

# CHANGE THAT BENEFITS FAMILIES

## *A Pathway to Housing Reform and Innovation*

By Michael C. Rohrbeck, May 2003

There's consensus within the field for increased federal support of affordable housing, but it's not likely to come soon. After decades of inattention to affordable housing by Illinois lawmakers, advocates are almost giddy now about Democratic control of the legislature and the governor's office. Unfortunately, the optimism is tempered by an absence of resources.

In Chicago, local advocates and developers have witnessed a slow shifting of resources to homeowners, seniors, higher income people in mixed income developments, and CHA "Transformation" Projects. These are all worthy causes and constituencies. But in the absence of additional Housing Choice Vouchers, what options are left for the large population of working poor families who earn the full-time equivalent of one or two times minimum wage?

*Despite this seemingly bleak situation, we have the knowledge and ability to produce more affordable housing with existing resources and lay the groundwork for expanded future support.*

Here are some considerations that provide clues to new programming directions and funding priorities -- issues that are conspicuously absent from "lessons learned" research.

- ❖ **Housing management costs have increased much faster than poor families' incomes for decades.** This trend is likely to continue. Without changing the way we fund affordable housing, this trend will threaten the long-term viability of partnership projects, especially those in very low-income markets.
- ❖ **Most poor families making less than \$20,000 a year cannot pay for *any* debt service through their rent.** This mostly impacts affordable housing projects, but the demographic and cost trends are also putting the pinch on private owners trying to house working class people. (\$450+ expenses per unit per month *before debt service* is an emerging standard in developments with government support.)
- ❖ **Many rental developments in Northeastern Illinois are mistargeting housing to people at 50% or more of the Area Median Income (AMI), thereby benefiting folks who can already exercise choice in the marketplace.** The mismatch with market demand is contributing to higher vacancy rates in affordable projects compared to the private market. By contrast, families of four earning \$22,620 or less (30% AMI) cannot exercise good choices. For them, substandard housing is synonymous with affordable housing. Displacement, overcrowding and/or work in the informal economy are necessary facts of life.

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CHANGING HOW WE CREATE AFFORDABLE HOUSING

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- ❖ **Private financing has shrunk from about half of project sources in 1991 to a dime-on-the-dollar now.** However, we still can't provide housing to poor families using layered and leveraged approaches without rent subsidies.
- ❖ **Despite continuous policy emphasis on development barriers and costs, the operating budget is where affordability is determined and where policy and programming innovation is required.**
- ❖ **The private sector, for better or worse, can develop and manage housing at less cost than public-private partnerships can.**
- ❖ **Discrimination and disdain for dense "low income" rental housing ain't going away soon.** This may slow development of high-profile affordable housing projects in middle and upper-income areas into the foreseeable future.
- ❖ **Owners will not readily embrace poor families without cash incentives.**
- ❖ **Because many layered development projects are not benefiting the truly needy, despite huge drains on HOME and CDBG funds, alternative methods of creating affordable housing with these valued resources may now be feasible.**

*To suggest that the current system for affordable housing production is wacky, ineffective and wasteful is akin to saying the emperor has no clothes. We all see it and know it, yet try our best to make it functional.*

But here are some ideas that could be cornerstones for change.

**First, because the challenges are so great in depressed neighborhoods, production strategies *must* include simplified, layered financing without debt service.** High profile developments remain an important priority in such areas because creating affordable housing, spurring reinvestment, and revitalizing communities are all of vital importance. However, we need to liberate ourselves from the perceived obligation to leverage private debt and proceed with the frequently proposed, often ignored pleas to simplify funding, documentation and accountabilities.

**Second, in performing and active markets, eliminate layered financing entirely.** We should utilize tax credits and private bank financing exclusively in order to house people at 60% or 80% of the median income, whatever the market and regulations allow. This is being done in places around the country and makes development simpler and faster. In addition, we can save the other government resources for alternative means of creating affordable housing.

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**Third, the inclusionary housing concept should be expanded into a resource-supported program to economically integrate multi-unit housing, or in some cases single-family housing.** Grants saved from layered financing could provide post-development debt write-downs pro rata for rent-restricted units, thereby creating affordable housing for families at 30% AMI in new private developments. In an even more innovative fashion, non-profits could utilize this economic incentive to identify existing owners of quality housing to set-aside units.

*Spending \$30,000, \$50,000 or \$100,000 per unit to get affordable units without the transaction costs and delays, and targeted to folks who need it most, would represent a net gain for affordable housing.*

Working more with private owners of existing, quality housing could significantly increase the number of units “produced”. The numbers could be increased even further via direct and indirect support of “shared housing” programs that now operate on a shoestring, but have the potential to address the jobs-housing mismatch and sidestep nimbyism before

we’re all gray or dead. Most of these related strategies can be accomplished without legislation.

**Fourth and finally, increasing support of the Chicago Low Income Housing Trust Fund rent subsidy program and encouraging duplication of the model statewide is an important complement to the above strategies.** The Chicago Coalition for the Homeless and many others are pressing for legislative action to make this possible. This approach, which is valued by tenants and landlords alike, deserves all our support. CDBG and HOME funds should also be dedicated to this kind of programming. The trust funds should be considered not simply as another layer in the development subsidy mix, but as a potential resource in support of private owners of existing quality housing and their tenants.

*We need to get real about cost choices and place-based challenges, and engage in creative planning with public sector partners with new vigor.*

Whether these are realizable strategies or conversation starters, I believe it is time for us to rethink how to target limited resources to produce housing for those who need it most, those with incomes below 30% of AMI. The fate of working class families in Chicago and Illinois depends on it.

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