

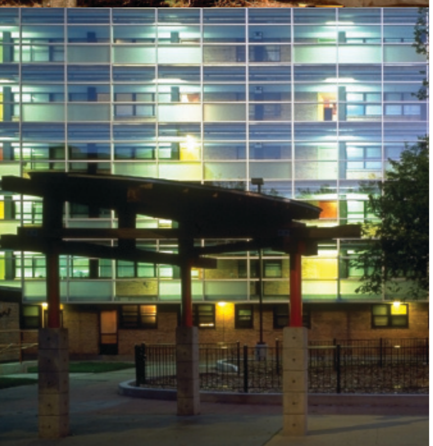

# The Preservation Compact

## A Rental Housing Strategy for Cook County

## Report on Keystone Activities 2007–2009

Guided by

Urban Land Institute

Chicago

MacArthur Foundation

www.Chicago.uli.org

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*All other photography: John Booz*

# THE PRESERVATION COMPACT

## A MODEL FOR PRESERVING AFFORDABLE RENTAL HOUSING

The Preservation Compact raises awareness of the value of affordable rental housing and creates a climate in which public, private and nonprofit sectors work together to stem the loss of affordable rental housing units in Cook County.

Though many organizations in the Chicago region are engaged in affordable housing activities, The Preservation Compact is the first to make the preservation of existing affordable rental housing its mission. In that role it:

> *Promotes awareness of the important role affordable rental housing plays in Cook County*

> *Identifies new strategies to stem the loss of affordable rental housing in Cook County*

> *Recruits organizations and leaders with the expertise to implement effective affordable rental housing preservation strategies*

Central to The Preservation Compact's effort are six Keystone Initiatives. Developed in consultation with affordable housing experts from a wide variety of sectors— government, nonprofit and real estate—these Keystones offer a variety of approaches for tackling the problem of affordable rental housing loss.

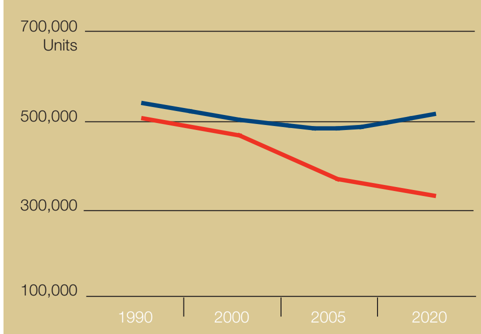
## AFFORDABLE RENTAL HOUSING IN CHICAGO

The Preservation Compact was launched in 2007 to respond to more than a decade of affordable housing loss. According to the Real Estate Center at DePaul University, Cook County's supply of affordable rental housing fell nearly 23 percent, more than 100,000 units, between 1990 and 2005.

The Real Estate Center also forecast that by 2020, affordable rental housing losses would outstrip new construction of affordable rental housing two to one, making it unlikely that the region's supply of affordable rental housing would keep pace with the growth in demand projected for the same period.

Fueling these trends were condominium conversions and rent increases as well as increasing energy and maintenance costs.

COOK COUNTY AFFORDABLE*
RENTAL HOUSING
SUPPLY AND DEMAND 1990–2020




*Units affordable to families earning $30,000 or less

## WHY PRESERVE AFFORDABLE RENTAL HOUSING

Today, only two years later, The Preservation Compact faces a very different economic environment.

Tight credit has made opting out of federal subsidy contracts and selling buildings for condominium conversion much less attractive to owners. Foreclosures are roiling the market, while rising unemployment and declining property values have increased vacancy rates and lowered rents.

Though these factors may seem to make rental housing temporarily more affordable, preservation of affordable rental housing makes sense in any market.

**High operating costs are particularly challenging for buildings with high vacancy rates.** When buildings produce less income, every dollar saved—through reduced energy costs, for example—goes to the bottom line and may be the difference between an owner pulling through the recession or losing the building altogether.

**Affordable rental units that fall out of the market are irreplaceable.** Economic markets are cyclical. The pressures that led to the formation of The Preservation Compact in 2007 are likely to re-emerge once the recession is over. But units lost during this period can never be replaced, except at much higher cost. Though specific strategies to preserve affordable housing may shift depending on the economic climate, the most cost-effective approach is to hold onto and improve the region's current supply of affordable rental housing.

**Government subsidies provide revenue, regardless of the economic cycle.** Buildings with government subsidies represent both an economic and housing gain for the region. Keeping these subsidies should remain a high priority.

**Population growth means that every affordable rental unit will be needed in the future.** As the population grows, the need for affordable housing will grow along with it.

## A NATIONAL MOVEMENT TO PRESERVE AFFORDABLE RENTAL HOUSING

The Preservation Compact is part of the Macarthur Foundation-funded Window of Opportunity: Preserving Affordable Rental Housing national initiative, launched in 2003 and active in almost every state. By 2008, MacArthur funding was supporting elements of The Preservation Compact model in 13 additional states and localities. Across the country, states, counties and cities are now implementing preservation programs tailored to their local conditions.

Key components of the model shared across systems include:

> *Coordination between local government officials, nonprofit agencies and tenant organizations*

> *Solid market research focused on rental housing in the affordable stock*

> *New sources of funding for pre-development and acquisition to preserve and increase affordable stock*

> *Lowered operating costs, including energy costs and taxes*

## FOUR EXAMPLES OF PRESERVATION IN THE CHICAGO REGION

As the work of The Preservation Compact and other cities and states progresses over the next few years, effective strategies for the preservation of affordable rental housing will be further developed and refined.

On the pages that follow, The Preservation Compact offers four examples of its work over the past two years. Each example represents a different aspect of affordable rental preservation and illustrates the variety of strategies and tactics that can contribute to preservation success.

## The Preservation Compact Keystone Initiatives

**> Preservation Fund**
Financing products to help buyers acquire and improve at-risk affordable rental properties, while long-term financing is assembled.

**> Interagency Coordinating Council**
Collaboration of local, state and federal agencies to strategize around preservation challenges, including identifying and working with at-risk properties.

**> Energy Savers Program**
Technical assistance and low-cost financing for energy saving improvements that reduce costs.

**> Rental Housing Data Clearinghouse**
Collection and publication of assisted housing data, and analysis of market housing data to identify at-risk areas and properties.

**> Rental Housing Alliance**
Tools to help residents preserve the affordable buildings and neighborhoods in which they live.

**> Lower Property Taxes**
Strategies for reducing property taxes on affordable, multi-unit buildings.

**Saving Troubled Buildings.** Financing and the right kind of developer are key to turning around buildings, which otherwise might be lost from the market.

**Reducing Energy Costs.** The tangible, bottom line benefits of reduced costs make energy retrofits an easy sell.

**Interagency Cooperation.** Multiple public agencies are responsible for preserving buildings, but agencies need to work together or buildings and potential resources may be lost.

**Innovative Solutions for Subsidized Buildings.** Not all affordable rental buildings can or should be preserved. When buildings are too dilapidated to save, preservation should include replacement, as well as rehab, strategies.

## Definition of Terms

**Affordable Housing.** The Preservation Compact uses the term affordable housing to refer to both government-assisted and private market housing stock that is affordable to families earning less than $30,000 or that otherwise meet the income limit criteria established by various government entities. It does not include public housing, as there is a separate program to transform Chicago public housing.

**Preservation of Affordable Housing.** Preservation activities are designed to maintain and strengthen existing affordable rental properties that might otherwise deteriorate, be lost from the market, or become too expensive for low-income households and other households in need.

## The Preservation Compact Partner Organizations

# FOUR EXAMPLES OF PRESERVATION IN THE CHICAGO REGION

## 1 SAVING TROUBLED BUILDINGS

### "I feel safe now."

DORETHA PAYTON, 6800 S. NORMAL TENANT WHO WALKS HOME FROM THE BUS STOP AT 11:00 P.M. AFTER WORKING SECOND SHIFT AT RESURRECTION HOSPITAL

Troubled buildings—buildings that are severely deteriorated, financially troubled or suffer from gang problems—can become stable, good quality affordable homes, but it takes the right combination of funds and people to get the job done.

Preservation Compact partner, Community Investment Corporation (CIC), is the Chicago region's most experienced investor in multifamily affordable rental housing preservation. With a line of credit provided by its bank investors, CIC's subsidiary, Community Initiatives, Inc. (CII), purchases troubled real estate mortgages and other liens and transfers them to new owners who then rehab, lease and manage the buildings. CIC identifies qualified owners from a pool of experienced neighborhood developers that it has worked with over the last two decades.

In 2008, CIC asked Chicago developer Van Vincent of VLV Development if he would take over the ownership and management of three dilapidated buildings on the 6800 block of South Normal in Chicago's Englewood community. CII had been appointed receiver for the buildings by the City of Chicago after the original owner had stopped making mortgage payments. The buildings were nearly half vacant, and foreclosure was imminent. Located across from a local high school, the buildings also had a serious gang problem.

Before Vincent took over the buildings, residents Dorothy Neal and her husband Alvin protected the buildings and tried to keep them functioning. They put out at least five fires, they picked up the trash, made sure the door at the back was secure at night, and challenged the drug dealers to respect the community.

"There were decent people in the building. We wanted to show that if we were unified and cared about the place we lived in, we could make it better," Alvin said.

*Above: Van Vincent, president of VLV Development, and Carl Rogers, VLV's chief development officer, are committed to "transformational housing"—housing that can improve communities.*

### Preservation Fund

The Preservation Compact's Preservation Fund is a family of financial products that ameliorate the financial barriers inherent to the preservation process.

An Acquisition Fund, provided through Local Initiatives Support Corporation/Chicago, makes loans for the quick acquisition of at-risk buildings. A smaller Gateway Fund, through the Chicago Community Loan Fund, provides early-stage pre-development and construction loans.

Community Investment Corporation's subsidiary, Community Initiatives, Inc. (CII) works in partnership with the City of Chicago to acquire and turn around severely troubled buildings that are at risk of abandonment but are too expensive for private owners to repair.

A line of credit from CIC allowed Vincent, who grew up in Englewood and nearby Roseland, to acquire the buildings even though credit markets had tightened considerably and very few other real estate deals were being done. Additional help came from the Cook County Tax Assessor's Class 9 Program, which reduced the buildings' tax assessment.

Within one year, Vincent had cleared out the gangs, rehabbed all the vacant units, cleared away the graffiti, fixed the elevators, improved the buildings' public spaces and brightened each building's hallways—a different color on every floor. The rehab cost $17,000 per unit—a modest price for the considerable changes.

For Vincent, rehabbing rental buildings is more than a business. "We believe in 'transformational housing'—buildings with the ability to transform the communities in which they are located," Vincent said. That commitment is paying off. Most of the units in the building—the majority of which are unsubsidized—are now rented, and the unity the Neals were working for is now a reality.

"Our tenants smile at us, talk to us, and tell us what's going on in the building. That didn't used to happen," said Carl Rogers, chief development officer, VLV Development.

# 2 REDUCING ENERGY COSTS

**"We look for quiet neighborhoods where there is a bad building. You're fixing up a building and making the neighborhood better."**

RON BLOUIN, EXECUTIVE DIRECTOR, CORE ASSOCIATES

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High energy costs are one of the primary challenges faced by owners of affordable rental housing. The Preservation Compact's Energy Savers Program was set up to help owners control this important cost variable.

A tidy, immaculate 11-unit building at 12602 S. Artesian, located in the southern Cook County suburb of Blue Island and owned by the nonprofit Core Associates, Inc., is a good example of how energy cost savings can keep homes affordable. The Artesian building includes two units that provide housing for mentally and developmentally disabled individuals served by Core's sister social service agency, Blue Cap. The other nine units are affordable and targeted to private market renters who are hard working, but do not earn a lot of money.

## Energy Savers Program

The Preservation Compact's Energy Savers Program provides building owners with energy audits and low-cost financing for energy saving improvements that reduce operating costs for multifamily rental buildings.

The Center for Neighborhood Technology conducts the energy audits, and low-cost loans for energy upgrades are provided by Community Investment Corporation.

*Left: Sharon lives independently in one of two units reserved for developmentally or physically disabled employees of the nonprofit Blue Cap. Blue Cap's sister agency, Core Associates, owns and manages the unsubsidized building where all rents are affordable.*

The Energy Savers Program is a one-stop shop for technical assistance, financing and construction oversight, including:

> *Complete energy assessments and specific energy-efficiency recommendations*
> *Financing options for implementing energy recommendations*
> *Assistance coordinating tax benefits and energy credits*
> *Construction oversight and bid package review*
> *Annual reports on energy performance*

Monthly rents range from the low $400s to $600. Catherine Nottingham, 88, has lived in the building for 30 years. Her rent—$500 per month— has not increased since she moved to her current one-bedroom unit 18 years ago. Carol Carpenter, who works as a special education aide at Paul Revere Primary School, says her rent has not increased in the seven years she has lived in the building.

Core executive director Ron Blouin says that any excess income Core buildings earn is used to support Blue Cap programs and to keep rents low at buildings owned and managed by Core Associates.

"Our priority is quality housing," says Blouin. "But in order to keep rents reasonable, we have to control costs."

Last year, a free energy audit provided by the Energy Savers Program revealed a cracked boiler, and a subsequent citation from the Village of Blue Island made replacement a necessity.

A low-interest loan from the Energy Savers Program for $8,000 helped with the $16,000 replacement cost. Blouin says he is glad he did the work. His energy savings were considerable—from $2,800 and 3,146 therms in February 2008 to $1,500 and 1,700 therms in the same month in 2009.

# 3 INTERAGENCY COOPERATION

**"I initially figured the Interagency Council would be just a lot of talk and more meetings without anything really happening. But we have really been able to be successful because it gets HUD, the City of Chicago and IHDA talking about potential problems before they become serious. It puts us on the same page. We are able to plan ahead before something becomes a crisis, without giving up any of our rights or responsibilities as public agencies."**

ED HINSBERGER, DIRECTOR, HUD CHICAGO MULTIFAMILY

Local, state and federal agencies all play a critical role in the preservation of affordable rental housing by providing incentives and loans to make housing affordable and by ensuring that buildings meet rules for long-term affordability.

The Preservation Compact's Interagency Council provides a venue where the City of Chicago, Illinois Housing Development Authority, Cook County, and the U.S. Department of Housing and Urban Development can discuss solutions for buildings that otherwise might be lost from the system.

This year, for example, the Interagency Council helped save a troubled building in Chicago's South Shore community that under normal circumstances would have been lost from the housing market. The building, which had a private mortgage and U.S. Housing and Urban Development (HUD) project-based subsidies, had received several Housing Court violations, failed a HUD inspection, and ultimately went into foreclosure.

HUD's responsibility in this situation is to discontinue funding, and so it generally abates the foreclosed building's subsidies, ultimately terminating its Section 8 contract altogether. Though this solution fulfills HUD's responsibility to the taxpayer, it also permanently removes valuable Section 8 subsidies from the community and can result in the boarding-up or demolition of valuable rental buildings.

In this case, a foreclosure filing brought the property to the Council's attention. HUD and Community Investment Corporation, which works with the Interagency Council, started early to educate the foreclosing lender about the value of the building's project-based contract. Once a receiver was assigned to the property, HUD then put preservation ahead of protocol, and transferred the Section 8 contract to that receiver, preserving both units and subsidies for low-income renters.

Sometimes the Interagency Council helps by bringing new resources to the table. When $200 million became available through the stimulus package to weatherize properties, the program was structured to serve single-family properties, not multifamily rentals.

To ensure multifamily properties could take advantage of this federal windfall, the Interagency Council took a two-pronged approach: raise awareness among multifamily owners about accessing the funding, and help program administrators recognize the efficiencies generated by multifamily rental properties, especially government assisted properties. As a result, nearly 200 multifamily properties are now being considered for funding, and administrative agencies are positioned to cut the red tape on processes related to assisted buildings.

## Interagency Council & Rental Housing Alliance

The Preservation Compact's Interagency Council focuses on property-level strategies, as well as outreach and education for owners of government-assisted properties. The Interagency Council also collects data on aging Low Income Housing Tax Credit (LIHTC) properties to identify challenges and opportunities.

Public agencies in the Interagency Council also partner with The Preservation Compact's Rental Housing Alliance to target project-based Section 8 properties at risk of deterioration or loss. Specific properties are then prioritized for active intervention strategies. Rental Housing Alliance members— Sargent Shriver National Center on Poverty Law and Chicago Rehab Network— help identify at-risk properties, engage tenants in preservation activities in buildings and help facilitate tenant concerns.

*Below: The Preservation Compact's Interagency Council brings together the City of Chicago, Illinois Housing Development Authority, Cook County, and the U.S. Department of Housing and Urban Development to identify, prioritize and intervene in at-risk properties.*

# 4 INNOVATIVE SOLUTIONS FOR SUBSIDIZED BUILDINGS

**"All residents will have access to affordable rental housing, but within a smaller and more manageable development that will serve them better."**

DAN BURKE, DIRECTOR, CHICAGO AREA OFFICE, PRESERVATION OF AFFORDABLE HOUSING

Sometimes preservation means replacing units rather than rehabbing them.

In 2007, it seemed likely that the Woodlawn neighborhood on Chicago's south side would permanently lose all of the affordable rental units at Grove Parc Plaza. Built in the 1960s, the 504-unit, 27-building complex had severely deteriorated, resulting in two failed U.S. Department of Housing and Urban Development (HUD) inspections and the threat of foreclosure.

Instead, Grove Parc has emerged as a model for how affordable homes—in even severely troubled buildings—can be saved when public agencies, tenant advocates and affordable housing organizations develop new ways of working together.

*Above: All 504 affordable units at the severely deteriorated Grove Parc will be torn down. An equivalent number of subsidies for low-income renters will be available either on-site in the new development or at other existing buildings in the neighborhood.*

The plan developed by Preservation of Affordable Housing (POAH), the Boston-based, not-for-profit developer that assumed ownership of Grove Parc in December, 2008, calls for the existing development to be torn down and replaced with a new, lower-density and mixed-income community. In an innovative arrangement, all 504 apartments and, most importantly, Section 8 subsidies will be retained, either within the new mixed-income development or in existing buildings in the larger Woodlawn community.

An unprecedented level of interagency cooperation and participation by Preservation Compact partners is responsible for preserving affordable units at Grove Parc.

As counsel to the Grove Parc tenant leaders, Rental Housing Alliance partner, the Sargent Shriver National Center on Poverty Law, facilitated dialogue between Grove Parc Tenants Association (GPTA) and POAH. GPTA has been engaged with the development process and established relocation and design committees that meet regularly with POAH.

Leaders from Chicago's Department of Community Development worked with Preservation Compact Interagency Council partners, HUD and Illinois Housing Development Authority (IHDA), to preserve the existing affordable subsidies and to successfully transfer property ownership. Community Initiatives, Inc., an affiliate of Preservation Compact partner, Community Investment Corporation, provided $12.6 million in resources to advance the redevelopment effort.

IHDA awarded Low Income Housing Tax Credits to the first phase of the Grove Parc redevelopment. Affordable housing lenders, Chicago Community Loan Fund and Local Initiatives Support Corporation/Chicago provided $1.7 million in pre-development funding to POAH, in part from the Preservation Fund. And the project has had its tax assessment reduced under the Cook County Assessor's Class 9 Program.

Ultimately, POAH will create a well-planned, transit-oriented development that can help revitalize the surrounding neighborhood while preserving affordable rental housing. In addition to mixed-income housing, the new redevelopment will also feature 65,000 square feet of commercial and retail space, including two anchor stores.

## Lower Property Taxes

### Keystone Partner: Cook County Assessor's Office

Property taxes are one of the most significant and least predictable operating costs for rental property owners. The Preservation Compact has been working with the Cook County Assessor's Office to ensure that affordable rental housing is taxed fairly and accurately. In 2008, the Cook County Board reduced the number of property assessment classifications from seven to two. This change is expected to reduce taxes on multifamily buildings larger than six units. Property taxes were further reduced on more than 5,000 units between 2007-2009 through the Class 9 Program, which offers an assessment reduction for rehabilitated rental properties, and the Class S Program, which reduces assessment for owners who participate in the Mark to Market subsidy renewal. For more information, please visit **http://cookcountyassessor.com**.

## Data Clearinghouse

### Keystone Partner: Institute for Housing Studies, The Real Estate Center at DePaul University

The Institute for Housing Studies (IHS) is a multidisciplinary academic research center that provides data and analysis to inform housing-related policy and resource allocation decisions. Created in 2007, IHS has produced a number of data products, including rent, vacancy, and repeat sales price indices to identify changes in the rental housing market in Cook County. IHS offers technical assistance to affordable housing stakeholders and community-based organizations, and makes its data available through published reports and the IHS website. Recent reports include: *Chicago Rent and Vacancy Report, Second Quarter 2009*; *2008 Cook County Housing Snapshot*; and *The State of Rental Housing in Cook County: Current Conditions and Forecast (2007)*. Please visit **http://ihs.depaul.edu** for more information.

# July 2007 – September 2009 Preservation Compact Activities

## PRESERVATION COMPACT KEYSTONE INITIATIVES

**ENERGY SAVERS PROGRAM**
*Partner organizations: Center for Neighborhood Technology; Community Investment Corporation*
> 1,734 units received energy retrofitting work
> 8,177 units received energy audits
> 300 units received loans from CIC totalling $1,257,023

**RENTAL HOUSING ALLIANCE**
*Partner organizations: Chicago Rehab Network; Sargent Shriver National Center on Poverty Law*
> 675 units preserved at two developments (Grove Parc, Morningside)
> 3,070 units assisted through at least one of the following activities:
– property research to determine at-risk status
– general tenant outreach and education
– direct, focused tenant advocacy
– owner/tenant meetings and technical assistance

**INTERAGENCY COUNCIL (DEPAUL INSTITUTE FOR HOUSING STUDIES)**
*Partner organizations: Chicago Department of Community Development; Illinois Housing Development Authority; U.S. Department of Housing and Urban Affairs; Cook County*
> Research, planning or direct intervention at 2,232 units

**LOWERED PROPERTY TAXES**
*Partner organization: Cook County Assessor's Office*
> Applications for Class 9 and Class S approved for 5,105 units
(Data does not reflect units that were in the Class 9 and Class S programs prior to 2007 — approximately 36,000 units.)

**PRESERVATION FUND**
*Partner organizations: Local Initiatives Support Corporation/Chicago; Chicago Community Loan Fund; Community Initiatives, Inc.*
> 1,601 units impacted by pre-development loans from CCLF or LISC/Chicago, or acquired by Community Initiatives, Inc., a subsidiary of Community Investment Corporation

## PRESERVATION OF AFFORDABLE UNITS IN COOK COUNTY

| | Units Assisted | Units Preserved |
|---|---|---|
| **CHICAGO DEPARTMENT OF COMMUNITY DEVELOPMENT**<br>***Units assisted*** *denotes the number of existing rental units preserved or made more affordable by participation in one of the following DCD programs: Multifamily TIF-NIP, Troubled Buildings Initiative, Heat Receivership, and MAUI.* ***Units preserved*** *denotes the number of existing rental units that have been recapitalized through one of DCD's multifamily finance programs.* | 3,735 | 1,061 |
| **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**<br>***Units preserved*** *denotes the number of existing rental units that have been recapitalized through one of IHDA's multifamily finance programs.* | 0 | 1,444 |
| **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**<br>***Units preserved*** *denotes all renewals and extensions of affordability terms for HUD programs, including project-based Section 8 and Mark to Market programs.* | 0 | 12,910 |
| **COMMUNITY INVESTMENT CORPORATION**<br>***Units preserved*** *denotes CIC standard lending, not including Energy Savers and CII, reflected above.* | 0 | 3,560 |
| **TOTAL DUPLICATED UNITS** | 0 | (484) |
| **TOTAL UNDUPLICATED COUNT** | 3,735 | 18,491 |

*Note 1: Aggregate numbers (primarily from quarterly reports) were utilized for three DCD programs (MF TIF-NIP, TBI, Heat Receivership). Because property-level data was not utilized, duplicates involving these programs may exist. The public agencies' activities and the activities of other Preservation Compact partners were not compared to identify duplicates.*
*Note 2: Preservation numbers reflect the total number of units in a preserved building, not only the affordable or assisted units. All HUD renewals were included.*

# The Preservation Compact

## A Rental Housing Strategy for Cook County

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