The Affordable Housing Generation Fund

Proposal Summary

In response to the Village of Oak Park's Affordable Housing Request for Proposals (RFP), the Oak Park Residence Corporation proposes to create The Affordable Housing Generation Fund -- a designated fund to be used exclusively for the creation of newly affordable housing units through multi-family apartment acquisitions, troubled condominium association de-conversions, and/or targeted construction.

The core of this proposal rests on the fact that it can be materially less expensive to utilize existing multi-unit buildings to provide affordable housing units than to build brand new units. Also, given development timelines, the process to acquire existing buildings, renovate units as needed, and then make a portion of those units available to qualifying low income residents is also typically faster than can be achieved by building new units. It is also important that such units be created and managed within the context of balanced mixed-income buildings that produce the best outcomes for residents, neighborhoods, and the community at large.

The Oak Park Residence Corporation has deep experience in acquiring and managing apartment communities that were once 100% market-rate buildings and, consistent with OPRC's mission, have now been converted to economically integrated communities with not less than 20% of all units (in every building) being made affordable to individuals earning 60% or less of Area Median Income (AMI). The Residence Corporation intentionally works to foster diverse, economically accessible buildings that are home to residents of all backgrounds and incomes.

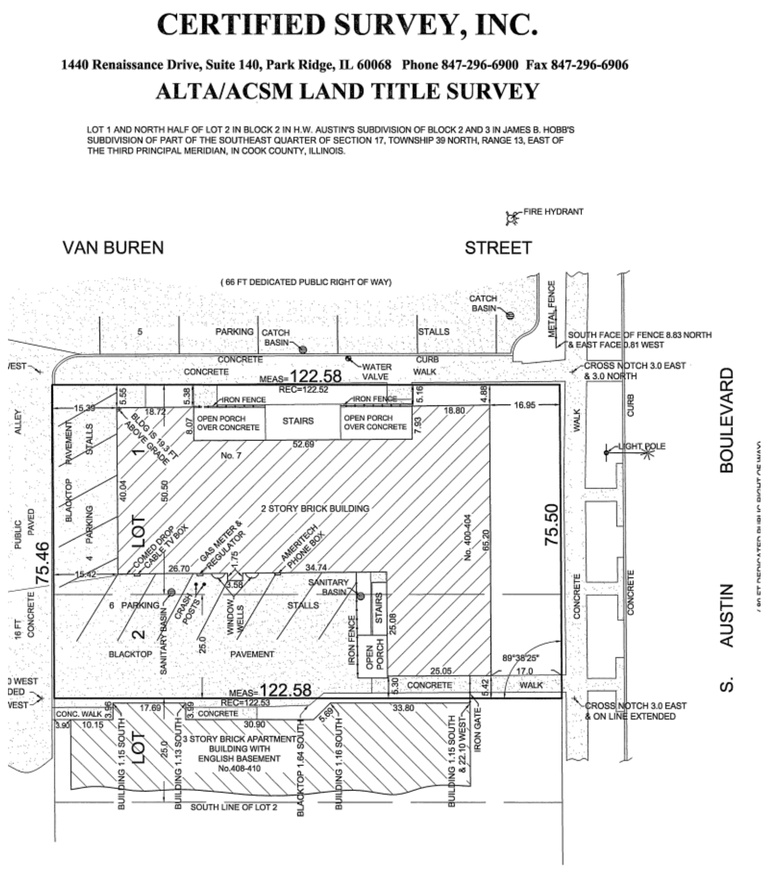
While the Village has indicated that $1 Million is available through this RFP, it seems reasonable to expect that both the Village Board and Village Staff may wish to see a portion of that amount be allocated to one or more programmatic solutions (e.g. rental housing assistance, etc.) and another portion to a tangible, bricks and mortar, affordable unit-creation solution. If that's the case, then the unit-creation solution could either be a specifically identified and designated project or it could be the establishment and support of a fund to identify and create new affordable housing units more flexibly over time, responding to needs and opportunities as they arise and are identified. In turn, it may be useful for the purposes of this proposal to evaluate potential bricks and mortar options as if there is $500,000 that the Village is likely to invest in order to impact the creation of newly affordable units.

If the Village were to prefer investing in a specific and tangible new development project, it seems clear that it should be a mixed-income project that would have the effect of either: 1) creating new affordable units (as part of its mix) in an area of Oak Park that is proportionately less affordable today, or 2) creating new market-rate units (as part of its mix) in an area of Oak Park that does not typically see market-rate development. In either case the key focus would be on fostering the creation of a building with an economically diverse population, increasing the supply affordable housing units in the community, and encouraging the development of specific housing types in areas where they would not otherwise be developed if left to the market on its own. In turn, and in response to this same RFP, the Residence Corporation has already submitted a site-specific proposal that meets these objectives and which we believe the Village should find very compelling.

Alternatively, if the Village determines that it would prefer the path of greater flexibility regarding the investment of these affordable housing dollars, then working with the Oak Park Residence Corporation to develop The Affordable Housing Generation Fund, would seem to be a very attractive option in terms of return on investment. The Residence Corporation would be uniquely positioned to lever up the Village's contribution through the commitment of additional equity and debt capacity possessed by OPRC that would be invested together with these Village funds in order to facilitate the acquisition and rehabilitation of new affordable units. Moreover, these investments would occur in consultation with the Village, and, in turn, could be targeted to simultaneously advance other important Village priorities as well.

For example, the creation of such a fund could allow timely interventions aimed at the stabilization and orderly de-conversion of failed or failing condominium associations that have been recognized by the police or the Village's building and property standards department to have become "problem buildings" and/or that the Village has identified as being a risk and potential threat to the stability of a block or neighborhood here in the community.

In addition, there may also be certain new construction opportunities that could also be very strategic, having the effect of combining an increase in the number of affordable units in the community with the advancement of additional long-standing Village goals and priorities. For example, Oak Park has not witnessed any private sector investment in new construction east of Lombard in 50 years (with the notable exception of Park National Bank's Austin Blvd. investments under Mike Kelly). Just as significant, there has been no investment in new construction of multifamily buildings east of Ridgeland Avenue during that same 5-decade period.



Within that context, and as one example of a type of strategic investment that could help to advance broader Village goals, the survey above shows an Oak Park Residence Corporation parcel at the corner of Austin Blvd. and Van Buren Street that currently houses a 12-unit California style 2-story building. The site, with some modifications regarding zoning and lot lines, could have the potential of replacing the existing structure with a new building containing two or three times the number of units. That, in turn, would both expand the number of affordable units available to low and moderate income individuals and families, while also providing the very type of compelling brand new construction in the eastern part of Oak Park that the Village has long desired and hoped would help to attract stronger market-rate demand for housing on the east side of the community (in this case overlooking the jewel that is Columbus Park, around the corner from the Harrison Street Arts District, and located just a block and a half away from the train). In turn, a successful pilot example of this type could also serve as an important market stimulus, encouraging other private-sector real estate investors (and affordable housing providers as well) to begin considering the possibility of creating additional new construction units in areas outside of Downtown Oak Park that would intentionally accommodate residents with a mix of household incomes. In turn, overall choices of housing (including affordable housing) would be expanded and overall levels of investment and reinvestment would increase throughout the community.

These are just a couple of examples indicating how the creation of The Affordable Housing Generation Fund could offer flexibility in responding to needs and opportunities. The structuring of such a fund would obviously require close consultation between the Oak Park Residence Corporation and the Village of Oak Park, so as to ensure that acquisition, de-conversion, or construction decisions would result from a clear and shared understanding of opportunities, priorities, and needs. As a private, not for profit organization, OPRC would also bring an ability to respond quickly to both opportunities and needs, while also leveraging its access to investment capital and bonded debt in ways that would have the effect of turning $500,000 into multiples of that in market impact, thereby more significantly expanding the amount of affordable housing here in the community.

In turn, the Oak Park Residence Corporation is pleased to submit this response to the Village of Oak Park's Affordable Housing RFP and to request allocation of $500,000 to support the establishment of The Affordable Housing Generation Fund.

Narrative Questions

1. Please describe your organization including an explanation of your track record.

The Oak Park Residence Corporation (OPRC) has been the Village of Oak Park's partner in developing, advancing, and maintaining affordable housing in the community for more than fifty years. The Residence Corporation also manages the regular operations of the Oak Park Housing Authority (an independently incorporated Illinois municipal body), managing public housing as well as the Housing Choice Voucher Program. Since its founding in 1966 as an independent not-for-profit corporation, OPRC has acquired, rehabilitated, maintained, overseen, and managed over 1,000 units of affordable housing in Oak Park. In turn, the Residence Corporation, acting as the Village's affordable housing Partner Agency, has made tens of thousands of "household-years" of affordable housing available to Oak Parkers, thereby supporting and strengthening the economic diversity of our community. OPRC also plays a vital role in improving the quality of Oak Park's multifamily housing stock, thereby advancing the Village's long-standing objectives of blight alleviation and strengthening market demand for housing throughout the Village. In this way, the Residence Corporation is also a key strategic player in supporting the Village mission of remaining a broadly diverse community.

2. Please describe the Challenges faced in the geographic area including relevant data informing your proposal.

The Affordable Housing Generation Fund would be flexible enough to opportunistically target the creation of newly affordable units in all areas of the Village of Oak Park (whether through multifamily apartment building acquisitions, the de-conversion of troubled condominium buildings, or targeted new construction). In turn the geographic context encompasses the entire Village.

Over the past 20 years, condominium conversions in Oak Park have taken formerly rental housing units out of the rental marketplace. At the same time, over the course of the past 12 years, Oak Park has witnessed considerable new residential, retail, and infrastructure investment, including the creation and/or approval of over 1000 units of high-end market-rate housing in downtown Oak Park. And, although more housing is being created, surrounding area vintage housing has also been increasing in cost as downtown Oak Park has become more vibrant and has attracted more interest from prospective renters. In addition, private sector developers of new proposed projects have also generally resisted the inclusion of affordable units in these developments due to concerns regarding lease-up, profitability, and property marketability.

Meanwhile, an increase in general market demand across the entire Village during the past several years has helped to push up rents in all areas, posing more of a challenge to broad-based affordability. And finally, substantial increases in property tax levels are significantly impacting multifamily property owners (e.g. for the Residence Corporation, these increases have equated to a $26/unit exclusively real estate tax driven monthly increase across the entire portfolio). Inevitably, such increases in property taxes are being passed along to tenants in the form of higher rents.

All of these factors are combining to negatively impact the availability of affordable units across Oak Park.

3. Please describe the population served

The Illinois Housing Development Authority (IHDA) calculated in 2013 that approximately 18% of Oak Park's housing stock is affordable for homeowners within the community with incomes at 80% of the Area Median Income and for renters at 60% of the Area Median Income (3,991 total affordable housing units). More than 25% (1,088) of these units are subsidized or income restricted, and more than half of these units are owned, overseen, or managed by the Oak Park Residence Corporation. The Village recently determined that remaining within the 18% to 20% affordable range would be a valuable guideline for the community to maintain.

Oak Park's affordable housing units are currently disproportionately distributed within the community. By way of example, over 70% of the U.S. Department of Housing and Urban Development's (HUD's) Housing Choice Voucher (HCV) recipient households live in the southern half of the community, and more than 60% live in roughly the eastern third of the community in the census tracts that border Austin Boulevard. This is partly a function of the Village zoning map (that goes back nearly a century), with more vintage apartment corridors built along Austin Blvd., Washington Blvd., Harrison Street, and Garfield Blvd. (in addition to a mix of vintage and mid-century apartment buildings in the area surrounding downtown Oak Park). But it is also a function of a self-reinforcing cycle of lower-cost housing on the east and south sides of the Village and higher cost housing downtown and to the northwest.

Also, while Oak Park's population is approximately 67.7% White and 21.6% African American, Oak Park's Housing Choice Voucher recipient households are disproportionately African American (89.8% of heads of HCV households). In turn, the limited availability of affordable housing in the northern and western portions of the Village (and specifically near downtown) is limiting access to this area disproportionately for African American individuals and families. This fact undermines housing choice opportunities for these residents. It also has the perverse effect of undermining the thoughtful and intentional integration strategies that are foundational to Oak Park's strong quality of life - and in which the Village has invested tens of millions of dollars over the past several decades.

The disproportionate distribution of affordable housing throughout Oak Park also has implications for children and for schools here in our community. Children from households with Housing Choice Vouchers are concentrated on the east and south sides of the community, with Beye (86), Longfellow (100), Irving (79), and Lincoln (100) having the largest number of households, and Whittier having a large number of student-aged children (22) from HCV households as well.

The Affordable Housing Generation Fund would enable geographic targeting of investment in ways that would help to address not only an increase in the total number of affordable units, but also could be used to expand location options for all members of our community.

Oak Park has correctly identified the need for more housing serving individuals at both the top end and the bottom end of the income spectrum. Left to itself, the "market" for upscale market-rate housing will meet the need at the top end, but in an economically segregated manner. Likewise, the "market" for affordable housing will also, over time, begin to meet that need as well, but in an equally segregated manner, with a focus on creating 100% affordable buildings in areas of the community that already have a disproportionate share of affordable units. This is because land costs in those areas are lower, and affordable housing providers are incented to reduce costs in their projects, since the operating revenue lines for their deals are both established and fixed by the federal government (in terms of what rents will be permitted for their site-based vouchers). Also, while these developments are economically less risky for the affordable housing developer (due to the valuation of 9% tax credit allocations and the benefit of consistent and dependable revenue streams), area residents often experience 100% affordable buildings as bringing fewer additional amenities to neighborhoods when compared to market rate or mixed market-rate/affordable buildings. Investment from The Affordable Housing Generation Fund would increase the number of mixed income buildings in Oak Park.

In evaluating the needs of those we wish to serve, we asked BRicK Partners, a leading Midwest housing consulting firm, to put together a scan of key factors guiding affordable housing location decisions today. Their findings (attached) underscore the value of mixed-income housing in strong markets like downtown Oak Park, and the potential to leverage tiered-support for evidence-based progress. Highlights include:

- Negative Consequences of Concentrated Poverty
- Mismatch Between Housing and the Needs of Service Employees
- Decreased Segregation Provides Greater Opportunities For All
- Reinvestment and Mobility are the Two Key Opportunity Strategies
- Diversity/Integration Provides Social and Economic Advantages
- Integration Increases Child School Performance/College/Earnings
- Integration Increases Adult Job Contacts/Networks
- Income Diversity Improves Child Health Outcomes
- High Quality Property Mgmt. is Critical to Mixed Income Buildings
- Federal/State/Regional Trends are Prioritizing Mixed-Income Buildings

4. Please describe your readiness to proceed, including resources you have secured or intend to secure and a proposed implementation timeline. Please explain where the resources available through this RFP are needed.

Regarding a proposed implementation timeline, upon Village approval, The Affordable Housing Generation Fund could be established quickly as a segregated fund of the Oak Park Residence Corporation, which would allow performance reporting regarding the impacts of all investments made from the fund over time. The legal and financial mechanics could be put in place within a matter of weeks.

The Affordable Housing Generation Fund would be created specifically to increase the number and variety of units that are available at affordable rents on a long-term basis. It could function primarily in one or both of the following ways:

1) **Increasing the number of Housing Choice Voucher-friendly buildings and units**: It is critically important to start this explanation by highlighting that it is illegal for landlords to differentiate among rental applicants based upon source of income (and specifically based upon whether an applicant intends to use a Housing Choice Voucher). At the same time, there are many landlords who establish rental screening criteria that are so restrictive as to have the effect of excluding many, most, or even all individuals with Housing Choice Vouchers from being viable rental candidates for their buildings. While this too can be determined by a court to be illegal, the practical reality is that there are many property owners and property management companies that have established policies and procedures that can make it very difficult for an individual or family with a Voucher to be able to obtain rental approval.

In turn, simply expanding the number of owners (and/or the number of units controlled by owners) who proactively support renting to individuals with a Housing Choice Voucher would help to expand the pool of housing options for low and moderate income people, and would reduce the number of instances in which individuals are forced to relinquish their rights to an Oak Park Housing Choice Voucher simply for having been unable to identify and be approved for a qualifying unit in Oak Park within the allotted timeframe of 180 days (which we do see happen today).

In this situation, an Affordable Housing Generation Fund allocation would enable the Residence Corporation to acquire and rehabilitate a building and begin to attract HCV-holding tenants to achieve a stabilized mixed income population (with approximately 20% affordable units and 80% market-rate units). The economics of the building would be established based upon anticipated rent levels, anticipated occupancy levels, and any projected difference (on a per unit) basis between the combination of the operating and debt service costs and what would be anticipated to be received in combined rents (from both the Tenant share of the rent and the HCV Housing Assistance Payment which would come from HUD). This difference would need to be accounted for in the proforma, with the expectation that the combined rents from the market-rate based units and the HCV-rate based units would collectively cover the combined costs of operations and remaining debt service. This approach is pretty straight forward and permits contributions from the Affordable Housing Generation Fund to be used as equity contributions to support acquisition and rehabilitation (with the property cashflowing at breakeven or better over a reasonable time horizon). This would be the typical and conventional way to deploy these funds.

2) **Increase the number of units and maintain a built in rental subsidy reserve**: This approach would be an option in situations where, following acquisition and rehabilitation, it was anticipated that the combined revenues (market-rate rents, HCV Tenant rents, and HUD HAP payments) were insufficient to cover the operating costs and remaining debt service over a reasonable time horizon. In turn, a rental subsidy reserve would be required to enable the property to achieve breakeven.

In this situation, The Affordable Housing Generation Fund would provide funding not only to facilitate the acquisition and rehabilitation of units, but also to establish a rental subsidy reserve to offset any operating and debt service shortfall that the property would be projected to experience over a reasonable time horizon.

Any need for the establishment of a rental subsidy reserve would be an item for consideration and pre-planning in order to reasonably determine whether to pursue the acquisition of specific properties at particular prices.

These two approaches inform how resources available through this RFP would be deployed. For purposes of this discussion, we'll consider $100,000 per unit to be a rough market-rate acquisition price (as a midrange starting point – with a very wide range/variance of values for vintage multifamily buildings in Oak Park). Using an 80% loan to value ratio (LTV), $500,000 would translate into $2.5 Million that could be allocated to the acquisition and rehabilitation of buildings to create newly affordable units in existing vintage buildings at a quality level that would be desirable to individuals and families. If we assume that roughly 80% of that $2.5 Million would be designated for acquisition and 20% would be designated for rehabilitation, that would equate to $2.0 Million of combined equity and debt for acquisition, or roughly enough to acquire 20 units of affordable housing. Now, if such housing was to be located in viable, mixed income (80% Market/20% Affordable) buildings, then that would require the identification and commitment of additional funding to contribute to the acquisition of the additional market rate units. Using the same example, that would equate to 80 units x $125,000/unit ($100,000 for acquisition and $25,000 for rehabilitation) or $10 Million. In turn, the Village funding would have helped to create not only 20 units of newly affordable housing, but in total also 100 units of newly mixed-income housing.

The Oak Park Residence Corporation does have additional financial capacity that could be directed to invest in acquisitions in furtherance of the affordable housing goals that the Village is pursuing through this RFP. The creation of the Affordable Housing Generation Fund could also serve as a tool to help bring additional resources into the community for the purpose of increasing access to affordability here in Oak Park. In turn, with the support of the resources the Village is making available, the Oak Park Residence Corporation would have the capability and flexibility, both financially and organizationally, to successfully create this newly affordable housing here in Oak Park.

5. Please outline how you define success and what measures you are using.

Overview: The Affordable Housing Generation Fund would be successful if it results in the creation of more economically viable mixed-income buildings containing 20% newly affordable housing units that are occupied by residents experiencing increased opportunity and enhanced quality of life, and if all of the residents of the building are experiencing an increased sense of community and connection, as well as their neighbors in the surrounding area seeing the building as an asset and a positive contributor to community quality of life.

The following encompass a set of potential outcome measures:

Property Related: Traditional property management analytics related to both the acquisition and rehabilitation and to ongoing operations: building specific balance sheet and income statement measures, operational measures such as vacancy, unit turnover, financial performance, maintenance requests, etc.

Community-Building: Levels of engagement/participation, usage of common areas, results of an annual qualitative survey (also used to solicit residents' input regarding fostering a strong sense of community).

Individual Household Impacts: Individual and family information regarding income, health, education, and job status. While a property manager can likely gather information such as income and school attended, an external evaluator might be better positioned to gather data on health, employment, and measures of educational outcomes (beyond what school the child attends).

Neighborhood Impact: Levels of new investment in adjacent areas, property values, vacancy rates, and crime reports.

In considering these factors, we could also look to leverage the Institute for Housing Studies at DePaul's Regional Housing Solutions online tool to analyze additional neighborhood metrics. In addition, an outside partner, such as DePaul or U of C, could potentially assist us with evaluating such impacts.