THE NETWORK BUILDER

Issue #32 Summer 1998 **The Chicago Rehab Network Newsletter**

The Renewal Issue

Living With the Low Income Housing Tax Credit

We are hearing rumors that across the city, non-profit community development organizations are faltering, and that the housing they own and manage is on shaky ground. Behind this story stands the real story: our federal policy is promoting as "the solution" to affordable housing a program that was not designed to fill that need, namely, the Low Income Housing Tax Credit Program.

Proponents of the Low Income Housing Tax Credit (LIHTC) say it puts the power of private investment to work developing affordable housing that the market wouldn't build on its own. Since the LIHTC came on line in 1986, it has helped finance about 180 buildings in Chicago to create nearly 9,000 units of affordable housing. The Chicago Equity Fund (CEF), says it has raised private investment to create 6,000 of those units.

Yet CEF CEO Bill Higginson says about 10% of that portfolio is on shaky financial ground today. Why? "There is no single reason," he says. He cites rents that could not be raised at the rates expected, and unanticipated operating costs like removing gang graffiti – but he puts emphasis on poor property management by non-profit general partners.

Community developers agree there is no one reason, but they say that excessively tight budgets and unfulfilled income/expense projections have had a domino effect. As DOH's David Saltzman points out in this issue, property management problems are often manifestations of budget shortfalls.

At any rate, the LIHTC's priority on private investment gives investors like CEF great weight in deciding the argument. As investors are asked to shore up troubled budgets, they frequently decide to take control of the project from the general partner who originally labored to develop it. "If they want to put more money into it they can," Bill Higginson says, "But if they want me to do it, I want control."

Lost in the ensuing snarl of ownership disputes are important questions about how problem projects got that way: questions about how the LIHTC is used, and what exactly it was designed to promote.

Two Troubled Projects

Peter Holsten is a for profit developer who has worked closely with community development corporations (CDCs) over the years. He is also an expert at restructuring troubled properties. Since 1987, Holsten Management has taken on about 150 properties after bank foreclosure. He says sometimes he is successful at turning the project around, sometimes he is not. It depends on whether or not the bank is willing to put more money into the building. Does this suggest that many of these projects suffer from underlying budget problems more than simple management ones?

Not necessarily, Holsten says. "If the problem is that there's been no rent increase for 8 years, to me, the developer hasn't been fulfilling their responsibility to the project." He says when he was called in to restructure the People's Housing properties, they found People's had not only failed to raise rents, they also failed to collect them. Some buildings were a full month behind on rental income because evictions were not pursued.

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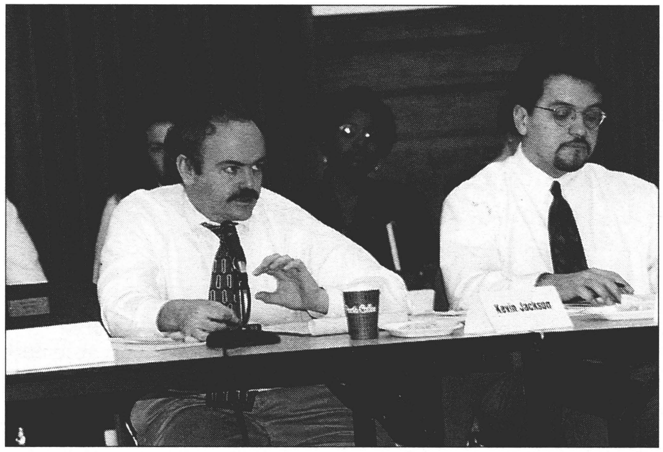
Letter from the Executive Director



"It's about home." In those words Ms. Lydia Taylor of the Coalition to Protect Public Housing summed up the assignment of the Advisory Group. Our task was to begin the next round of plans for taking on Chicago's affordable housing crisis. After a long day of expert testimony on the trends and reforms shaping our environment and giving scope to the challenge, we were quietly reminded of our central task. Before the proverbial village comes a safe, decent home.

Building the places where families make homes does require the resources, responsibility and resolve of the whole village, however. For the past 5 years, the Chicago Rehab Network has focused on the due diligence work of monitoring the city's production performance. In this issue of the Network newsletter, we apply that diligence on several levels: from the city's efforts to muster the 3 R's in its next 5-year production plan, to the Campaign for Housing Justice's efforts to apply them at a federal level, to the challenges of bringing them to bear on the preservation of housing we have already developed.

The Department of Housing (DOH) leadership began its next 5 year plan with an appreciation for the "whole" enterprise of housing delivery and community development. This showed itself in an inclusive process, one that brought out thoughtful debate and a real exchange of information. The department made good use of CRN's research and analysis of its own quarterly reports. As a result, the city's plan uplifts rental housing, without giving up opportunities to promote home-ownership; it uplifts multi-bedroom units for families, without forgetting the importance of SROs. The attention DOH's leadership has shown to these issues also shows the value of the Network's due diligence. We will continue to monitor DOH's reports on its production, and to advocate for meaningful improvements in DOH policies and practices that affect our ability to build communities.

We need to apply the same resolve the Network has exercised at the city level to marshal resources at the federal and state levels, as well as at the level of private industry, where merger mania is sweeping in with new opportunities for enhanced CRA agreements. As we do so, due diligence will mean educating our-selves through open discussions among a broad range of parties, like the discussion that characterized the DOH process.

The stabilization and preservation of property created with the Low Income Housing Tax Credit (LIHTC) is a topic that cries out for similar attention. The Chicago Equity Fund and the Department of Housing have already begun to lead such a discussion in the form of the Chicago Housing Partners. This issue's article on the use of the Low Income Housing Tax Credit enters that discussion. We tried to draw on a number of perspectives and considerations, both in interviews for the article and from the readers we asked to review the draft. We were pleasantly surprised at the range of responses that draft elicited. We are confident none of our readers will be quite satisfied that we've captured the whole true story. We believe that will make it the starting point of a necessary discussion, and not the end of one.

Tax credits are, as the phrase goes 'the only game in town,' and there are those that questioned the wisdom of raising questions about the credit at all. But if tax credits really are the only game in town, it is clearly appropriate that we better understand the peculiarities and constraints of that game. We don't hesitate to call for its expansion as a tool – we do so through our Campaign for Housing Justice initiative. Nor do we hesitate to bring attention to the fact that it isn't, by itself, the answer to the needs of our communities.

Such criticism, like the Network's occasional criticism of the Department of Housing, is a necessary counter balance we bring to an environment where unchecked market rate development, and an exaggerated faith in the powers of individual responsibility threaten to contribute to the displacement of low income members in our community. We do need villages to build homes, and we do have the beginnings of them to build on. We have a solid base in our communities, a rich history, a bright future, and a growing number of alliances in government and elsewhere. With resources, responsibility and resolve, this village will be equipped to return to Lydia's reminder – it's about home.

The Retention Question

by Robin Coffey

Robin Coffey is Vice President over Community Development at Harris Bank.

Over the last 12 years the Low Income Housing Tax Credit has helped create thousands of units of affordable housing within the city and suburbs. The tax credit has become the single most important resource in the financing of affordable housing, but like all tools, the Low Income Housing Tax Credit has a life span. Within the next 5 years, the first of the tax credit partnerships will mature. The time has come to decide how to retain these units once the financing balloons and the limited partners look for ways to exit the partnerships. Yet, the retention question has been complicated by the enormous financial challenges faced by many existing properties. How we address the issues raised by these complications will say a lot about how we value affordable housing.

In the mid 1980s we thought we had the solution for financing affordable housing. Through the Community Reinvestment Act we saw millions set aside for neighborhood projects, with special set-asides for community development corporations. Once the funds were made available, loans were closed and development fees were distributed, we would start to see improvements. The theory viewed financing as the missing link in the creation of affordable housing. It relied upon public and private partnerships, with a lot of public and private capital. What was not foreseen was the rapid decline of public funds, the lack of housing subsidies at the tenant level, and the demise of several CDCs.

In the original scenario, the limited partners were going to turn over well managed properties to the non-profit general partners for continued use as low-income housing units. The properties would be refinanced with conventional lenders for an additional 20-30 years and the restricted use agreement put in place at the time of the original limited partnership would survive for up to 50 years, insuring the retention of the units. All of the original partners would walk away feeling that they had contributed to the cause. The scenario placed great emphasis on projects supporting conventional debt and having appropriate fair market values.

In some cases arguments are being made for vacating buildings because the losses are so severe that no one entity can afford to retain the units.

Fast forward to 1998, where several of the original non profit general partners do not exist, or have retreated from real estate management and development, and the existing properties are in need of a major infusion of capital in order to last another 10-15 years. With declining public resources and the operating budgets that are marginal at best, the physical repair of the existing units has been postponed. It is now time to address both the physical and operational issues of existing units, and the impact on several neighborhoods will be severe.

Rogers Park (north of Howard), Grand Boulevard and Austin are three communities where the physical condition of existing affordable units is especially critical. Almost all of the multi-family rehab done in these communities was completed using the low income housing tax credits. While several projects benefited from the Section 8 project subsidies, others relied on tenant vouchers or "market" rental conditions to fill their buildings. In Austin, it is not unusual for good tenants in one building to become tenants in the next development that came on line. Filling existing projects with qualified tenants has become more difficult. As more of the higher income tenants (those earning 60 percent to 80 percent of the PMSA median income) became first time homebuyers, they were replaced with tenants in the 30 percent to 80 percent income range who did not always have the sustained capacity to pay the market rent.

Having units ready for occupancy became more of an issue as rising operating costs and flat rental income squeezed cash flows. The market itself created incentives for developing new units, leaving existing projects to survive completely on their own. Any project that could not survive was allowed to deteriorate further. In some cases arguments are being made for vacating buildings because the losses are so severe that no one entity can afford to stabilize them. This position may make sense from the accounting point of view, but it does not help anyone who is trying to implement a community development strategy. It also does not benefit

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The Property Stabilization Fund

by David Saltzman

David Saltzman is Deputy Commissioner of Special Finance at the Department of Housing.

The Department of Housing (DOH) in conjunction with the Illinois Housing Development Authority and a number of other of Chicago's major investors in affordable housing, recently joined together to form the Property Stabilization Fund (PSF). The overarching purpose of PSF is to establish an organizational framework for quickly approving grants to projects that were previously financed by its members, and which are experiencing financial and operating difficulties.

The Property Stabilization Fund arrives at a time of growing awareness that preservation of our existing affordable housing stock constitutes a challenge as compelling as the urgency to create new units. The challenges of managing and maintaining affordable rental housing projects can be conveyed in a paraphrasing of the opening lines of Tolstoy's Anna Karenina. Just substitute families for affordable housing: all happy affordable housing projects resemble one another, but each unhappy one is unhappy in its own way. Compared to the complex social and psychological factors that encompass family life, measuring the happiness of a real estate project might seem relatively mundane and straight forward. One obvious standard comes to mind: cashflow. Another measure that seems to work in both domains is the rate of divorce, which in the affordable housing world means the splitting-up of owner and property manager. By both of these measures, there is a lot of unhappiness and trauma in the business of managing and sustaining affordable rental housing projects.

The degree of distress is evident in the recent emergence of the "sustainability" theme in discussions about affordable housing, occupying a level of prominence shared by topics such as housing creation, public housing, rental subsidies, and homeownership. But unlike these

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latter priorities, sustainability initiatives have attracted limited public funding support.

Many reasons can be cited for why, on a public policy level, there has been general lack of willingness to respond to owner's requests for supplemental funding for projects that have previously received substantial public investment in the form of secondary financing, tax credits, or both. Perhaps the most apparent reason is that every dollar spent on sustaining an affordable housing unit is one dollar less for creating a new one. However, there also seems to be a cultural bias against such assistance, possibly rooted in the belief that a failing business should be allowed to fail because presumably it was poorly managed, inefficient and non-competitive. In my experience, such a draconian point of view is rarely explicitly articulated in connection with affordable housing projects, but it is, none the less, present in the far more commonly held belief that owners and management are to blame for all the problems that befall an affordable multi-family rental development. Such a belief is both unfair and nonconstructive.

This blame-the-management reflex suggests a point of view that affordable housing is just a business, and that all challenges that arise have business solutions. But clearly affordable housing is also a social program, and the types of social problems that arise over the life of a development cannot always be adequately addressed within the context of a building's operating budget. Projects that achieve affordability with capital subsidies are expected to depend on these up-front subsidies to carry them through their life trajectories, and, implicitly, they are not expected to return to the public trough a second time.

However, there are many reasons why projects fail to become self-sustaining. Sometimes problems can be clearly traced to poor management, but just as often, it can be very hard to evaluate the relative competence or malfeasance of a property manager, largely because circumstances under which many property managers and owners operate can present almost insurmountable challenges. For example, crime problems can erupt and overwhelm a property that lacks the reserves or operating income to fight back with enhanced security. And the project's problems may compound if the owner lacks the capital to return vandalized units to habitable condition. Thus, long turn-around times ensue, vacancies grow, good tenants decide not to release, qualified tenants become harder to find, and vacancies become even worse.

Continued on next page

Saltzman, cont. from previous page

Of course, when a crisis such as this unfolds, ownership and property management may be responsible. Perhaps tenant screening was inadequate, or evictions were not aggressively pursued. Maybe leasing suffered because the property looked bad. But, then again, maybe it had bad curb appeal because the janitor was busy repairing vandalized doors and apartments and lacked the time to do thorough routine cleaning. It is often difficult to know where the fault lies.

When DOH reviews a workout proposal, we like to compare a project's current income and expense statement with the projections in the original pro forma for the year of the statement being reviewed. The purpose of the exercise is to see if there are any significant financial variances between projections and actual results. Invariably, when a restructure is being proposed, such variances exist, and one of the most common variances is a large shortfall in gross potential income which occurs when rent increases fall short of pro forma projections. While this may be a sign of an owner's lack of will or desire to raise rents, it is more likely to be indicative of an inability to do so.

One frequently cited economic statistic would seem to suggest why owners have been having problems guiding their rents upward. Over the past two decades, a gap has been growing between America's two tiers of workers. Since 1979, the wages of the upper third of the workforce have increased, but the remaining two thirds of the US workforce – both middle and low income job holders – have seen their average incomes fall significantly. Since the tenancy of our projects are comprised almost entirely of households in the lower tow thirds of the income strata, it is not surprising to see that rents have stagnated.

Thus, the affordable housing business is facing a perilous confluence of events: costs are volatile, and rents are stagnant. The Property Stabilization Fund is a modest undertaking that seeks to address the destabilizing effects of this situation. The planning for PSF evolved during meetings of the Chicago Housing Partnership, and several guiding principles shaped the final form of the program. First, was the universal desire to identify a source of funds, and a mechanism of funding that was flexible in terms of permissible uses, and in which the funding approval process was expeditious. Another guiding principle, for DOH at least, was that he city should not be the fund's sole source of capital.

The affordable housing business is facing a perilous confluence of events: costs are volatile, and rents are stagnant. The Property Stabilization Fund is a modest undertaking to address the destabilizing effects of this situation.

The city has made an initial commitment of $1 million that it will use to match funding from other entities. Thus far, significant contributions have been made by the National Equity Fund, the Chicago Equity Fund, IHDA, and LISC. And several lending institutions have agreed to provide operating support, including CIC, Northern Trust, LaSalle Bank, Harris Bank, and First Chicago. The fund will provide small, but hopefully strategically vital grants to projects that can be used for a variety of purposes, including capital improvements, reserve funding, and security related initiatives. In order to qualify for funding, a project must meet certain threshold eligibility criteria. The first of these is that the project team must include an equity partner and lender (senior to junior) that are members of the fund. The second is that all parties involved in a development – the lenders and the general equity partners – must submit to the fund a project workout proposal that has the support of all project participants. The proposal should identify their respective roles in the workout, including their financial contributions.

Thus, PSF is the final stage of a process that involves loan restructures, financial contributions from the ownership, and possible changes in management. Coming to terms on these issues will continue to be the most difficult part of the project workout process. But we are hopeful that the modest funding available from PSF will help leverage solutions to the challenges that face the owners and managers of affordable housing.

Coffey, cont. from page 4

the neighbors of these buildings, who see the reality of our mistakes every day. Is this our future?

I will not pretend to know the answers. Each community is different and each project has its own circumstances to deal with. While the legalities involved in the transfer of ownership will be worked out, the reality is that no responsible entity will be willing to accept ownership of a multi-familiy building that does not cash flow, has several past due bills and is in disrepair without a long term funding and maintenance program. With severe budget cutbacks on the housing creation side, there has been little attention paid to how our existing units can be sustained. Instead of reacting to the proposals that will most certainly come from outside the community, this community needs to develop a retention strategy which includes funding.

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"Now maybe you don't want to raise rents because your tenants can't afford it, or you don't want to evict people because it conflicts with your mission," Holsten says. "That might be a noble mission, but that's not being responsible to the financial health of the building." He believes a project should be taken away under those circumstances.

Holsten was also called in by CEF to manage Bethel New Life's Guyon Towers. A large landmark building in the troubled West Garfield Park neighborhood, Guyon Towers was one of the first developments to pioneer the use of the LIHTC in the country. It was also developed by one of the largest, most productive CDCs in Chicago. Bethel New Life currently operates about 400 units of affordable housing. But in 1995, the Guyon had run into trouble. Holsten was called in after CEF had restructured the Guyon, taking on half of Bethel's 1% ownership in the Guyon partnership. CEF is now the managing general partner. Bethel still plays the nominal role of co-general partner but does not take any part in the management of the property.

The Guyon's private first mortgage was restructured at a lower interest rate, and the project received a sizable loan from IHDA to cover system repairs deferred due to budget troubles. In addition, though, *Crain's Chicago Business* reported the Guyon's budget would be beefed up with $50,000 annual infusions. Was this to cover the gap between income/ expense projections of the original underwriting and the actual income and expenses 8 years later?

Bill Higginson claims it wasn't, because that money was allocated specifically for security services. Nevertheless the Guyon exemplifies several issues that hover around the use of the tax credit program in Chicago in general.

First, all parties involved in underwriting Guyon Towers – including the banks, the syndicator, the sponsors and the developers – were wrong in their income/expense projections. No one had experience using the tax credit, and in a shared enthusiasm to put the untried new program to work they erred on the side of optimism: they anticipated rental incomes that would not be realized, and they underestimated expenses.

The optimistic income projections meant the Guyon ended up with more debt than it could carry. When the community could not support the projected rents and rental increases, the Guyon's income was not sufficient to carry that debt.

Why would anyone want to remain general partner of a project that is losing so much money? "Because eventually something is going to happen to those buildings," Grisham answers. "They are major buildings in our community. That's why Bethel targeted them for redevelopment."

Further, the optimistic expense projections were left even more vulnerable to failure by the decision to develop the Guyon as a moderate rehab project. "The moderate rehab was seen as a way of saving money," Bethel's Lawrence Grisham says today "and that was the prevailing wisdom at the time. But that prevailing wisdom was wrong: you have to replace the systems or you will pay for it later." He points to two examples. Several of the Guyon's plumbing stacks were not replaced in the rehab. After the rehab was over and everything was closed back up, they burst and had to be replaced. The elevators were not replaced in rehab either. They broke down and had to be replaced in 1995 at a cost of $100,000.

Since the redevelopment of the Guyon, Bethel has forfeited its development fee to make the project work, and pumped at least an additional $274,000 into the project before CEF stepped in as managing general partner. Why would anyone want to remain general partner of a project that is losing so much money? "Because eventually something is going to happen to those buildings," Grisham answers. "They are major buildings in our community. That's why Bethel targeted them for redevelopment." When the tax credit compliance period ends at the end of 15 years, the Guyon's financial investors may well be gone, but Bethel New Life will be there to see out the fulfillment of a different kind of investment: the future of buildings like Guyon Towers matters to the future of West Garfield Park, and everyone who lives there.

Meanwhile, Bethel has not been involved in the day to day management of the Guyon for at least 4 years, but as co-general partner, they must still show the Guyon's liabilities on their balance sheet. In Bethel's 1997 audit, the Guyon showed a loss of $123,000.

Guyon Towers is just one project, but it raises significant questions about the LIHTC – about how it is used and how troubled projects are put back on track. These questions point back to the purpose of the LIHTC itself.

Does the LIHTC Build Affordable Housing?

When the LIHTC emerged from the same tax reform laws that eliminated all previous tax incentives for investors in subsidized housing, it was a new kind of housing creation program. Federal loan programs like Section 236 and 221(d)3 had covered the bulk of the project costs with very low interest loans that could be supported by low income rents; project based Section 8 had left developers to take out a market rate mortgage, but the federal government

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provided large operating subsidies to cover the gap between the development's low rental income and high interest loan payments. By contrast, the LIHTC is designed to cover only a small part of the project costs, and is expected to leverage the rest.

Today, community developers might ask whether the primary purpose of the tax credit is really to create affordable housing, or if this purpose hasn't been lost in the emphasis on private investment. Lots of Americans believe that private investors can do what the federal government can't – especially when it comes to building and sustaining decent affordable housing. But the LIHTC's private investment priority has turned out to be an expensive one (see *Whose Investment Is It?)* and as projects run into trouble, it has resulted in fierce ownership quarrels among community developers and tax credit investors that do not necessarily end in the resolution of the problems faced by projects like the Guyon.

If this wasn't the way things were supposed to work out, CEF's Bill Higginson blames stresses on the program created by stretching the tax credit to reach people it was never intended to reach. "The LIHTC is a low income housing program, not a very low income housing program." This may be a point on which displaced general partners would agree with him.

Community development corporations take on real estate development because their communities suffer a chronic shortage of one of the most basic prerequisites to stable, productive human life – decent, affordable housing – and because no one else will build it. In the past no one would build it because they could not get loans to build in the neighborhoods that needed it, and even if they could get loans, the market couldn't make development profitable. Now the Community Reinvestment Act has made the loans available, and the LIHTC allows the developer to attract investors and collect his fee. But the LIHTC isn't enough to meet the housing needs in many of Chicago's neighborhoods.

Nationally, as in Chicago, the greatest need for affordable housing is for families with incomes under 30% of the area median income (AMI). But the LIHTC targets rents to households between 50 and 60% of AMI. The Chicago AMI for a family of four is $55,800. Fifty percent of that is still $28,000 – or more than twice the income from full time employment at minimum wage.

When the Boston-based consulting firm City Research conducted its 1997 study of 2,554 LIHTC projects, they found that the median contract rent of LIHTC properties in its sample was $436 in real 1996 dollars, while the 1995 American Housing Survey found a median rent among recent movers of $480. "On average, rents for units in the sample are 10% lower than the average rent for the nation." That's not an impressive difference for a program that costs $3 billion a year, as calculated by the federal General Accounting Office last year.

Whose Investment Is It?

The Low Income Housing Tax Credit is said to encourage private investment in low income housing. In fact, the federal government pays a high price for that investment.

Each year, the IRS allocates tax credits to local housing agencies, which receive $1.25 for each resident in the area they serve. Most tax credits are administered by state agencies, but three cities, including Chicago, New York and Washington, also administer the credits. Local housing agencies distribute tax credits to developers and monitor their compliance with tax credit regulations.

Developers have a choice of affordability guidelines. They can make 20% of the units affordable to tenants earning no more than 50% of the area median income, or make 40% of the units affordable to households earning no more than 60% of the area median income. The tax credit allocation varies with the percentage of units that are affordable to, and occupied by, low income families.

Meanwhile, the tax credits continue each year for ten years, but the project must remain compliant for 15. Failure to comply in any given year carries strict penalties, including loss of credits and recapture of prior credits.

Tax credit investors are rarely identical with those who develop the affordable housing. Instead, the developer sells the tax credits, often through a syndicator, like CEF, who spreads the funds from numerous investors over a broad portfolio of properties. The arrangement dilutes the risk of the investors and brings equity capital to the project. But it also dilutes the spending power of the tax credit itself. Tax credits must be sold at a discount to make them worth buying, and there are additional costs, including legal, accounting and marketing fees associated with the syndication process.

How much does it cost to make the LIHTC an attractive investment opportunity? Last year, City Research, a Boston research and consulting firm, collected detailed information on 2,554 LIHTC projects across the country, including the price investors paid

Chicago rents were not any more impressive. Average rents for efficiency units with tax credits were $411, compared to a city market rate of $444, and a metro area rate of $454. Two bedroom units averaged $622 with tax credits, but they cost less without them: $506 in the city, and $618 in the metro area. City Research remarked that in many cities tax credit rents are higher, even much higher than rents for non-tax credit units of comparable bedroom size. They concluded this may be because the tenants also draw on additional rental assistance.

Community developers make the tax credit work in their determination to meet the needs of families in their neighborhoods by stacking other sources of financing. In 1997 the federal General Accounting Office estimated that the average household income in tax credit apartments placed in service between 1992 and 1994 was just $13,000 – because 3/4ths of them received other forms of housing assistance, through direct rental assistance, through other development subsidies, or both.

But adding up layers and layers of financing makes assembling a project much more difficult, and it can also make the whole financing structure much more vulnerable. One project in Uptown recently became the marvel of Chicago's development community by pulling together a project from 10 layers of financing – including 4 separate mortgages. The experience of a project like the Guyon – with its unforeseen costs and unrealized projections – does not bode well for such intricate structures.

City Research found that in Chicago, average rents for efficiency units with tax credits were $411, compared to a city market rate of $444, and a metro area rate of $454. Two bedroom units averaged $622 with tax credits, but they cost less without them: $506 in the city, and $618 in the metro area.

Still, so long as community developers feel compelled to use the tax credit to meet the housing needs in their neighborhoods, projects like the Guyon also offer lessons for making them last. Two factors draw particular attention to themselves – excessive debt burdens and overly optimistic income/expense projections. They are also closely intertwined.

Why Do Projects Fail?

Private First Mortgages

City Research found that tax credit equity typically covers about 38% of total development costs. How the developer fills the remaining gap can have a big impact on the affordability, and even the long term stability of the project.

The typical project in City Research's study filled in 46% of the costs that remain after tax credit equity with a first mortgage, and 16% with gap financing from local governments, grants and additional mort-

for the credits. Tax credits have come to command a higher price as investors have had greater confidence in them. City Research found investors paid between 47 and 62 cents per dollar of tax credits between 1987 and 1996 -- for an average price of 52 cents.

Each year, the IRS forfeits an additional $300 million for new tax credit allocations – that is, $300 million in addition to the active tax credits allocated over the previous 9 years. Applying simple multiplication, the General Accounting Office recently concluded the annual cost of tax credits today is over $3 billion. If those credits were sold at rates averaging 52 cents on the dollar over a ten year period, that $3 billion only brought $1.56 billion to the development of affordable housing.

Rising prices will impact that number incrementally over the upcoming years, and Bill Higginson says tax credits sold through CEF this year are bringing 68-70 cents in equity to the project. But the tax credit still offers a high return on investment. City Research calculated that rate averaged 18.2% with its most recent numbers.

"Because the investors are weighing the investment against alternatives, and because there is some risk that the property will fail to qualify at some point…their required rate of return is considerably higher than Treasury rates," as James Wallace has pointed out in an article in *Housing Policy Debate*, suggesting it would be cheaper if the government borrowed the money and spent it directly.

Furthermore, the syndication process itself can be costly. One of the main costs is the bridge loan. Investors often don't pay their full investment up front, but gradually over several years. The developer needs the money all up front, however, and typically, someone takes out a loan. Bridge loan interest can be substantial. In addition there are substantial legal, accounting and marketing fees associated with the syndication process itself.

The tax credit makes big business for lawyers, interest for lenders and great returns for investors. But even as the going rate for a tax credit dollar continues to rise, the federal government is still paying for every cent of that private investment, and then some.

gages. In New York City, 57% of project costs are covered by the first mortgage – compared to 36% in Chicago. But in New York, first mortgages are extended by the city at interest rates averaging 1.2%.

The city of Chicago uses its housing budget to extend similar low interest mortgages, but it also insists that developers help make the city's money go a little further by taking out a private mortgage. City Research singled out Chicago, along with Cleveland and Atlanta, as being particularly prone to using private lenders for first mortgages. Many projects are only able to afford private mortgages so small they are all but symbolic, yet maintaining them sucks up a disproportionate amount of the project income.

According to DOH reports on loans made between 1994 and 1997, debt service on private first mortgages alone took out an average of 26% of project rental incomes before any operating costs had been paid. In numerous cases, private mortgages cost significantly more. For example, Southeast Chicago Development's tax credit project at 8954 S. Commercial took out a private first mortgage whose payments represented nearly half of the anticipated rental income. But the loan itself only covered $400,000 of a project whose total cost would exceed $1,800,000. Is South Chicago Bank's $400,000 contribution to an $1,800,000 project worth a first lien position? Is it worth the strain of cutting operating income in half – straining the city's $1,400,000 investment in loans and tax credits just to push its resources $400,000 further? Maybe it will have been if the project ages as smoothly as planned.

Unrealized Projections

While Chicago was still buzzing over the recent failure of 2 of the city's largest non-profit developers of tax credit properties, then-housing commissioner Marina Carrott told *Crain's Chicago Business* "Where cash flow is available, it should be used to support the largest possible first mortgage, because subsidy dollars are scarce and anytime private dollars are available, we should maximize them." The pivotal question becomes how much cash flow is "available?"

Many developers report being pressed to raise their rental expectations, and to decrease their operating projections, their contingency funds and their development fee as DOH sought to maximize the private mortgage. This was particularly true in the early days of the program. "DOH would tell you operating costs can only be $3,000 [per unit per year] or $3,500, when really it was $4,100," one large for-profit developer recalls. "Or they'd tell you your expenses were too high, and you'd say 'high compared to what?' And they'd say 'we don't know, they just seem too high.' They didn't have a basis for comparison."

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It is still tricky to establish a basis for comparison today.

As director of the Housing Resource Center, Sue Brady oversees management of about 500 units of scattered site public housing since 1987. She says a common assumption is that monthly operations, which do not include mortgage payments, are about $300-$350 per unit per month. By that standard, 20 out of 40 Department of Housing loans extended between 1994 and 1996 are cutting things very close. Fourteen of them would not come out with enough cash flow to make their mortgage payment – indicating they are anticipating operating costs at a rate much lower than $300-350.

Developer Peter Holsten says a single range might not provide for meaningful comparison – that operating costs vary considerably with the size of the unit. He describes a 45 unit building of 1 and 2 bedroom apartments, rehabbed down to 25 units of 2 and 3 bedrooms. The operating costs for each of those units will be considerably higher because the building hasn't shrunk – "it's the same square footage to heat, repair and roof." He estimates $315-350 is a good rate for a family unit, but that $250-275 is a more realistic rate for an SRO. Further, operating costs are projected to increase incrementally each year. If that increment was 4%, $275 in 1994 would rise to $322 four years later.

Returning to the Department of Housing reports, however, there is no correlation between operating costs and unit size, or year of closing. The average amount available for operating costs for a 3 bedroom apartment after the mortgage payment was $416 per unit per month in 1994, but it was only $292 in 1997. The average for an SRO/studio was $310 in 1994, and $309 in 1997.

The only conclusion to be drawn is that there is not a universal formula for projecting operating costs, and anticipating the variables is not yet a science. The Department of Housing has been on a learning curve with the LIHTC along with everyone else, and today LaSalle Bank and LISC are undertaking a study of operating costs and the variables that affect them to create a real basis of comparison for new projects, while CRN is undertaking a broader look at how operating costs fit into the larger project budget.

Unforeseen Events

Still, a lot of the factors that have been impacting projects are difficult to plan for. In 1995, a large for-profit developer went back to the city for an additional loan to save a faltering project on Chicago's west side. What went wrong? There were some construction oversights, and the scope of work wasn't as extensive as it should have been, the developer says today. But the real problems started when gang activity held at a fever pitch for several years. Lots of tenants left, and the ones who remained "were not so great." "The gangs controlled the building for a while," the developer says. "It took a long time to bring that building back around."

In 1995, Bickerdike Redevelopment Corporation closed on the Nuestro Pueblo Apartments on Chicago's northwest side. The first year of operations the project had an operating deficit before it had made its $85,000 private first mortgage payment. The reason could be traced to a single line item. Nuestro Pueblo was a 5 building project, completed one building at a time. The post-rehab property tax increase kicked in before the full project was completed, and Nuestro Pueblo's property taxes had jumped by $100,000.

That bill has since been brought down under appeal, and that particular tax scare won't recur now that Nuestro Pueblo has secured Class 9 status for the now-complete 5 building project. In the meantime, Bickerdike, a large, stable organization that has developed nearly 900 units of housing over its 30 year history, was able to hold out for the appeal. But if they weren't, First Bank has first lien on the property – for contributing $800,000 to a $7 million project.

Who Pays, and How

Pinning down more realistic assumptions for making income/expense projections and for anticipating the factors that impact them will help make tomorrow's tax credit projects stronger ones. So would a reassessment of our local priority on private first mortgages. But what about projects that are in trouble

Where Did This Program Come From?

Before there was the LIHTC there were other tax incentives to bring private investment to affordable housing. By 1968, the federal government was trying to stimulate affordable housing development with low interest mortgage programs like Section 221(d)3 and Section 236. But tight restrictions on the property weakened their appeal to investors, making it hard to raise equity.

In 1969, Congress tried to whet a few appetites by linking tax incentives to investments in subsidized housing. These incentives were protected and expanded by each new tax act passed over the next decade and a half, including the tax reform act of 1976 which was designed to limit spurious tax shelters, but which specifically exempted real estate from its limitations. Through these tax incentives investors could claim accelerated depreciation on investments in subsidized rental housing, and more importantly, they could apply these "passive losses" to their active income before calculating their taxes.

The incentive worked. Through the 70s and early 80s, lots of investors sought shelter in the new real estate limited partnerships. The limited partnership structure allowed profits, and more importantly tax benefits, to flow through to passive investors, without making them directly liable for the building beyond their original investment. So long as the building did not go bankrupt, some limited partners believed their only concern was that the project did not show a profit.

"Foreclosures do happen," one investor's guide admitted shortly after the Tax Act of 1981 created the biggest tax incentives ever "and when they do, investors pay a large termination tax." But large substantial benefits would survive foreclosure, and the rate of return was so good, even foreclosure looked good compared to after tax alternative investment rates.

"Meanwhile, if the real estate gets worse," the author continued cheerfully, "investment benefits often go up. Some really poor pieces of real estate have produced some super investment results." That observation casts a new light on the priority placed on private investment in affordable housing. An financial interest is not inherently more reliable than a social one.

The super investments didn't last. In 1986, the federal government undertook sweeping tax reform that wiped out the existing tax shelters and put an end to the dubious investment results. Critics warned it would be the death knell of affordable housing. But low income housing advocates joined forces with real estate interests to squeeze the LIHTC into the same legislative package. Today, the LIHTC is the most productive rental housing program the federal government has – creating over 600,000 units of housing since its enactment in 1986 – but that's because it is virtually the only rental housing creation program the federal government has.

today? CDCs are finding limited partners frequently respond by removing general partners. Sonya Prear says Chicago NEF has only removed its general partners on 5 occassions, but Bill Higginson says that CEF has removed the general partner in about 10 to 15 percent of their properties in Chicago. General partners that remain do so after tenuous negotiations that leave most developers extremely skittish about discussing the problems cropping up around the tax credits at all.

The limited partnership structure that binds the investors to the developers of LIHTC projects took off as an investment vehicle as investors rushed to take advantage of tax shelters created around affordable housing in the 70s. Loosely regulated by the Uniform Limited Partnership Act of 1978, the limited partnership is designed to allow profits and tax benefits to pass through to limited partners while shielding them from liability. In effect, limited partners trade direct control of the project for their protected status. "A limited partner," *Real Estate After Tax Reform* explained to potential investors in 1987 "is one who cannot participate in the active management of partnership activities according to state law."

But tax credits have made the investor's return contingent on the compliance of the property for the first time, and the partnership agreements for LIHTC projects contain careful provisions to allow the limited partner to step in if their investment is under fire. Investors who once thought their only concern was that the property not show a profit now complain non-profits don't understand the business of real estate.

On the other hand, syndicators like CEF have always put a priority on the health of its investment properties – both with and without tax credits. Observers also point out that it was pioneers like CEF and NEF that first convinced investors to put their money into untried community based developers in the first place: before they came along most investors were looking for general partners with the money to stabilize a troubled property themselves if the need arose.

Today, CEF's Bill Higginson finds himself in an ambiguous position. He says that CEF has invested in more non-profit developments in the past 4 or 5 years than it did before the famous failures of People's Housing and The Neighborhood Institute. But he also says he is aware many CDCs accuse him of being too aggressive about removing general partners, a complaint that will not be put to rest by CEF's recent decision to start up a property management arm.

"A limited partner," *Real Estate After Tax Reform* explained to potential investors in 1987 "is one who cannot participate in the active management of partnership activities according to state law."

As Harris Bank's Robin Coffey demonstrates in this issue, there are plenty of individuals in the finance industry with a real interest in the long term community impact of tax credit properties, and no Network member would argue they should not be held accountable for sound business and management practices.

Still, many community developers raise concerns that after all the lessons are learned, the priority on private investors may effectively override their community development mission. That community development mission motivated them to take on the tricks and hurdles to make the tax credit work to create affordable housing in the first place, and it is what dictates their interest in the future of faltering projects – even when they start to lose a lot of money. If the purpose of the tax credit program is to build communities, that doesn't always seem to be reflected in the workout process.

Syndicators may argue they have a right to take control of troubled projects if they are being asked to put up money to sustain them. But non-profit general partners also manage to put large sums of money into bleeding properties, as Bethel New Life did with Guyon Towers. Still, by definition non-profit developers don't have unlimited reserves, and they don't have a lot of options if they can't cover the costs.

The city's Department of Housing first attempted to offer help in the form of the Building Improvement Loan Program. Since 1995, the BILP has extended loans to 6 troubled properties according to DOH reports. Interestingly, 4 of the loans went to for profit developers — 3 of them went to City Lands, a for-profit subsidiary of Shorebank. But the BILP sent applications through DOH's regular loan approval process, right up through city council approval. "Turn around time, from application to approval, could be 2 or 3 years," Peter Holsten observes "and meanwhile the building is bleeding to death."

"It is a really annoying program," a recipient agrees.

With an eye to timeliness, DOH has been refining a new Stabilization Fund that will extend help more quickly. The Stabilization Fund could allow general partners to remain involved with their project, but only if the syndicator decides its okay. No one can approach the stabilization fund unless they come as a team, with all partners in agreement to a workout plan.

Bill Higginson argues this is the way it should be. "Who has the money in the project? Do you know who has the money in the project?" If the investors believe they do, it's because the LIHTC was set up that way, but it's not because the federal government isn't paying for it at a rate of $3 billion a year.

Defining an Affordable Housing Agenda

The Environmental Scan

Despite important progress toward the housing production goals laid out in the Chicago Affordable Housing Ordinance, the city's affordable housing supply has continued to shrink. What will it take to reverse the persistent decline? This spring, the Department of Housing and the Chicago Rehab Network organized an environmental scan to assess the real affordable housing needs faced by Chicagoans, and the trends that will impact them. In three days of hearings, experts from across the country testified on topics spanning welfare reform to real estate taxes.

Central to the discussion was the uncertain climate over Capitol Hill. Deepak Barghava of the Center for Community Change and Nick Retsinas of the Joint Center for Housing Studies of Harvard University got things rolling with an overview of an ambiguous national scene: home sales are soaring beside a whole host of other economic indicators, but the nation's affordable housing has hit new lows, and Congress is not embracing the general prosperity as an opportunity to replenish it. Considering the mood against discretionary spending in general, where are the opportunities for slowing the affordable housing crisis?

It won't be with those programs that "most look like federal government programs," Retsinas assured us. President Clinton has proposed to create an additional 100,000 Section 8 housing vouchers in 1999; there is also a proposal to raise the cap on Low Income Housing Tax Credits (LIHTC) for the first time in the 12 year history of the program. Barghava forecasts that the increase in the LIHTC cap, which would slip out through the IRS and not directly impact year to year congressional budget decisions, has a chance. But new caps on discretionary spending set by long term balanced budget agreements mean the President's vouchers probably do not. Block grants that devolve responsibility to localities will be in, predicted Retsinas, long term commitments will be out. "Don't bet on the future."

"I believe the housing finance system in this country is the best in the world," Retsinas told the Advisory Group. He warned us not to attempt to replicate or change the delivery system – we will only bury ourselves in that heap where all redundant middle men go. "You've

Continued on page 14

LIHTC cont. from previous page

Yet the private investment appeal of the LIHTC, along with the fact that it is spent through the IRS so Congress doesn't have to account for it as it negotiates HUD spending, also gives it political appeal. As HUD oversees the dismantling of public housing as we know it, and as Congress continues to look to the HUD budget as a good source of funds to address other emergencies, the one affordable housing creation program that still has a shot at an allocation increase is the LIHTC program. LIHTC allocations have not changed from their original level of $1.25 per capita in the 12 year history of the program. That may change this year if Congress agrees to pass a bill that would raise that allocation 40%, to $1.75 per capita, to restore buying power lost to inflation. The Chicago Rehab Network counts itself among the affordable housing advocates who support that increase in the most significant federal rental housing creation program still standing.

In the meantime, though, we also call for a reassessment of the use of the LIHTC as an effective tool for producing truly affordable housing. When CEF's Bill Higginson says the LIHTC program is a low income housing program, not a very low income housing program, community developers have to ask what will create affordable housing for Chicago's very low income families? Higginson himself proposes it could be privately owned housing developed with tax credits, but with substantial operating subsidies like those given to public housing [or like project based Section 8]. On a federal level we cannot advocate for an increase in tax credit allocations without reminding Congress that the LIHTC is not, and was never, meant to be the whole answer to the real expense of building truly affordable housing.

On a local level, we can continue to pursue more accurate information on which to base income/expense projections, and we can reassess the level and expense of the debt we expect them to support. And as we address those properties built on mistaken assumptions of the past, we can do it in a way that uplifts the community ownership of the property along with the community purpose of the program.

Environmental Scan Highlights

Federal Policy

Invited Guests
Nick Retsinas, Harvard University
Deepak Barghava, Center for Community Change

Welfare Reform

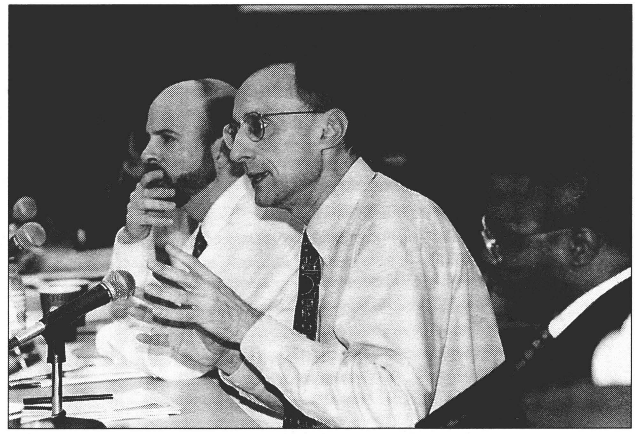
Invited Guests
John Bouman, National Clearinghouse for Legal Services
Gary Jefferson, United Airlines

Gary Jefferson broke welfare recipients down into 3 tiers based on their prospects for employment: 25-30% are short term recipients who could be readily employed right now, another 25-30% are long term recipients who would be employable after comprehensive skills training, but the remainder are long term recipients with daunting problems – substance abuse problems, family problems, mental illness problems – that no one wants to think about.

All 3 tiers face complicating locational challenges, as poor fair housing enforcement and other factors limit the supply of affordable housing near suburban jobs. The top tier is nearly hired up by proactive corporate welfare programs like United's.

Asked to imagine a worst case scenario in which the bottom tier has no income in 5 years, John Bouman estimated 20,000 households would be left homeless statewide – maybe 15-17,000 of them in Chicago. Meanwhile, less than 17 percent of the welfare caseload in Illinois currently receives housing

got to figure out a way to use the market as your ally."



Lakefront SRO Director Jean Butzen was present as a member of the advisory group. She pointed out that Lakefront's tenants are formerly homeless people with extremely low incomes and could not begin to afford rents that could support a private mortgage. "How can we tap the market when their products are so expensive?"

Of course, private first mortgages are not for everyone, Retsinas admitted, but he believes that linkages that place housing in a broader economic development context will help provide the answers. "Think of how you could tap other resources, like Medicare, Medicaid...as revenue to pay for capital."

One example of what such innovative linkages could look like might be the Techwood development in Atlanta. Richard Baron, the project's developer, testified later in the hearings that Techwood combined Atlanta's $50 million HOPE VI grant with Low Income Housing Tax Credits to replace some of the worst public housing in Atlanta with a mix of market rate, assisted and public housing. Techwood sounds a little like the plans for the redevelopment of Cabrini Green, where Mayor Daley wants to use Chicago's $50 million HOPE VI grant to replace 3 towers of public housing with 2,300 mixed income units: 30% would be public housing, 20% would be DOH subsidized affordable housing, and 50% would be market rate townhomes.

But at Techwood, the units are indistinguishable, and all of them are built to the standard set by the market rate units. Tenants can transition smoothly from public housing to affordable to market rate apartments as their incomes grow. And the demand for the market rate units at Techwood has proven to be very high. Also, the mix of incomes at Techwood makes the whole project self-sufficient. Even the public housing units do not need operating subsidies, "because we did not want to build this new community predicated on Congress continuing operating subsidies for public housing." The same features do not characterize Cabrini Green, where residents of public housing and affordable rental units will try to mingle with the new owners of pricey town homes.

On the other hand, Baron was evasive when pressed to say whether the number of public housing units built was sufficient to replace the ones demolished. He did indicate that 50% of the original residents either chose not to return to the development, or were rejected as undesirable tenants. His reluctance to clarify this point underlines the real limits to the market's ability to supply more than part of the answer to the nation's expanding affordable housing shortage.

This is even more important to remember considering, as Barghava pointed out, that the programs most likely to survive the current political atmosphere do not address the real gaps in the affordable housing supply. The LIHTC is a case in point. A federal housing program that does not look like one, the LIHTC is everything a contemporary federal program should be, except that it cannot address the real crisis range – housing for families earning under 30% of their area median income – without layers and layers of additional subsidy financing.

What defines the real gaps in the affordable housing supply in Chicago? Bank consultant Terry Cross drew on the data his firm collects in regular surveys of development activity to fill in the local trends in Chicago's own housing market. In several respects, the picture echoed the national one. Cross had good news for the Chicago region – whose housing market is driven by an influx of 70,000 new workers each year. He had good news about jobs – reporting that the employment center of the region has held its ground at a point just a mile west of O'Hare in spite of the continuing expansion of the suburbs – and he had good news about housing, or the housing industry anyway: the Chicago metro area is among the top 4 housing markets in the US, and the city's share of that market has grown from 3% in 1993 to 14% at the end of 1997. Pencils scratched furiously as Mr. Cross rattled off a long list of appreciating numbers, marking the optimism of Chicago's upper income homebuyers.

Private first mortgages are not for everyone, Retsinas admitted, but he believes that linkages that place housing in a broader economic development context will help provide the answers. "Think of how you could tap other resources, like Medicare, Medicaid...as revenue to pay for capital."

Cross' numbers were less optimistic for low income renters. The apartment vacancy rate is only 2.9%. A 5% vacancy rate is a tight rental market. At 2.9%, expensive apartments will remain expensive. There is nothing filtering down the affordability scale into the reach of low income tenants.

Why the squeeze? Cross reports over 12,000 rental units have been lost to condo conversions in a wave kicked off just 5 years ago – the same year the original Chicago Affordable Housing Ordinance vowed to create just about the same number of new ones. And the market has not built an apartment building of scale since 1991 – with the single exception of the 868 unit building currently going up at Chicago and State. Cross predicts apartment construction will stay stagnant so long as Chicago taxes multi-family buildings at rates that are the highest of any urban area in the country.

Meanwhile, the booming market that is tight at the high end is suffocating at the low end. Pat Wright of the Nathalie Voorhees Center at UIC testified to the realities of the housing market for low income Chicagoans. She reported that residents of over 40% of the occupied units in Chicago are paying more than 35% of their income for housing in 1995. That's up from 35% of residents in 1990. Chicago lost 30,000 rental units between the 1990 Census and the 1995 American Housing Survey. During the same years, it gained 18,500 single family homes, mitigating the net loss to 11,500 units, but again, new single family homes are often for families in a different income bracket than the lost rental units were. By comparison, production under the Chicago Affordable Housing Ordinance has only succeeded in creating a little more than 8,000 units of affordable housing in the same number of years. This is the real frame for setting new housing goals – for the renewal of the affordable housing ordinance and for charting our course as affordable housing advocates.

assistance, and that number has probably already dropped due to public housing demolitions.

Housing for the Elderly

Invited Guest
Jim Sykes, University of Wisconsin

There is a growing range of housing options for the nation's elderly, but the services are not evenly distributed: 1.4 million elderly Americans live in governmentally assisted living complexes (there are about 20,000 government assisted complexes) but another 1.4 million elders are eligible for housing assistance, but not receiving it. Ten percent of the long term care population are in nursing homes, which use 90% of the resources.

Increasingly, elders are able to stay where they are, especially when they are middle and upper income people. Jim Sykes raised several questions: What lessons can we take from naturally occurring retirement communities? Is there a way to make reverse mortgages work as well for low income homeowners as they can for middle and upper income ones? Are there ways to tap Medicaid to supplement housing costs? Is the pervasive housing voucher solution sending elders out into a market of units that are inaccessible to them?

Immigration

Invited Guests
John Pitkin, Analysis and Forecasting, Inc.
Sylvia Puente, The Latino Institute

As Chicago's population continues to shrink, immigrants remain an important portion of Chicago's economy. Sylvia Puente emphasized that immigration is not so largely a Latino issue as is commonly assumed (she said about 40% of Illinois immigrants are Latinos, about 40% of Illinois Latinos are immigrants), yet housing issues for immigrants are very closely bound up with racial and fair housing issues.

An obvious example is the virtual exclusion of Latinos from Chicago public housing. When Latinos United sued CHA over the issue, they found black civic leaders to be very supportive, but that was when CHA had 11,000 vacant units.

Several advisory group members raised concerns about the targeting of immigrants for usurious credit. "I haven no strong sense of whether the same type of predatory lending is going on white communities," NHS's Glen Toppen remarked, "but I just don't think so."

Public Housing

Invited Guests:
Richard Baron, McCormack-Baron
Rosanna Marquez, Office of the Mayor
Lydia Taylor, Coalition to Protect Public Housing
Greg Russ, CHA

"There are 2 things driving the future of public housing," Greg Russ announced. One is the viability rule that will require the demolition of 18,000 units in Chicago, and the other is the lack of money. HUD's total allocation for public housing nationally is $2.5 billion, while HUD itself estimates it needs

Local Plans
DOH's New Century Starts in the

The environmental scan was organized to inform a larger planning process to draw the outlines of the city's 5 year affordable housing plan. Thirty-six representatives from all sectors of Chicago's affordable housing community sat on an Advisory Group to contribute to that plan. Not all of them entered the process with a lot of optimism. "I had to drag my boss there," one staffer says, "She said 'Oh, it's just going to be another CHAS.'" In the early 90s, federal rules mandated that city officials draw on the input of community representatives to create a comprehensive affordable housing strategy, called the CHAS. A lot of people invested a lot of time in that process, but when the final plan came out, the community representatives found nothing they had said was reflected in the plan.

The Advisory Group does not have the same complaint this time around. Mayor Daley will present DOH's *Affordable Housing Plan 1999-2003: Housing Opportunities Into the New Century* to city council on June 10, anticipating council approval in July. The plan makes steps toward most of the priorities raised by the Advisory Group: it articulates a city commitment to income targeting at lower levels for rental and homeownership, to counter-market strategies to help lower income residents stay in gentrifying communities, to the stabilization of existing housing, and to important specifics, like larger units and increased accessibility.

Just as important as the specific commitments, the plan seems to demonstrate that the relationship between the city, particularly the Commissioner of Housing, and non-profit community development corporations is changing – an impression that reinforces murmurs heard from our neighborhoods. CDCs are reporting a new cooperative spirit at DOH, along with significant changes in DOH policies and practices. "They're not always pushing us to partner with for-profits anymore," one developer remarked.

On the other hand, DOH is also looking for a new spirit of cooperation from CDCs. *Housing Opportunities Into the New Century* asks readers to focus on larger outcomes – like expanding sustainable rental and affordable housing, and maintaining a mix of incomes in changing communities – rather than outputs – or "units and dollars unconnected with overarching strategies." In the past, the Network has advocated and tracked such definable outputs because they provide a necessary standard of measure for vague goals like affordability and progress. Affordable for whom? And progress compared to what? We will continue to check our accomplishments against such outputs in the future.

Next 5 Years

In the meantime, though, the Department of Housing has answered the Advisory Group's recommendations with a plan that backs up far-sighted outcomes with specific outputs. Over the next 5 years, the city has committed $1,289,640,000 to the creation and preservation of affordable housing – a 38% increase over the $930,000,000 spent under the first 5 year plan. Corporate spending will more than double the figure projected in the previous 5-year plan to $93,350,000, and for the first time, $15 million in General Obligation bonds are committed up front in the affordable housing plan.

Last time around, the city's plan lost some of its very low income/rental housing orientation due to CDBG and HOME shortfalls, and to the city's efforts to make up the difference with single family production. And at first glance, the spending outlined in the current plan does not match the rental housing rhetoric in the narrative. The plan makes a $549,600,000 commitment to single family housing, compared to a $437,500,000 commitment to multi-family housing. However, DOH argues that the single family investment appears inflated because it includes mortgages actually taken on by homebuyers. Breaking out the estimated subsidy value, it appears DOH's investment in multi-family housing will amount to nearly 4 times its investment in single family housing.

The Network can help ensure real outputs result from the city's outcome goals by working closely with the Department of Housing to design programs that work and that address the priorities outlined in the city's plan. And we can work with non-profit developers to learn to use new or little used funding streams, like mortgage revenue bonds and TIFs.

This is also an important time to coordinate with the city in advocating for increased resources from the state and federal level. In its plan, DOH looks forward to acting as "a catalyst for key housing policy stakeholders to raise their voices collectively for additional resources and support within the private sector as well as at the federal and particularly the state level." The city of Chicago will still be answerable for its own efforts to address Chicago's affordable housing needs. But the Chicago Rehab Network looks forward to finding an ally in the city to further affordable housing goals on a national as well as a local level.

Meanwhile, if *Housing Opportunities into the Next Century* succeeds in its goals to help create and stabilize nearly 36,000 units of affordable housing, we certainly hope that is enough to reverse the net decline in Chicago's real affordable housing supply. The plan is a good one, but it, like the advisory group process, is only a starting point for taking on the challenges of today's uncertain environment.

$4.5 billion a year for capital improvements.

The total HOPE VI allocation for new construction is only $500 to $525 million a year nationally, while Chicago could spend $600 million on revitalizing its senior developments.

Meanwhile, the balance will continue to swing from hard units to certificates and vouchers: Chicago will be crowded with 25,000 vouchers by the year 2000, a figure that approaches CHA's total occupied housing stock. "The big question in the next 5 years [will be] where will we get those replacement units?"

Rosanna Marquez remembered she used to argue that public housing was CHA's problem. Not anymore. "It all says to me that public housing redevelopment represents the single biggest community development challenge this city, this region, faces, period."

Chicago Housing Supply & Markets

Invited Guests:
Kristin Faust, LaSalle Bank
Tracy Cross, Tracy Cross Associates
Pat Wright, UIC Chicago
John Betancur, UIC Chicago

Financing and Tax Policy

Invited Guests:
Buzz Roberts, LISC
Mary Nelson, Bethel New Life
Paul Reilly, County Assessor's Tax Policy Forum

The group heard testimony about the need for property tax relief to prevent real estate taxes from undermining the affordability of that housing we struggle to create, about the need to use TIF revenues for affordable housing and the long term preservation of LIHTC projects.

Paul Reilly showed why a single Chicago rental unit has come to support as much property tax as a single family home. Alderman Shiller asked why only 2 of the city's 49 TIFs have affordable housing components. And Buzz Roberts explained why the LIHTC is more scarce than ever before: competition has tightened, while the tax credit has lost 40% of its buying power with inflation.

Housing for People With Disabilities

Invited Guests
Michael Grice, Access Living
Larry Gorski, The Mayor's Office for People with Disabilities

Testimony emphasized the importance and practicality of universal design. As America's population ages, more of us will find ourselves disabled at some stage in our lives.

Larry Gorsky pointed out that many structural features incorporated to make buildings accessible turn out to be helpful to the "not yet disabled" as well. For instance, once ramps were installed along outdoor stairs at Navy Pier, people tend to climb the ramps, but to sit and rest on the stairs. Further, stairs are the home-design feature that is the most likely to cause injuries.

Federal Platform

Campaign for Housing Justice

Everywhere we went to pull together ideas and information for this issue we heard people saying that Congress just isn't in the mood to fund affordable housing, and that we'd better be realistic in what we ask for. As the nation's chronic affordable housing shortage takes on whole new dimensions, being realistic will take on new meaning too.

For decades, the Network's focus has been a local one. When the Network determined to bring new resources to address the housing needs of very low income Chicagoans five years ago, it took the city to task for its spending and targeting priorities. The strategy worked, and the city answered with significant commitments to target its spending and to drum up new resources. The Department of Housing's first report on its progress toward those promises broke bad news, however. The federal HOME allocation had come in and it was significantly lower than expected. The city saved its promises by quick thinking and new ideas, but the new sources proved more suitable for homeownership at the upper registers of the income scale and skewed the focus of the original plan, whose stated concern was for those at the other end. In other words, the range of what is possible locally is still contingent on what is forthcoming federally.

Realizing this, CRN has pulled together Chicago's housing coalitions in the Campaign for Housing Justice to forge a federal housing agenda. Rather than plunging directly into a single issue grassroots organizing campaign, the Campaign for Housing Justice aims to begin by making our local leaders our champions. The campaign is working to win the support of our city and Congressional representatives for a complete affordable housing platform. We believe this is a realistic time to bring it up, too.

Congress has denied requests for new rental housing assistance since 1995. The HUD budget, which is at its lowest point since 1980, has been slashed $10 billion just since 1993. We've always known a small part of those who are income eligible for housing assistance receive it. Last summer we were reminded again when CHA opened the waiting list for Section 8 certificates and vouchers for two weeks and was nearly washed away in a flash flood of applications – 100,000 when someone had time to count.

Congressional recalcitrance makes this the right time to fight because it casts a pall on all our local efforts. New HUD rules mandate the demolition of 18,000 units of Chicago's public housing, and DOH staff report tenuous year to year renewals of project based Section 8 contracts are prompting lenders to demand DOH set aside precious funds as emergency reserves, in the event Congress changes its mind about renewing them one year.

For several years, we've shaken our heads as HUD has responded to the overwhelming rental housing crisis by gazing into its own internal shortcomings and putting forward feel-good homeownership programs. But last month, HUD Secretary Cuomo made his worst case housing needs report for 1997 with an undeniable cry for rental housing.

In that report, HUD told the Senate Appropriations Committee in no uncertain terms that despite robust economic growth, worst case housing needs are at an all time high. Further, those needs are growing fastest in the suburbs and among the working poor. And it pointed the finger directly at Congress, noting the nation lost 900,000 rental units affordable to very low income families in the 2 years between 1993 and 1995, and Congress responded by reversing federal policy tracing to the Great Depression by refusing to fund new rental assistance.

"This report's findings made a clear and compelling case for greater Federal attention to housing needs. Economic growth alone will not ameliorate the record-level housing needs among families with limited incomes. Not even families working full-time at minimum wage can afford decent quality housing in the private rental market. The report also makes clear that this is not just a big city problem, but affects America's growing suburbs as well."

The City of Chicago is another natural ally that may be ready to take a stand. Last fall a mayoral policy advisor alarmed a room full of community advocates by saying the mayor is satisfied with current levels of federal support. The mayor and his Department of Housing have done well inventing homeownership opportunities and have helped reinforce the redevelopment of Chicago neighborhoods that had been widely written off for decades before 1990. But those advances will fight for attention with the growing desperation of Chicago's poor and a growing homeless population.

When Mayor Daley first announced his intention to renew the city's 5 year commitment to affordable housing, Network President Joy Aruguete suggested he take leadership in uplifting affordable housing on a federal level. The mayor chuckled a little at the time. But when the Department of Housing was preparing to announce the conclusions of the advisory group, it spelled out its intention to "act as a catalyst for key housing policy stakeholders to raise their voices collectively for additional resources and support within the private sector as well as at the Federal and particularly the state level."

"This report's findings made a clear and compelling case for greater Federal attention to housing needs. Economic growth alone will not ameliorate the record-level housing needs among families with limited incomes. Not even families working full-time at minimum wage can afford decent quality housing in the private rental market."

The Campaign for Housing Justice will be pursuing the support of the city and other leaders for the platform it has assembled to address federal affordable housing policy. The platform is marked by several overarching themes: preservation of existing affordable housing; the enhancement of existing housing programs and regulations to bring them up to speed with inflation and other environmental changes; and tenant ownership.

HUD's worst case housing report estimates federal rental assistance programs currently consist of about 1.2 million occupied units of public housing, 1.4 million units of project-based assisted housing, and 1.4 million vouchers and certificates for tenant based rental assistance. Each of these categories will need Congressional support to preserve them at their current levels.

In Chicago, 18,000 units of public housing will have to be torn down by mandate of HUD's viability rule, and the absence of one for one replacement requirements make it likely a large part of these units will be gone for good. The wrecking balls have already begun to swing, and the Campaign calls for a time-out in the demolition of those units until there is a viable plan for creating replacement housing. In addition, the Campaign calls for a restoration of the one for one replacement rule to ensure that the "redevelopment" of public housing means more than the whole or partial removal of its politically unpopular tenants.

The Campaign is also calling for measures to preserve project based assisted housing of all types. Section 8 contracts, most of which have been reduced to year to year renewals, must be maintained at current levels. Owners of Section 8 projects whose debt is undergoing restructuring should be prevented from opting out of their Section 8 contracts on the grounds that Chicago is a tight rental housing market, and acquisition and rehab grants should be made available to non-profit purchasers of all types of HUD assisted housing that is at risk of default.

As for tenant based assistance, the Campaign urges Congress to break its 3 year stop on new assistance, which has coincided with an unprecedented low point in the affordable housing market for very low income working families, and to fund at least the 100,000 new rental certificates requested by HUD. Just as important, though, the Campaign calls for a tracking system to monitor if and where voucher and certificate holders are finding housing – information that will become even more vital in light of the popular impulse to avoid the real expense of building and maintaining actual housing units by "vouchering them out."

Meanwhile, the Campaign is urging Congress to build on existing programs to meet changing needs and a changing housing environment. The Low Income Housing Tax Credit and local Bonding Authority have been operating at caps set 12 years ago — which means they have lost about 40% of their original purchasing power by lagging behind inflation. Pending legislation could increase per capita allocations to help restore some of this power. In addition, the Campaign advocates higher funding for HOME, for homeless assistance, and for the Fair Housing Initiative Program, which makes money available to support fair housing enforcement efforts.

Federal regulations to further fair and better housing should also be updated to meet changing needs. The Fair Housing Act needs to be defended from any changes that would diminish its protection against housing discrimination, and it should also be expanded to protect against discrimination based on sexual orientation. The Community Reinvestment Act has brought lending to our neighborhoods and has resulted in over $353 billion in community reinvestment agreements, but impending financial modernization mean CRA must be brought up to date to monitor and regulate all bank affiliates – including insurance companies, securities firms, mortgage companies and small business lending. And new efforts must be made to bring affordable housing into compliance with federal rules mandating accessibility to people with all types of disabilities.

The third major theme of the Campaign for Housing Justice platform is a focus on tenant empowerment and ownership. Tenants should be included in the plans for the redevelopment of public housing. In addition, training programs and technical assistance can make tenants into owners, given federal support of the concept of community ownership. Public housing tenants could be trained to form mutual housing associations; the Low Income Housing Tax Credit should allow for limited equity cooperatives to be cooperatives.

Last month, several of Chicago's aldermen joined the U.S. Conference of Mayor's in a trip to Washington to stand up for a transportation bill when Chicago's federal transportation support was under fire. The next time they go to Washington, we want them to be talking about affordable housing too. As the Campaign for Housing Justice looks for support for its federal affordable housing platform, we will look to leaders on the state and national level. But first we will look to the leadership of the City of Chicago – to the Department of Housing, to our aldermen, and to our Mayor — to stand up for the full range of federal policies that will impact Chicago's ability to build and sustain its supply of decent, affordable housing.

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