

The following are excerpts from unfunded proposal with the City to explore alternative subsidy allocation methods/programs by virtually re-allocating funding from past budgets and discovering where efficiencies or better targeting may be found. The approach could be applied to States as well. Included here is purpose and problem statement only.

Getting More from Affordable Housing Subsidies in Chicago

A Research Proposal Presented to
Chicago Department of Housing (DoH)

By

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Purpose

The Chicago housing market is failing to meet the needs of poor working families. The Regional Rental Market Analysis sponsored by Metropolitan Planning Council in 1999 was one of the first comprehensive studies to document the mismatch between the needs for affordable housing in the Chicago area and the location and production of rental units. Despite substantial subsidies provided to private and non-profit developers of affordable housing from DoH, Illinois Housing Development Authority (IHDA), HUD, and others, the Regional Rental Market Analysis found a shortage of affordable housing for poor working families in Chicago and close-in suburbs.

The current system for producing affordable housing creates some housing, but at a very high cost, and only after developers have overcome major barriers in the development process such as securing multiple layers of financing, funding and equity. As a result, many of the "affordable" units that are created are too expensive for working families, and may not be sustainable over time due to well-documented challenges to property management and vexing long term problem of stagnant wages and rapidly increasing housing costs.

We propose to reexamine how the government grants and loans were used to enable affordable family housing over several years, in developments sponsored solely or in part by the City of Chicago Department of Housing. We would manipulate old budget allocations in different ways and measure the impacts in order to determine *if* there are more effective and efficient ways to spend the scarce resources to "create" affordable housing by development or non-development means.

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CHANGING HOW WE CREATE AFFORDABLE HOUSING

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It is hoped that the research can shed light on how to increase the creation of affordable housing, how to effectively improve the targeting of housing opportunities to working poor families, and how to better match program/allocation strategies to local markets. A central goal is to incorporate the analysis into a report that can guide future DoH budgeting and program decisions¹.

The Problem

The crux of the problem with the current system for creating affordable rental housing lies in the operating costs of managing affordable housing. These costs, particularly for larger unit rental housing, have risen to a point where little debt and profit can be paid for through the rents of extremely low-income tenants. This is particularly true in the absence of rent subsidies, and it's assumed by the research team that the cost structure, including additional administrative and social costs, is higher for managers of subsidized projects than with their counterparts in the private sector. Unfortunately, private and unsubsidized owner-managers with lower cost structures have little profit motive to house the lowest income. Despite challenges to the viability of affordable housing management, development has drawn an ever-increasing share of limited subsidy dollars.

Another challenge to the current system for creating affordable housing is rising development costs. Development costs in Chicago now often top \$200,000 per unit -- representing about a 400% increase over the last 15 years. Difficult to control market factors have contributed to this high cost, such as: increasing costs for construction; a boom in real estate values; and diverse challenges like gentrification and changing markets at the neighborhood and regional levels. Despite these challenges, market forces alone do not account for all of the increase in development costs.

A good portion of the development costs of affordable housing goes toward packaging the multiple layers of government subsidy, grants, and tax credit equity that are desired to leverage private financing.

¹ The research team will not attempt to make judgments about the *quality* of projects or grants made in the past, nor render opinions about the professional capacity of developers, managers or project sponsors. Although there could be broader applications and benefits of this research, the data collection will not include projects and housing initiatives intended specifically for public housing residents, seniors, homeless, special needs populations or persons requiring assisted living opportunities. Except as it pertains to funding/financing methods and programs examined, this research will also not attempt to inventory or make recommendations on various known obstacles to affordable housing production. These include housing codes, roles of unions, construction costs, NIMBYism, property taxes, permitting, and zoning.

The past decade has seen a trend of developers needing increasing amounts of public subsidy to leverage less private capital. By some estimates, today only a dime of every development dollar represents leveraged private support. The result is fewer units of affordable housing created at a much higher cost than before, with much of that housing remaining out of reach for the poorest working Chicago families - those making less than twice the minimum wage.

The current system is oriented toward creating affordable housing primarily by subsidizing the development process. In Chicago neighborhoods with strong real estate markets, development subsidies ensure that at least some units built are affordable to families at or below thresholds of 50%, 60% or 80% of the area median income, depending on the program. In neighborhoods with weaker housing markets, the subsidies may be necessary for the development to be built at all, as market rents cannot sustain the cost of constructing or rehabbing the new units. In both markets, government funds do not ordinarily cover the full development costs; government funds are rarely used in ways other than the development process to subsidize the creation of new units of housing¹.

This research explores various ways to address this problem by shifting, reallocating, and using subsidies in different ways. More specifically, the research will model the ways that funds from Community Development Block Grants, federal HOME dollars, State Trust Fund loans, Enterprise Zone or foundation grants, capital budget outlays, and grants from the Federal Home Loan Bank can be used to create affordable rental housing at lower cost. Where potential savings can be found, the research team will examine how or if those savings could be applied to three major strategies that have been the subject of advocacy and legislative initiatives—debt management for existing projects in distressed communities, Inclusionary Housing, and alternative, locally administered rent subsidies.

¹ Notable exceptions to this would include the Chicago Trust Fund Rent Subsidy and Affordable Rents for Chicago (ARC) Programs. But even these subsidies for operations are most often used as critical pieces in the mix of layered subsidy funding of development.

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