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Working With Tenants: Peter Holsten Helps Rebuild Cabrini Green

In 1994, CHA won a \$50 million HOPE VI grant to redevelop a portion of Cabrini Green, and by 1996 the plans had been expanded to create the Near North Redevelopment Area. This September, Peter Holsten surprised Chicago by beating out big name developer Dan McLean for the contract to redevelop a portion of Cabrini Green called Halsted North. Now that he's got one of the biggest jobs in town, we asked Peter what role he thought tenant participation and support services would play in making this mixed income project work. He asked staff members Virginia Pace and Candice Howell to help answer the questions. They said the tenant participation began before Holsten Real Estate Development Corporation and Kenard Corporation even won the contract.

Why did you take on this project?

"We've always searched out niches and pursued them. One of our earlier niches was doing rehab in lower income neighborhoods and trying to do real good management so we would have high occupancy and decent economics."

That experience has positioned Holsten to take on the kind of mixed finance, mixed income project required at the Cabrini Homes Extension.

Peter: "We've done multi-layered financing on most of our deals over the past several years. That's

what you have to do if you're going to spend a lot of money and still deliver affordable rents. With Virginia's expertise we are able to take 4 or more layers of financing, each one of which have their peculiarities, and figure out how to make them all work together.

"The other big part that we knew we could bring to this project was our ability to relate to low income folks. We know what it takes to do this management; we know when to be firm and when to be empathetic.

"It was funny, Virginia and I wrestled with responding to the RFP, because it was going to take some

money to get us to where we could even submit an application, much less win it. It was a risk.

"And we figured the only way we were going to overcome the closed door, behind the scenes wheeling and dealing that was typical of our competitor was to have a strong ground-swell of public opinion in our favor. The proposal would have to be something that conveys our integrity and our willingness to work with community folks.

"So that's what we did. We decided to get out there and meet everybody and take seriously their comments and concerns. And that did prevail."

What part of Cabrini Green will you re-develop?

Peter: "The RFP we won is for Halsted North: 7 acres near Halsted and Division. In fact, across the street from our office. We are going through final numbers with the city. I think our final unit count will be 261 units.

"We were given the income breakdown: 30% of the units will be public housing; 20% will be affordable [meaning they will be a mix of tax

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credit rental units and home ownership for people earning under 120% of the Area Median Income]; 50% will be market rate. They also wanted 40 units an acre; they also wanted so much green space; they also wanted so many parking spaces; they wanted it to look like a Chicago neighborhood as far as architectural diversity.

"They asked for the moon and we came as close as we could. And by the middle of next year we'll be underway with our construction."

At DOH hearings last spring, Richard Baron described the HOPE VI project he developed at Techwood in Atlanta. He said that the project's income mix could allow the project to work without operating subsidies if federal support for public housing should dry up. Could mixed income development create a self sufficient project at Cabrini?

Peter: "The thing with HOPE VI is that a \$50 million grant has to build a couple thousand units. That's about \$25,000 a unit, which is not nearly enough to construct a unit, let alone leave enough money for social services, and job placement. It's not enough money to do what you really need to do."

Virginia: "Our project is taking more than a proportionate amount of HOPE VI money, with the assumption that over time the market would come around enough to help build the rest — as people feel comfortable enough living close to public housing that they'll pay market prices. And the demand on HOPE VI money could lessen."

Peter: "We're really the first development here of substantial size. We're figuring on discounting our market rate for-sale prices fairly substantially to entice people to live where their neighbor is going to be a Cabrini Green tenant family. Higher income folk have a lot of choices — they can live where ever they want. So there has to be some kind of financial

incentive."

Don't be fooled by the fact the market rate homes at earlier, smaller scale parts of the Near North Redevelopment Area like Mohawk North and Orchard Park are selling for hundreds of thousands of dollars — Peter and Virginia say they're being sold at a discount too.

"We have a project that is pretty soft economically. However, if ours is successful, the next one will be able to charge higher prices. Maybe then it will subsidize itself internally, and it won't need the HOPE VI money at all."

Virginia: "Orchard Park is selling at 30% below the market for what you would buy in a comparable area. They're selling those townhomes for \$135 a square foot. If you went to Old Town Square you'd have to pay \$180 a square foot. You'd have to pay \$100,000 more for that same townhome."

Does this mean the developer's aren't making the huge profits you might expect from the price tags?

Peter: "I don't know. We're not making a killing."

Virginia: "It's not that we're giving away money, but the standard developer fee for rental housing is about 10%, and we're getting maybe half that. And the standard developer fee for the for-sale housing is 15 to 20%, and we're not even getting half that. So our fees are far below the market."

"The way it would be possible to make a killing would be if you didn't have to pay for the land,

and didn't have to put in very many public housing units. At Halsted North 30% will be public housing and 20% will be affordable. That means half the development is restricted. That's a huge restriction."

Peter: "With the public housing units, the housing authority will pay a capital amount per unit. But that capital amount is below production cost."

Virginia: "It's about 60% of the cost to build the unit."

Peter: "They'll pay their operating subsidy."

Virginia: "That's \$350 a month per unit. But those units will be free from property tax, so it's a break-even venture operating it. Because property tax in the neighborhood is tremendous. The \$350 wouldn't even cover the property taxes."

Peter: "So when Virginia says we're going to take more than our fair share of HOPE VI money, that is probably right. Because we have a project that is pretty soft economically. However, if ours is successful, the next one will be able to charge higher prices. Maybe then it will subsidize itself internally, and it won't need the HOPE VI money at all."

When the city and CHA went into closed door meetings to revamp the redevelopment plan for Cabrini Green and came out with the Near North Redevelopment Area, the tenants filed suit charging they were not included in the planning process as required by HOPE VI. The tenants and CHA reached agreement on a proposed consent decree that would give the tenants a 51% ownership in the development partnership. But *The Chicago Tribune* said the agreement was unworkable, and Dan McLean said he wasn't sure he'd be interested in doing the development under those terms. What did you think of the agreement?

Peter: "We were interested all along, because we sort of knew,

from our experience as a co-developer with a tax credit equity partner, that the details would be negotiated. For instance, in a tax credit partnership, the Chicago Equity Fund may be a 99% partner, while we're a 1% partner, but we still get 50% of any profit when a project is refinanced or sold, and we have the final say in all sorts of decisions.

"Anyone who is familiar with these types of things would know that those details are all negotiated. But most people are not informed about how these negotiations work. And they look at this agreement and say 'Are you kidding me? You're going to put the tenants in the drivers seat?'"

"The entity calling the shots really needs to be experienced in the shots being called. To have the tenants call the shots on the financial structure of the deal would be risky. To have them call the shots on social service, job placement, tenant security patrols, how to get people involved in keeping the buildings up, how to get people involved in tenant ownership – that's a good idea.

"What they really should have come out saying is that the tenants are demanding significant participation in all phases of the development. We agree that tenants should have participation."

Candice: "I think the tenants feel like they are losing so much that the idea of co-development sounds important. But in the first conversation that I heard about tenants participating, nobody said anything about 'How do we get there?'"

Peter: "You can see where they are coming from. Some families are on their third generation, and there is no question that the conditions have gone downhill. So they have put up with all this crap, and now it looks like things are going to get turned around, and they want to be a part of it. And they should be a part of it.

"What's so important here is the temperament of the co-developer.

This may sound a little corny, but to the extent that the tenant group and the co-developer develop a mutual level of trust and understanding and respect, this stuff will flow.

"The reason we said yes to 51% ownership, and it got us some criticism too, was because we already know these people. And we knew we could work with them. We knew they wouldn't say 'Well, we're 51% owners so we're going to decide who gets in here and who doesn't, and we don't care if they're criminals or drug dealers.' They wouldn't do that to us.

"Now, they might do that to someone else if they were angry, or didn't trust them..."

How is your relationship with the tenants working out now that you have been named as the developer?

"The entity calling the shots really needs to be experienced in the shots being called. To have the tenants call the shots on the financial structure of the deal would be risky. To have them call the shots on social service, job placement, tenant security patrols... that's a good idea."

Peter: "A lot of it is developing a relationship. They start out asking for a lot. Just to give you an example, there were some that said 'We want you to turn over the management to us, right from the beginning.' And we said 'You know what, we have a property management company, and we want to include you. Let's create a process where you start and define tasks with us, and to the

extent that you're good at what you do, over time, you may find yourself in a position where you take on a significant part of the management. And after some thought, they agreed that was okay."

Candice: "People start out with unrealistic expectations. But we're people-oriented enough to take them through that process. They're very distrustful over there. And if you don't acknowledge that before you make some major decisions, sitting down in the room together afterward is not going to be enough. The main thing is that they want to be informed and involved along the way.

"This is a very small thing, but in our job placement process, I have to figure out the best way to disseminate information to residents so that they don't come back and say 'You just went to the president of the LAC, or you just went to that building but you didn't do others.' Because access to information is a problem over there.

"I put it to the community, 'How do you want me to distribute this information?' They had a little conversation back and forth, and after about 5 minutes, they say 'We think that you ought to go to the buildings individually.' The decision itself wasn't as significant as the fact that they had something to do with that small decision. It's part of building trust."

Peter: "We also tell them repeatedly, and they understand, that there are going to be bumps. And we're not going to promise you that everything is going to be smooth. What we will promise you is that as problems arise, we will try to get them solved as quick as possible.

"Perfect example: someone wants to know 'How come this guy got laid off? You put him on your construction job and he just got laid off. What's going on?' We say 'I don't know, we'll look into it and we'll call you back this afternoon.' We go look into it, find what's going on, then

call back to say 'Well, this is what happened.'

"Well, all right, I don't like what I'm hearing, but I certainly understand it.'

"It's all that hard work. But at least we return phone calls and don't blow people off."

"We're focusing on economic development and job placement for tenants. We're exploring public/private partnerships for education and training. We're working with some of the long term community based groups at Cabrini."

What sort of tenant services have you incorporated into your plans?

Candice: "We're focusing on economic development and job placement for tenants. We're exploring public/private partnerships for education and training. We're working with some of the long term community based groups at Cabrini.

"There are long standing historical perceptions about public housing and the lack of motivation and training of the people who live there. One of the things I would have to do to convince an employer to slot a job for a tenant I might have is to make some agreement to pre-screen them – to agree that the tenant will be someone who understands what the realm of work is already.

"If a person has a skill and they need a resource – they may need daycare resources, so I'll advocate for that. If they need transportation, I'll

work for that. But if they have substance abuse, am I going to hand hold them through a substance abuse program? No, I'll run across some of those people and I'll refer them somewhere else."

Peter: "We're not in a position to do full case management, so we're going to take the people that are most readily available to work, but are unemployed. The folks that have serious problems, that are really going to need serious intervention, we're just not in a position to do that."

Candice: "A lot of it is attitude, too. I have a particular person who stands out, a guy that used to sell drugs. He has dependents and didn't want to get into that culture again. And he had some good skills also. He's going to be our star employee. Because his whole attitude has changed. He's paying taxes. He's making prevailing wage. He fits into the regular economy."

Some CDCs are saying that it will be the tenants who are screened out of the redevelopment projects like yours who will be sent to the neighborhoods with vouchers to live in housing like ours. And we wonder what supports and services we can access to help them be successful in their new environments.

Peter: "That's a good point. The social service agencies vary drastically. "It makes sense for your members to try to pick out the best agencies through track record or recommendation, and then to develop relationships with them so that when these folks with their vouchers come you can get them into a true supportive housing environment."

He is speaking from experience. Holsten Development Corporation has developed affordable housing in neighborhoods across the city, some of it for tenants with special needs.

"Otherwise they'll just move in, and then the bad news boyfriend moves in, the drugs move in — it can

take these buildings down in a month."

Virginia: "I think what you want to stress is that social service has to be on site. You can't rely on people to come in from off-site to deal with problems that happen at two or three in the morning."

Peter: "The trick is how to pay for them."

Candice: "There are funding sources out there but you need a creative mind to develop some new sources for resident initiatives outside of HOPE VI money. For instance, part of the TIF money [being used at Cabrini Green] was designated for job development."

Peter: "Funders are finally coming around and realizing that that support has to be there.

"When we visited Richard Baron down in St. Louis he pointed out that a not-for-profit can go straight out and fundraise for money to provide services. And to some extent, we could team up with a not-for-profit to raise money to provide services. Normally, a CDC would go and get a 3 year, \$50,000 a year grant from MacArthur for doing that. But if we realized we really need \$100,000 to do social services or human capital development, as a for-profit, we'd have to go around banging on doors, looking for a non-profit to partner with.

"Not that it would be easy because everyone will be after that money. But that kind of source is often overlooked. Richard Baron tells us he does that."

Such partnerships could be one way CDCs could participate in the redevelopment of the large HOPE VI projects. Peter suggests non-profits could work out similar partnerships to bring services to their developments in the neighborhoods.

Peter: "If you've got a group that's just got 3 six-flats to their name, then there's a budget issue. Where are they going to get the money? Now

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some of these social service agencies have the money. But if the staff is going to be full time on site, then maybe the money has to be split between the CDC and the social service agency. In our elevator buildings, a social service agency might take a whole floor, and one of the apartments becomes an office that's staffed 24 hours a day, and keeps an eye on the whole floor. Because without that, people can really run amok."

What sort of plans are you making to help make the income mix work at Halsted North?

Peter: "Richard Baron very graciously invited us down to St. Louis to show us what he did [with St. Louis' HOPE VI award for the Murphy Park Development]. He was managing his projects to the high-end, even though they were low-income-mixed.

He perceived the high income people to have high expectations on service and amenities. By managing to the high-end the low income people are being held to a higher standard, and that is hopefully affecting their behavior in a positive way. And those low income folks are certainly going to benefit from better management. We learned a lot from that.

"Virginia and Candice went to another development out east in Washington D.C. to talk to the NOAH Group, who did a continuum of social services. They showed us how you can sort of grow a mixed income from within if you get jobs for the people who are living there.

Candice speaks of a natural division that the income mix will bring to the community.

Candice: "In some people's minds there is a land-grab going on; other people will come with preconceptions about what public housing tenants will be like."

One strategy for overcoming that division will be a storytelling project. Residents of all income levels will be brought together in a common environment where they will tell their own stories to one another. A similar model has been used to build community among different racial groups in Beverly, and among different income groups in North Kenwood-Oakland. Participants rave about the results. Peter and Candice say the storytelling project will be required of all approved applicants. And rather than a single event, it will be an on-going project.

Candice: "We're going to focus on cooperative, organizational efforts to try to zoom in on those people that want partnerships, that want to learn. The story telling project will be designed to be the foundation for that to happen. People will come in with preconceptions. It will help give people insight into who their neighbor is as a human being, and not just whether or not I happen to be on public assistance."*



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