causes assisted housing to succeed or fail with facts gathered from real projects, we can help dispel the contention and mistrust that sometimes comes between the diverse partners who struggle daily for the same goal: to build and sustain safe, affordable housing.

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PRIDE, continued from page 2

attention to employment training. Bethel New Life went through a similar transformation, giving up ownership and management of much of its property and focusing on social services.

The common thread, according to Marion, has been that organizational turnaround has generally been bought at the expense of future development, whether it put an end to development activity or forced the developer either to farm out property management or to do any new development in partnership with someone else.

The Department of Housing’s David Saltzman is quick to say that developers who approach the Property Stabilization Fund to stabilize individual properties don’t compromise their ability to do future development, and in the end, PRIDE would actually develop two new properties in the process of implementing its turnaround plan. But when Marion initiated PRIDE’s stabilization by asking industry leaders individually what they thought of PRIDE, to a person they answered that PRIDE should give up property management and concentrate on soft programs.

Their reaction reflected a more general atmosphere in Chicago that would make PRIDE’s turnaround more difficult. In 1996, many of the funders and foundations, lenders and intermediaries who had supported Chicago’s community development movement joined LISC’s Futures Committee to consider the future for community development in Chicago. Opening its report with the suggestion that it was time “to step back and see...whether in fact the field is still relevant to its purpose,” the Futures

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Committee cited the failure of three CDCs as just one reason for re-assessing the role of CDCs as owners and developers of real estate. CDCs might continue to have some role in development activity, but now that the private sector has learned the job, CDCs could “perform an ever more valuable role by coordinating and integrating the efforts of all those involved”: in other words, CDCs might find a special role for themselves providing vision and maybe, as Marion was advised, soft programs.

Marion would reply that where social catastrophe has made low income housing fail in neighborhoods like Austin the answer is not just firm application of the same principles of management that work in affluent communities, though she’d be the first to argue that those principles will be part of it. Real stabilization must enlist tenants and the larger community to address the gangs, vandalism and violence that have proven capable of undoing development in the first place, and that combination of tenant services and organizing is the main thing CDCs do that regular property managers don’t. Besides, she says “I knew that property management would have to take the first hit in the turnaround,” as PRIDE swallowed necessary expenses that its projects couldn’t pay. “That’s why a for profit management company would never be [willing] to affect a turnaround plan.”

PRIDE and partners agreed on a stabilization plan in the spring of 1998. A year later PRIDE is meeting about half of its goals. A close look at PRIDE’s progress could help put aside debates over the role of CDCs, and train our attention on the factors that make them succeed or fail.

Minneapolis: Origins of a Process

When you ask Twin Cities Housing’s Barb McQuillan how much money that organization spent to subsidize the operations of its buildings before they were stabilized, she sighs and says “Oh, a lot.” She is careful to qualify that Twin Cities Housing Development Corporation is not considered a typical CDC by its peers in Minnesota. For one thing, it was created to be the informal development arm of the cities of Minneapolis and St. Paul. The Family Housing Fund, itself set up as a public private partnership for funding affordable housing development, “saw the low income housing tax credit coming down the pike and realized it was so complicated that CDCs would have a hard time accessing it,” so they formed Twin Cities Housing to partner with other community based developers. Today, Twin Cities Housing still receives operating grants from the Family Housing Fund, so other CDCs might chuckle to see it held up as a typical example. On the other hand, as Twin Cities Housing began to experience property management troubles on a scale that local funders could not ignore, the organization’s status may have shaped their approach to stabilization as a whole.

Over the years, Twin Cities Housing assembled a portfolio of some of the most difficult projects around, largely by taking on projects the cities really wanted done but couldn’t find anyone else to do. Within a few years, Twin Cities Housing was already subsidizing its property management arm. “We didn’t have enough large properties,” Barb says today. “You need a certain number of large properties to cover the costs of the small ones.” A private firm wouldn’t subsidize the cost of managing one building with its profits from another. “No, but they charge what it really costs to manage the units.” In effect, the process of transferring the units to private management and the reckoning of real costs it required set Twin Cities Housing on the road toward stabilization, and brought everyone else in Minneapolis-St. Paul along. “Our doing that made the [funding] community realize that our problems...
were just the tip of the iceberg." Ultimately, Minnesota funders formed the Interagency Stabilization Group (ISG) to formulate a systematic approach to stabilization based on the premise that the Twin Cities couldn't afford to lose any affordable housing. After taking stock to see how many projects would need assistance and how much it would cost, the ISG would stabilize as much as possible for 5 years. The stabilization would begin with a careful study of the owner's asset management capacity, including an analysis of the whole portfolio. For individual projects, the ISG would first compare performance with original pro forma projections, then re-underwrite the project using uniform underwriting standards and statistical norms derived from a database of operating costs compiled each year for the Family Housing Fund. Finally, the ISG would follow up with a comprehensive quarterly monitoring process.

The ISG was up and running by 1992. Several years later, Chicago's then-Housing Commissioner Marina Carrott paid a visit to the ISG. Chicago had witnessed the rattling failures of three large CDCs and had created the Building Improvement Loan Program to help stabilize troubled properties. But the loan required applicants to wait out a clumsy application process, right up through city council approval. An owner could wait years for a loan as the building slowly lost tenants and resources. The city's Department of Housing was working with a group of intermediaries, lenders and investment partners to create a fund that could act quickly. The result was the Property Stabilization Fund (PSF) which, as a collaborative effort to grapple with expensive stabilization, would share a superficial similarity to the ISG, but would be marked by some fundamental differences. The differences begin with the members of the collaborative themselves.

### ISG and PSF: Two Inventions for Stabilization

The members of the Interagency Stabilization Group are public funders and foundations, including HUD, the Family Housing Fund, LISC, the McKnight Foundation, the Minnesota Housing Finance Agency, and the St. Paul Department of Planning and Economic Development.

#### The membership of the Property Stabilization Fund also determines its goals: to stabilize tax credit properties, and, more specifically, to stabilize tax credit properties whose investment partners are members of the PSF.

An early ISG report claims investors (like lenders and equity partners) will be expected to contribute to the stabilization process, since they will clearly benefit from the stabilization of their investment property, but are not members of the ISG itself.

In Chicago, the Property Stabilization Fund includes DOH and IHDA, but these government entities are joined by equity investors (NEF and CEF) and lenders (CIC, Northern Trust, First Chicago, Harris and LaSalle). Investors are members in Chicago's PSF in a way they are not in the ISG because they have made substantial financial commitments to the fund. DOH made the largest initial contribution of $450,000. The original contributions of IHDA ($200,000), CEF ($150,000) NEF ($50,000) and LISC (of $50,000) combined to match DOH's contribution, the lenders pay LISC's administrative costs, and each entity contributes to individual stabilizations on a pro rata basis.

Yet the membership of the Property Stabilization Fund also determines its goals: to stabilize tax credit properties, and, more specifically, to stabilize tax credit properties whose investment partners are members of the PSF. The PSF charter specifies that eligible applicants must have both a lender and an investment partner who are members of the PSF. In PRIDE's case this meant only 2 of 14 projects were eligible for PSF assistance at all; and in general, the PSF is set up to assist individual properties, not turn around organizations. To accomplish the latter, PRIDE would take the initiative to negotiate a larger turnaround plan of which the PSF was only one component.

Like Chicago's PSF, Minnesota's ISG also had to make hard choices about which projects it would fund and which it would not. But beginning with a sense of the scope of the problem, ISG made those choices with an eye toward maximizing the range of properties it could address.

ISG did decide, as PSF would in Chicago, that it could only afford to take on those projects that had received funding from at least one of the group's members. But as the membership of the ISG is made up of public funders and intermediaries, this amounted to limiting stabilization to subsidized housing projects as opposed to unsubsidized ones, and did not prioritize the interests of any specific investors.

The ISG also decided to accept for profit applicants, as well as non profit ones, but to prioritize the stabilization of housing for families and supportive housing for single adults over senior housing, which was generally in better shape.

Within these parameters, the ISG set out to stabilize as much housing as it could for an initial period of five years. In some cases that meant applicants didn't get as much
assistance as they asked for, but they are welcome to go back for more assistance later, and today, many of them have.

Furthermore, the ISG framed its investment in each property in the context of the whole organization and its portfolio. That is, its process was designed to accomplish the kind of organization wide turnaround PRIDE would assemble. Today the ISG does address individual properties, yet the group’s original vision of addressing projects within a portfolio still shapes its ongoing commitment to those projects.

The ISG began with a thorough assessment of the asset management capacity of each applicant as a baseline for technical assistance, and included an agreement that applicants would not pursue new development without the ISG’s permission. Of course, these measures were not universally popular among CDCs, and the ISG’s process was not free of tensions that have surrounded the stabilization issue in Chicago, but ultimately they would bring the process to focus on practical measures for building CDC capacity.

The Family Housing Fund suggested we talk to Alan Arthur of the Central Community Housing Trust to get a CDC perspective on the ISG experience, though Alan himself says Central Community Housing didn’t come to stabilization by the typical route. Founded in 1986 from funds raised through protests when 350 units of housing were wiped out by a convention center, Central Community Housing was successfully managing over 800 units for very low income people when ISG approached them and asked them to take on some of the units developed by the Philips Neighborhood Housing Trust when that CDC went under. This gave Central Community Housing leverage in the process – they didn’t commit not to do new development without ISG approval, for instance.

Alan adds that early on, there was an expectation that the stabilization process would effectively condense community development activities to a handful of the strongest CDCs, as groups like Central Community Housing took on the housing of weaker groups like Philips Neighborhood Trust. “Funders think their goal is to save the world,” he says, “but owner’s familiarity with basic asset management practices, and in some instances, ISG made hiring a property or asset manager a condition of the stabilization assistance. But she says ISG has never actually removed an owner.

In contrast, as stabilization needs first arose in Chicago, equity partners were vocal about their right to take control of projects if asked to contribute to stabilization. “The assumption [when projects fail] has been that the general partner really messed up,” says Bob Brehm, who is PRIDE’s consultant on the turnaround. Bob says he had to persuade at least one investor that PRIDE’s failure to attain rent projections had less to do with a soft-hearted reluctance to raise rents than it did with the fact that the market in Austin wouldn’t support the pro forma projections.

Some say investment partners are less eager to take on property management than they once were. Nevertheless, the PSF’s requirement that investors and partners come to agreement on a stabilization plan before they even approach the PSF leaves this option open. And in PRIDE’s individual case, Marion and Bob report that the threat of losing the buildings loomed over the whole process, making difficult plans and negotiations even more difficult.

In the end, PRIDE’s strategy for confronting funder concerns was to assemble an organizational assessment that was, arguably, similar in effect to the one used in Minnesota. With the help of technical assistance dollars from CRN, Marion would hire Bob Brehm to help her do it. Bob had been executive director of Bickerdike Redevelopment Corporation, one of Chicago’s largest and strongest CDCs. Marion wanted Bob because Bickerdike has successfully combined property management with the kind of...
tenant organizing she believes will be essential to make PRIDE’s turnaround successful. He was also the perfect choice to help PRIDE collect a financial picture of its whole portfolio. The analysis Bob assembled did not look at specific asset management practices, but it did create measures for their results, comparing pro formas to actual income/expense statements, proposing goals and timelines for bringing the diverging figures back in line, and reporting mechanisms that would help Marion track PRIDE’s progress.

Both Marion and Bob were conscious that they would be pitching their plan in an environment colored by general mistrust among developers and financial partners. For this reason, Bob advised Marion to discuss their proposal with each funder individually first, rather than limiting their participation to discussions when the whole group was together. PRIDE suspected PSF members would conduct crucial discussions and make key decisions amongst themselves before PRIDE was able to make its case; funders suspected PRIDE of not being forthcoming about its real status. The mutual suspicion was only aggravated by the climate in Chicago at large, where too many of the affordable housing industry’s funders and intermediaries were questioning the concept of CDC ownership itself, rather than asking specific questions about the scope of the need for stabilization or the environmental and policy issues that might give rise to it.

In the end, PRIDE was successful at negotiating a workout acceptable to all parties. Could it have been a better one if it had been negotiated within a larger over-arching strategy for stabilization?

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Could it have been a better one if it had been negotiated within a larger over-arching strategy for stabilization?

The sheer size of the sum the ISG was able to raise for its stabilization efforts clearly makes for an impressive contrast with Chicago’s PSF. And the fact that the public funders and foundations brought $61 million to the table would clearly reinforce their control over the stabilization process.

But these numbers alone draw an incomplete picture for two obvious reasons: first, the scope of any given stabilization plan will clearly vary widely from property to property; second, in PRIDE’s particular case, the PSF contribution was only one part of PRIDE’s turnaround plan. A real comparison would need to look at broader strategies, and in Chicago, the PSF would just be the starting point.

Two Strategies for Stabilization:

Eligible uses of ISG funds include the payoff or reduction of first mortgage loans, the completion of deferred maintenance, or the settlement of accounts payable to outside vendors, property tax or insurance.

The significant thing, though, is that these tools are deployed in a strategy to re-underwrite faltering projects [recognizing that underwriting contributes to problems in the first place]. When PRIDE’s full turnaround plan was in place, it would share the comprehensive scope and many of the individual elements that make the Minnesota process sound so attractive. But the Property Stabilization Fund itself is not designed to ensure a comprehensive strategy, and this is also partly reflected in the eligible use of its funds.

One of the strengths of Minnesota’s ISG is supposed to be a unified application process through which funders coordinate their assistance to maximize their effect. In part, the coordination is accomplished by the lead agency: each new applicant is assigned a member of the ISG who will guide it through the process. In part, coordination is accomplished by the development and application of uniform underwriting standards – which begin with the ISG’s efforts to pin down real operating costs, and extend to a focus on debt relief and an ongoing commitment to the project’s long term success.

In practice, the process isn’t always as smooth as it looks on paper. “I wasn’t sure if I should call you back,” says Michele Weigand of the Powderhorn Residents Group, “because I’m in stabilization hell.” For instance, Michelle says, the lead agency concept is a great idea, yet separate member agencies still have separate applications and separate checklists, and they even give conflicting information about which of their number has agreed to fulfill which part of the stabilization plan. Still, Michele believes strongly that the ISG’s long term commitment to the success of the stabilization will make the difference.

CDCs are more enthusiastic about the ISG’s attempt to bring projections back in line with real operating costs. Barb McQuillan had said the turning point for Twin Cities
Housing came when the transfer to private management forced it to reckon what its real costs were. This has been incorporated into ISG's underwriting standards with an extensive data report called the "Twin Cities Low Income Housing Income/Expense Analysis," which is compiled each year for the Family Housing Fund.

The report is based on 153 projects, with about 5,632 units of low income housing. The Twin Cities Analysis found operating expenses averaged $374.67 per unit per month in 1997, or just under $4,500 a year. But it also includes detailed information on project income, vacancy rates, individualized expenses and debt service, and it is broken down into subsets based on project size, building type, location, and ownership (profit, non-profit, co-op).

Michelle Weigand says the database is an important tool for property managers even after the project is up and running because it allows them to check their own expenses item by item. "You might ask, 'Why am I paying so much more for water than other buildings are?'"

Of course, the long term success of a building isn't determined just by its ability to scrape by on operating costs, but by its ability to put money away for reserves. All buildings will need to replace their boilers some day, and even the best managed ones encounter unexpected needs as well. Interestingly, MHFA's Ronda McCall indicates it is not uncommon for owners to go to the ISG for help with regular capital improvements. She says these applications make it look as if ISG has done more stabilizations than it has actually done, suggesting such quick fix-ups are reasonable requests short of an all-out stabilization. For projects done so close to the bone they were never able to build reserves, this may be an answer to maintaining properties with persistent reserve shortages.

In addition, the literature indicates that the ISG puts a priority on debt relief – which can also free up money for long term preservation – though the anecdotal evidence on this is mixed. For instance, Ronda says that in her experience, ISG's efforts to pay off and reduce first mortgages are typically last ditch measures taken when everything else seems to fail – which has meant it is not a very effective measure either. Barb McQuillan says debt relief was not a priority of the stabilization process in Twin Cities Housing's experience, though in one case this was because of the lenders' penalty on prepayment, and it also turns out that a number of its other projects were financed with 15 year loans that are almost at the end of their term.

Alan Arthur says Central Community Housing and ISG share the goal of eliminating debt service on as many units as possible, though debt was used to cover about 15% of the costs on the Philips Neighborhood properties they stabilized. Michele Weigand says half of the ISG's $350,000 award to Powderhorn Residents Group will go to debt relief, and that the ISG was also helpful when Powderhorn went to negotiate new terms with its lenders, accompanying them to meetings. "They told them this is something we are requiring of everybody," and the lenders responded with interest rate breaks, and partial loan forgiveness.

In Chicago, the PSF's list of eligible uses starts with security costs and includes many of the capital improvements and payables on the ISG list. It does not include writing down debt, however – Chicago Department of Housing's David Saltzman says the PSF does not have adequate resources to make a significant dent in a project's debt service this way. PSF makes no claim to re-underwrite projects either, or to set standards for it. For instance, despite preliminary efforts by the Department of Housing and the Chicago Housing Partners (a group of equity investors, lenders and funders that helped conceive Chicago's Property Stabilization Fund), there is still no systematic way to establish operating costs – even though accurate operating costs would seem to be a prerequisite for setting a project budget on track for the long term.

DOH has attempted to collect information through a voluntary survey, though the response has been less than enthusiastic. "We have a fairly good idea" of where operating costs are, DOH's David Saltzman says. "We're basically at $4,500," which is roughly the figure the Chicago Housing Partners came up with when it sponsored a study of operating costs, but that study came out with general numbers that may be of limited use. They don't differentiate between units in which the tenant, vs. the landlord, pays utility costs, for instance. The Chicago Equity Fund is interested in contributing the data on their portfolio to move this project forward, and this may be an opportunity for future collaboration among members of the PSF and CRN. In the meantime, Chicago's trial-and-error approach to operating costs is roughly reflective of PRIDE's experience with the PSF as a whole. Bob Brehm helped PRIDE assess the performance of pro forma projections to actual income expense statements in order to help make a case for adjustments, but he says there were no parameters set by the PSF – PRIDE was effectively expected to bring in a proposal for partners to react to.
In the end, PSF came through with $144,000 for two of PRIDE’s projects. Above and beyond this sum, all members of the PSF made independent contributions to PRIDE’s turnaround. DOH agreed to convert its second tier mortgages into deferred loans, which will save PRIDE $56,000 a year. PRIDE’s first mortgage lenders also made an informal agreement to defer payments until July 1998. The Chicago Equity Fund invested an additional $19,000 a year for three years — again, above and beyond its contribution to the PSF package — to help lower debt service costs and also to build reserves.

Marion emphasizes that the most significant contribution to PRIDE’s turnaround comes from DOH: first by the continuation of contracts that have become a necessary part of PRIDE’s operating revenue, and second, by moving forward on funding for two new development projects.

In addition, PRIDE’s plan taps support from unorthodox sources. Aldermen Percy Giles, Sam Burrell and Ed Smith helped PRIDE win a waiver of its city water bills. It’s an unusual concession — PRIDE may be the only landlord in Chicago that doesn’t pay water bills — but it is a small investment for the city to make if it frees up cash flow that makes the city’s much larger investment in the affordable housing units more sustainable in the long run.

Marion and Bob believed PRIDE’s turnaround plan was what they needed, but in the end, much of it came back to property management commitments from PRIDE. PRIDE believed it could increase occupancy and collections once its energies weren’t sapped in attending to the most difficult buildings. PRIDE would also give up the $430,000 in receivables it had poured into faltering projects, and agreed to continue to defer its management fee unless there is cash flow. Furthermore, PRIDE was to cut organizational expenditures by $280,000 and to fundraise for an additional $200,000 in operating money.

The ISG also expects CDCs to write off what subsidies they’ve already made to prop up failing properties and to make improvements in property and asset management a significant part of their stabilization. But bad projections and unsteady general operating funds help undermine CDCs in the first place. It seems short sighted to build a stabilization plan that makes management costs and operating revenues for the organization dependent on the realization of the plan’s new projections.

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Into the Future:

Despite her frustration over the bureaucratic hassles of applying to the ISG, Michele Weigand says that what gives her faith in the stabilization process is knowing that the ISG is “in it for the long haul.” For instance, one of the awards the Powderhorn Residents Group received is set up as a loan, but the payments are defined at 50% of annual cash flow rather than a set figure that the property may or may not achieve. Michele says such flexibility is particularly important in high crime neighborhoods where it is hard to keep occupancy up.

This long term commitment is also reflected in the ISG’s monitoring process. In fact, the single most popular aspect of Minneapolis’ stabilization process seems to be the state staff person who administers the monitoring program — and considering the thorough nature of that monitoring program, that’s saying a lot. MHFA’s Ronda McCall makes quarterly check-ups on cash flow, staffing and management that include property inspections and extend to reports on the whole portfolio, even properties that haven’t received stabilization assistance. It’s helpful, Barb McQuillan says, “but I’ve got to say, they get too far into the details. It would be more irritating than it is if their staff person weren’t so competent.” Michele Weigand says she likes the holistic approach of the monitoring, and describes Ronda McCall as very user friendly.

Ronda herself says that not all recipients are monitored, only those that have ownership and management issues. The city decides which properties she will actually monitor. Currently, she monitors about 30 projects, though she is phasing some of them down to six month and even annual reviews, and would like to see some of them graduated out of the program. Ronda emphasizes that monitoring often turns out to be a teaching process. In her talks with management and owner, she’s able to counsel them on practices and alert them to other training.

The fact that the monitoring process is clearly set up to build skills rather than to seize on shortcomings may help explain the relatively positive reaction of the CDCs we talked to. Furthermore, the ISG seems to recognize stabilization as an ongoing process rather than a one time inoculation. This is demonstrated by its willingness to make second awards to projects that have already received assistance. Barb McQuillan says Twin Cities Housing has received stabilization assistance twice on three projects, mainly because the original round of stabilizations set out to save as much as possible for at least five years.
“Sometimes we’ll be in a meeting,” Barb says, “and someone will say ‘Now that we’ve fixed Fuller,’ and I’ll have to say ‘We haven’t fixed Fuller, we have stabilized it for five years, and maybe if we’re careful, we can make it last for seven,’ but Fuller will, at some point, need additional assistance.”

That’s not to say the ISG started out with the expectation that groups would make regular re-visits for more funds. Ronda says the ISG may have initially thought that stabilization would be a one time expense, but as it put its own resources up against the need for them, all involved began to realize that “$50,000 isn’t enough to stabilize old buildings,” and that in many cases, the buildings at risk were buildings the city could not afford to lose.

How many buildings can Chicago afford to lose? With a regional affordable housing deficit that topped 130,000 units in 1995, the answer is none. How many can we afford to save? Considering the billions invested in creating them, you’d like to think the answer would be all that need to be saved. Though the real answer will clearly be harder than that, it would be helpful to start with a sense of how many units do need stabilization assistance, and how much it would cost. Recognizing the scope of the need may also shift the focus of the affordable housing community from arguments about the competence of individual organizations, and the contention and mistrust they foster, to strategies for building capacity. And, recognizing the long term stabilization of our investment in affordable housing as a common goal, all parties might ask if our strategies are really designed to fulfill them. That is, are we willing to invest what it takes to make a building work, or just as little as necessary to get it moving, without regard for what happens a few years down the road?

A year into its turnaround plan, PRIDE is generally on track. Marion says PRIDE’s stabilization package has allowed her to get PRIDE fully staffed, which is particularly important to PRIDE’s property management. Good property management is the foundation for the long term stability of any CDC, not to mention a cornerstone of much of PRIDE’s turnaround plan. Bob Brehm works closely with PRIDE to develop measures for reporting and monitoring its progress toward its property management goals, and today, Marion spends most of her time monitoring those reporting instruments. Progress has been fair: occupancy and collections are up to 89%, though still short of the 95% target PRIDE had set for itself. “There are still some buildings holding us down,” Marion says. PRIDE has filled or re-filled 120 units during the turnaround, and is negotiating long term leases with CHA for three projects.

Furthermore, PRIDE has been building new networks of support. Marion has built PRIDE’s board from 10 to 15 members, and has brought together a senior advisory board from the national community of advocates and experts. Locally, PRIDE is working with other Austin CDCs to build the organizing capacity of the South Austin Council. Finally, PRIDE has created a tenant council to do organizing and enhance PRIDE’s capacity to provide and services. In a community where crime and social distress have added enormous costs to property management [as reflected by the fact that security costs top PSF’s list of eligible uses of its funds] it may be these networks among tenants and community that are key to PRIDE’s long term success as a landlord and a force for positive change in the Austin community.

Yet PRIDE’s progress has been tempered by new challenges. Marion admits the stabilization did not make all the capital improvements the portfolio needed, or even shore up reserves so PRIDE could cover them. Last winter PRIDE lost three boilers and had to make roof repairs. Then it suffered rent abatements because the heat was out. Even after a unit has passed inspection and been restored to the rolls, it takes two to three months for the rent to start coming back in. Meanwhile, Marion says it would cost about $300,000 to fix all the capital improvements in the total portfolio, but that capital funds are the hardest to get. Will $300,000 in unmet capital improvements jeopardize the success of PRIDE’s $36 million portfolio? To ensure they don’t, and in other cases where Chicago funders can’t meet all costs all at once, it would be wise to make concrete plans to address them later on – or at least to expect requests for additional assistance when new improvements do become necessary.

Meanwhile, the contingent nature of the management fees and general operating funds are not working to PRIDE’s advantage. Marion says PRIDE has been making fees on about half its buildings, and has not met its fundraising goals, in part because funders are waiting to see if PRIDE is successful before they commit. And even as PRIDE has worked to implement its goals, someone has put Royale Gardens, for whose redevelopment PRIDE has assembled millions in HUD, state, city and FHLB funds, on the fast track demolition list. This last difficulty only dramatizes the extent to which PRIDE’s success depends on the commitment and cooperation of a community larger than itself.

Despite their occasional frustration or complaints with individual aspects of the Interagency Stabilization Group, the Minnesota CDCs we talked to believed the ISG had a tangible commitment to their long term success. Can Chicago developers expect the same commitment?

Minnesota’s commitment began with a recognition of the systemic factors that undermine housing – from tight underwriting and unrealized projections to the unanticipated pressures of deteriorating neighborhoods – and the conviction
that the Twin Cities could not afford to lose any of its affordable housing stock. These assumptions resulted in several practical measures that Chicago might incorporate into its own stabilization strategy, from the initial survey of the need for stabilization assistance to the commitment to re-underwriting, with an emphasis on lower debt service and a database of realistic operating costs. Both these latter measures can help free up cash flow to give managers more room to adjust to changes and build reserves. But in cases where reserves are inadequate, the ISG is also prepared to step in to prevent capital improvement needs from undermining a much larger investment.

Some of these measures Chicago has undertaken, or is undertaking, either through the Property Stabilization Fund or through the network of funders of intermediaries working outside the PSF itself. As Chicago’s strategies for stabilizing troubled housing stock mature, their success will depend on the degree to which they recognize that it is not realistic to expect projects to survive without adequate, reliable operating income, or to perform under unrealistic projections, or to sustain what’s been built without reserves for capital improvements. Finally, stabilization strategies that work and last will combine realistic plans with the flexibility to make adjustments as the need for them arise.