



Strategies That Work

Preserving Affordable Rental Housing

The
Preservation
Compact

Biannual Report 2014

Introduction

The Preservation Compact was created in 2007 to preserve affordable rental housing in Cook County. The supply of this housing—so critical to our region’s future—is not keeping pace with demand, and preserving existing units is far more cost effective than building new units. The Preservation Compact brings together government agencies, non-profits, building owners, tenant advocates, and other housing stakeholders to build a lasting policy framework that will help preserve the existing affordable rental housing stock in Cook County.

When The Preservation Compact was founded, significant concern revolved around government subsidized properties at risk of opting out of their contracts, and affordably priced, privately owned rental units being lost to condo conversion. As the market collapsed and neighborhoods struggled with foreclosed and abandoned housing, The Preservation Compact pivoted its focus and began developing new strategies to address deteriorating conditions and their impact on the supply of affordable housing.

At the same time, the flood of foreclosures caused thousands of previously owner-occupied units to be transformed into rental housing. Yet even with this increase in rental units, the supply failed to keep pace with demand as many former homeowners became renters.

Today, the uneven recovery has left some neighborhoods behind with dwindling resources and demand, while others are once again experiencing an overheated rental market. This bifurcated market and increased demand underscores the need for a range of preservation strategies.

Regardless of market conditions, The Preservation Compact is guided by four key principles:

- Renters, including low- and moderate-income renters, are vital to a healthy local economy.
- Rental buildings and the small business operators who own and maintain them contribute to the local economy, create jobs, and are critical to promoting neighborhood stability.
- Existing affordable rental buildings in struggling markets need access to credit.
- Rebuilding struggling neighborhood markets is critical to preserving thousands of threatened affordable rental units.

Cook County Rental Housing Snapshot

Total Households		1,936,000
Owner occupied	57%	1,105,000
Renter occupied	43%	831,000

Median Household Income		
All Households		\$52,000
Owner occupied		\$72,000
Renter occupied		\$33,000

Median Rent		\$938
Income required to make median rent affordable		\$37,520

Income Level	Percent of cost-burdened renter households (paying more than 30% of income for housing costs)	
\$20,000 to \$34,999		80%
Less than \$20,000		90%

Rental Supply and Demand

Year	Households in need of affordable rental housing	Supply of available units	Gap
2005	461,000	296,000	165,000
2012	523,000	347,000	176,000

The gap between the supply and demand for affordable rental units continues to increase, despite an increase in affordable units. Many of the new affordable units on the rental market are single family homes now being used for rental housing. In improving markets, this temporary stock of rental units will likely disappear as values rise and demand for homeownership increases.

Source: 2012 American Community Survey 1-Year estimates, Institute for Housing Studies at DePaul University

1. About Affordable Rental Housing

Policy discussions regarding affordable rental housing often focus on Low Income Housing Tax Credits, government rental assistance, and public housing, but the majority of low- and moderate-income renters live in privately owned and privately financed rental buildings.

Rental properties with federal subsidy provide homes to more than 120,000 households in Cook County. These subsidized rental properties are a valuable resource, and The Preservation Compact is committed to ensuring these properties retain their subsidies and remain in good condition. But the need for affordable housing—not only in Cook County, but across the U.S.—far exceeds the supply of government subsidized housing. There are not enough public resources to provide subsidized rental housing to every low-income person. In fact, most low-income renters receive no rent subsidy and live in “naturally occurring” affordable housing units which receive no tax credits or subsidized financing. These are the buildings filling many Chicagoland neighborhoods, owned largely by individuals and small businesses.

Most affordable rental units are in older buildings that could not be replaced today. New construction can cost as much as \$300,000 per unit, while existing units can be rehabbed by private owners with private financing for about \$40,000. Without public subsidy, rents to support new construction costs would far exceed what low- and moderate-income renters can afford. Preservation protects the historic investment that has been made in these buildings, and helps ensure quality affordable housing remains available.

The Preservation Compact works to ensure resources exist to help owners of both subsidized and unsubsidized buildings maintain their rental housing in good condition with affordable rents.

2. How is Affordable Housing Lost?

Affordable rental units can disappear from both the bottom and top ends of the market: deterioration and disinvestment can lead to abandonment, or rising rents and overheated investment can lead to excessive housing costs.

Market pressure can cause the rents in an affordable building to increase so they are no longer affordable to low- and moderate-income households. While the unit itself remains, its affordable status disappears. This may occur in government assisted housing when a contract expires and is not renewed, or in naturally occurring affordable housing in improving markets.

While up-market loss is a concern in select areas of Chicago and suburban Cook County, many more affordable rental units are threatened by deterioration, which happens naturally over time, particularly in communities suffering from disinvestment. As with all housing, apartment buildings require ongoing maintenance and rehab. This is particularly important in older cities like Chicago, where much of the housing stock was built prior to World War II. Nearly half of renter occupied housing units in Chicago are at least 75 years old. Without resources to improve these properties, buildings will continue to deteriorate, or even become vacant, dragging down neighborhood values and blighting entire areas.

Several factors contribute to rising rents and deterioration. The Preservation Compact has identified seven primary challenges to preserving affordable, well-maintained rental buildings:

Factors contributing to increasing rents:

- High operating costs
- Improved market conditions
- Inefficient compliance processes

Factors contributing to deterioration:

- Aging housing stock
- Disinvestment in neighborhoods
- Lack of financing
- Limited management capacity

To address these challenges, The Preservation Compact is implementing seven strategies to manage costs, encourage rehab, and build owner capacity. A summary of these strategies is presented on the following pages, followed by an overview of successful outcomes in Section 4.

3. How is Affordable Housing Preserved?

The Preservation Compact addresses threats to affordable rental housing through policy and direct interventions. Seven strategies address the primary challenges outlined in Section 2; a detailed discussion of each strategy follows. As indicated, the path to preservation starts long before the rehab begins.

Seven Strategies for Preserving Affordable Rental Housing

Reducing costs and building capacity to rehabilitate and maintain affordable rental housing makes preservation possible. The Preservation Compact is implementing seven strategies to create an environment in which affordable housing can thrive, and in which owning and maintaining affordable rental property can be a profitable business enterprise.

Strategy 1: Manage Costs. For both subsidized and unsubsidized affordable rental properties, managing operating costs is key to maintaining affordability. The Preservation Compact addresses the most significant operating costs for rental properties: energy and property taxes.

- Reducing energy use by retrofitting properties helps owners and the environment.
- A more equitable property tax system rewards well maintained, affordable buildings and benefits Cook County rental properties and renters.
- Efficient inspection processes save property owners time and keep buildings safe.

Strategy 2: Direct Interventions. Some subsidized properties need focused attention from government agencies. The Preservation Compact helps coordinate government agencies, building owners, and tenant advocates to ensure properties retain their subsidies and are able to access financing for rehab.

Strategy 3: Consolidate Compliance Requirements. Subsidized properties have complex and time consuming compliance requirements. The Preservation Compact is helping government agencies coordinate compliance processes with standardized forms and coordinated inspections.



Strategy 4: Encourage Investment. Financing unlocks capital for investment, which buildings and neighborhoods need to succeed. The Preservation Compact has raised the issue of lending to 5-49 unit properties, which has declined since the housing market crashed in 2008.

Strategy 5: Community Development. The Preservation Compact assists and supports the City of Chicago's Micro Market Recovery Program (MMRP), which focuses revitalization activities in targeted areas. Most of these targeted areas are home to significant numbers of affordable rental buildings.

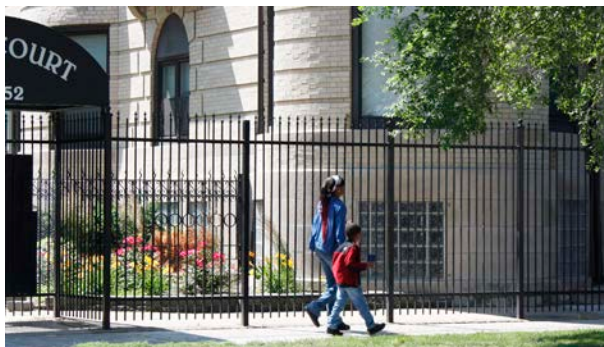
Strategy 6: Address Underserved Market Segments. Chicagoland's smaller residential buildings (1-4 units) were also affected by the housing crash and continue to suffer from foreclosure and abandonment. In response, The Preservation Compact helped develop a new loan product to provide financing to responsible investors interested in buying and maintaining these buildings. The loan product launched in 2014.

Strategy 7: Inform and Expand the Conversation. The Preservation Compact shares best practices, provides technical assistance, and organizes workshops to help owners better manage and maintain affordable rental property and bring more voices into policy discussions.

Preservation Compact Strategies to Preserve Affordable, Well-Maintained Rental Housing

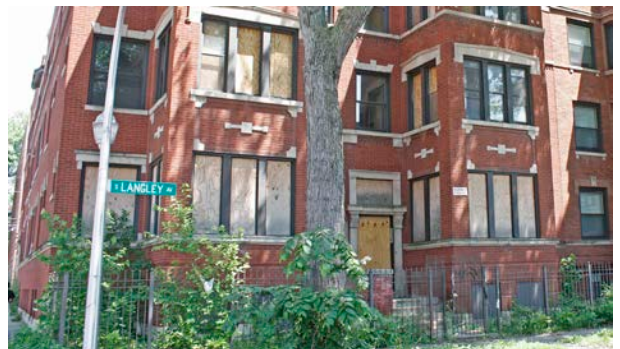
Increasing Rents

Challenges	Strategies	Outcomes
High operating costs	<p>Manage Costs</p> <ul style="list-style-type: none"> • Retrofit properties to reduce energy use. • Adopt a uniform assessment rate for all residential property, significantly reducing the share of property taxes paid by multifamily rental properties. • Encourage policies that reduce property tax assessments for rehabbed, affordable rental housing. • Streamline building codes and inspection processes. 	Reduced operating costs lead to financial stability and less pressure to increase rents.
Improved market conditions	<p>Direct Interventions</p> <p>Coordinate government agencies and tenant advocates to develop strategies to preserve affordability for government assisted properties.</p>	Opt-outs prevented, affordable units in strong markets preserved.
Inefficient compliance processes	<p>Consolidating Compliance Requirements</p> <p>Consolidate processes for government compliance on assisted buildings.</p>	More efficient operations for assisted buildings.



Disinvestment

Challenges	Strategies	Outcomes
Aging housing stock	Encourage Investment Encourage rehabilitation by ensuring access to credit. Raise the issue of financing 5-49 unit rental properties in low and moderate income areas.	Extend the life of Chicago's rental housing stock.
Disinvestment in neighborhoods where affordable stock exists	Community Development Support targeted redevelopment in struggling neighborhoods.	Stronger communities where renters want to live and owners want to invest.
Lack of financing for small rentals	Address Underserved Markets Bring resources to 1-4 unit rentals, a neglected market segment.	Improved building conditions; vacant affordable rental units placed back onto the market.
Limited management capacity	Inform the Conversation Organize training sessions and provide technical assistance for housing practitioners and property owners.	Better operations and improved housing conditions.



4. Success Stories

The policies and practices outlined in Section 3 have helped preserve thousands of units of affordable housing throughout Cook County. Specific successes are highlighted below.

Managing Costs

Reducing Energy Use

The cornerstone of The Preservation Compact's energy initiative is the Energy Savers program. Operated by partners Elevate Energy and Community Investment Corporation, since 2008 Energy Savers has retrofitted more than 18,000 units of rental housing—helping owners save money, improving buildings, and making tenants more comfortable.

The Preservation Compact has also looked beyond the Energy Savers program to build an energy policy framework that will support expanded energy retrofits and ensure multifamily rental housing gets its fair share of resources dedicated to energy efficiency. In 2013, Preservation Compact partner Enterprise Community Partners led the effort to expand a statewide on-bill financing program to include multifamily properties. The program, administered by Illinois utility companies, allows property owners to install energy saving improvements and pay for them on their utility bills. The expansion passed the legislature and was signed into law, and the program launched in 2014.

In 2014, the Illinois Department of Commerce and Economic Opportunity allocated more than \$6 million over three years for Energy Savers to audit and retrofit affordable properties.

Reducing Property Taxes

When The Preservation Compact was first convened, multifamily properties with more than six units were assessed at a significantly higher rate than other residential properties. The Preservation Compact advocated for a more equitable tax assessment and, in 2009, Cook County established a uniform assessment rate for all residential property, reducing the share of property taxes paid by multifamily rental properties by 15% between 2005 and 2011.

The Preservation Compact also spearheaded an effort to inform property owners about how to appeal their property's valuation. Appeals often result in significant reductions in property tax bills for rental buildings.



Retrofitted property in Greater Grand Crossing

One Building Leads to the Next

In 2011, when the DiCosola Group acquired a 20 unit building in Maywood, they came to CIC to discuss financing. Nick DiCosola agreed an energy audit from Energy Savers would help them evaluate the building's energy needs, which in turn led them to finance \$130,000 in energy improvements through the Energy Savers Loan Fund.

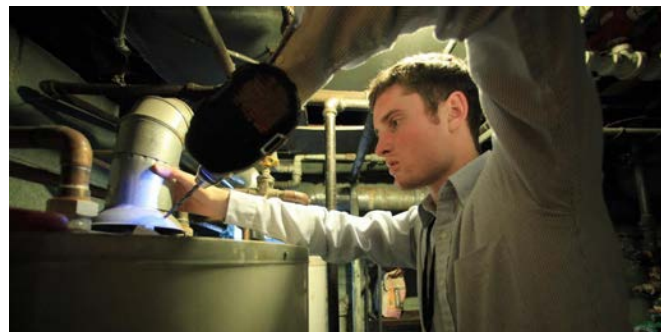
He says the combination of ceiling insulation, air sealing, high-efficiency furnaces, hot water heaters, and new windows generated nearly 40% in energy savings — and the inspiration to pursue an energy retrofit in another building. “The program went very smoothly and was saving us money on the first building, and we knew it would also work for us in Chicago.” The second building they retrofitted was a 19 unit building in the Greater Grand Crossing community of Chicago.

The improvements in the Maywood building made the tenants happier, too. “The tenants don’t want to move. They are so comfortable and happy in the winter — and they know they will pay more in heat if they move to another place.”

Energy Savers Program Statistics: 2008 - May 2014

	Buildings	Units
Audits	1,031	41,845
Retrofits	454	18,665
Gas Therms Saved	4,479,600	
kWh saved	12,132,250	
Jobs created	452	

Of the nearly 19,000 units retrofitted by Energy Savers, more than two-thirds were self-financed by the property owner. Community Investment Corporation has financed over \$16,000,000 in loans and grants for energy retrofits, making energy saving improvements possible for more than 5,000 affordable rental units.



Direct Interventions

The Preservation Compact convenes an interagency working group, including the U.S. Department of Housing and Urban Development (HUD), the Illinois Housing Development Authority (IHDA), Cook County, and the City of Chicago, which monitors subsidized properties and intervenes when contracts are expiring or when building conditions deteriorate. The group identifies at-risk properties and ensures partners work together to address issues before they become crises.

When properties have issues regarding building conditions, The Preservation Compact works with tenant advocates, building owners, and government agencies so that communications are clear, and buildings are improved and stabilized. The group has addressed more than 30 properties with over 4,000 assisted units.

Consolidating Compliance Requirements

The Preservation Compact brought together the City of Chicago, Cook County, and IHDA to evaluate their compliance processes for properties they jointly finance. The three agencies are working together to create standardized, shared forms and to coordinate compliance activities. This saves time and money for owners and governments. One early success came in 2013, when the three agencies launched one uniform Tenant Income Certification form, or TIC form, to replace three separate forms the agencies used previously. The group is working to consolidate four additional compliance requirements.

Saving St. Stephen's Terrace

When poor management led to several fires five years ago at St. Stephen's Terrace, a near west side property with 261 units, the City of Chicago convened the owner, tenant groups, and other stakeholders to hash out a solution. A newcomer to subsidized housing purchased the property, and preservation advocates were relieved to see the building take steps toward stabilization. As time went by, however, the owner struggled under the weight of the government requirements.

Encouraged by HUD and The Preservation Compact, The Community Builders (TCB) stepped into the fray to acquire the building. TCB used a unique revolving acquisition pool they created with Neighborhood Stabilization Program funds to purchase the building, then assembled financing from IHDA, HUD, and the Illinois Department of Commerce and Economic Opportunity for over \$40 million in renovations. TCB's rehab preserved the building, creating long term viability for the 261 affordable rental units.

Preservation Through Collaboration

In 2009, in the midst of the foreclosure crisis, tenants at 6920 South Crandon, a 65-unit project-based Section 8 property, alerted HUD to a utility shut off. When the building landed in foreclosure court a few months later, The Preservation Compact's interagency working group was watching.

HUD immediately contacted the lender to make sure the Section 8 contract did not get lost in the foreclosure process. HUD went the extra mile to keep the contract intact, even assigning the contract to the lender upon completion of the foreclosure – saving affordability for the building and tenants for years to come.

Tenant advocate partners the Sargent Shriver National Center on Poverty Law, Metropolitan Tenants Organization, and Lawyers Committee for Better Housing all joined forces to keep tenants informed throughout the arduous foreclosure process and to ensure tenants understood that they would not be displaced from the property. The receiver during the foreclosure, Eastlake Management & Development Corp., purchased the property from the bank. Eastlake made several improvements, including new elevators, kitchens, bathrooms, carpet, and renovated common areas, ultimately returning stability and vitality to a property that many partners pulled together to preserve.



On-site preschool at St. Stephen's Terrace



6920 South Crandon

Encouraging Investment

The Preservation Compact is leading the charge for adequate financing for small multifamily properties in the Chicago region. Buildings with 5 to 49 units account for more than one-third of the rental housing in Cook County. Generally privately owned and without government assistance, rent restrictions, or income restrictions, they nevertheless provide a major portion of our affordable rental housing supply. Despite recovery in some sectors after the market crash, many of these multifamily buildings still suffer from a lack of available credit—especially in low- and moderate-income communities.

The issue has garnered attention from HUD, which is piloting a new risk share program targeting these buildings. The Compact has also worked closely with the Furman Center at New York University, along with DePaul University's Institute for Housing Studies, as they analyze the issue to explore root causes and develop solutions. In 2013, The Preservation Compact convened the Federal Reserve Bank of Chicago, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Institute for Housing Studies to highlight the issue. As a result, the regulators co-hosted a forum in May 2014 to consider challenges and solutions to improve access to financing for small multifamily rental properties.

Community Development

The majority of the affordable rental housing stock is located in low- and moderate-income neighborhoods. Many of these neighborhoods were hit hard by the housing crash, and continue to struggle. To remain viable, the rental buildings in those neighborhoods need healthy demand and investment. The Preservation Compact has worked closely with the City's Micro Market Recovery Program since its inception to support activities that revive target neighborhoods.

In 2011, the City of Chicago, a Preservation Compact partner, launched the Micro Market Recovery Program, which coordinates and targets resources in 13 submarkets to spur activity that will lead to stronger values and increased private investment.



Addressing Underserved Market Segments: 1- to 4-Unit Rentals

In 2011, The Preservation Compact identified growing disinvestment among 1- to 4-unit properties, which account for nearly half of all rental units in Cook County. Unfortunately, these same buildings also account for a large portion of the distressed stock, especially in the areas hardest hit by foreclosures. Tighter credit constraints and limited demand by owner-occupants in these areas exacerbate the problem. At the same time, there is a significant need and demand for many of the rental units in these buildings, and there is a growing interest among responsible investors to own and maintain the buildings for rental housing.

The Preservation Compact convened a working group to evaluate the issue, and then worked with Community Investment Corporation to develop a new \$26 million loan program to finance investor-owned 1- to 4-unit properties throughout the Chicagoland region. The loan program was launched in 2014.

Informing and Expanding the Conversation

Since 2011, The Preservation Compact has hosted a number of workshops and forums on topics ranging from energy efficiency to new HUD programs and compliance rules. Building capacity of both housing stakeholders and rental property owners and managers allows more people to contribute to the preservation of affordable rental housing. The Preservation Compact has also worked to include more building owners in policy discussions, creating ties between housing practitioners and policymakers, facilitating open dialogue and transparency.

In 2013, The Preservation Compact hosted a conference bringing together a diverse group of more than 200 housing stakeholders to broaden the reach of the organization, and bring preservation issues to the forefront. The conference introduced important preservation topics to a new audience and created new energy around preserving affordable rental housing.



Cook County President Toni Preckwinkle addresses the conference crowd

Looking Forward

These success stories illustrate the important impact of efforts to preserve Cook County's affordable rental housing. While tens of thousands of affordable units have benefitted from these efforts, demand for affordable rental housing continues to grow faster than supply, and as the gap between supply and demand widens, more families will be financially burdened by rents which consume more than 30% of their income.

Looking ahead, we expect the stress on the adequacy of the supply of affordable rental housing to come from the following sources:

- A continuation of the increased demand for rental housing over homeownership.
- Economic recovery in many communities that leads to rising rents and renewed opportunities for owners to opt out of government assisted housing contracts.
- Simultaneous disinvestment and distress in other communities that hold a vast number of our affordable rental stock.
- Continued upward pressure on operating costs, particularly from property taxes and energy costs.

By itself, preservation of our current stock of affordable rental housing will not fully address this issue. Clearly, efforts to build new rental housing and to provide rental assistance for low-income households need to be continued and expanded. But preservation of existing affordable rental housing is an extraordinarily important and cost effective element in the overall solution.

With its broad array of partners, The Preservation Compact is ideally positioned to recognize and respond to current and future factors that affect affordable rental housing, and we will continue to pursue strategies to renew and reinvigorate the supply of affordable rental housing in Cook County.

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



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The **Preservation** Compact

A Rental Housing Strategy for Cook County

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), with generous support from the John D. and Catherine T. MacArthur Foundation.

MacArthur
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