



Analysis of the Third Quarter 2014 Housing Report

Bouncing Back: Five Year Housing Plan, 2014-2018

Presented December 2, 2014

Introduction

We are pleased to present our analysis of the 3rd Quarter 2014 housing production. The third quarter has been very busy, both for City Council and the Department of Planning and Development. Our report will cover the City's activities in the third quarter of 2014, pointing out some important strengths and areas for improvement; describe affordable rental projects funded by the City in the third quarter; give policy updates on the 2015 budget, the ARO/Affordable Housing Opportunity Fund and touch on the City's LIHTC allocation policies; and finally underscore the need for leadership in our communities to build affordable housing across the city.

Before those items, however, the Rehab Network would like to commend this body, the Mayor's Office, the full Council, DPD, the Department of Buildings, and community groups like ONE Northside and the Chicago Coalition for the Homeless for working together during the moratorium to come up with an amendment to the municipal code to preserve those Single Room Occupancy units still existing in Chicago. This ordinance is an important step in protecting our dwindling market rate affordable housing. It is heartening to see the City taking a leadership position in finding innovative, new ways to create and preserve affordable units—particularly for our least fortunate neighbors—in an environment where the federal government is simply not stepping up to the plate. Mayor Emanuel's statements on the passing of the ordinance suggest that he understands this dynamic. On November 12th, the Mayor noted, the SRO Ordinance is “part of a down payment on an overall strategy for affordable housing for all residents in the city of Chicago, so they can enjoy the city of Chicago, so they can enjoy the benefits that they need to move on with their lives [with the] support of the City.”¹

As the twin menaces income inequality and housing insecurity grow, the need for local leadership on the housing front has never been greater. The passage of the SRO Ordinance is a great example of the kind of leadership and collaboration that is needed to oppose those trends that threaten to make cities a place of opportunity only for the affluent. As all incumbent council members surely know, signatures for the February 24, 2015 municipal election have been submitted. CRN will be releasing ward-based affordable housing fact sheets imminently and encouraging interested parties to start conversations about the state of our communities and who can afford to live there. Please contact CRN to schedule a meeting to discuss the details of your ward fact sheet.

Analysis of Third Quarter 2014 Housing Activities

AFFORDABLE RENTAL UNIT PRODUCTION SUMMARY—CRN recognizes that DPD had an impressive third quarter, committing resources for seven affordable rental developments—the highest number of

¹ City Council Live Transcript (11/12/2014), collected via <http://chicityclerk.com/council/council-news-central.php>. There is some interpolation because the voice transcription can be imperfect at times.

developments approved in any quarter since 2010. This level of activity is reflected in the fact that DPD reached 94% of its goals for multifamily asset allocation in the third quarter of 2014. (Table 1).

Table 1 – Net-New Affordable Rental Units Funded the City of Chicago, 2014 YTD

2014-Q3 Affordable Housing Investment Picture	Total Projected Funding by Year End	First Quarter Commitments	Second Quarter Commitments	Third Quarter Commitments	YTD Commitments	Percent of Goal Met
Multi-Family	\$209,421,492	\$33,548,535	\$56,779,520	\$105,617,830	\$195,945,885	94%
Single-Family	\$40,528,328	\$7,635,885	\$6,198,016	\$3,937,261	\$17,771,162	44%
Improvement and Preservation	\$14,762,500	\$3,714,999	\$3,424,355	\$4,295,222	\$11,434,576	77%
Total	\$264,712,320	\$44,899,419	\$66,401,891	\$113,850,313	\$225,151,623	85.1%

Source: CRN analysis of the 2014 affordable housing production reports

Although this impressive investment affordable rental housing brings the year-to-date allocation affordable housing total to 85%, these high numbers obscure the fact that the City’s investment in affordable single family development lags considerably, reaching only 44% of the year-end goals through the third quarter.

Can the Department clarify the reason for this significant underinvestment in single family programs?

Understanding the root of these problems can help troubleshoot, and may lead to enhancements and refinements to the programs to help make more moderate income Chicagoans homeowners.

In addition, although the City has reached 95% of its multifamily spending goals, it has fared less well in its net-new unit production goals. Year to date, DPD has only funded 48% of its net-new affordable rental unit commitment. (Table 2). In order to reach the planned number of net-new affordable rental units planned for 2014 by the current five year affordable housing plan, the City will need to fund an additional 681 units.

How did we reach this number? While City funds support a number of housing-related programs that contribute to the quality and affordability of Chicago housing—such as rental subsidies through the Chicago Low-Income Housing Trust Fund (CLIHTF), 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 (4,259) (Table 2). 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 (-2,778). Next, we compare year-to-date units actually funded (634) with the number of new construction or rehab units the City planned to fund in 2014 (1,315). 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.

Table 2 – City-Funded Net-New Affordable Rental Developments, 2014 YTD

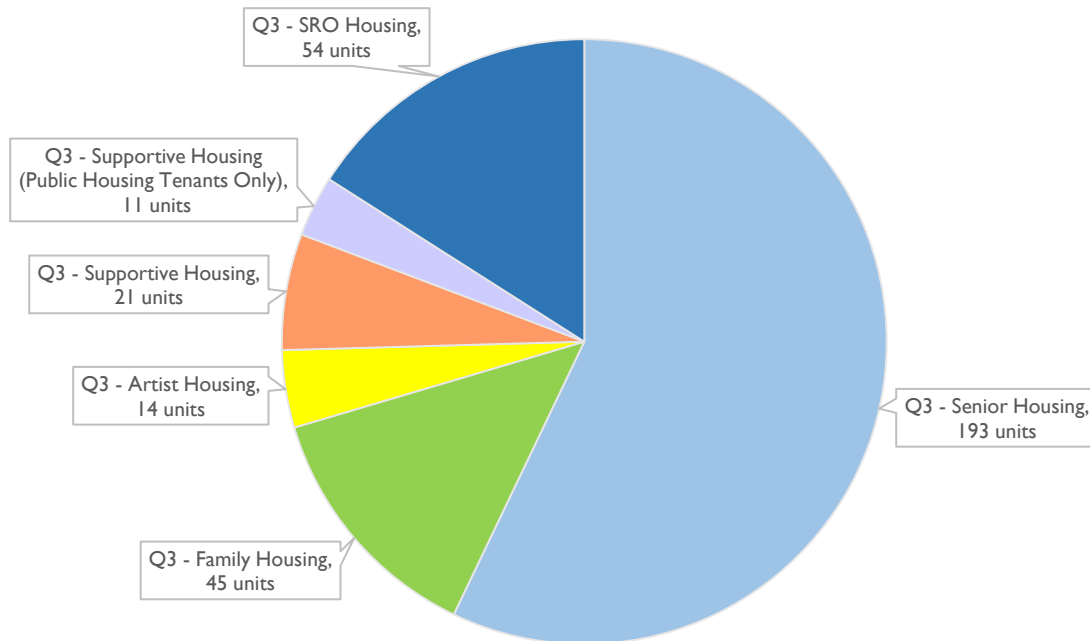
2014-Q3 Apartment Production	Year to Date Total Units Produced	0-15%	16-30%	31-50%	51-60%	60-80%	81-100%	101+%	Total Projected Units by Year End
Total Subsidized Rental Units	4,259	1,679	1,300	444	379	342	43	72	5,625
Less Rental Subsidy Units	2,778	1,644	1,134	-	-	-	-	-	2,960
Less Heat Receivership Units	318	32	78	155	36	17	-	-	600
Less MF Troubled Building Initiative Units	529	-	32	92	52	310	43	-	750
Net New Rental Units**	634	3	56	197	291	15	-	72	1,315

** 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 affordable housing production reports

Through the end of the third quarter, DPD is still significantly off its new affordable rental goals: the Department has only invested in 48% of the net-new units planned for 2014. Of the 1,315 units planned for 2014, 632 have received funding thus far, and—of those units—57 are the market rate component in mixed income buildings and are therefore not truly affordable. During the third quarter, DPD invested in the following affordable rentals: 193 senior units, 45 family units, 14 artists' live-work units, 32 supportive units, and 54 SRO preservation units (Chart I).

Chart I - Affordable Rental Units Funded By Type, 2014-Q3



Source: CRN analysis of the 2014-Q3 affordable housing production report, Appendix-62.

The vast majority of units funded in 2014-Q3 were for seniors, continuing a trend that has been present throughout 2014. Although the City’s Five Year Housing Plan, *Bouncing Back*, makes no special reference to supporting majority senior housing, that has turned out to be the case. Of the developments receiving City funds to build new affordable rental units in 2014, over 55% have been for seniors (Table 3). This trend is also carried out in unit size: 77% of the units funded are studios or 1-bedrooms. Considering the fact that only 21% of Chicagoans are over the age of 55, how can and will the City prioritize investment in family and other forms housing moving forward?²

Table 3 – Units Receiving City Investment by Type³, 2014 YTD

2014 YTD Affordable Housing Units Developed by City Investment by Type	units	% of total units
YTD senior housing	257	55.4%
YTD family	72	15.5%
YTD supportive/accessible	74	15.9%
YTD artist/other	14	3.0%
YTD public housing restricted	47	10.1%
subtotal, investment in units in housing developments (not including market rate units)	464	100%

Source: CRN analysis of the 2014-Q1-Q3 affordable housing production reports.

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

KENNEDY JORDAN MANOR

This development is a collaboration between Source Works Development, a for-profit developer of senior housing in Illinois and Missouri, and Sheldon Heights Church of Christ to construct 65 affordable senior units near 118th and Green in the West Pullman community. This mixed-income midrise building will be situated on a lawn with an all-weather atrium on the first floor, and provide on-site supportive services such as financial counseling in addition to various community amenities. To support this project, the City has provided a \$4.5 million HOME loan, \$1.5 million in TIF dollars and 9% LIHTCs generating over \$12 million in equity.

Income targets:

- 5 studio units at or below 30% AMI
- 39 studio or one-bedroom units at or below 50% AMI
- 39 studio or one-bedroom units at or below 60% AMI
- 5 one-bedroom units at market rate

² 2013 American Community Survey 1-Year Estimates, available via www. <http://factfinder2.census.gov/>

³ How does this equal 632 net-new units? 464 affordable units + 54 market rate units in mixed-income developments + 110 units from the ARO and TIF Multifamily Purchase-Rehab = 631 units. Using this system, 1 unit is unaccounted for due to reporting inconsistencies.

Total development cost: \$18.3 million

Per unit cost: \$262,434

Developer's Fee: \$1 million (5.4% of total development costs)

SANGAMON TERRACE SENIOR APARTMENTS

This for-profit development links 24 new affordable units for seniors to the existing Bethel Terrace senior building near 61st and Sangamon in the Englewood community. Sangamon Terrace will be connected to the older building and share staff and services. The four floor structure will contain only 1 bedroom senior apartments and provide on-site services. To supplement Section 202 funds from HUD, the City has provided \$5.9 million via a tax-exempt bond for construction financing, a \$1.3 million HOME loan and 4% LIHTCs generating nearly \$3 million in equity to support this project.

Income targets:

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

Total development cost: \$8.6 million

Per unit cost: \$373,666

Developer's Fee: \$663,999 (7.7% of total development costs)

ST. EDMUND'S TOWER ANNEX

This development will expand an existing Section 202 senior building developed by the non-profit St. Edmund's Redevelopment Corporation in 1998 near 61st and Michigan in the Washington Park community. The St. Edmund's Tower Annex, a five-story building, will add 34 one-bedroom units affordable to low-income seniors. In addition to Section 202 dollars made available by HUD, the City has provided the land for the development for \$1 (valued at \$180,000), and Donation Tax Credits generating \$76,500 in equity.

Income targets:

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

Total development cost: \$6.5 million

Per unit cost: \$193,444

Developer's Fee: \$354,226 (5.4% of total development costs)

CICERO AND GEORGE ELDERLY HOUSING

This development by CRN member Hispanic Housing Development Corporation will add 70 units of affordable senior housing to the Belmont Cragin community through new construction of a six-story building near the intersection of Cicero and George. Containing a mix of unit sizes affordable to a range of lower-income seniors, this development will also feature a number of community amenities, including exercise facilities and a shared garden. To support this project, the City has provided a HOME loan of \$4.9 million, \$4 million in TIF funds, and 9% LIHTCs generating \$11.8 million in equity.

Income targets:

- 8 studios or one-bedroom units at or below 30% AMI
- 11 one-bedroom units at or below 40% AMI
- 28 one-bedroom units at or below 50% AMI

- 13 one-bedroom units at or below 60% AMI
- 8 one- or two-bedroom units at or below 80% AMI

Total development cost: \$21.5 million

Per unit cost: \$308,509

Developer's Fee: \$1 million (4.6% of total development costs)

CORNERSTONE APARTMENTS

This development by Massachusetts-based non-profit developer the Community Builders will add 45 family units and 14 live/work units for artists near 50th and St. Lawrence in the Grand Boulevard community. The artist units will be housed in new construction low-rises, while the family housing will be in two rehabbed 1900s apartment buildings. To support this project, the City has provided a \$1.2 million CDBG loan, \$2 million in TIF funds, 9% LIHTCs generating \$9.5 million in equity, and Donation Tax Credits generating \$1.6 million in equity.

Income targets:

- 12 one-, two-, or three-bedroom units at or below 50% AMI
- 47 one-, two-, or three-bedroom units at or below 60% AMI
- 7 one-, two-, or three-bedroom units at or below 80% AMI

Total development cost: \$15.5 million

Per unit cost: \$262,841

Developer's Fee: \$1 million (6.4% of total development costs)

MILWAUKEE AVENUE APARTMENTS

This development is the first development in Chicago for suburban-based developer, Full Circle Communities, adding 32 accessible, supportive units near Milwaukee and Central Park in the Avondale community. This development will be entirely accessible, and feature an ADA-accessible garden with raised beds and paved surfaces, in addition to a variety of on-site supportive services to maximize tenants' ability to live independently. There will be 11 project-based section 8 units in Milwaukee Avenue Apartments. In addition to tax credits from IHDA, the City has provided \$1 million in TIF funds to support this project.

Income targets:

- 11 one- or two-bedroom units at or below 30% AMI
- 21 one- or two-bedroom units at or below 60% AMI

Total development cost: \$9.7 million

Per unit cost: \$303,422

Developer's Fee: \$968,688 (10.0% of total development costs)

THE STRAND

Holsten Real Estate Development Corporation will lead the redevelopment of the historic Strand Hotel near 63rd and Cottage Grove in the Woodlawn community. After renovation, the Strand will contain a mix of studios and one-bedrooms, along with ground-floor retail space and a parking facility next door.

To support this project, the City conveyed the land to the developer for \$1 (property at \$675,000), provided a \$4.7 million HOME loan, \$2 million in TIF funds, and a variety of tax credits generating approximately \$16 million.

Income targets:

- 10 one-bedroom units at or below 50% AMI
- 43 studios or one-bedroom units at or below 60% AMI
- 9 studios at market rate

Total development cost: \$22.9 million

Per unit cost: \$363,807

Developer's Fee: \$1 million (4.4% of total development costs)

Policy Updates

CITY PASSES 2015 BUDGET – On Wednesday, November 19, the full City Council passed the Mayor's 2015 Budget. As this body knows well, this Budget supports a commitment to end veteran homelessness by 2016, which is viewed—along with universal pre-k for low-income families and a commitment to raising the minimum wage—as a wrap-around plan to support low-income families and individuals in Chicago. While all three of these goals are tremendously laudable, none of these address the growing need for affordable housing for non-veterans as the primary foundation for the success of the second two programs. Without stable homes to come home to, how effective will pre-k be in helping our children to succeed? An extensive body of research shows that moving, especially for children at the beginning and end of their schooling, can have disruptive and harmful effects on student achievement.⁴ Similarly, how can raising the minimum wage help families if there are no affordable apartments to rent with that wage? A single parent working full-time at a minimum wage of \$15 per hour still needs housing available at less than 50%AMI.⁵ Nonetheless, the City has only invested in 30 apartments so far in 2014 that will serve this population: families making less than 50% of Area Median Income. This is 6% of all affordable rental units receiving funding.

Taking into account housing's foundational role in individual and community success, CRN's Budget Comments, attached in full to this report as an appendix, addresses Budget elements that will directly impact the provision of affordable housing during 2015. Some key considerations include:

- I. The 2015 Department of Planning and Development Budget has increased by almost \$700,000 to \$153.8 million. Of note, the Corporate allocation to the Department has increased by \$9 million to \$36.5 million. Of this, \$18.5 million is from the Affordable Housing Density Bonus which is more than double the 2014 amount.

⁴ http://www.nhc.org/media/files/Insights_HousingAndEducationBrief.pdf

⁵ How to calculate this: \$15 (dollars per hour) x 40 (hours per week) x 4 (weeks in a month) = \$2,400 gross income. 30% of this income, the standard for housing affordability, is \$720. Income restrictions for a two bedroom apartment receiving City investment require that rent be no higher than \$652 for 40% AMI and \$853 for 50% AMI.

2. The Federal HOME Allocation is down to \$49 million from \$53 million the year prior. The greatest increase in Department revenues is for the Low-Income Housing Trust Fund. Set at \$8 million for 2015, this is a critically important increase from just \$1.2 million the previous two budget cycles.
3. As expected, there is a reduction of the Federal Community Development Block Grant of \$11 million dollars. CDBG dollars are very flexible and can meet a wide variety of community needs according to Federal guidelines.

So how can the City ease housing cost-burden, decrease crime and help neighborhoods rebuild? Our key recommendation to increase the stability of neighborhoods, increase quality of life for residents, and to provide a ladder of opportunity for families is for the City to allocate substantial resources for housing revitalization. Among various sources that could be tapped but are not currently being brought to bear, City Capital Budget dollars could be invested in housing as infrastructure.

Table 4 – Capital Budget Planned Expenditures, 2015

CAPITAL BUDGET for 2015		
Greening	Streetscaping	\$ 67,927,495
	Downtown	\$ 28,900,000
	Neighborspace	\$ 6,178,015
Facilities	City Buildings	\$ 6,775,000
	Library	\$ 5,321,000
Infrastructure	Transit/Bicycles/Pedestrians	\$ 115,947,980
	Major Streets	\$ 94,870,000
	Aldermanic Menu	\$ 72,000,000
	Neighborhood Infrastructure	\$ 37,614,000
	Industrial Streets	\$ 25,173,430
	Bridges	\$ 24,900,000
	Shoreline	\$ 13,700,000
	Intersections	\$ 13,393,000
	ADA Ramps	\$ 12,000,000
	Sidewalks	\$ 11,000,000
	Other	\$ 10,587,435
	Transportation	\$ 9,729,600
	CHA Streets	\$ 6,250,000
Total for 2015		\$ 562,266,955

Source: Chicago Rehab Network Analysis of City of Chicago 2015 Budget Recommendations

Is safe, decent, affordable housing any less key to community quality of life than any of the investments outlined in table 4? It is critical to rehab vacant homes and expand occupancy options to ensure a robust tax and consumer base across the city in the years to come. The capacity exists, with leadership and investment, to lead a robust effort to rehab thousands of homes. This accomplishment will create an

economic return for the City while also providing a backstop for the continued deterioration of the unoccupied single family stock.

AFFORDABLE REQUIREMENTS ORDINANCE AND AFFORDABLE HOUSING OPPORTUNITY FUND – Soon the Affordable Requirements Ordinance Task Force will release its findings. The Rehab Network applauds the City for bringing together a diverse group of stakeholders to refine and enhance this important housing resource.

Although the Task Force will introduce some enhancements, it is worthwhile to review current investments out of the Affordable Housing Opportunity Fund (AHOF). Since 2003, the AHOF has collected over \$53.4 million through the payment of ARO and Density Bonus fees, accumulating nearly \$10 million in the third quarter of 2014 alone. Of the total fees collected, funds have been deposited in the following fashion following the language of the ordinance:

Total Revenues Received: \$53,482,364

60% to a fund dedicated to construction and rehab of affordable units: **\$32,089,418**

40% to the Chicago Low-Income Housing Trust Fund to add to two funds equally:

1. Multi-Year Affordability through Upfront Investment (MAUI): **\$10,696,472**
2. CLIHTF Corpus: **\$10,696,472**

Source: CRN analysis of the 2014-Q3 affordable housing production report, Appendix-62.

Given that over \$32 million have been deposited into the AHOF to support the development of new affordable housing projects, the Rehab Network asks why only \$8.6 million of those dollars have been invested.⁶ What is the status of the additional funds?

Continuing with questions about ARO-related reporting practices, CRN would also like to raise an accounting question about including ARO contributions in multifamily spending. According to Appendix-4, the City has reached 346.7% of its spending goal for ARO funds through 2014-Q3. Based on Appendix-64, it appears that these figures represent ARO in-lieu fees collected, rather than AHOF dollars invested. Juxtaposed on the same line item with actual units built under the ARO, this reporting structure is misleading. This fact will become clear to anyone who considers whether it is plausible that 1 rental unit was built by the City for the cost of \$7.5 million in the third quarter; clearly that cannot be true. Instead, that \$7.5 million the City collected was payment for the 75 units developers preferred not to build during the third quarter (Table 5). This figure should not be reported as City spending on affordable housing going forward, as those funds are not yet spent, but rather contributed to the AHOF.

⁶ According to Appendix-63 of the 2014-Q3 affordable housing production report.

Table 5 – Rental Projects Triggering the Affordable Requirements Ordinance, 2014-Q3

Project Address	Ward	Total Units Subject to ARO	Affordable Units Built	In-Lieu Payment Collected
1811 W. Division	33	33	n/a	\$400,000.00
5432-44 S Woodlawn	4	10	1	n/a
3001 N. California Ave	1	18	n/a	\$200,000
25 W. Randolph 108 N State	42	690	n/a	\$6,900,000
<i>subtotal 2014-Q3 ARO Units</i>		<i>751</i>	<i>1</i>	<i>\$ 7,500,000</i>

Source: CRN analysis of the 2014-Q3 affordable housing production report, Appendix-64.

LOW-INCOME HOUSING TAX CREDITS ALLOCATION – LOW-INCOME HOUSING TAX CREDITS

ALLOCATION – It is our understanding at the Rehab Network that City LIHTCs have been obligated through 2016. Many would like to understand what the funding priorities are, which projects and applicants have been given project commitments, and who the other applicants who remain unfunded are. Unlike IHDA, which posts both its awards and its applicants, there is a real lack of clarity about how the City operates. There is tremendous concern among both nonprofit and for profit developers about when tax credits will next be available and what the selection criteria will be. This ongoing lack of transparency obfuscates the real demand for credits, and stifles innovation and competition in the affordable housing marketplace.

CRN recommends that the Department take the following steps to increase transparency and predictability around the allocation of LIHTCs:

1. Follow IHDA in implementing a scoring system within an updated QAP
2. Publish a list of applications and awardees for both the competitive and noncompetitive rounds of LIHTCs
3. Establish a formal process of inquiry whereby applicants who were not awarded credits can inquire into the reasons for denial

Conclusion

Affordable housing has changed the lives of families, stabilized communities, and resulted in millions in community economic development funding in Chicago. Year after year, the city, county and state rely on nonprofit partners to develop the public and private investments that build the supply of affordable housing. CRN shares the City’s interest in the promise of community empowerment and development by constructively impacting the well-being of under-resourced communities and households. This third quarter report demonstrates that these investments work, and that the Department is up to the task of delivering housing in our communities.

Going forward and looking to 2015, growing and protecting resources for the preservation and development of affordable housing will be of paramount importance. Affordable housing is the foundation for equitable growth across the city; as we come together this coming year to share in the core activities of democratic and civic life, it will be important for anyone representing Chicagoans to be awake to these realities, to care about them, and to lead on housing for all.