

CHAPTER 4

Preservation of Existing Housing

Preservation initiatives are being undertaken by private developers, nonprofit organizations, municipalities, and state agencies throughout the Chicago metropolitan area.

While suburban communities may have newer or have fewer apartments than Chicago, problem buildings can threaten neighborhood stability and image in any location. As such, municipalities need to contact landlords when problems first arise to make them aware of the resources available to improve existing properties. (Chapter 5, on Best Practices in Management, describes ways municipalities can work with property owners to keep their buildings safe and well managed.)

Photo: Hispanic Housing Development Corporation



WHAT TO GAIN FROM THIS CHAPTER

- 1. Understand how to improve existing properties, and why preservation is often the right choice for communities facing losses of for-sale and rental opportunities, particularly those that are affordable.**
- 2. Learn the basics of several preservation tools, and how Chicago-area communities are using them.**
- 3. Learn how to minimize resident displacement.**

Some developers, such as the Hispanic Housing Development Corporation, specialize in the preservation of existing affordable homes.

The Case for Preservation

A diverse housing stock includes for-sale homes at a range of prices, as well as rental opportunities for individuals and families not in a position to buy homes. Some communities decide to preserve single-family or other for-sale homes – perhaps because they are historically significant, ‘fit’ with the surrounding community, or are affordable in an increasingly unaffordable market. Other communities face the reality of a dwindling supply of rental homes, both affordable and at the higher end of the market. While residents sometime voice concerns about apartments housing a more transient population, providing rental housing creates a stepping stone to homeownership and is a convenient housing option for many valued members of the community not ready or interested in purchasing. Children coming home from college, seniors looking to downsize and age in place, and families saving to purchase all benefit from an adequate and well-maintained supply of rental housing. More often than not, the existing stock of rental homes is in small and older apartment buildings that are privately owned and unsubsidized. While housing markets fluctuate, some of these buildings, for a variety of reasons, are now threatened with condominium conversion or outright demolition.

The case for preservation can be made on multiple grounds:

- Preservation of existing buildings, even after rehabilitation or modernization costs, can be less expensive than new construction. According to 2005 IHDA statistics, the average newly constructed multifamily, affordable rental apartment costs \$218,000 to build, compared to an average of \$73,000 to preserve a unit. Besides the lower construction costs, preservation is far less expensive in terms of public infrastructure. Preservation is a more cost-effective means of maintaining and expanding affordable housing options.
- Preservation of currently occupied homes reduces the potential trauma and inconvenience of relocating residents.

- If apartment buildings are plagued by poor management, upkeep and improvement can eliminate problems with property conditions and install more experienced owners and managers.
- Preservation of existing buildings can preserve community character.

Preservation is particularly important given losses in rental options over the past several decades. The number of rental homes in the Chicago metropolitan area has declined in the past 10 years, and the number that are considered affordable to low and moderate-income households continues to decline even more quickly.

According to research conducted by the Real Estate Center at DePaul University for the Preservation Compact (see page 61), and based on U.S. government data, between 2005 and 2020, Cook County alone is projected to lose 38,000 affordable apartments. For each new affordable apartment that is built, two existing ones are likely to be lost if no action is taken. During the same 15-year period, demand for affordable apartments in Cook County is projected to increase by 34,000, creating a potentially severe undersupply.

In the Chicago region, the existing affordable housing stock in both cities and suburbs is threatened for a number of reasons:

- Demand in strong markets is driving up rents and leading to condominium conversions.
- Insufficient attention to property maintenance and management in weak markets results in deteriorating buildings and neighborhoods.
- Many apartment owners who built or purchased affordable properties in the 1970s are facing retirement and wish to sell off their investments.
- Affordability requirements are expiring for properties with 15 to 20-year government subsidies and affordability restrictions.

Given limited public resources and the growing number of households in need of affordably priced homes, preservation and rehabilitation must be a priority. Without action, neglect of the existing affordable stock can lead to dangerous living conditions for renters. Abandonment of deteriorated but salvageable apartment buildings and older single-family homes threatens not just a building or block, but an entire neighborhood or community. Preserving affordability and upgrading property conditions helps to maintain a mix of housing options in strong neighborhoods and improves the character of struggling ones.



Originally built for employees of the Pullman Palace Car Company, these preserved homes on Chicago's south side continue to be moderately priced.

IMPORTANT TIP

Financing is Central to Successful Preservation

Typically, several layers of financing are required to make preservation projects economically viable. Property owners who need to restructure existing government financing should seek the services of consultants, development partners, or attorneys experienced in navigating the myriad tax and legal issues encountered in these transactions. More complex preservation efforts may include all or some of the following financing:

- *Low-Income Housing Tax Credits through IHDA or the City of Chicago (specifically 4% LIHTC, when investors can claim 4% of eligible project costs on federal tax returns)*
- *Tax-exempt bonds*
- *Illinois Affordable Housing Tax Credit*
- *Housing trust funds through IHDA*
- *First and second mortgages from private lenders or foundations*
- *Municipal and county loans or grants from tax-exempt bonds, general funds, affordable housing funds, TIF, and Community Development Block Grant (CDBG) and HOME funds*
- *Reduced property taxes through the county or local township*
- *Federal Home Loan Bank Affordable Housing Program funds*
- *Foundation grants*

Rental loss and preservation: Not just an urban concern

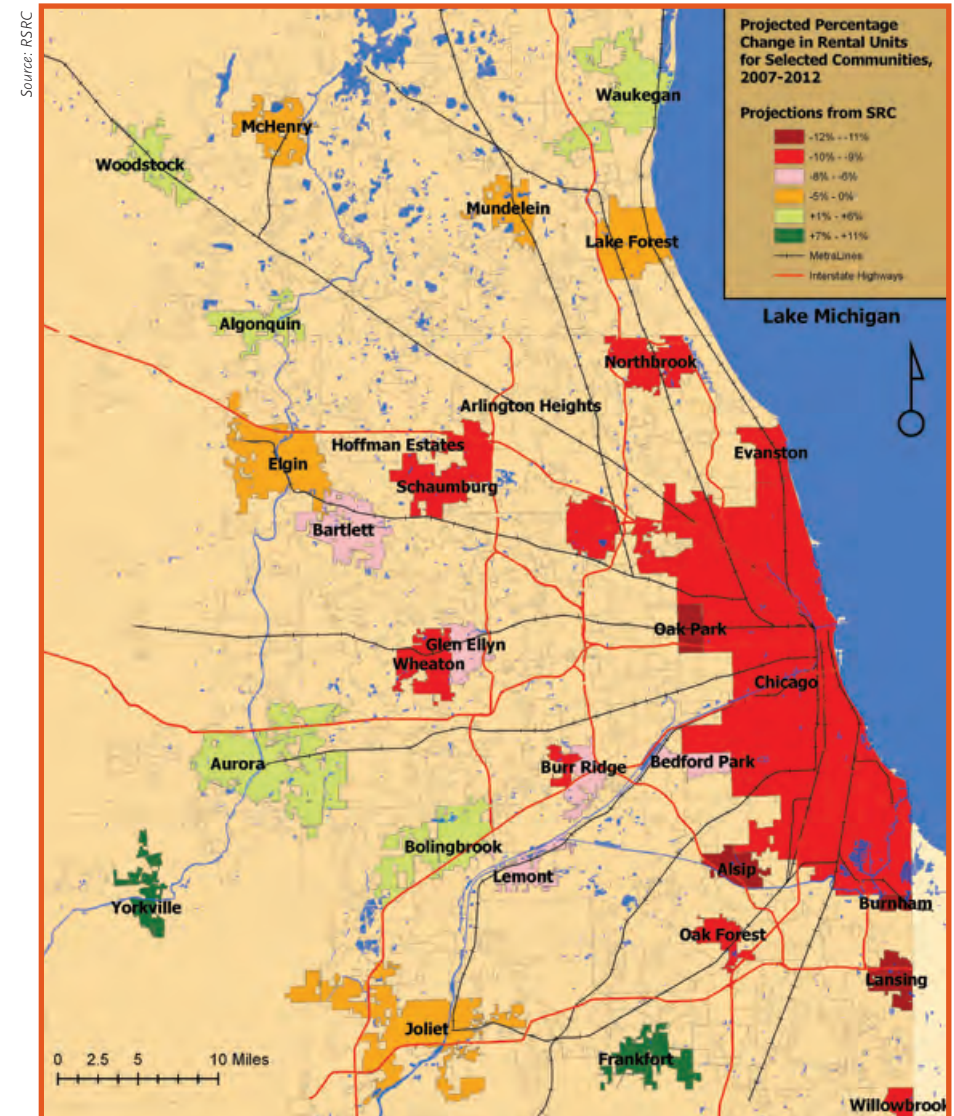
As federal subsidies dry up, communities of all kinds are facing declining stocks of homes affordable to working families. Many rental and multifamily properties in suburban and urban communities are also facing an uncertain future.

Many affordable rentals were built using a number of federal and state programs targeted to the construction and rehabilitation of affordable housing. Affordable rental apartments built from the 1960s through the 1990s using federal programs such as HUD's Section 8, Section 202 (for elderly), Section 221(d)(3), Section 236, and Low-Income Housing Tax Credit (LIHTC) program are reaching (or already have reached) the end of their required periods of affordability. Properties built during the LIHTC program's initial years are approaching the date at which they can opt out. Refinancing options and an infusion of new subsidy funds are needed to preserve the below-market rents in these buildings.

To prevent further reduction in the number of affordable apartments, HUD now offers additional mortgage insurance, project-based operating subsidies, and debt restructuring on many existing properties. Long-time owners can use these tools to partner with nonprofit groups, tenants, and state and local governments to retain affordable apartments, and still sell the property and earn a fair return.

As these older mortgages are being paid off, apartments in more desirable locations are losing their subsidies and being converted to market-rate rentals or condominiums. Unless new owners are found who are willing to preserve the properties as affordable and make needed improvements, many renters will be displaced. This is not just an urban problem; suburban properties also are at risk.

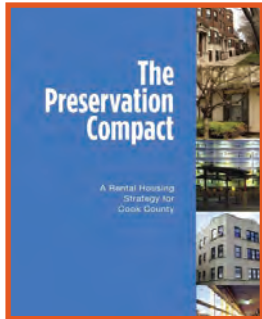
Projected Percentage Change in Number of rental Units, 2007-2012



CASE STUDY

The Preservation Compact

Recognizing the adverse effect of losing existing low-rent housing stock, in 2007, a consortium of organizations, led by the Urban Land Institute and funded by the John D. and Catherine T. MacArthur Foundation, created the Preservation Compact. Other participants include the City of Chicago, state and federal agencies, and nonprofit organizations committed to preserving affordable housing options.



The Preservation Compact has several keystone initiatives that together aim to preserve 75,000 affordable rental homes in Cook County by 2020:

Preservation Fund: This family of financial tools will help owners rehabilitate rental properties, and buyers acquire and improve at-risk, affordable rental properties. The Compact is developing a fund to provide financing for building acquisition.

Interagency Coordinating Council: This council works with government housing entities, including HUD, IHDA, Cook County, and the City of Chicago, to coordinate resources, programs and policies related to preserving affordable rental properties. Municipalities interested in preserving local properties also can benefit from this collaboration.

Energy Savers Program: This program provides technical assistance to property owners for energy assessments of buildings. Based on the assessment, the Compact offers flexible financing packages for energy-efficient systems and upgrades.

Rental Housing Data Clearinghouse: By collecting data on both government-assisted and unassisted rental housing, the data clearinghouse provides timely information about rental properties at risk of leaving the affordable market, as well as changes in rental markets.

Lower Property Taxes: The Compact works with the Cook County Assessor to reduce property tax assessments on multifamily buildings in order to relieve some financial burden on owners and tenants.

Rental Housing Alliance: This program helps tenants identify new ownership for buildings at risk of losing federal subsidies.

Municipal leaders, rental owners, developers, community groups, and tenants are encouraged to contact the Preservation Compact partner organizations (listed in the Appendix) for help putting the Compact's tools to use in their communities.

For more information, go to www.chicago.uli.org.

Photo: Preservation Compact



One of the keystone initiatives of the Preservation Compact is the Energy Savers Program, which facilitates energy-efficiency upgrades.

Municipal Roles in Preservation

Municipalities can play an active and supportive role by identifying buildings in need of preservation and accessing the resources needed to acquire and rehabilitate them. By becoming involved early, local communities can help to ensure properties are upgraded and continue to serve families in need of workforce housing. This may include:

- Identifying troubled buildings through code enforcement efforts or other contact with owners and tenants.
- Building relationships between existing property owners and developers with experience in housing preservation, and by accessing the financial resources used to rehabilitate properties and keep them affordable.
- Providing financial support through bonds, local housing trust funds, tax increment financing, and other locally provided funding sources (see Chapter 3).
- Partnering with local nonprofit housing counseling and service providers that can provide resident support services, relocation assistance, connections to financial resources, and if applicable, homeownership counseling.
- Writing letters of support for preservation deals to public financiers such as IHDA.
- Advocating to the county or township for lowered property tax assessments for affordable properties. (Note: Cook County already offers a lower assessment of affordable homes.)
- Working with local financial institutions to provide competitive financing for preservation efforts, including multifamily and single-family home rehabilitation.

Many Chicago-area communities already have taken steps to preserve affordable housing options, both rental and for-sale, in single-family and multifamily properties. The following examples illustrate the range of initiatives communities have taken. One or more may be right for your community.

Photo: Scott Goldstein



South suburban Riverdale took a leading role in the preservation and rehabilitation of Pacesetter, a troubled multifamily neighborhood. Riverdale brought together multiple partners in order to reverse the development's decline.

Preservation using Low-Income Housing Tax Credits or Tax-Exempt Bonds

LIHTCs are commonly used for acquisition and rehabilitation of existing apartment buildings. Even buildings only 20 years old can suffer from deferred maintenance, code violations, poor management, and lax tenant screening, which lead to multiple problems for the municipality. Four percent LIHTCs (as opposed to 9% LIHTCs) are often used in preservation deals and are paired with tax-exempt bonds to make the financing even more manageable. Municipalities can use LIHTCs to purchase or rehabilitate properties themselves, or partner with interested developers.

State housing finance agencies such as IHDA can issue debt for the benefit of private projects that meet public goals. This is the essence of tax-exempt bonds, which are more readily available than LIHTCs, yet less often used. Each state is authorized to issue tax-exempt bonds in an amount of \$85 per capita. Home rule communities receive their bond cap directly, while the rest is distributed between state agencies and non-home rule communities. If the community fails to use its bond cap by May 1st of each year, the bond is reclaimed by the state. Therefore, a community will benefit from applying these funds toward building more homes and providing more opportunities for its residents.

In Addison, the College Park Apartments property was a source of concern for the village. The property was poorly managed, buildings were not in good physical condition, and police were frequently called to the property. Because it is located in DuPage County – where jobs are plentiful but affordable housing is scarce – the village was committed to improving conditions while maintaining affordability. The property was purchased and rehabilitated using LIHTCs, IHDA's Housing Trust Fund, and its Risk Share program. Of the 200 apartments, 166 are now covered by a project-based Section 8 contract; the remaining 34 apartments are still covered under the Section 236 program. Tax credits helped pro-



Addison's affordable College Park Apartments were once an eyesore. However, use of LIHTCs and other financial incentives led to rehabilitation and preservation.

vide capital for renovation. The developer invested almost \$3 million for physical needs such as roofs, concrete, parking lots, and landscaping around the property, as well as updated kitchens, bathrooms, doors, and hallways inside the buildings.

In southwest suburban Bolingbrook, River Stone Apartments is a large rental property in a growing area along the I-55 corridor near many jobs. It has 789 mixed-income apartments on a 31-acre site. Though not a troubled complex, it needed updating to remain competitive. It was sold to a developer, who undertook a \$10 million rehabilitation. At the time of purchase, the property had tax-exempt bond financing requiring 20 percent of the apartments to be affordable to very low-income households at 50 percent AMI. These bonds were paid off when the property was acquired. A requirement of the new tax-exempt bonds is that all of the apartments be rented to households earning 60 percent AMI or less (\$45,240 for a family of four in 2008). The developer paired tax-exempt bonds with 4% LIHTCs to finance River Stone Apartments.

IMPORTANT TIP

Zoning for Preservation

Preservation of affordable housing is often the result of the right financing package, but it does not need to be. New York City's inclusionary zoning program grants floor area bonuses for the preservation of affordable housing. In order to get the full bonus, 20 percent of total floor area must be permanently designated low income. The program also allows for off-site preservation.

Communities with strong housing markets will be more attractive for developers, but also more prone to affordable housing losses. Inclusionary zoning ordinances with preservation clauses can harness market forces for greater public good.

Photos: Josh Hawkins

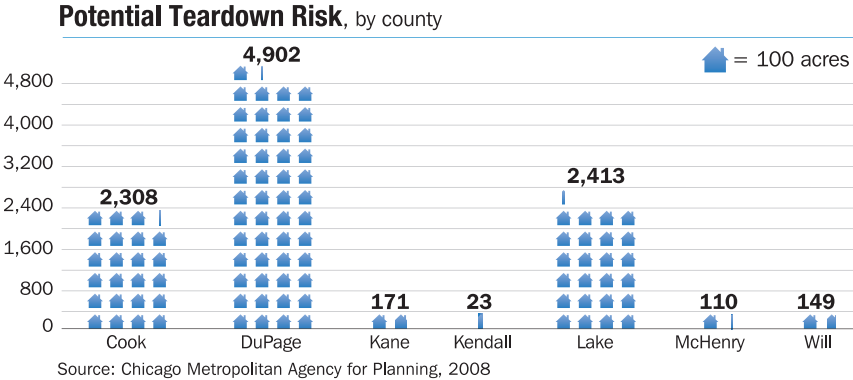


River Stone Apartments, in fast-growing Bolingbrook, were suffering from wear and tear. LIHTCs and tax-exempt bonds were used to improve the homes, and ensure they will remain affordable for the foreseeable future.



Demolition Taxes

Demolition taxes create a disincentive for property owners who want to tear down smaller, often more affordable buildings in desirable communities. They are particularly useful in communities where teardowns of smaller homes or apartments are common and the cost of land is high. Municipalities such as Lake Forest, Highland Park and Evanston charge a demolition tax, for example, of \$10,000 per single-family house and \$3,000 to \$5,000 per unit up to \$10,000 for multifamily buildings. The proceeds are placed into the municipality’s affordable housing fund and used to fund development and preservation activities.



Preliminary research by the Chicago Metropolitan Agency for Planning suggests teardowns are inevitable throughout the region. Teardowns happen when land is more valuable than the building on that land. However, through zoning and design guidelines, as well as teardown fees, communities can ensure the consequences of teardowns are beneficial.

TACKLING TEARDOWNS THROUGH ZONING

Teardowns occur when the value of the land is more than the value of the building (or other physical improvement) on top of it. The Chicago Metropolitan Agency for Planning has analyzed teardown potential throughout the region, and found DuPage, Lake, and Cook counties all had significant numbers of properties with this characteristic. More often than not, the result of teardowns is a loss of affordability.

Generally speaking, smaller and older homes are more affordable than larger, newer ones. Zoning and design standards can be used in locales with high teardown potential to channel market forces toward preservation of affordability (distinct from preserving specific buildings). A developer may be able to build four high-quality, affordable homes, and turn a tidy profit, on a large, undervalued parcel. However, many current zoning codes would not allow for that.

Zoning policies should facilitate the realization of community goals, not block them. At the same time, zoning codes should not prohibit developers from making money. A community can reduce the need for financial outlays by analyzing areas with redevelopment potential, then devising zones and overlays that channel market forces toward community objectives.

Historic Preservation and Affordable Housing

Historic preservation is another important element in preserving not only buildings, but also community character. Two LIHTC deals in downtown Joliet preserved historic buildings while providing affordable and market-rate housing. The former Louis Joliet Hotel was converted to 63 low-income and market-rate apartments using LIHTCs, and the former Joliet YMCA was renovated into 88 affordable and market-rate apartments for seniors. In addition to the LIHTCs, the YMCA used HOME, Illinois Housing Trust Fund, and TIF funding to make it economically feasible. These property rehabilitations are part of Joliet's work to revitalize its downtown by stimulating more residential and mixed-use development.

Photo: Josh Hawkins



The former Louis Joliet Hotel is a community landmark, link to the past, and an affordable housing option for people wishing to live within walking distance of downtown Joliet's many amenities.

Rehabilitation Programs for Small Properties

Older rental properties need physical improvements to keep them safe and improve operating efficiency. Buildings undergoing a complete rehabilitation can require a significant upfront investment, while others may only need less expensive, cosmetic upgrading to enhance marketability and occupancy. Health and safety improvements can include removing lead-based paint, asbestos, and mold caused by moisture problems. In garden apartment buildings, worn-out patios and balconies may need to be fixed or replaced. Security upgrades could include new locks, doors and mailboxes.

Several communities have initiated programs to offer grants or low-interest loans to owners of small apartment buildings and homes to repair and modernize their properties. This can include structural elements such as roof, plumbing, heating and air conditioning, windows and tuckpointing, as well as cosmetic improvements such as new appliances, cabinetry, carpet, and floors. The programs are typically targeted to moderate-income homeowners and owners of rental properties serving low and moderate-income residents.

Oak Park assists owners of multifamily properties with matching grants of up to \$2,000 per unit and low-interest loans of up to \$50,000 for 15 years for rehabilitation. The program helps to maintain an aging housing stock and eliminate blight.

The Community Housing Association of DuPage (CHAD) promotes affordable housing initiatives throughout the county. Through one of its programs, it buys single-family detached houses and townhouses, renovates the homes as needed, and sells them to first-time, moderate-income buyers who earn less than 80 percent AMI (\$60,300 for a family of four in 2008). To maintain affordability, CHAD has an equity sharing arrangement through which it sells a 60 percent interest to the homebuyer and keeps the remaining 40 percent. The buyers obtain mortgages through partner financial institutions and are responsible for all

operating and maintenance expenses, including real estate taxes, principal and interest, insurance, repairs, and a small land lease payment to CHAD (\$100 per year). When an owner is ready to sell, the house is appraised and sold back to CHAD for the appraised value. The owner receives 60 percent of the sale price so he or she can realize a portion of the appreciated value. The program has 29 houses scattered throughout DuPage County. They are indistinguishable from other homes in their neighborhoods.

Photos: Josh Ellis



Photos: Erin Aleman



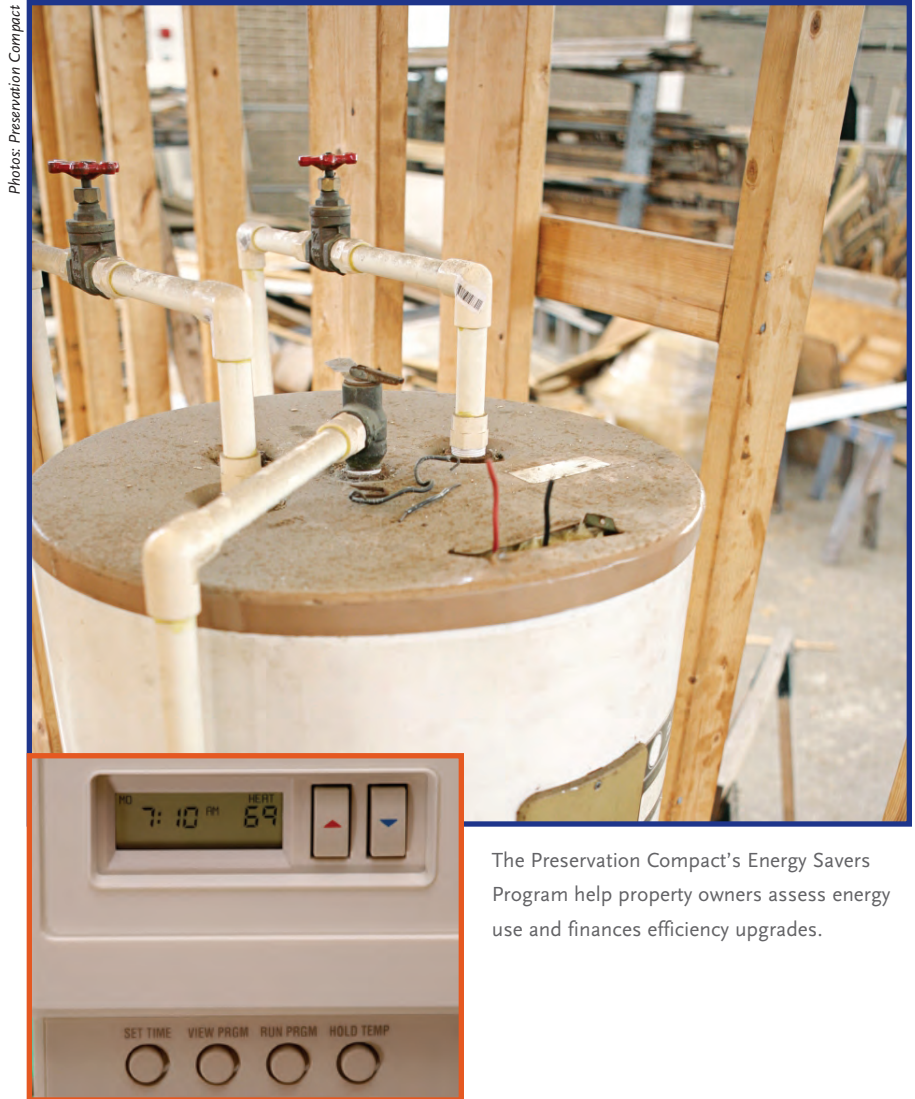
There are many ways for municipalities to facilitate rehabilitation of small properties, from single-family homes to mixed-use buildings that include upper-floor rental.

Energy Efficiency and Preservation

Many types of buildings, with or without public financing, would benefit from energy-conserving retrofits. Energy-savings improvements can result in reduced long-term operating expenses for the landlord and lower utility bills for the tenant. Reducing long-term costs makes preservation a more attractive option for property owners and tenants alike.

Some practices that improve energy efficiency include:

- Replacing or upgrading inefficient HVAC systems.
- Upgrading water heaters or replacing them with tankless demand heaters.
- Adding wall and ceiling insulation.
- Caulking windows to reduce drafts.
- Installing double-pane windows with coated glass to keep down both heating and cooling costs.
- Repairing or replacing the roof with a lighter-colored reflective surface or green roof.
- Avoiding water waste by repairing leaking faucets or appliances.
- Installing energy-efficient appliances and light bulbs.
- Installing individual meters in apartments for heating, cooling and water use as incentives for tenants to conserve. Illinois' Qualified Application Plan (QAP) awards up to six points for developments with approved "green" elements, including a point for using brick or masonry exteriors (which trap heat more efficiently than wood or vinyl), and another for energy efficiency that surpasses general Illinois building requirements. The QAP also favors developments built in proximity to employment centers, reducing the transportation costs of residents.



Photos: Preservation Compact

The Preservation Compact's Energy Savers Program help property owners assess energy use and finances efficiency upgrades.

Minimizing the Pain of Displacement

When rehabbing buildings, developers typically try to work around existing tenants to maximize rental income and minimize tenant relocation during construction. If the rehabilitation program is being financed through a different federal or state program than was used to construct the building initially, some tenants may earn too much and others too little to afford the new rents. Thus, tenant displacement can occur even if a building remains affordable.

COSTS OF NEW CONSTRUCTION VS. PRESERVATION

Preservation is usually the right choice when the cost is less than building new. However, understanding true cost is no small matter; price and cost are not the same thing. Price is a question of dollars, while costs can be political, emotional, environmental, and even aesthetic.

As your community contemplates whether to preserve existing housing or pursue new construction at the same location, be sure to consider the following costs:

- Rehabilitation vs. demolition, design and construction.
- Relocation, temporary or permanent, of residents.
- Community character and surrounding environment.
- Effect on local businesses, schools, and other institutions.
- Long-term management.

Understanding the comprehensive costs of both preservation and construction will help your community make the best decision possible in any given situation.

There are many things a municipality can do to minimize the pain of relocation, including:

- Requesting a phased development plan to give existing residents the option of moving as new phases are built.
- Encouraging partnership with a local nonprofit or development partner experienced in relocating tenants.
- Requiring the developer to use the Uniform Relocation Assistance and Real Properties Acquisitions Policies Act (URA), which calls for: Tenant Noticing Requirements, Relocation Advisory Services, Moving Payments, Replacement Housing Assistance, and Identification of Comparable Dwellings. (See the Appendix for more on the URA.)
- If relocation is absolutely necessary, keeping a regularly updated database of tenants so that when new units become available, qualified existing tenants can be contacted.
- Reach out to area employers whose employees may be directly impacted by the relocation. Encourage investment in employer-assisted housing programs (both rental and for-sale) to provide assistance for their employees who are residents of the building.

What's Next?

This chapter described how preservation can be used to keep buildings affordable to low and moderate-income households, while stabilizing and improving their surrounding neighborhoods. In localities and neighborhoods where affordable housing is limited and market dynamics are good, municipalities should encourage property owners to preserve and improve the existing housing stock. Where building conditions are so poor that it becomes prohibitively expensive to preserve the housing, demolition and re-building using one or more government programs may be the most appropriate course of action. While physical improvements are important, management of affordable housing is also critical. The following chapter provides ways in which property owners and municipalities can make sure new and existing buildings become and remain assets to their communities.