

Prepared Comments for Loyola University Housing Affordability Conference

As member of panel, including John Pritscher (President of Community Investment Corporation,) reacting to a study¹ of the increasing complexity, costs and challenges to affordable housing production

Mike Rohrbeck

November 5, 2003

By way of introduction, my main job is being an at-home dad. I have been that for 7 years and during that time I have worked for CURL for five years doing collaborative research. I have also worked for 18 years doing community development with Bethel New Life and PRIDE, non-profit organizations on the west side. Since then, I have been contemplating affordable housing production, looking at some new ways we can address the problems and challenge of affordability.

I would like to begin by returning to the research report on financing affordable housing from my perspective and recap some of the history and cost issues.

The way we financed things in 1990, when our organization was going to John Pritscher's CIC and getting financing, gap financing provided approximately half of what was needed to support a project. Today, for affordable housing that serves the lowest-income households, financing requires so many complex layers and costs have gone up so dramatically that often only a about dime on the dollar comes from private lenders. There are not as many of those deals now because the resources are so scarce. That represents a major change over the years.

One of the reasons for this is what John alluded to -- that the total development costs have skyrocketed. In 1988, developing a project for \$50,000 per unit was common; now it often takes \$200,000 a unit for the same size and type of development... *If we could lock ourselves in this room for a weekend we could figure out how to bring people out of poverty or get them into affordable housing for less than \$200,000. In fact we could probably improve the lives of 3 families, 4 families! For a working poor family of four, you could probably find rent subsidies (not section 8) for \$6,000 a year. At some point these skyrocketing numbers for development have to prompt us to step back and look at alternative approaches.*

To complicate things further, while development costs have risen dramatically, management costs have gone up steadily over time. What I am most interested in, and find a lack of research on, is housing costs before debt service. *These costs by my estimate have gone up steadily on "layered" affordable housing deals -- from about \$275 per unit per month that was common in 1988 to right now at \$425 a month before debt service, before profit.*

¹ Closing the Gap: *Financing Affordable Housing in Chicago Area*, Kathleen Kane Willis, Roosevelt University

Now the question is, if that's the expenses only and not the debt service, what are we doing all this stuff to try to leverage a dime on the dollar of private credit for. And the additional problem is you don't have rent subsidies in there you need to serve low-income people. So when considering these cost issues and dilemmas - you have to start asking tough questions about how scarce subsidy funds are being allocated.

Again, it may be relevant for us to consider better ways to spend the money. There are other ways to create affordable housing, including partnerships with entrepreneurial private owners who would not otherwise think about using Section 8.

Intuitively a lot of us know is that people's incomes do not go up with the rate of inflation – the buying power as far as housing has gone down and housing costs have increased much faster than incomes. This has confounded many projects all over the city and the nation because the poor are getting poorer and the rich are getting richer, while energy costs and property taxes aren't slowing down.

This is the situation the report talked about – the difficulty of managing the cost challenges and the fact that everybody needs a consultant to navigate the complex financing process. I think now that the idea proposed in the report of a clearinghouse is needed if it is considered as part of a solution with a larger set of reforms referred to in the field as “streamlining”. Streamlining the subsidy process is very important and has been a subject of much discussion and little action. We need to have common applications, common places to go, legal support that is integrated and consistent, common calendars for different lenders and lawyers, shared inspectors and standards, reporting procedures and deadlines that are integrated, and asset management that is led by one agency not three.

Given the costs and complexity of affordable housing financing, the system is, from my perspective, in complete meltdown. Now you won't hear that from the people who support low-income housing tax credits (and the layered funds/financing that go with them). They say they are the largest producers of affordable housing in the country. But, during the course of the rise of the low income tax credit, moderate rehab Section 8 was killed, substantial rehab Section 8 was killed – all these subsidy programs that actually worked pretty well for the lowest income without too much bureaucracy were wiped out.

Tax credits and other “affordable” housing programs are usually targeted for people at 60 or 50% of the median income. Production for households earning 50% of median income is not good enough, particularly in the higher income Chicago metro area. There is nothing out there for working poor families.

I think it's time that we admit that public-private partnerships are not good at developing housing. It is too costly this way. It is hard for us to say in the industry that public-private should not be about development in all cases. But we need to think about redefining production. We need to think about what it is to create affordable housing. It is not all about construction, bricks and mortars. If we admit that it is both inefficient from the cost perspective and from a bureaucracy perspective, we have to think about what is the best way to allocate our money.

<http://www.HousingQuest.info>

*Share the Quest: A COMMITMENT TO
CHANGING HOW WE CREATE AFFORDABLE HOUSING*

MICHAEL C. ROHRBECK

PHONE: (312) 217-4211

E-MAIL: MRCAREER@AOL.COM

Finally, I think these notions about smart growth, regionalism, inclusionary housing that's mandatory, education efforts and trying to reverse discrimination are good, but they are not likely to meet the need of the lowest income and working poor families in the short term.¹

We should go back to an earlier point made by Joe Hoereth and figure out how to make affordable housing profitable to the owners. There are more reasons than just housing to do affordable housing projects e.g. jobs, community reinvestment etc. However, for a dime on a dollar, it does not make sense to have a private lender in there and not target the housing to the lower income people. I say streamline and get the private lender out of the deal entirely in those poorest communities where there is no choice but to do subsidy layered funding of projects.

In other areas, we could begin to work with the owners in John's portfolio – all these entrepreneurial owners that are responsible -- by doing things that I like to call "resource-supported inclusionary housing". *If CIC finances buildings with no subsidies, who is to say that some of those projects that were done cost efficiently would not be ideal for affordable housing set-asides. If, for example, you came with the City of Chicago to an owner and asked him to set aside a unit that was rent restricted over time for a \$50,000 grant, you would instantly create affordable housing. Or use a \$75,000 grant to buy down the owner's debt on a unit for the same reassurance of long-term affordability, ... I think that kind of stuff is possible.*

The Chicago Low Income Housing Trust Fund is a program that has rent subsidies as an alternative to Section 8 – it is a great program. It was created over 15 years ago and has received little additional support since then. Presidential Towers funded the trust fund to create this rent subsidy program that is loved by managers and tenants alike. It is cost efficient; management efficient and we have to find ways to reallocate subsidy dollars to these kinds of programs.

There are also ways to promote things like shared housing, which is being done in high-cost suburban areas on a shoe string budget without any support outside of a few small grants. If you took some of the CDBG dollars, HOME dollars, all these other dollars, and focused it (instead of spending \$200,000 per unit) we could create 10 of 20 units by using alternative means.

If we open up our minds and monies to new ways to create affordable housing without necessarily producing housing via a costly development process, then we can start thinking of new and better ways to demonstrate how we can successfully provide affordable housing in this city, in this region.

¹ Clarified in Question and Answers after the presentations