Housing Preservation Strategy Report

The Lorington Apartments, Chicago

Walden Oaks, Woodstock

Chicago Metropolitan Agency for Planning
November 2008
# Regional Housing Preservation: Definition, Conditions and Case Studies

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Executive Summary

Over the next 30 years, the population of northeastern Illinois is projected to grow by more than 2 million. The decisions that we make, as we prepare for and accommodate that growth, will define the region in 2040. Some of the most important decisions will be about housing. Where will these 2 million people live? How will we make a variety of safe housing options available to families at all income levels?

In the past, preservation strategies have focused on preserving affordable housing subsidies or preserving historic structures. This report develops a new framework for housing preservation that addresses issues of affordability, community character, sustainability, and economic development.

CMAP research indicates that a housing preservation strategy with a broadened definition may be able to better address regional issues including, but not limited to, affordable rental housing. The following white paper reports on CMAP’s initial findings on housing preservation as a regional strategy to 1) maintain and increase housing affordability; 2) maintain community character; 3) promote sustainable development (by constraining the expansion of the urban footprint); and 4) contribute to the region’s economy.

Section 1 seeks to broaden the definition of “housing preservation” as a regional strategy and describe the impacts such a strategy could have. Section 2 describes the current conditions and possible regional impacts of preservation strategies on housing costs, community character, sustainability and the economy. Section 3 describes barriers to preserving the region’s housing stock. Section 4 outlines some of the preservation strategies currently employed by organizations and governments around the region. Section 5 demonstrates the effectiveness of housing preservation via a set of case studies that can be found in northeastern Illinois.
1. Regional Housing Preservation: Broadening the Definition

For the purposes of this report, we define “housing preservation strategies” as policies and programs that encourage 1) maintaining existing housing stock and 2) maximizing its use to meet local housing market demands. Preservation strategies address a variety of issues, including housing cost, community character, sustainability and the economy. Addressing these issues is crucial for maintaining and enhancing the overall vitality and dynamism of northeastern Illinois for all of its citizens.

The traditional definition of “preservation” needs to be expanded in order to address diverse facets and impacts that housing preservation strategies can have on the region. Generally the term “preservation” has been used in two different areas: historic preservation and affordable housing preservation. “Historic preservation” involves the restoration and maintenance of both geographies and structures of historic, cultural or architectural significance. “Affordable housing preservation” refers to the extension of government low-income housing subsidies at risk of expiration.

CMAP’s definition of housing preservation includes all actions that maximize the utility of the region’s pre-existing housing stock to make a variety of housing options available to families at all income levels. It therefore embraces values inherent in both historic preservation and affordable housing preservation. Research shows that preserving and maintaining existing and older housing stock has benefits to the region’s economy, community character, health and environment. This report will seek to describe current trends and conditions in the housing market and explore housing preservation strategies that make sense within this context.

2. Current Conditions and Trends

The movement for housing preservation strategies thus far has focused primarily on the preservation of affordable rental housing because while rental as a share of all housing stock has decreased over the past several years, so have real incomes. This has resulted in supply gaps for rental housing.

Rental housing has decreased as a percentage of national housing stock since 1990. Conditions in northeastern Illinois run parallel to national trends. Between 1990 and 2006, the seven counties in northeastern Illinois – Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will - experienced a 7.5% decrease in rental housing units while owner-occupied housing units increased by 28.3%. Cook County alone has lost 96,366 rental
units, while the collar counties witnessed a slight increase in rental housing since 1990 (see Table A below). Cook County’s share of the region’s rental housing decreased from 80.4% to 77.8% between 2000 and 2006. The combined increase in rental housing in the collar counties was not enough to compensate.

Table A. Change in the Housing Stock by Tenure (1990-2006)

<table>
<thead>
<tr>
<th></th>
<th>1990-2006</th>
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<tbody>
<tr>
<td></td>
<td>Cook</td>
</tr>
<tr>
<td>Total:</td>
<td>52,709</td>
</tr>
<tr>
<td>Owner occupied</td>
<td>149,075</td>
</tr>
<tr>
<td>Renter occupied</td>
<td>-96,366</td>
</tr>
</tbody>
</table>

Sources: 1990 Census, 2006 American Community Survey

Meanwhile, the number of households spending 30% or more of income on housing has increased since 2000, which can be attributed to declining household income and increasing housing costs over the same time period. Housing experts refer to these households as “housing cost burdened.” In partnership with the Metropolitan Mayors Caucus, Chicago Metropolis 2020 published an analysis of the supply and demand for housing at different price points in 2005. Results indicate that the number of families stressed by excessive housing costs is projected to grow from 730,000 to 870,000 across the region in 2030 based on current conditions and trends (Chicago Metropolis & Metropolitan Mayors Caucus, 2005).

Responding to the decrease in rental housing stock, initiatives to prevent further decline are underway across the nation. In 2007, the John D. and Catherine T. MacArthur Foundation increased a commitment to “preserve and improve at least 300,000 units of affordable rental housing across the country” by a factor of three to $150 million (MacArthur Foundation, 2007).

Acknowledging the urgent need to reverse a downward trend in affordable rental housing stock, the Urban Land Institute assembled the Preservation Compact of Cook County in 2005 with support from The MacArthur Foundation (Urban Land Institute 2007). Preservation Compact analysis concluded that the demand for affordable rental housing in Cook County alone will outpace supply in the year 2020 by almost 38,000 units (DePaul University, 2006).

We shall now address how housing preservation impacts northeastern Illinois and why housing preservation is a worthwhile strategy to implement.
Housing Cost

Housing units built before 1994 have distinct price advantages in terms of both building and transportation related costs. Therefore preserving this existing stock and maximizing its utility would reduce regional housing costs over time.

The percentage of households burdened by housing costs has increased, regardless of tenure since 2000 (see Tables 1 and 2 below). This is because increases in household incomes have not kept pace with increases in housing values since 1990 (see Table 3 below). The discrepancy was particularly dramatic between 2000 and 2005 (see Table 4 below). In order to understand the underlying causes of such trends, it is important to recall that during the early 2000s, the housing market produced primarily high-cost housing units: condominiums and large luxury homes. Real incomes decreased during the same timeframe. It is now commonly understood that subprime lending enabled traditionally non-credit worthy households to qualify for unaffordable mortgages.

Table 1. Percent of Housing-Cost Burdened Renters

<table>
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<tbody>
<tr>
<td>City of Chicago</td>
<td>City of Chicago</td>
</tr>
<tr>
<td>Cook (Outside Chicago)</td>
<td>Cook (Outside Chicago)</td>
</tr>
<tr>
<td>Cook (total)</td>
<td>Cook (total)</td>
</tr>
<tr>
<td>DuPage</td>
<td>DuPage</td>
</tr>
<tr>
<td>Kane</td>
<td>Kane</td>
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<tr>
<td>Kendall</td>
<td>Kendall</td>
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<tr>
<td>Lake</td>
<td>Lake</td>
</tr>
<tr>
<td>McHenry</td>
<td>McHenry</td>
</tr>
<tr>
<td>Will</td>
<td>Will</td>
</tr>
<tr>
<td>Regional</td>
<td>Regional</td>
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</tbody>
</table>
### Table 2. Percent of Housing-Cost Burdened Owners

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>City of Chicago</td>
<td>County</td>
</tr>
<tr>
<td>Cook (Inside Chicago)</td>
<td>DuPage</td>
</tr>
<tr>
<td>Cook (Outside Chicago)</td>
<td>Kane</td>
</tr>
<tr>
<td>DuPage</td>
<td>Kendall</td>
</tr>
<tr>
<td>Kane</td>
<td>Lake</td>
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<tr>
<td>Kendall</td>
<td>McHenry</td>
</tr>
<tr>
<td>Lake</td>
<td>Will</td>
</tr>
<tr>
<td>McHenry</td>
<td>Regional</td>
</tr>
</tbody>
</table>

### Table 3. Percent Change in Median Housing Value and Median Household Income (1990-2000)

<table>
<thead>
<tr>
<th>Median Housing Value (Decennial Census)</th>
<th>Median Household Income (Decennial Census)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook County</td>
<td>DuPage County</td>
</tr>
<tr>
<td>Kane County</td>
<td>Kendall County</td>
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<tr>
<td>Kendall County</td>
<td>Lake County</td>
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<tr>
<td>Lake County</td>
<td>McHenry County</td>
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<tr>
<td>McHenry County</td>
<td>Will County</td>
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<tr>
<td>Will County</td>
<td>Regional</td>
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</tbody>
</table>
While forthcoming data is likely to suggest that housing costs have decreased as a result of recent collapses in financial markets, it is less certain how producers will respond to this volatile context in terms of new construction. In the short term, housing starts have decreased across the region (Metro Study, 2008). With previous projections predicting unmet demand for low-income and smaller housing options in the long-term (DePaul University, 2006 and Chicago Metropolis & Metropolitan Mayors Caucus, 2005) it is possible that new construction will favor these housing types in the short-term. However, it is also possible that as production slows, there will be less of an incentive to build housing types with lower profit margins and higher perceived risks (i.e. subsidized housing).

The concept of affordable housing is often erroneously linked to government subsidized housing. In fact, a majority of the region’s affordable housing is rented or bought on the private market. However, the demand for low-priced units is higher than the current supply (Chicago Metropolis & Metropolitan Mayors Caucus, 2005). This is a trend that is likely to continue unless development patterns change or some sort of intervention takes place.

The Center for Neighborhood Technology has done extensive research showing that the real cost of housing includes the cost of a household’s daily commute to work (Center for Neighborhood Technology, 2006). Other research shows that public transportation is
available to residents in nearly 60 percent of neighborhoods with older housing. CMAP research shows this to be similar in northeastern Illinois (see Map 1 below). In contrast, three quarters of housing built after 1994 has no public transportation available nearby (Rypkema, 2002). When transportation costs are taken into account, it is likely that those who live in housing built before 1994 are paying less in housing costs than those living in newly built homes. Therefore, preservation strategies that maximize the utility of older housing would reduce housing costs.
Map 1:
Age of Housing and Proximity to Transit
Community Character

Strategies that preserve and maintain existing housing stock also help to preserve the unique heritage and identity of every community in the region. As discussed in the Teardowns strategy report, community character is an important issue to most stakeholders and housing experts around the region, but there is no real consensus on its definition. For the purposes of this report, we define community character as those attributes of a community that make it unique, both in terms of the built environment and its population.

As it pertains to the built environment, community character refers to architectural styles and types of residential structures that make a certain community unique. For example, Oak Park is known for homes designed by Frank Lloyd Wright. Parts of Chicago are known for small, bungalow style homes. The preferences of single family home buyers have turned from valuing large amounts of green space (yards) to valuing large structures that occupy as much lot space as municipal zoning codes allow. During the housing boom of the early 2000s, this resulted in the demolition of older, smaller homes. As discussed, production favored larger, luxury homes during that same time. Some have criticized these trends, saying that the result has been an explosion of new communities with increasingly uniform housing units.

In terms of population, communities provide a sense of place and identity to those who inhabit them. For example, Chicago’s Pilsen neighborhood has a remarkable history as a port of entry, first for Bohemian and then Mexican immigrants. Since the 1970s, development pressures have driven up housing values, threatening to cost its mostly low- to moderate income population out of the neighborhood. However community organizations in Pilsen have managed to maintain its Mexican American character through a combination of community organizing, planning, increased home ownership and strengthened cultural identity. Some experts interviewed for this report have commented that a lack of diverse housing types in one neighborhood can result in a lack of human diversity in terms of income, age, race and/or ethnicity.

Strategies that combine preservation or rehabilitation of unique or historic structures with incentives to maintain their affordability would allow communities to maintain their identities both in terms of the built environment and in terms of population. A Federal strategy along these lines, the Historic Rehabilitation Tax Credit (Ceraso, 1999), has been used along with Low Income Housing Tax Credits to produce such outcomes. Locally, the city of Chicago has used the historic Greystone and Bungalow initiatives to preserve unique characteristics and provide affordable housing. Strategies that preserve affordable rental housing assistance also help to maintain community character if they are used to prevent condominium conversions in multi-family buildings.
Sustainability
Preserving northeastern Illinois’ housing stock promotes a sustainable environment by protecting natural hydrological systems, reducing construction waste and maximizing the use of embodied energy.

Few would argue that either teardowns or greenfield development is an ecologically sustainable model for housing production. The Teardowns strategy report identifies three main impacts that Teardowns have on the natural environment – 1) problems with stormwater management, 2) an increase in landfill space, and 3) the loss of embodied energy. The replacement of smaller single-family units with larger ones results in an increase of impervious surfaces. These surfaces block the absorption of rainwater into the ground, causing runoff to flow into the region’s sewers, often resulting in combined sewer overflows. Construction and demolition also account for about 25% of all solid wastes discarded to landfills around the country each year (Institution Recycling Network, 2004).

Finally, with an increased national emphasis on environmentalism and a “greener” planet, the idea of “embodied energy” – “the sum of all the energy required to extract, process, deliver and install the materials needed to construct a building” – is moving towards the forefront of the preservation dialogue (Jackson, 2005). The concept of embodied energy challenges the argument that new construction is more energy-efficient, and therefore more environmentally friendly. When comparing the embodied energy present in a pre-existing building and the amount of energy expended to demolish that same pre-existing building with the energy consumption of constructing a new building, it becomes readily apparent that, in some cases, the most sustainable route may be to maintain the existing structure (Wilson and Petri, 2007). Preservation strategies, such as demolition permit fees and rehabilitation incentives, can mitigate demolition and construction waste and reduce market pressures to build on greenfield sites.

Regional Economy
Finally, preserving northeastern Illinois’ housing stock could give the region’s economy a boost concerning jobs created, wages earned, and tax revenue created. The National Association of Home Builders has calculated that the construction of 1,000 single-family homes generates 2,448 jobs in construction and construction-related industries, approximately $79.4 million in wages, and more than $42.5 million in federal, state and local tax revenues and fees (National Association of Home Builders, 2008). However, the same amount of money spent on housing rehabilitation – which would create two to three times more housing units – would generate 2,838 jobs and $88.7 million in wages (Rypkema, 2002). However, the private housing market responds to demand for specific types of units at certain price points not direct injection of funds. So, in a real-world
scenario, it is more likely that investment would be reduced by a factor of two or three to create the same number of units. In this scenario fewer jobs would be created. However, it is likely that strategies preferencing preservation over new housing construction could reduce aggregate spending on housing production across the region.

3. Barriers to a Regional Preservation Strategy

Regulatory Barriers
The State of Colorado defines regulatory barriers to affordable housing development as an action that “prohibits or discourages the construction of affordable housing without sound reason…or procedure that excessively increases the cost of new rehabilitated housing, either by improperly restricting the location of housing, or by imposing unjustified restrictions on housing development with little or no demonstrated compensating benefit” (2000).

In August 2002, Business and Professional People for the Public Interest (BPI) conducted a survey of developers and homebuilders in northeastern Illinois. Survey results are illustrative at best (Business and Professional People for the Public Interest, 2003); nonetheless, the results paint a distressing picture. The vast majority of those surveyed believe that there are local regulatory barriers that make the development of affordable housing difficult (BPI, 2003). They cite the length of the approval process, large minimum lot-size requirements, lower density requirements, and lack of land zoned for multi-family housing as the top four issues that prove to be significant barriers to developing affordable housing in northeastern Illinois (BPI, 2003). CMAP is currently studying the impacts of regulatory barriers and will release a strategy report on the subject in the near future.

Development Costs
Some developers interviewed in preparation for this research agreed that development costs associated with rehabilitation exceeded those associated with demolition and new construction for two reasons. First, there are too many unknowns inherent in any rehabilitation project. Structural conditions are difficult to determine before a project begins, which leads to uncertain development costs and profit margins. In contrast land condition is the only unknown in new construction. Second, for the same reason, rehabilitations are not subject to the same economies of scale that make new construction so profitable. These developers also pointed out that the cost of dealing with government entities, mostly in terms of time spent in the approval process, make subsidized rehabilitation and construction projects unattractive.
Land Costs
Developers and housing experts alike, when interviewed, pointed to the cost of land as an overwhelming barrier to preserving affordable housing units as well as housing stock overall. A municipal affordable housing planner pointed out that it is nearly impossible to sell or lease a unit for less than the value of the land upon which it sits regardless of the housing strategies used. In affluent municipalities, this makes affordable housing development much more challenging. It also can lead to a lack of income diversity.

In terms of overall housing stock preservation, there is less of a market incentive to rehabilitate housing structures worth less than the price of the land upon which they sit. Based on analysis conducted for CMAP’s Infill Snapshot Report, it was found that obstacles to infill development include difficulty consolidating parcels, general apprehension toward increased density, and often higher private development costs. All of these have an adverse effect on the amount of multi-family housing that is built throughout northeastern Illinois, regardless of price point. Some areas have outdated regulations that make it easier to develop greenfields than to build on infill sites. However, aforementioned private costs do not fully account for the public costs of connecting greenfield development to existing infrastructure or the social costs of increasing impervious surface area.

Energy Costs
It is a common perception that new housing units provide a higher degree of energy efficiency and therefore lower energy costs. This is a huge concern, especially for low-income households. In its allocation plan for LIHTCs, the State of Illinois looks favorably upon proposed affordable housing developments with energy cost-saving amenities (National Housing Trust, 2007). However, these can be expensive additions, the costs of which are usually passed on to the consumer.

4. Strategies and Tools
The following represent strategies in use by governments and organizations around the region to maximize the utility of the region’s existing housing stock. Many of the strategies outlined in the Teardowns report are not repeated here, but are also applicable to preservation.
Local and County Preservation Strategies and Tools

Preservation Compact
The Preservation Compact, an assembly of public, private, and nonprofit leaders committed to preserving affordable rental housing in the Chicago region, was formed in 2005. With the assistance of over 100 housing experts and regional community and civic leaders, a Rental Housing Action Plan was created. The goal of the plan is to preserve at least 75,000 affordable rental units in Cook County by the year 2020.

The Rental Housing Action Plan is built on the following six key initiatives:

■ The creation of a Preservation Fund that will increase the flow of capital to properties at risk of being lost from the affordable rental market.

■ The creation of an Interagency Council of governmental partners who are essential to preserving housing in northeastern Illinois. Creation of this Council would improve coordination and information flow toward the goal of preserving at-risk rental properties.

■ The creation of a Rental Housing Data Clearinghouse, as well as an early warning system for properties at risk of being lost from the affordable rental market, whether it be from expiring subsidies or other factors.

■ The creation of an Energy Savers Program geared towards decreasing energy-related operating costs for owners of affordable rental properties.

■ The creation of a Chicago-area Rental Housing Alliance that would help tenants seek new ownership in at-risk properties.

■ Advocacy for lowered property taxes on multi-family rental properties to bring them in line with those on single-family homes as well as reduce the burden on both owners and tenants (Urban Land Institute & MacArthur Foundation, 2007).

There have been many successes under the banner of the Preservation Compact since its creation. A $50 million Preservation Loan Fund is being created to provide gap, or “bridge”, financing to acquire and hold at-risk properties while long-term financing is assembled. The Center for Neighborhood Technology (CNT) has completed energy audits for over 1300 rental units. CNT has also provided recommendations for energy-saving improvements, investments, and techniques for these units. Cook County Assessor James Houlihan has proposed simplifying the county’s 6-tiered assessment levels to two tiers. This effectively eliminates the bias against multi-family housing and allows for the assessment of multi-family housing at the same levels as other forms of
residential housing. The Preservation Compact has been working diligently, but there is still much to be accomplished by 2020.

**Troubled Buildings Initiative**
The City of Chicago created the Troubled Buildings Initiative (TBI) in 2003 to prevent neglected and damaged properties from harboring crime activities and save affordable multi-family stock. TBI has effectively mobilized the resources and expertise of nine city departments and the Community Investment Corporation (CIC), a nonprofit housing organization. In a partnership between the City of Chicago and CIC, TBI works proactively through the Cook County Housing Court to pressure landlords to comply with a repair and maintenance orders. If the landlord fails to meet the court orders, the housing court appoints a receiver with specific responsibilities, for which CIC may play a facilitating role. CIC can also acquire the troubled properties and resell them to responsible owners, who are usually committed to keep the properties as affordable housing. TBI has successfully recovered 1,183 units as of April 2006; 1,107 units are under rehabilitation, and 686 units are under court-ordered receivership (Metropolitan Planning Council, 2006). The Troubled Buildings Initiative is a model strategy for many local governments that want to preserve affordable units (Urban Land Institute & MacArthur Foundation, 2007).

**Class S**
The Cook County Class S Program is a tax incentive program designed to preserve project-based Section 8 multi-family rental housing as decent, safe and affordable for low- and moderate-income households in Cook County. Eligible properties are those subject to a project-based Section 8 contract in an area where market-rate rents exceed otherwise allowed rents through the project-based Section 8 program. Qualified properties must renew their contracts through the Mark-Up-to-Market program (see “Federal Preservation Strategies and Tools” below). Section 8 apartments must be retained during the five-year term of the renewed contract. The number of Section 8 units must be at least 20 percent of the living units (Cook County Assessor’s Office). The assessment reduction is calculated according to the proportion of Section 8 apartments in the building’s residential uses (National Housing Trust, 2007). For example, a landlord owning a 20-unit apartment building with 5 section-8 units would only receive the reduced assessment level of 16% on ¼ of the entire building.

**Class 9**
Class 9, a property tax classification in Cook County, has provided a sizable reduction in property taxes to multi-family buildings with seven or more rental dwelling units since 1998. Property owners must apply for Class 9 before beginning major rehabilitation projects. From the date of completion of major rehabilitation and upon application and approval of the Assessor, property owners receive a reduced assessment level (16 percent) for both land and building for ten years. To be eligible, property owners are required to keep at least 35 percent of the units affordable to low- and moderate-income
households for the duration of the incentive. Class 9 may be renewed for additional ten-year period. Expanding Class 9 to include a broader range of rental housing would result in the preservation of more affordable units. Members of the Preservation Compact (see below) are seeking an expansion of Class 9, which will allow buildings in good condition that are wholly or primarily dedicated to affordable housing to qualify for an assessment level reduction without the “substantial rehab” requirement (Urban Land Institute & MacArthur Foundation, 2007).

**Historic Chicago Bungalow Initiative**

The Historic Chicago Bungalow Initiative was launched in 2000. This program was created to meet the goals of preserving aging housing stock, preserving the architectural integrity of these historic homes, and generating excitement about improving neighborhoods. Traditional bungalows were built between 1910 and 1940. These one-and-a-half story brick homes consist of almost one-third of the city’s single-family homes. The initiative encourages bungalow rehabilitation, through the not-for-profit Historic Chicago Bungalow Association (HCBA), by offering various financial resources, from grants to loans, and technical resources, including how-to seminars, resource guides, and pattern drawings, to assisting bungalow owners with home repairs. Matching grants are available to individual bungalows certified by HCBA for the purposes of restoring or replacing windows and doors, upgrading or adding energy systems, creating affordable housing for residents who have restricted incomes, and purchasing an energy-efficient appliance with a voucher if an HCBA-certified rehabilitation project costs at least $5,000. For bungalow homeowners who are on restricted incomes, the grant size is $3,000 for homeowners with incomes between 50 percent to 80 percent of the Area Median Income (AMI)\(^1\) (Illinois Housing Development Authority 2007) and $5,000 for homeowners with incomes less than 50 percent AMI. In order to qualify for home improvement grants, improvements must be consistent with bungalow design guidelines. The bungalow program is flexible in that it allows homeowners to mix and match incentives, which has helped many on fixed incomes make necessary repairs to their homes (Chicago Bungalow Association, 2008; Metropolitan Planning Council, 2007)

**Historic Chicago Greystone Initiative**

The Historic Chicago Greystone Initiative is led by Neighborhood Housing Services (NHS) of Chicago – North Lawndale in partnership with the City of Chicago, the City Design Center of the University of Illinois at Chicago, the Civic Committee, neighborhood residents, foundations and various other stakeholders. The initiative seeks to preserve affordable housing for the neighborhood’s current residents while also creating incentives for new residents to invest in the neighborhood’s historic housing stock.

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\(^1\) As determined by the U.S. Department of Housing and Urban Development (HUD), 50 to 80 percent of the AMI for northeastern Illinois equals $37,700 to $59,600 for a family of four in 2007.
The neighborhood of North Lawndale on Chicago’s West Side is home to nearly 2,000 greystones, more than any other Chicago community. The neighborhood has a rich cultural and economic past but has been negatively affected by disinvestment and urban flight for the last 40 years. This initiative is meant to build community pride, stimulate reinvestment, increase homeownership, and promote improvements in existing properties throughout North Lawndale. With the committed support of $1 million in tax-increment financing (TIF) funding through the TIF Neighborhood Improvement Program for homeowners participating in the Greystone Initiative, NHS is seeking to preserve existing housing stock as well as a part of history for homeowners and new residents (Neighborhood Housing Services of Chicago, 2008).

**Tax Increment Finance-Neighborhood Improvement Program**

Administered by Chicago DOH, the Tax Increment Finance-Neighborhood Improvement Program (TIF-NIP) is a program that provides home repair grants. There have been TIF-NIP projects in thirteen districts of the City’s TIF Districts: Bronzeville, Woodlawn, South Chicago, Lawrence/Kedzie (Albany Park), Midwest (Lawndale and Garfield Park), Chicago/ Central Park (Humboldt Park) and Englewood, Division/Homan, 119th /I-57, 119th/Halsted, Roosevelt/Homan, Devon/Sheridan and Harrison/Central. The TIF-NIP program currently provides home repair grants for both single and multi-family residences within two TIF districts with least one more to be rolled out in the near future (City of Chicago 2008). Grants are primarily for exterior repairs; however, up to 30% of the grant may be used for interior repairs that are health and safety related. Grant amounts are based on the number of units per residence. Single-family homeowners with household incomes at or below 100% of the area median income (AMI) are eligible for grants. Those with incomes between 101-120% of AMI may qualify, but must match, dollar for dollar, the grant amount. To be eligible for TIF-NIP grants, multi-family building owners must structure their rents so they are affordable to households at or below 80% of AMI.

**Demolition Tax**

Highland Park, Evanston and Lake Forest have all passed ordinances that require developers to pay large fees in exchange for demolition permits. The strategy is used as a means to simultaneously preserve community character and generate revenue for affordable housing production. In all three municipalities’ ordinances, some or all of the revenues generated from these fees are used to finance local affordable housing initiatives. Highland Park and Lake Forest use revenues from their own demolition taxes to help to finance municipal affordable housing trust funds (Metropolitan Planning Council 2006).

**Other Specific Local Programs**

The City of Elgin has established two home rehabilitation grant programs to assist current residents - both owners and renters - to rehabilitate their properties in the city’s
historic districts. Elgin’s “50/50” and “75/25” programs allow for a reimbursement of a percentage (50% or 75%, depending on which grant program) of funds spent on rehabilitation to the applicant, up to a certain dollar amount. In particular, Elgin’s 75/25 program specifically targets low- and moderate-income households. The goal of these grant programs is to encourage residents to restore and maintain the original features of their homes, which ultimately preserve the character of these historic neighborhoods, while assisting families who otherwise could not otherwise afford to make these improvements (Metropolitan Planning Council, 2007).

The City of Evanston’s multi-family rehabilitation loan program was established to encourage the revitalization, preservation and stabilization of Evanston’s neighborhoods, as well as to conserve and rehabilitate housing for low-income households. Landlords with two or more apartments and 51 percent of tenants earning at or below 80 percent of area median income (AMI)² are eligible to apply for multi-family rehab loans. For these loans, the interest rate is one-half of the 30-year Treasury Bond, adjusted monthly, and amortized over 20 years. The loan distribution is capped at $20,000 per rehabbed unit. The City of Evanston also provides revolving rehabilitation loans at zero percent interest for owner-occupied buildings, including single-family homes and condominiums. These loans are available to households earning at or below 80 percent of the AMI, and are provided through several specific programs (Metropolitan Planning Council 2007), including an Abandoned/Board-Up Building Loan Program, an Emergency Rehabilitation Assistance Program, and a Self-Help Exterior Paint Program (City of Evanston, 2008).

The Village of Oak Park has a single-family rehabilitation grant/loan program that makes it possible for qualified low-income residents to maintain their homes at safe and desirable standards while preserving the village’s existing housing stock. This program disbursed over $2 million between 1997 and 2004, with an average allocation of $24,380 per year and includes several initiatives. As with Evanston’s loan programs, eligibility for Oak Park’s programs is determined by HUD. Under the village’s Diversity Assurance Program, owners of multi-family properties (four or more units) can receive matching grants of up to $2,000 per unit ($1 of village money for every $2 contributed by the property owner) for the purposes of rehabilitating properties, as well as below market interest loans of up to $50,000 to finance major property rehabilitation. Building owners, as a stipulation to receiving these funds, must sign a Marketing Services Agreement to list vacancies through the Oak Park Regional Housing Center, which promotes racial diversity within the village’s rental housing stock. If a building involved in the grant program is sold within five years after the grant is made, the entire grant must be repaid to the village, plus interest (Metropolitan Planning Council, 2006).

² As determined by the U.S. Department of Housing and Urban Development (HUD), 80 percent of the AMI for northeastern Illinois equals $59,600 for a family of four in 2007.
State Preservation Strategies and Tools

Housing Trust Funds
The Illinois Affordable Housing Trust Fund, administered by the Illinois Housing Development Agency (IHDA), will assist private developers and local governments in the acquisition and rehabilitation of existing housing. The primary use of funds is rehabilitation for single-family or multi-family housing. Funding comes from a real estate transfer fee and is generally in excess of $50 million each year. Rehabilitation properties can receive no more than $1 million each. Applications are accepted year round and are meant as last resort funding. Most transactions are low interest loans although grants are available to non-profits with extraordinary projects that would not be capable of repaying a loan. Projects which use multiple funding sources are given a priority and historically awards are leveraged at a ratio of over 4 to 1 (National Housing Trust, 2007).

Some municipalities have successfully developed their own trust funds. One example of how local Housing Trust Funds work can be found in Highland Park. Highland Park’s housing commission has overseen the Housing Trust Fund since its inception in 2002. The Trust Fund received $1 million in seed money from the housing commission and is expected to get $1-2 million annually in revenues derived from residential demolition permit fees. The Trust Fund provides funding for a variety of affordable housing activities including preservation and rehabilitation of existing housing. The Trust Fund provides a preference to multi-family rehabilitation and preservation projects (National Housing Trust, 2007). Additionally, the Trust Fund provides operational support for the Highland Park Illinois Community Land Trust, one of the first of its kind in northeastern Illinois.

Green Preservation
Grants can be given for affordable housing proposals that incorporate energy efficient technologies and building techniques. Illinois Clean Energy Community Foundation grants, special assessment for property tax purposes, rebates for renewable energy systems, and a green tag purchasing program are available. Housing is an eligible activity under the Illinois Department of Commerce and Economic Opportunity (DCEO)’s Energy Efficiency Grant Program (National Housing Trust, 2007). These grants, though used for new construction, can also be used for rehabilitation projects.

Other IHDA Resources
IHDA has a Multi-family Department that works with existing owners to help meet the rehabilitation needs of older developments and to encourage owners to keep their developments affordable. The department helps IHDA-financed properties to refinance to help rehab and preserve the property and acts as a Participant Administrative Entity in HUD’s Mark-to-Market process (HUD, 2003).
The Illinois Affordable Housing Tax Credit (IAHTC) allows individuals or organizations to donate cash, securities, personal property or real estate to participating non-profit housing developers in exchange for a 50 cent credit toward their state income tax for every $1 donated for approved affordable housing creation. Aggregated amount of donation must be at least $10,000. Technical assistance and general support have a $1 million earmark with another $2 million for Employer Assisted Housing. Funds must be used for properties that meet the definition of affordable housing. IHDA is the IAHTC administrator for the state and gives preference to properties that "emphasize preservation, serve lower-income people, are ready to proceed financially and serve special needs populations (Illinois Housing Development Authority, 2008).

**Federal Preservation Strategies and Tools**

**Historic Preservation Tax Incentives**
Since 1976, the National Park Service has administered the program in partnership with the Internal Revenue Service and with State Historic Preservation Officers (SHPOs). The tax incentives have spurred the rehabilitation of historic structures of every period, size, style and type. These tax incentives have also helped to create moderate and low-income housing in historic buildings. Through this program, abandoned or under-used schools, warehouses, factories, churches, retail stores, apartments, hotels, houses, and offices throughout the country have been restored to life in a manner that maintains their historic character (National Park Service, 2008).

Current tax incentives for preservation include a 20% tax credit for the certified rehabilitation of certified historic structures, and a 10% tax credit for the rehabilitation of non-historic, non-residential buildings built before 1936. For both credits, the rehabilitation must be substantial, meaning that during a 24-month taxpayer-selected period, rehabilitation expenditures must be more than $5,000 or the adjusted basis of the building and its structural components. The adjusted basis is generally the purchase price, minus the cost of land, plus improvements already made, minus depreciation already taken. The rehabilitation must involve a depreciable building, which means that it must be used in a trade or business or held for the production of income, or in this case, for rental housing. It may not serve exclusively as the owner's private residence (National Park Service, 2008).

**Mark-Up-to-Market**
When a Section 8 contract expires, certain properties can be renewed under Mark-Up-To-Market. This option raises assisted rents up to the comparable market level (capped at 150% of fair market rent for a specific region) and provides for at least a five-year term and annual rent increase based on the Operating Cost Adjustment Factor. HUD will
allow owners with 100% Section 8 projects to take increased distributions and keep all available surplus cash. This option offers owners a financial incentive to renew Section 8 contracts and to continue to provide affordable housing in strong markets.

HUD can also use its discretionary authority to mark Section 8 rents up to market levels for projects that meet any one of the following characteristics: 1) the project is located in a low-vacancy area, 2) the project serves vulnerable populations, such as the elderly, disabled or large families, OR 3) the project is a high priority for the local community, demonstrated by a contribution of state or local funds to the property. Under this authority, HUD may also mark rents up to market to facilitate a change from a for-profit or limited distribution owner to a non-profit owner. Contracts are renewed for a minimum of five-year terms and can be extended for as long as twenty years (Urban Land Institute & MacArthur Foundation, 2008d).

Mark-to-Market (M2M) and New Green Initiative

The Office of Affordable Housing Preservation (OAHP) within HUD administers the Mark-To-Market program, which offers incentives to property owners with project-based Section 8 units, an FHA-insured mortgage, and contract rents that are above the market. M2M brings the Section 8 contract to market rents, provides for debt restructuring of the FHA-insured mortgage to a level that can be serviced by market rents, and addresses the immediate and long-term physical needs of the property.

The owner can qualify for an incentive package, including closing and rehabilitation costs repaid with interest (Capital Recovery Payment), payment to owners equal to 3% of effective gross income (Incentive Performance Fee) and a Cash Flow Split (up to 25% of cash flow). Non-profit purchasers of M2M projects can potentially get secondary notes assigned to their organization. Finally, OAHP encourages sustainable green building principles by reducing the owner’s contribution to rehabilitation costs and increasing the Incentive Performance Fee (Urban Land Institute & MacArthur Foundation, 2008d).

All benefits are available to owners who renew the Section 8 contract for a 20-year term and agree to a new 30-year Use Agreement for the property (Urban Land Institute & MacArthur Foundation, 2008d).

State and Local Preservation Strategies and Tools

The City of Chicago and the State of Illinois have increased their efforts to expand the region’s financial capacity to preserve housing units in northeastern Illinois³. The

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³ In 2007, the Chicago Department of Housing (DOH) spent about $16.4 million (about 2.5% of all development spending) to “improve and preserve” housing units (Chicago Rehab Network, Chicago Metropolitan Agency for Planning Housing Preservation Strategy Paper November 2008)
Chicago Department of Housing (DOH) and the Illinois Housing Development Authority (IHDA) both are part of the Preservation Compact’s Interagency Council. In 2007, the City of Chicago, through DOH, committed over $211 million toward the preservation of over 2,000 rental units (Chicago Department of Housing 2008). Chicago has also committed over $12 million over a three-year period to the efforts of the Preservation Compact [see above] (Chicago Department of Housing 2008).

In 2007, the State of Illinois, through IHDA, committed various funding sources toward housing preservation, including $31 million in tax-exempt bonds and $7.5 million in Illinois Affordable Housing Trust Fund dollars for over 4,200 single-family and multi-family units (Illinois Housing Development Authority, 2008). Although these figures represent statewide preservation, it nonetheless reflects IHDA’s commitment to achieving the goal of preserving housing for seniors as well as low-income and working-class families. But both DOH and IHDA understand that even more must be done towards achieving this goal. One recommendation, for instance, has been that the State of Illinois should create a secondary market for second mortgage loans for the rehabilitation of housing units, which would allow rehab organizations with second mortgage loans to increase their own capacities to finance rehabilitation projects (Chicago Metropolis, 2002).

Non-Profit Strategies and Tools

Neighborhood Housing Services of Chicago (NHS) is a nonprofit organization established in 1975 to offer Chicago residents affordable resources for buying, maintaining and keeping their homes. Through Neighborhood Lending Services, Inc., NHS provides loans for rehabilitation and/or refinance to low- and moderate income families. They do this by developing and originating loan products that fill gaps in the conventional lending arena, and providing conventional lenders with “shared-risk” opportunities and participations to promote reinvestment in Chicago’s neighborhoods. Meanwhile, NHS Redevelopment Corporation buys vacant properties, rehabilitates them and sells them to low- and moderate income families using various public programs to maintain affordability.

While NHS operates predominantly in the City of Chicago, it has expanded its influence to include the City of Elgin, Kane County, and the Fox Valley. At this time, loan programs, homeownership classes and counseling, and the Tool-and-Paint Program are all available to residents of the City of Elgin. All Fox Valley residents can take advantage of homeownership classes, while Kane County residents also have access to homeownership counseling services (Neighborhood Housing Services of Chicago, 2008).
Rehabilitation Finance

Rehabilitation of residential properties preserves older housing stock for future generations. Rehabilitation finance strategies preserve northeastern Illinois’ existing housing stock while filling gaps in supply for affordable housing and mitigating the environmental impacts associated with teardowns.

Rehabilitation financing strategies can be very effective because they often meet the dual objectives of stabilizing both existing housing units, as well as the neighborhoods in which they are located. These strategies also provide safe, quality housing for low- to moderate-income or workforce households (HUD, 2003).

Targeting Preservation Strategies

CMAP analysis conducted for the Infill Snapshot Report revealed residential parcels that could benefit from preservation strategies across the region (see Map 2 below). To identify parcels in need of preservation, CMAP used a method that has been implemented in various cities across the nation: the “Improvement-to-Land Value Ratio.” This I/L ratio identified parcels where the assessed land value is higher than the assessed value of the improvements, or built structures, on it. If the assessed land value of a certain parcel far exceeds its improvement value, it may be an indication that the parcel has the potential for teardown.
Map 2:
Residential Infill Parcels with Teardown Potential

Source: County Tax Assessor Data 2007
5. Case Studies

The following case studies dramatize how important it is to preserve housing in northeastern Illinois and how transformative the act of preserving housing can be.

**Lorington Apartments, Chicago**

The Lorington Apartments are situated across the street from Palmer Square at the northeast corner of Kedzie Avenue and Palmer Boulevard in Chicago’s Logan Square neighborhood. Since 1985, residents of the 54-unit property have benefited from the federal project-based Section 8 program. This program limited each resident’s rent payments to the HUD-accepted affordability level of 30 percent of each person’s household income.

But as the section 8 contract was set to expire, the owner decided to sell the property. Logan Square saw a dramatic increase in condominium conversion and construction, and soon the neighborhood became one of Chicago’s “hot” housing markets. Lorington tenants feared that the building could be converted to market rate condominiums, bringing an end to the property’s affordability.

However, the Logan Square Neighborhood Association (LSNA) intervened on behalf of the tenants. LSNA assisted the residents in forming a tenants association and also helped to bring public, private, and non-profit partners to the table to find a new buyer for the property. It took two-and-a-half years of organizing until the campaign found a suitable buyer. The Community Builders, Inc. (TCB), a national non-profit developer and manager, agreed to purchase the building, rehabilitate the units, and renew the section 8 contract through the year 2027, thereby preserving housing for residents at the HUD-accepted affordability level. Energy-efficient appliances and double-pane windows were installed, and all major building systems were revamped to promote energy efficiency, designed to give low-income residents a break on their utility bills.

Besides LSNA, the Lorington Tenants Association, and TCB, other partners in this housing preservation project include the City of Chicago, Illinois Housing Development Authority (IHDA), and the Chicago Community Loan Fund.

Chicago Mayor Richard M. Daley declared the Lorington Apartments to be the model for housing preservation in the City of Chicago. The Lorington also serves as the marquee property for the Preservation Compact (see “Strategies and Tools” above).

Sources: Logan Square Neighborhood Association, 2008; Center for Housing Policy, 2008; The Community Builders, 2008; Urban Land Institute & MacArthur Foundation, 2008.
Walden Oaks Community, Woodstock

Located in central McHenry County, Woodstock is home to Walden Oaks, a community of 192 rental units distributed throughout five buildings across 13.5 acres of land.

Generally, as housing prices increase, property values increase as well. Many new homes, priced at $300,000 and $400,000, have been built in and near Woodstock over the last few years, increasing property values in the area. As such, news that the owner of Walden Oaks had plans to sell the property caused fear that the property would be turned completely into market-rate housing and lose its affordability due to market pressures.

Hispanic Housing Development Corporation (HHDC), a well-respected non-profit housing developer in northeastern Illinois but based primarily in Chicago, purchased the property and turned it into a mixed-income project. With assistance from IHDA, Federal Home Loan Bank, Local Initiatives Support Coalition (LISC), the Enterprise Community Loan Fund, the Housing Partnership Fund and First Chicago Bancorp (formerly Labe Bank), HHDC developed the property and reserved 125 units for seniors and 25 units for low-income families. These 150 units receive assistance via the Housing Choice Voucher program. These residents pay a third of their income for rent; government subsidies cover the difference between the voucher and the market-rate rent. The remaining 42 are market-rate rental units. Housing was preserved, and affordability will be maintained through at least the year 2055.


51st and King Drive Apartments, Chicago

Across the street from Washington Park, at the northeast corner of the intersection of 51st Street and Martin Luther King Drive, in Chicago’s Bronzeville neighborhood, 96 units distributed throughout 12 contiguous buildings were in danger of losing their affordability, possibly subjecting many of its low-income tenants to an uncertain future. The properties’ owner had been utilizing HUD’s section 236 mortgage subsidy program to keep the buildings affordable. However, the owner had wished to retire and sell the property. The owners had become eligible to prepay the mortgage; doing this would have ended HUD’s low-income use restrictions. There was fear that tenants would be forced out of the buildings to make way for conversion of the rental units to market-rate condominiums. As the buildings were built over a century ago, the buildings needed much rehabilitation as well.
Through the work of the National Housing Trust/Enterprise Preservation Corporation, the buildings were saved from condominium conversion and were preserved for low-income residents. Tenants were able to stay in their units. Windows were replaced, electrical systems were improved, and kitchens and bathrooms were renovated. Not only was the housing preserved, but now the property also has a Neighborhood Networks Learning Center that provides computer training, GED instruction, and information on practical life skills in a community where all are greatly needed.

Along with the National Housing Trust, partners included the Chicago Community Development Corporation, IHDA, HUD’s Federal Housing Administration (FHA), and FHLB.

Source: National Housing Trust, 2006
Conclusion

The seven counties and 283 municipalities of Northeastern Illinois are all experiencing the impacts of 3 recent phenomena: decreasing real incomes, increasing housing costs and subprime lending. All of these phenomena have left the region a surplus of newly built, high-cost, ownership housing stock.

This report has shown how housing preservation strategies can reduce housing costs and maintain the uniqueness of our communities. Strategies that maximize the utility of the region’s existing housing stock can also have positive environmental benefits, including reducing stormwater runoff, mitigating demolition waste and preserving embodied energy. Finally, investments in preservation have greater returns for the region’s economy than demolition and new construction in terms of units and jobs created.

In a region of seven counties and 283 municipalities, it is likely that a combination of the strategies described in this report will need to be implemented in order to realize maximum benefits. A one-size-fits-all approach is unlikely to be plausible or effective, considering the diversity of these jurisdictions in terms of housing stock, reliance on different revenue streams and constituent preferences. However, CMAP believes this report will provide necessary space for inter-jurisdictional dialogue to advance the preservation of our region’s housing stock for future generations.
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