2016 preservation compact biannual report

Preservation and Beyond
Effective strategies to preserve the naturally occurring affordable housing stock, the government assisted stock, and create affordability where it is needed most
In the evaluation of the MacArthur Foundation’s Window of Opportunity Initiative, the RAND Corporation notes Preservation Compact accomplishments, and credits The Preservation Compact for serving as a national model for similar initiatives.

**why preservation?**

**Preservation is cost efficient.**
New construction can cost more than $300,000 per unit, while rehabs in the private market without government resources can cost as little as $50,000 per unit.

**Preservation is sustainable.**
New construction requires all new materials, while preservation bolsters the solid rental stock that already anchors Chicago and Cook County.

“The Preservation Compact came to be seen over time as a safe space to have candid conversations among the stakeholders, enabling them to identify properties particularly at risk, devise strategies, and solve problems.” – RAND CORPORATION
history of the preservation compact

In 2005, the housing markets were booming, and condo conversions were spreading like wildfire. Public policies focused on increasing homeownership, and the supply of affordable rental housing was declining quickly.

In the midst of this run-up, the MacArthur Foundation and others recognized the limits of homeownership and that preserving existing affordable rental housing was dramatically more efficient than building new units.

The Preservation Compact was created to drive intentional, coordinated strategies that preserve affordable rental housing. Launched in 2007, The Preservation Compact is a collaboration of for-profit and non-profit developers, tenant advocacy groups, civic groups, lenders, and federal, state, and local government agencies.

Since its launch, The Preservation Compact and its partners have helped to create real preservation solutions and a lasting policy framework.

This third biannual report is intended to give partners and housing stakeholders a snapshot of rental preservation in Cook County. Data analysis provides initial context, preservation strategies highlight accomplishments, and upcoming preservation priorities give a glimpse into the future.
The Preservation Compact has historically defined “affordable” as a unit with gross rent less than or equal to 30 percent of the income of a household earning 150 percent of the poverty level. In 2015, a family of four at 150% of the poverty level earned $36,386. The “affordable” rent for this household is $909.64 or less per month.

Cost-burden is defined as paying more than 30% of household income for housing costs.

In 2015, the household income for renters earning 30 to 50 percent of the Area Median Income (AMI) was $18,946 to $31,576, representing 238,196 households.

In 2015, the household income for renters earning less than 30 percent of AMI was less than $18,946, representing 158,670 households.

“A foundation of The Preservation Compact is that we try to reach a consensus, and if there is a consensus we will act on it...The Preservation Compact often is able to find the middle ground.”

**Mediation from Rand Report**

“A foundation of The Preservation Compact is that we try to reach a consensus, and if there is a consensus we will act on it...The Preservation Compact often is able to find the middle ground.”

**Cook County Rental Housing Snapshot**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Households</td>
<td>1,936,000</td>
<td>1,955,000</td>
</tr>
<tr>
<td>Owner occupied</td>
<td>1,105,000 – 57%</td>
<td>1,088,000 – 56%</td>
</tr>
<tr>
<td>Renter occupied</td>
<td>831,000 – 43%</td>
<td>867,000 – 44%</td>
</tr>
</tbody>
</table>

**Median Household Income**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Households</td>
<td>$52,000</td>
<td>$57,000</td>
</tr>
<tr>
<td>Owner occupied</td>
<td>$72,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Renter occupied</td>
<td>$33,000</td>
<td>$36,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Rent</td>
<td>$938</td>
<td>$1,000</td>
</tr>
<tr>
<td>Income required to make median rent affordable¹</td>
<td>$37,520</td>
<td>$40,160</td>
</tr>
</tbody>
</table>

**Rent Burden**

<table>
<thead>
<tr>
<th></th>
<th>Percent of cost-burdened renter households²</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 to 50 percent of AMI³</td>
<td>85%</td>
</tr>
<tr>
<td>Less than 30 percent of AMI⁴</td>
<td>89%</td>
</tr>
</tbody>
</table>

**Rental Supply and Demand**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Demand for affordable rental housing</td>
<td>Supply of available units</td>
</tr>
<tr>
<td>2012</td>
<td>523,000</td>
<td>347,000</td>
</tr>
<tr>
<td>2015</td>
<td>514,000</td>
<td>326,000</td>
</tr>
</tbody>
</table>

¹ The Preservation Compact has historically defined “affordable” as a unit with gross rent less than or equal to 30 percent of the income of a household earning 150 percent of the poverty level. In 2015, a family of four at 150% of the poverty level earned $36,386. The “affordable” rent for this household is $909.64 or less per month.

² Cost-burden is defined as paying more than 30% of household income for housing costs.

³ In 2015, the household income for renters earning 30 to 50 percent of the Area Median Income (AMI) was $18,946 to $31,576, representing 238,196 households.

⁴ In 2015, the household income for renters earning less than 30 percent of AMI was less than $18,946, representing 158,670 households.
by the numbers

From 2012 to 2015, the supply of affordable units declined by 21,000 units, from 347,000 to 326,000. The demand for affordable rental also declined slightly by 9,000 households, from 523,000 to 514,000. In all, the affordability gap between the supply and demand for affordable rental increased to 188,000 units.

> On the demand side, the proportion of households that are renting climbed to 44.2 percent, the highest rate since 2000. Growth in young high-income renters and households displaced by foreclosure helped drive these increases. At the same time, the share of lower-income households that are cost-burdened remained very high. Roughly 90 percent of households earning less than 30 percent of the Chicago area median income (AMI) and 85 percent of households earning between 30 and 50 percent of AMI were rent burdened in 2015.

> On the supply side, Cook County lost many affordable rental units to deterioration and demolition in weak markets in the wake of the housing crash. Some neighborhoods continued to struggle, and some disinvested buildings have declined beyond repair.

Meanwhile, the most expensive markets recovered quickly after the 2008 real estate crash. Soaring rents have swept into more neighborhoods—often catering to the new set of higher income renters. This shrinks the affordable supply and adds to housing cost burden.

What makes affordable rental housing affordable?

Naturally Occurring Affordable Housing v. Government Subsidies

Some affordable rental properties have government subsidies, but most do not. Unassisted affordable rental buildings generally have lower rents because they are located in lower cost markets. In recent years, these properties have become known as “naturally occurring affordable housing.” In Cook County and Chicago, unassisted affordable rental buildings and their owners are the backbone of our affordable rental stock.

Chicago is not unique in this regard. According to the Joint Center for Housing Studies of Harvard University, 75 percent of affordable rental units across the country are privately owned, privately financed and do not receive government subsidies of any kind.5

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5 Joint Center for Housing Studies of Harvard University. (2011). America’s Rental Housing: Meeting Challenges, Building on Opportunities.
preservation strategies

Keeping tabs on the supply and demand of the rental stock keeps us on track as we develop and deploy different preservation strategies.

Some approaches are tailored to specific markets and financing, while others can reduce costs for all buildings. The following arsenal of strategies is characterized by:

> **Market based approaches**—Weaker markets need community development— including financing for buildings historically neglected by the market. In contrast, the flow of credit in stronger markets can help power preservation strategies.

> **Cost based approaches**—Universal cost drivers like energy, property taxes, and rehab costs can be curbed, or at least held in check, to preserve buildings.

> **Government financing approaches**—buildings with public subsidies need strategies built on proactive government coordination to preserve affordability.
preservation strategies: market based approaches

Weaker markets often experience less access to credit. Without adequate financing, buildings deteriorate and contribute to neighborhood blight—and can be lost from the affordable stock altogether.

On the flipside, preservation buyers in strong markets face fierce competition, and must make nimble use of market financing and available operating subsidies.

Effective preservation strategies acknowledge these dynamics, and fill in the gaps accordingly.
creating affordable units in strong markets

In markets where rents and values continue to climb, government subsidies are the only way to keep rental units affordable. The Preservation Compact works with government to identify and preserve existing subsidized properties in these markets. (See Interagency Council, page 17.)

The Preservation Compact is also developing a new Opportunity Investment Fund to help create affordable units in strong markets.

Recent studies show that zip codes can predict future outcomes of kids. Exposure to violence and high poverty leads to lower wages and lasting damage. Research shows that moving to a strong neighborhood significantly increases a person’s chances for success. Yet prices in strong markets are higher than ever. Subsidies required to build new housing continue to decrease, and affordable units are scarce.

The Preservation Compact is leading efforts to create the Opportunity Investment Fund to tackle these strong market challenges. Participating developers will receive low cost equity in exchange for buying existing rental buildings in strong markets and setting aside a percentage of their units for long-term affordable housing. Operating subsidies will create affordable units, meaning that developers can count on market rents for low-income households.

Instead of relying on costly and scarce public capital subsidy, owners will leverage the efficiency of private financing to create and preserve affordability in the region’s most vibrant markets.
Plur Properties, LLC received a $580,000 loan from CIC to provide long-term financing for 8 single family homes and two 2-flat properties on the south side of Chicago. Plur Properties, LLC was formed in 2013 to acquire, rehab, and hold single-family investment properties. Scott Allbright, Managing Partner, has managed single family properties since 1992. His management company, Paragon Investment Properties, currently manages over 150 single family residences.

redeveloping 1-4 unit buildings

Thousands of distressed 1-4 unit buildings sat vacant following the crash. Located in very weak neighborhoods with little or no homebuyer demand, these eyesores dragged down entire blocks. Rehabbing buildings for re-use as rental housing would jumpstart revitalization—but financing to redevelop groups of these buildings was not available.

In response, The Preservation Compact worked with its partners to create:

> A new $26 million financing pool at Community Investment Corporation (CIC) to finance the redevelopment of groups of investor owned 1-4 unit buildings for affordable rental housing.

> The 1-4 Rental Redevelopment Loan Program has approved $15.9 million in loans for 281 units of rental housing since its launch in 2014.

> The JPMorgan Chase Foundation provided a $5 million grant for a collaboration among CIC, Chicago Community Loan Fund, and NHS Chicago to finance the acquisition and rehab of troubled 1-4s in low and moderate income communities.

> The partners in this collaborative have provided $41 million in financing to redevelop 593 units in 1-4 unit buildings.
The Preservation Compact has worked with the City of Chicago in the development and implementation of the Micro Market Recovery Program (MMRP). Activities in MMRP areas have focused on the revitalization and preservation of existing affordable rental buildings. The program has turned 2,000 units of previously vacant properties back into occupied housing.

**PRESERVATION STRATEGIES: MARKET BASED APPROACHES**

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**investing in 5-49 unit buildings**

While strong neighborhoods have fully recovered and are thriving since the housing crash, weak markets have only just started to stabilize. DePaul’s Institute for Housing Studies found that lending activity for buildings with 5-49 units dropped precipitously after the crash in low and moderate income neighborhoods.

Armed with this analysis, The Preservation Compact used local and national forums to raise the importance of investing in this segment of the stock. Federal policies shifted as a result:

> **The Federal Housing Finance Agency required Fannie Mae and Freddie Mac to target 5-49 units buildings** for the first time in two new policies—its government-sponsored enterprise (GSE) subgoals, and its recent Duty to Serve notice, which governs GSE activity.

> **The Federal Housing Administration announced a new small multifamily Risk Share program to help bring financing liquidity to the 5-49 unit market.** (As of May 2017, HUD has deferred implementation of this program.)
preservation strategies: cost based approaches

Cook County and Chicago are anchored by a strong foundation of affordable rental stock, all of which must grapple with increasing costs for energy and property taxes.

Similarly, all buildings age and deteriorate. Many older buildings are structurally sound, but need improvements—and the costs of improvements are driven by local building codes.

Cutting these costs gives owners more money to finance rehab, and keep rents affordable.
reducing costs with building code relief
Preservation starts with rehabilitating buildings, and the most critical cost driver is the local building code. With relief on a handful of targeted items in the building code, owners can save money, which encourages more investment and more preservation activity. A number of Preservation Compact partners worked together to identify key building code items to generate real savings. In response, the Chicago Department of Buildings recently announced new administrative code relief.

Specific administrative relief includes:
> Allowing the use of flexible conduit and armored cable in some circumstances, and allowing electrical load centers to be located outside the unit serviced.

> Clarifying that only the newly built walls and ceilings must comply with the new construction requirements in the Energy Code.

saving on property taxes
Property taxes can be a large and unpredictable expense. Seven years ago, Preservation Compact partners were instrumental in lowering assessment levels for all multifamily rental properties in Cook County, resulting in an average 15% property tax reduction. The Preservation Compact has since encouraged owners to regularly appeal their property taxes and tap other resources to gain even more savings.

> Estimates from a 2012-2013 analysis showed that assessed valuations dropped a median 26 percent for Chicago multifamily rental buildings that appealed their assessments.

> The Preservation Compact developed materials and promoted the Housing Opportunity Tax Incentive Act (HOTIA), which provides up to a 19% property tax cut for rental buildings in strong markets with tenant-based or project-based Housing Choice Vouchers.
cutting bills with energy retrofits

Energy is a critical operating cost. Yet for a typical investment of only $3,000 per unit, energy retrofits through the Energy Savers program can save 25-30% on a building’s energy bills.

Operated by Elevate Energy and Community Investment Corporation (CIC), Energy Savers was one of the first initiatives launched by The Preservation Compact. Energy Savers pioneered a new financing program, coupled with a one-stop shop to help owners navigate the maze of resources for energy conservation. Not surprisingly, it is the largest program of its kind in the country.

The Energy Savers Program has touched thousands of affordable multifamily units since 2008:

> Buildings with 61,800 units have received energy assessments.
> Buildings with 26,900 units have been retrofitted.
> CIC has provided $23.6 million in financing to retrofit buildings with 10,000 units.8

8 Data provided by Elevate Energy and Community Investment Corporation
“Perhaps the most successful initiative is Energy Savers. It addresses both the lack of information and capital by assisting with every step of the retrofit process.”

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY

increasing resources for energy retrofits

To expand retrofit resources and financing options even further, The Preservation Compact worked with its partners to create a new On-bill Financing program for multifamily buildings in Illinois. This program allows properties to repay loans directly on their utility bills and is administered by CIC.

> Since its start in 2015, on-bill financing has provided $427,277 to retrofit 6 multifamily buildings with 163 units.

The Preservation Compact also worked with its Illinois Energy Efficiency for All partners to expand utility dollars for multifamily retrofits in low income communities.

> In Northern Illinois, ComEd, Peoples Gas, and Nicor Gas proposed roughly doubling their previous expenditures on new resources for low and moderate income energy efficiency in their upcoming plans. Pending approval by the Illinois Commerce Commission, these new utility programs will take effect in 2018.

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Energy Efficiency for All is a nationwide partnership focused on increasing energy efficiency in the multifamily affordable housing sector. The Illinois coalition partners are The Preservation Compact, Elevate Energy, Midwest Energy Efficiency Alliance, Citizens Utility Board, and the Natural Resources Defense Council.
preservation strategies:
government financing approaches

Since its inception, The Preservation Compact has coordinated with government agencies to preserve government assisted rental housing. In weak markets, deteriorating conditions often put properties at risk; in strong markets, properties are at risk of opting out of government contracts.
Streamlining
The Preservation Compact works with City of Chicago, CHA, Cook County, IHDA, and HUD to streamline and consolidate compliance and monitoring documents and processes for government assisted buildings.

Partners in Policy
The Preservation Compact assisted both the City of Chicago and the advocacy community as they worked on the Single Room Occupancy (SRO) Preservation Ordinance. The Preservation Compact also serves as a resource educating developers about the SRO ordinance including the NHP Foundation, who redeveloped 152 SRO units at Lincoln Park’s Mark Twain Hotel, a critical housing resource in a very strong market.

preserving government assisted properties
The Interagency Council includes leaders from HUD, IHDA, Cook County, the City of Chicago, and the Chicago Housing Authority. In addition to using data to identify at-risk properties, the council receives real time information from tenant and community groups. Government agencies brainstorm strategies and track progress, and the Compact reaches out to owners about available resources and options to preserve properties—including selling to preservation buyers.

> Since 2008, The Preservation Compact has worked with Interagency Council partners to preserve 50 government assisted properties with 5,000 affordable rental units.
Preserving Affordability In Strong Markets

When Presbyterian Homes announced in the fall of 2015 that it was planning to sell three senior apartment buildings to market rate developers, many partners came together to preserve the affordable housing. Ultimately, the Chicago Housing Authority acquired the buildings and added 111 units to its stock of public housing in areas that are otherwise not affordable to low-income residents.

Key political support was provided by U.S. Representative Jan Schakowsky, Alderman Tom Tunney, Alderman James Cappelman, Alderman Debra Silverstein, State Representative Sara Feigenholtz, and Mayor Rahm Emanuel. ONE Northside and Jane Addams Senior Caucus organized tenants and generated public support for preserving the housing. Presbyterian Homes also followed through on its commitment to work in good faith to sell the buildings to an owner who would preserve the buildings’ affordability.

North Park Tower Cooperative received a $4 million loan from Community Investment Corporation to rehab the property at 300 W. North Avenue in Old Town on Chicago’s North Side. The Preservation Compact played a key role in building a positive relationship with the co-op leaders to preserve 125 affordable units in a very strong market.
“Having the right people in the right level of involvement is important in that it sends a signal of their organization’s commitment, and these leaders are able to make commitments for their agency or organizations during discussions of the council.”

“We would all try to do it on our own and then reach out individually as issues arise…but it would still end up being an individual process. But if you have a common venue, such as The Preservation Compact Interagency meeting, it spurs people to bring issues to that place.”
looking ahead

Since its start, The Preservation Compact has forged practical strategies to preserve affordable rental housing. Those strategies have addressed both subsidized properties, as well as the thousands of buildings that are naturally affordable without the help of government assistance.

While the concept of “naturally occurring affordable housing” has only recently entered national discussions, The Preservation Compact created light-touch strategies early on to preserve these buildings. Refining cost-based initiatives related to energy, property taxes, and the building code will continue to be a core focus of our activities.

We also recognize the importance of preserving and creating affordability in high cost markets. Our new Opportunity Investment Fund will set a new course by leveraging market tools with available subsidies to compete in strong neighborhoods.

Coordinating strategies with public agency partners will remain an important priority to preserve government assisted properties.

Finally, The Preservation Compact supports a big idea echoing across the country: providing vouchers to all income eligible households. In Chicago, hundreds of thousands of households have signed up to receive vouchers from CHA, but less than 50,000 are available. With strategic supports and policies, vouchers can create a foundation for families that need stability to move forward. Vouchers can move families to strong markets and can strengthen buildings in weak markets.

The coming years will bring new challenges and fresh opportunities. Counting on the strength of our partners, The Preservation Compact looks forward to continuing our work to ensure affordable rental housing for all households in Cook County.

To learn more about The Preservation Compact, visit www.PreservationCompact.org.

Do we need more subsidies to help make housing affordable for low-income families?

Nationwide, an estimated 19 million households are income eligible for federal housing subsidies—but only 7.1 million households actually receive assistance.10

> Public and Affordable Housing Research Corporation

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Senior Program Officer, Polk Bros. Foundation

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about the preservation compact

The Preservation Compact brings together the region’s public, private, and nonprofit leaders to preserve affordable rental housing in Cook County. The Preservation Compact is led by Community Investment Corporation (CIC).

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