

Inclusionary Housing Testimony

To the Chicago City Council

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Good Morning. My name is Mike Rohrbeck. I am a co-owner/manager of Raila & Associates, a property tax appeals and public policy consulting firm. In addition, I've worked for almost 25 years for and with non-profit housing, community development and service groups, including the Chicago Rehab Network. Today however, I come to you mostly as a supporter and an advocate for reform of how we create affordable housing.

To begin, the preamble of the ordinance rightly points out that there is a shortage of affordable housing in Chicago. However it does not and cannot make the case that there is a shortage of decent housing in Chicago, or, that there is not ample vacant housing out there that can meet minimum quality standards at little or no costs.

The "Purpose and Intent" of the legislation further points out the shortage of affordable housing for households at or below 50% of the Area Median Income (AMI), but it fails to describe how the greatest demand for housing of any kind is among people whose income is 30% or below. 30% is the equivalent of twice minimum wage for a family of four (around \$22,000 annual income).

The descriptive intro to the legislation also leads us to believe that only housing developed in partnership with the City are affordable. Unfortunately, many of these developments also are out of reach for households at or below 30% AMI, unless they are fortunate enough to have rent subsidies, or development financing support of the Chicago Low Income Housing Trust Fund.

Regardless of these important clarifications, I'd like to express my support today for inclusionary housing, a concept whose time has come in Chicago, while at the same time issuing some cautions and recommendations that could make the program more efficient in using "in lieu of" payments to create affordable housing opportunities for the lowest income.

Almost twenty years ago, we community advocates were pushing hard for "linked development" and after a long campaign, the dogs were thrown a small bone with the establishment of the Chicago Low Income Housing Trust Fund. Since then, the trust fund has been a model for the country in providing (1) an alternative "project-based" rent subsidy program that is loved by owners, managers and tenants alike, and (2) a debt-write down program called ARC where debt service relief is tied specifically to commitments for lower rents on a portion of project units..., in my words, this is *resource-supported inclusionary housing*.

Both efforts provide housing to people earning less than 30% AMI – where the real demand for housing in Chicago is. Remarkably, the trust fund has not attracted major new resources despite its success. Unfortunately, this concept has not been used much to support affordable housing in existing housing, despite the possibility of creating housing opportunities for two to four times as many very low income tenants, without the big transaction costs or long delays of development. (See my attached chart on advance funding of rent subsidies as one example for this.)

Inclusionary Housing is as good an idea today as Linked Development was twenty years ago. Unfortunately, affordable housing developments ain't what they used to be. This is largely because the wages of the lowest income workers have remained stagnant, while housing management costs have trended higher than inflation. If this weren't bad enough, housing

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development costs for partnership projects have gone up by my estimate almost four times faster than management expenses (before debt service), devouring ever more scarce CDBG, HOME and State subsidies for fewer units “produced”. The kicker is that the units and projects “produced” cannot house people at 30% AMI or below without additional rent subsidies. Almost all people’s income is required to cover just the expenses of housing management in such developments (not debt service for acquisition/construction or profit). Complicated things further, “Partnership” developments have a higher management expense cost structure than strictly private developments, an assertion of mine that most would agree to but has not been proven with research.

So if you’re very low income and living in Chicago, and aren’t graced with a rent subsidy, you’d better hope that you are living in a privately owned building that doesn’t get sold or significantly improved. Why, because the added debt service passed on to you through the rent or mortgage will surely displace you. And indeed, this is what happens with nearly every significant rehab effort for rental housing in Chicago and every condo conversion. And its not because the managers and owners are just evil -- the economic strain they are feeling is just about unbearable.

In addition, we find in a recent study that for every 400 units of new construction produced in the region, one hundred units become vacant elsewhere in the marketplace. No wonder managers are struggling with vacancies. No wonder that the most disinvested communities are still experiencing abandonment and demolition. Now here we come today with the Inclusionary Housing ordinance with most benefits targeted to people and families at 50% and 80% of the Area Median. Granted some of these folks cannot live wherever they want in our fine City. But with family incomes ranging from \$35,000 to 55,000, they can still exercise housing choice. People at 30% of AMI are hoping they can survive the next rent increase or building improvement.

However, the “*in-lieu of*” payments proposed in the Inclusionary Housing ordinance as an off-site alternative for the 15% set-aside, provide a major saving grace. This is because of the benefit targeting to the lowest income and the proven track record of the trust fund program. It is my contention though, that its time to wake up and smell the coffee. Putting those payments into layered new developments, as is intended with the ordinance, will mean that fewer people will enjoy affordable housing and that we will miss the opportunity to meet the true needs for owners and tenants in the rental market. Chicago still has owners in almost all of our communities who want to maintain rental housing, to enhance their financial viability by filling up their buildings, and could well benefit from rent subsidies or modest grants in exchange for rent restrictions.

My understanding is that the trust fund has subsidized existing housing on a small scale, but doing so in tandem with a citywide inclusionary housing strategy would be a fantastic way to promote mixed income communities *and* demonstrate how local subsidies can be used efficiently. I’d be glad to work with the authors to revise wording in the ordinance to emphasize a broader purpose of increasing housing opportunities, not just promoting development per se. I also believe that the affordability controls in section 16-19-120 (A) should be reviewed to retain the unbureaucratic appeal of the trust fund program, while maintaining accountability for housing people in targeted groups.

I call on my friends and peers in community development to reflect on the many campaigns of the last twenty years -- campaigns where victories were declared (and some groups benefited) but where after some delay, advocates for the lowest income felt like their constituents were not being served. This could happen again without some modest refinement to this ordinance.

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Wording in the ordinance to the effect that all *in-lieu of fees* “shall be allocated exclusively for the construction and/or acquisition of rental housing that is affordable to households earning no more than 30% of the Area Median Income” is completely unacceptable. This wording excludes the possibility of providing more affordable housing faster with existing housing. Not only would the ordinance then be missing market needs by targeting inclusionary housing too high, but also the one appropriately targeted component of it would produce affordable housing with the speed of Chinese Water Torture.

I believe the Department of Housing can modify the trust fund program guidelines to more aggressively enable rent subsidies and grants to private owner/managers, without the mandate that they otherwise finance complex and time consuming developments. They could even do this in tandem with portfolio managers of Chicago’s major lenders, creating inclusionary housing with private borrowers on a post-rehab basis.

Some might question what this would mean about how we identify eligible units and tenants with the ordinance, and assuring program compliance over time. My response is that the funded delegate agencies of the City should be at the center of such new programming, putting them in a very real position as *Housing Resource Centers* for their communities. They can identify the good owners, support responsible managers by making their rental housing more viable, and feed prospective tenants to the Department of Housing’s referral list referenced in the ordinance. If desired by the City, non-profit partners could even carry out inspections to determine if the units meet minimum quality standards, as is done with some agencies working on TIF programs.

What I’ve learned in recent years is that the dirty little secret among housing consultants and government officials about inclusionary housing is that the programs are most successful when targeted to the highest income groups. That may be well and good if your municipality lacks for higher income people or if you intend to push poor folks to other places. But we have a historic opportunity with Chicago’s Inclusionary Housing to actually benefit hard working low-wage people, while reinforcing and stabilizing a floundering rental market.

Thanks for your time and this opportunity.

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