Innovative Financing Approaches for Affordable Rental Housing in the Chicago Region

A Case Study of Community Investment Corporation

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Innovative Financing Approaches for Affordable Rental Housing in the Chicago Region

Solving America’s affordable housing crisis will mean increasing production of housing, protecting residents from eviction and foreclosure, and preventing the loss of current affordable housing stock. This case study on Community Investment Corporation, a community development financial institution (CDFI) in Chicago, provides examples of how one organization is employing strategies to improve preservation, particularly in unsubsidized housing stock. Only one in five income-eligible households lives in subsidized housing (Kingsley 2017). For households unable to obtain government housing benefits, unsubsidized “naturally occurring” rental housing provides the bulk of affordable housing in many markets. This study facilitates the adaptation of these practices and strategies by affordable housing and community development practitioners to address similar housing preservation challenges in their communities.

As this case study demonstrates, state and local policymakers, civic leaders, financial institutions, and philanthropy all have a role to play in housing preservation work.

Community Investment Corporation (CIC) focuses on lending for the acquisition, rehabilitation, and preservation of affordable rental housing, especially unsubsidized affordable housing, in the Chicago metropolitan area. CIC was formed by local financial institutions in 1974 to provide lending products in the Cook County neighborhoods that were hardest to serve. Since then CIC has provided $1.4 billion for 2,400 loans to rehab and preserve 62,000 housing units, providing affordable rental housing to 155,000 people. CIC has both a highly localized approach that provides deep services to the neighborhoods of Chicago and Cook County and the scale of a large, well-financed CDFI (Balboni and Travers 2017). CIC is capitalized by investments from 40 local financial institutions, who pool these funds to support its lending products. As a long-standing CDFI known for its lending on multifamily properties, CIC’s years of experience and understanding of the regional market inform how the organization grows and adapts programs over time.
CIC largely uses the market to achieve its preservation goals. The organization works on the premise that affordable rents cannot support the capital costs of new multifamily construction, whereas neighborhood rents can support costs of rehabilitation. Since rents can sustain initial capital for rehab, CIC’s loans are repaid. These revolving funds enable CIC to preserve additional units over time.

**BOX 1**
The Urban Institute’s Collaboration with JPMorgan Chase

The Urban Institute is collaborating with JPMorgan Chase over five years to inform and assess JPMorgan Chase’s philanthropic investments in key initiatives. One of these is Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods), a $125 million, five-year initiative to identify and support custom solutions for the unique challenges facing disadvantaged neighborhoods in US cities, with community development financial institutions (CDFIs) as critical partners in that effort. The goals of the collaboration include using data and evidence to inform JPMorgan Chase’s philanthropic investments, assessing whether its programs are achieving desired outcomes, and informing the larger fields of policy, philanthropy, and practice. This case study of a Chicago-based CDFI using innovative affordable rental housing financing strategies can serve as a model for other CDFIs, local governments, and community-focused nonprofit housing organizations around the country.

In fall 2018 Urban Institute interviewed eight CIC staff, along with staff from the City of Chicago’s Department of Planning and Development and the nonprofit firm Elevate Energy. The information collected from the semistructured interviews, as well as a review of literature on innovative affordable housing financing models informed the development of this report and the strategies and approaches we discuss below. We found four strategies present in all the CIC programs we studied: proactive program development, responsiveness to local conditions, pursuit and leveraging of partnerships, and strategic use of federal, state, and local policy levers.

- **Proactive program development:** CIC brings ideas and resources to the table when meeting with government and private partners, advocates, and affordable housing developers. Rather than waiting for another stakeholder to create new policy and programs to support affordable housing development, CIC operationalizes plans to expand financing for affordable housing, finds seed money to pilot the approach, and provides evidence of success before expanding the work.
Responsiveness to local conditions: CIC staff have deep knowledge and long-standing relationships in the neighborhoods where the CDFI lends. CIC partners with a local university, DePaul, to identify the housing trends that impact the region. For example, following the foreclosure crisis, CIC added to its lending products based on its on-the-ground understanding of how the housing crisis destabilized local neighborhoods.

Pursuit and leveraging of partnerships: CIC collaborates with other actors in affordable housing and leverages the expertise of other nonprofits, government, private companies, and financial institutions to more efficiently pursue shared goals for the sector.

Strategic use of federal, state, and local policy levers: CIC uses the policy context of the greater Chicago region as well as knowledge of federal and state policies as a tool to drive its programs and market-based approaches forward.

While unsubsidized housing makes up almost 75 percent of the affordable housing stock in the US, many challenges pervade this housing type, foremost among them a lack of decent, safe, and quality housing. Other challenges range from the lack of financing products for small-scale landlords rehabbing multifamily homes to loss of units from unpredictable operating costs.
Setting the Context: CIC and the Chicago Housing Market
Setting the Context: CIC and the Chicago Housing Market

In this case study, we discuss five CIC programs: Multifamily Loan Program, 1–4 Unit Initiatives (Single-Family Rental Redevelopment Program and Chicago CDFI Collaborative), Troubled Buildings Initiative, Energy Savers Loan Program, and Opportunity Investment Fund. Our research surfaced five core affordable rental housing challenges that are common in many communities. We then match these housing challenges to the approaches featured by the five CIC programs. We summarize these approaches in figure 1. Each approach will be highlighted throughout the case study to deepen our understanding of how it has been implemented by CIC.

**FIGURE 1**
CDFI Approaches to Preserve and Improve Unsubsidized, Affordable Rental Housing

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<th>CHALLENGES</th>
<th>APPROACHES</th>
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<tr>
<td>Shortage of decent, safe, quality housing</td>
<td><strong>Multifamily Loan Program</strong></td>
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<td>Rental buildings (5-100 units)</td>
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<tr>
<td>Lack of conventional financing products</td>
<td><strong>1–4 Unit Initiatives</strong></td>
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<td></td>
<td>Small multifamily rental buildings (1-4 units)</td>
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<td>Loss of units because of unmet capital needs</td>
<td><strong>Troubled Buildings Initiative</strong></td>
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<td></td>
<td>Small multifamily rental buildings with 5 or more units</td>
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<td>Loss of units because of variable operating costs</td>
<td><strong>Energy Savers</strong></td>
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<td></td>
<td>Multifamily rental buildings (5–100 units)</td>
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<tr>
<td>Lack of units in high-cost neighborhoods</td>
<td><strong>Opportunity Investment Fund</strong></td>
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In addition to CIC’s programs, we discuss The Preservation Compact, a collaborative of regional stakeholders led by CIC that facilitates cross-sector collaboration, data analysis, and strategy development on affordable housing preservation. The Compact played a critical role in the development of the 1–4 Unit Initiatives, Energy Savers Loan Program, and Opportunity Investment Fund, and it continues to bring together local government, nonprofit, for-profit, and housing leaders working to preserve affordable rental housing in the region.
Whether through the Compact or the CDFI’s lending programs, CIC’s approaches are facilitated by various conditions particular to the state of Illinois, the City of Chicago, and the greater Chicago region. For one, Chicago is a center of finance in the US, giving CIC access to many financial institutions. For another, Chicago’s history of systemic racial discrimination in housing, exemplified by the Gautreaux decision to address de facto segregation of public housing, has pushed the City to innovate in the provision of its housing programs and helped open the door for creative use of federal funds.¹

CIC’s operations focus on the distinctive features of the Chicago regional housing market, including the prevalence of multifamily rental housing and high number of naturally occurring affordable housing units. In Cook County, the county including Chicago and 29 outlying townships, three in four residents live in a multifamily building. Within the city of Chicago, around 1 million of the estimated 1.3 million housing units are in multifamily buildings. Research by the Institute for Housing Studies at DePaul University (2012) shows that in 2012 two-to-four-unit buildings accounted for over 276,000 units in low- and moderate-income neighborhoods in Cook County—a vital source of affordable rental housing.

Multifamily housing stock is, therefore, an important component of affordable housing for the region, but it has been deeply impacted by the foreclosure crisis, especially small-unit multifamily housing between two and four units. Research from DePaul University finds, “between 2005 and 2011, nearly 32 percent of the units in two-to-four unit buildings in Cook County’s low-income communities were affected by a foreclosure filing and 22 percent in moderate-income areas” (Institute for Housing Studies 2012, 1). Cook County lost an average of 5,709 rental units annually in two-to-four-unit buildings between 2012 and 2015.²

In addition to the loss of housing stock as a result of the foreclosure crisis, the region faces an uneven housing market recovery. Some areas of the region operate in strong markets, rapidly increasing in housing value while other neighborhoods are struggling to retain population and continuing to face vacancy. In some parts of Cook County the displacement pressure on lower-income renters is growing, with rising housing costs impacting future housing affordability. At the same time, concentrated areas of foreclosure activity persist in certain Chicago neighborhoods, with ongoing challenges to increase investment (Institute for Housing Studies 2012).

Finally, 53 percent of Cook County renters are rent burdened and pay more than a third of their income on rent.³ Like many places around the country, the affordable housing supply, especially in neighborhoods with access to quality schools and jobs, cannot meet the demand. CIC’s programs and strategies are informed by the challenges and opportunities in the regional Chicago housing market.
And, as we describe below, the organization’s focus on lending and preserving affordable multifamily housing meets an important regional need.

Despite these local conditions, our analysis of CIC’s major programs, and interviews with CIC, the City of Chicago, and Elevate Energy staff suggest that the strategies that CIC employs are transferable as lessons to cities, affordable housing providers, CDFIs, and nonprofit organizations in other markets.
Preserving and Improving Unsubsidized Affordable Rental Housing without Subsidy
Preserving and Improving Unsubsidized Affordable Rental Housing without Subsidy

In this section, we discuss the approaches of CIC’s two main loan programs that use market-driven approaches: the Multifamily Loan Program and 1–4 Unit Initiatives: Single-Family Rental Redevelopment Program, as well as the Chicago CDFI Collaborative. For each program, we highlight approaches that CDFIs, affordable housing practitioners, and city governments can use to meet each affordable rental housing challenge.

Providing Loan Products to Address the Quality of Unsubsidized, Affordable Multifamily Rental Properties

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<tr>
<th>CHALLENGE: SHORTAGE OF DECENT, SAFE, QUALITY HOUSING</th>
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<tr>
<td>PROGRAM</td>
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<tr>
<td>Multifamily Loan Program</td>
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<tr>
<td>✓ Proactive and preventive “hands on” lending approach</td>
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<tr>
<td>✓ Relationships with building owners</td>
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While unsubsidized rental housing is an important source of affordable housing in the US, one of its largest challenges is its quality and safety. There is a familiar narrative that small, multifamily buildings have trouble accessing capital for physical improvement and that financial institutions shy away from lending to such properties because of risks and high administration costs. However, CIC’s multifamily loan portfolio generates a net return. In fiscal year 2017, for example, it had a return of 3 percent. In 2018, building owners used CIC multifamily loans to rehabilitate more than 1,880 affordable rental units serving low- and moderate-income families in Cook County (Willis and Capperis 2016).

THE MULTIFAMILY LOAN PROGRAM COMPONENTS

The Multifamily Loan Program is emblematic of the market-driven approach used by CIC. The program uses a deep knowledge of the Chicago area neighborhoods in which it lends and relationships with its property owners to offer a profitable lending service to small, multifamily building owners. The loan product provides first mortgage financing for privately owned rental housing, ranging from 5 to 100 units. Loans can be used to improve this “naturally occurring” affordable rental housing through acquisition, refinancing, and rehabilitation of the properties. While many banks underwrite loans only on pre-rehab value, which means owners must find other ways to pay rehab costs, CIC underwrites on the projected after-rehab values. CIC does not require that units remain affordable by having owners
sign agreements or by other means. This program aspect may not be suitable to other markets, especially in places at risk of gentrification.

LEVERAGING OF PARTNERSHIPS
To effectively finance the Multifamily Loan Program and keep cash on the books, CIC maintains investor relationships with the 37 financial institutions that provide $258 million in capital. Each quarter, CIC pools eligible loans and conducts a note sale, in which multifamily loans on stabilized properties (rent-up has achieved a 1.1 debt service coverage ratio) are transferred to CIC’s investors and sale proceeds are transferred to CIC. Investors purchase a portion of the notes equal to their overall share of outstanding investor commitments. Loans can be up to $5 million a building or $10 million a borrower. CIC retains loan servicing and monthly collections and governs the arrangement through a note purchase agreement with investors. Since 2001 no losses have been passed on to investors in the loan pool.

BOX 2
Responsiveness to Local Conditions

- Small multifamily building stock: CIC develops solutions to benefit Cook County’s large amount of small multifamily buildings. This is also beneficial to CIC; compared to the single-family market, economies of scale can be achieved in the multifamily market.

- Positive perceptions of the Chicago market: CIC noted that building owners felt there was a “good ROI” in the Chicago market, leading to a pipeline of interested building owners.

Because of the financial volatility of the neighborhoods in which CIC invests, CIC uses other tools at its disposal to ensure that its lending is successful and it manages investor losses. One tool is long-term engagement in the community and deep relationships with building owners. CIC views its relationships with owners and its loan servicing practice as key to its preventive strategy: “One of the reasons our portfolio is so successful is that when somebody gets in trouble, we’re right in there. And we’re trying to figure out the problem. And it may be a case, that ... [the owner] really [doesn’t] have the capacity. We have a dozen or so [owners] who would be willing to assume the debt of that borrower.”
CIC also notes that it takes knowledge of the community very seriously when deciding whether to work with a potential building owner. The majority of CIC’s owners live in Cook County. While owners may not live in the specific neighborhood in which the CIC investment is being made, CIC expects familiarity with the place.

Sixty-five percent of the people who own CIC-financed buildings are full-time landlords and don’t contract with a third-party building manager. CIC consults with building owners about how to manage properties. It offers a property management training program on how to market, manage, and maintain residential rental properties. This is pragmatic: to pay the CIC loan, small owners need to be successful at property management activities. One CIC staff member characterized it in this way: “Bookkeeping... tenant screening... janitorial work... repairs. All that stuff that in a typical real estate environment you’d be paying somebody else to do, that’s how [our owners] are earning [their] money.”

STRATEGIC USE OF POLICY LEVERS
Illinois is unique in that it did not allow branch banking until 1984. Before this, there were thousands of small local banks that knew the neighborhoods and had a presence on the ground. When CIC formed in 1974, it was a consortium of these small community financial institutions and savings and loan banks that wished to tackle disinvestment but didn’t have the resources to do it alone. CIC has retained commitments from local, regional, and national banks. Today, the majority of CIC board members represent banks of varying sizes and footprints, including PNC Bank, CIBC, and Byline Bank. The ethos of community banks remains a part of CIC’s operations, and CIC deeply understands the neighborhoods, properties, and building owners.
The Preservation Compact

The Preservation Compact is led by CIC and is a collaborative of public, private, and nonprofit leaders working to preserve affordable rental housing in the greater Chicago region. The Compact has been operating in the region since 2007 and was initially convened by the MacArthur Foundation and the Urban Land Institute. Initiatives of the Compact provide investment to the neighborhoods and housing types that need it the most and pursue strategies to limit the growth of housing costs, like energy and property taxes, to maintain affordability. The five CIC programs highlighted in this case study all benefit from the partnerships and strategies forged by Compact members. In fact, the Compact piloted work that eventually became three CIC programs: 1–4 Unit Initiatives, Energy Savers Loan program, and Opportunity Investment Fund.

The Compact uses three main approaches.

1. It focuses on policies and programs that all partners, whether tenant groups or developers, can agree on. For example, the Compact realized that subsidized, unsubsidized, and larger market-rate affordable housing developers were all interested in property tax relief but were pursuing the state for separate proposals. The Compact brought the groups together and agreed on one.

2. It supports policy that promotes preservation of affordable housing. This has included more utility dollars for energy-efficiency upgrades, building code relief for rehab activities, and property tax breaks for buildings with a share of units designated affordable.

3. It leverages both public and private resources and expertise in addition to cost-saving measures for all types of rental buildings. The Compact convenes federal, city, and state government agencies to identify properties at risk of losing government assistance, then develops strategies to preserve those properties.

Through the Preservation Compact, CIC supports and informs policy that promotes affordable housing development in the region. Staff are trusted to implement programs despite shifts in political leadership. CIC staff described The Preservation Compact’s service to the City this way: “This is what we do, we convene and we say, ‘Alright, what can we all agree on,’ so instead of getting 10 recommendations on this, the City gets one.”

CIC also notes that the formation of The Preservation Compact by the MacArthur Foundation helped attract the diversity of partners and the high-level staff who collaborate through the forum. The MacArthur Foundation started a number of initiatives that the collaborative could move forward, allowing for early, quick-wins. Critically, the Foundation paid for administrative staff to run the Compact. CIC staff believe that without this administrative support, it would have been very difficult to develop and implement strategies from the Compact. The MacArthur grants are ending in 2018–19. However, the impressive achievements of the Compact attracted additional foundation support, and the CIC board is supportive and willing to invest resources to sustain it.
Collaborating with Other CDFIs to Expand Financing to Small Buildings

**CHALLENGE: LACK OF CONVENTIONAL FINANCING PRODUCTS**

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<tr>
<th>PROGRAM</th>
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| **1–4 Unit Initiatives: Single-Family Rental Redevelopment Program and CDFI Collaborative** | ✓ Proactive and preventive “hands on” lending approach  
| | ✓ Relationships with building owners  
| | ✓ Innovative use of government program/funds |

While renovation of multifamily buildings with five or more units progressed after the recession, in 2011 many single-family and two-to-four-unit buildings in low- and moderate-income communities of Cook County remained distressed. After the recession, CIC and Preservation Compact partners wanted to understand why CIC owners were not developing more of the distressed one-to-four-unit buildings that remained vacant after the housing crash. In addition to lower values and very little or no homebuyer demand, Preservation Compact research found that conventional financing was available for building owners seeking to buy one-to-four-unit rental buildings, but only for individual buildings. As a result, many smaller investors could not get to scale, despite the fact that owners who did own and rent these buildings had very strong cash flows. In response, CIC created the Single-Family Rental Redevelopment Program to provide permanent financing for responsible investors redeveloping groups of one-to-four-unit buildings. As CIC was creating the Single-Family Rental Redevelopment Program loan pool, it was given an opportunity to join efforts with other CDFIs operating on the one-to-four-unit stock in the Chicago region. JPMorgan Chase released an RFP for collaboration among CDFIs as part of its PRO Neighborhoods Initiative. The ensuing $5 million grant provided $1.5 million to each of three CDFI partners—CIC, Chicago Community Loan Fund (CCLF) and Neighborhood Housing Services of Chicago (NHS)—to tackle different challenges in this market. This grant not only provided funding for the coordination activities, but helped with the early, especially risky transactions, such as home improvement loans, difficult at the time because home values were so low. From 2013 to 2017, the Collaborative lent $25 million to support the preservation of 593 housing units in low-income communities (von Hoffman and Arck 2017).

**1–4 UNIT INITIATIVE COMPONENTS**

Through the Single-Family Rental Redevelopment Program, CIC developed a $26 million single-family loan pool based on Multifamily Loan Program structure. CIC used the same note purchase agreement but offered a product for up to 120 percent of the home value, offset by a required 1.25 debt coverage
ratio to mitigate risk. When creating the single-family pool, CIC began by talking to its multifamily building owners and asking whether they would be interested in the pool. To date, a small number of the one-to-four-unit owners are from the original group of multifamily clients and the loan pool has expanded to $48 million. While CIC grows and expands into new markets, it leverages its current base and seeks building owners who want to do quality work.

BOX 3
Responsiveness to Local Conditions

Prevalence of two-to-four-unit multifamily buildings: Thirty-three percent of Cook County’s rental units are in two-to-four-unit buildings (Schwartz et al. 2016). Before the crash, these buildings were owner occupied and financed with residential mortgages. For the most part, they took care of themselves and were not considered major components of the rental stock. When the foreclosures hit, financing was not available for investors to redevelop groups of these buildings for rental housing.

LEVERAGING OF PARTNERSHIPS

Rather than duplicating services provided by other CDFIs, CIC used the Chicago CDFI Collaborative to connect with two organizations working in the same one-to-four-unit housing market: CCLF and NHS. All three CDFIs were already coordinating with the City of Chicago’s Micro Market Recovery Program, an anti-foreclosure program offered in certain neighborhoods. CIC focused on creating an acquisition pool to help assemble properties for responsible building owners, augmenting its new one-to-four-unit loan pool for permanent financing. Completing the offering for building owners, CCLF created a pool for construction financing. NHS focused on owner-occupants earning up to 120 percent of the area median income to help rehab their properties (von Hoffman and Arck 2017).

CIC emphasized the importance of flexibility to find the right working relationship. The CDFIs experimented with several methods of working together, eventually determining that each organization should work in its areas of expertise with regular coordination and information-sharing meetings. Collective efforts were aligned with the city’s Micro Market Recovery Program to target particular blocks for maximum impact. CIC also learned that the greatest value of the collaboration was sharing information about building owners and potential investments. CIC staffers noted that exchange of information about the quality of owners was particularly critical. Of the partnership, a staffer said: “It wasn’t that rigid. Flexibility was its biggest key, that made it work and then the knowledge shared. That was huge.”
STRATEGIC USE OF POLICY LEVERS

To scale the inventory for its acquisition pool, CIC looked to auction sales—first, tax lien auctions; then, starting in March 2015, buying properties in bulk from the Federal Housing Finance Agency’s Neighborhood Stabilization Initiative (NSI) administered by National Community Housing Trust. By using NSI, CIC was able to scale up its one-to-four-unit program quickly. CIC chose only the properties for which the total cost of acquisition and rehab could be supported by neighborhood rents. Initially, CIC acquired properties in neighborhoods where it had many multifamily buildings and relationships with multifamily owners—offering a new product to current clients. This strategy became difficult to implement since the REO sales were geographically scattered. Therefore, CIC began to make relationships with new building owners interested in the single-family market, which was beginning to see new growth.

Leveraging the NSI policy lever has led to financial sustainability of the one-to-four-unit loan pool. CIC had hoped that the pool would be revolving and self-sustaining. Partly because of the number of properties CIC can access through the NSI program, the Chicago CDFI Collaborative has been able to produce enough returns to revolve while contributing some financial support to other CIC programs, including the Troubled Building Initiative. But NSI is only available to 28 metropolitan areas, so this policy lever has limited applicability to other markets. Further, the Federal Housing Finance Agency will have new leadership in 2019 and the future of this program is unknown.
Program Approaches to Prevent the Loss of Unsubsidized, Affordable Rental Housing Units
Program Approaches to Prevent the Loss of Unsubsidized, Affordable Rental Housing Units

There are many routes by which unsubsidized affordable housing units may be lost. One of the most prevalent is unhealthy, unsafe, or otherwise distressed conditions. Another is changes in market conditions that make the housing susceptible to developer buyouts and renovation for luxury use. Still another is a rise in administrative and secondary costs, such as property taxes and energy costs, which may make owning a building financially unsustainable.

CIC offers a number of programs that address loss of affordable units throughout the Chicago region. The Troubled Buildings Initiative (TBI) focuses on distressed and abandoned multifamily rental properties, in coordination with the City of Chicago. The Energy Savers Loan program is a partnership between CIC and the nonprofit firm Elevate Energy to offer technical assistance and low-cost loans for energy improvements in small multifamily building stock.

Partnering with the City to Prevent the Loss of Affordable Units

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<th>CHALLENGE: LOSS OF UNITS BECAUSE OF UNMET CAPITAL NEEDS</th>
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<tr>
<td>PROGRAM</td>
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<tr>
<td>Troubled Buildings Initiative</td>
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Through the Troubled Buildings Initiative, CIC works with government partners and building owners to prevent buildings from deteriorating into a state of disrepair, which may lead to the displacement of renters, the loss of affordable housing in the neighborhood, and unnecessary and expensive demolition. Since 2003, TBI has used code enforcement to improve the physical condition and management of more than 635 troubled buildings and prevent abandonment, demolition, and loss of over 12,500 units of affordable rental housing.
TROUBLED BUILDINGS INITIATIVE COMPONENTS

CIC and the city work together using code enforcement to address vacant and distressed building stock. CIC staff, community groups, elected officials, and city departments all refer buildings to TBI. The city must bring cases to housing court to launch the TBI process. In most cases, the proactive code enforcement work means that CIC and the city can intervene in problem buildings before they reach extreme disrepair and neglect. However, in some cases, the city must bring cases to housing court. CIC recruits interested owners from its community of local building owners to act as receivers in Cook County Circuit Court. As we will discuss later in this section, Illinois state law allows receivers to be appointed during the multifamily property foreclosure process, and, most important, receiver liens are superior to all liens except property taxes. CIC’s subsidiary Community Initiatives, Inc. (CII) can also foreclose on the liens of troubled buildings brought to the program. There are typically three types of resolutions for multifamily buildings that come through TBI: the owner will comply and do what is needed to bring the building to code or enter into a payment plan to pay the lien; the owner will sell the building to another owner, who pays the lien; or CIC’s subsidiary will foreclose on the lien. CIC and the Chicago Department of Planning and Development aim to achieve impact by focusing on very troubled, large buildings; on owners with portfolios of properties; or on specific geographical areas, such as aligning with the city’s Micro Market Recovery program.

BOX 4
The Troubled Buildings Initiative at Work: Humboldt Park Neighborhood

In 2013 CIC assumed receivership of an occupied seven-unit rental property that was suffering from neglect in the West Humboldt Park Neighborhood. CII spent almost $74,000 to stabilize the building, including repairing broken sewer pipes, replacing the roof, and reestablishing utilities. The owners of the building abandoned the property, and CIC foreclosed on the receiver lien in 2015. At the end of 2017, a new owner bought the building, and the proceeds recouped much of the original TBI investment. The owner used a city grant program, the TIF Multifamily Purchase Rehab Program, to cover some of the rehab costs. Because the TIF grant and some of the TBI fees were not covered by the sale of the property, the owner signed an affordability agreement in which three units would remain affordable at 50 percent AMI for 15 years. As of August 2018, the building is fully rehabbed and 100 percent occupied.
LEVERAGING OF PARTNERSHIPS

To address the needs of buildings that come through the Troubled Buildings Initiative, CIC works directly with the city, specifically the Chicago Department of Planning and Development. CIC facilitates what each building needs and draws on various city departments to meet those needs. CIC works most often with eight City of Chicago departments: Administrative Hearings, Buildings, Housing, Law, Planning, Police, Streets and Sanitation, and Water. These departments coordinate with one another and CIC monthly to manage the initiative. CIC recognizes that the city was initially apprehensive about coordinating with an outside entity. However, the CDFI credits the city for realizing that CIC could add capacity, specifically related to staff knowledge of City of Chicago neighborhoods, and the ability to coordinate with several departments. The program has operated for 15 years; CIC states that its longevity and ability to withstand political transitions stems from its ability to produce positive and measurable outcomes. CIC staff described their ability to flexibly address the needs of buildings in TBI: “We have a lot of latitude, and we’re able to move quickly and do work on buildings and get things done that are urgent. Just having the staff available to be out in the community, to be looking for buildings, we offer capacity.”

Staff Capacity. Like many community development programs around the country, TBI is funded in part by the federal Community Development Block Grant as administered through the city. That funding is used to staff the program and the lien acquisition activities. Private funding is used for activities where the federal funding is not eligible. Unlike with other programs, the city’s partnership with CIC allows it to leverage staff capacity and CIC program officers’ knowledge of Chicago neighborhoods and intervene in problem buildings before they reach the point of needing a receiver. TBI can also use CIC’s knowledge base of lenders and asset managers and tap into resources to prevent troubled buildings from reaching the extreme point of receivership.

Coordination of City Departments. The involvement of the Chicago Police Department in TBI provides an interesting example of how CIC and city departments coordinate to achieve program goals. In Chicago, several districts have police officers dedicated to troubled properties who refer buildings to TBI. In other districts, TBI works with officers using community-based policing to identify troubled buildings. This partnership allows the police department to engage in a prevention activity with a dedicated partner. In addition, TBI is working with the neighbors who live in and around the troubled buildings. A member of CIC staff noted that, “some of the best information we get about how the building is being operated comes from tenants or neighbors of the troubled buildings.”
STRATEGIC USE OF POLICY LEVERS

Under Illinois state law, a receiver may be appointed to remedy code enforcement, and receivership liens have priority over all other liens and encumbrances against the property except taxes. This policy is key to making the TBI program work. CIC works to maintain a number of vendor pools for TBI. This includes good contractors, property managers, and building owners that might be interested in acquiring troubled properties. While there might be instances where private receivers come into the cases, most often CIC is appointed the receiver of TBI properties and uses these vendors as part of the receivership. In addition, CIC and the City Department of Buildings and Law Department participate in a Community Receivers Program, a five-day seminar to provide training to persons interested in becoming a receiver. CIC believes that, "it's really that threat ... to have a receiver put into a case that ... motivates owners, to really snap to." After the judge approves the receiver’s certificate, or bill of the work performed on the property, it is up to the receiver to record the certificate and claim for lien if unpaid. CIC attributes the interest in the receivership program to the component of the state law in which the receivership lien has first priority.

Using a Proactive Lending Approach to Offer Energy-Efficiency Upgrades in Low-Income Neighborhoods

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<th>CHALLENGE: LOSS OF UNITS BECAUSE OF VARIABLE OPERATING COSTS</th>
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Variable operating costs can be a challenge for the owners of unsubsidized affordable housing. Early on, The Preservation Compact identified energy-efficiency financing as a gap in the marketplace, and CIC worked with partners to develop a new financing program, now known as the Energy Savers Loan Program. In 2008, to begin addressing cost burden for owners of unsubsidized multifamily rental buildings, CIC partnered with a nonprofit firm, Elevate Energy (then the Center for Neighborhood Technology), to create the program. Since its start in 2008, CIC has provided $25 million in loans and grants to finance energy-saving retrofits, assisting more than 10,500 units. Building owners save, on average, 25 to 30 percent on their utility costs after participating in the Energy Savers Loan Program. CIC cites Elevate Energy’s free energy audit as critical to the success of the program.
ENERGY SAVERS LOAN PROGRAM COMPONENTS

The Energy Savers Loan Program has two main components: CIC’s energy loans to multifamily building owners and Elevate Energy’s free, comprehensive building energy assessments. Typical recommendations include air sealing and insulation, new lighting, efficient boilers, boiler controls, thermostats, and low-flow water fixtures. CIC piloted a model for providing financing for energy efficiency retrofits using a second mortgage. When the Energy Savers Loan Program first started as a pilot, owners could borrow up to 90 percent loan to value (LTV) at a 3 percent interest rate. Today CIC offers low-cost energy retrofit financing as first-mortgage financing from its Multifamily Loan Program. Like the Multifamily Loan Pool, CIC underwrites the loan to post-retrofit values, based on lower utility expenses.

BOX 5
Responsiveness to Local Conditions

- **Unsubsidized, “naturally occurring” affordable housing stock**: Elevate notes that working in unsubsidized housing stock is easier than subsidized. The capital stack in subsidized housing makes loan underwriting difficult, and owners cannot take on second loans as easily. Using reserves to pay for retrofits may be a good alternative for owners of subsidized affordable housing stock.

- **Climate**: The Chicago region is cold in the winter and hot in the summer, making energy costs a significant driver of both variable operating costs and rents.

- **Age of building stock**: More than 75 percent of buildings in Chicago were built before 1942 and lack basic energy upgrades (Elevate Energy 2017). As a result, a large portion of the stock is master-metered, increasing the incentive for multifamily owners to participate in an energy retrofit program.

CIC program staff describe capitalizing the program as part strategy and part timing. The City of Chicago provided $1.75 million to capitalize a loan loss reserve. Through a grant solicitation, CIC also won a $2.75 million grant to augment the loan loss reserve, funded by the American Recovery and Reinvestment Act and administered by the Chicago Metropolitan Agency for Planning. That loan loss reserve then helped to attract private capital, including a $6 million program-related investment (PRI) from the John D. and Catherine T. MacArthur Foundation for loan capital for the Energy Savers Program. The MacArthur Foundation introduced CIC to the Grand Victoria Foundation, which provided an additional $1 million. Last, CIC responded to a Bank of America grant solicitation and won...
an additional $8.5 million PRI. With this capital, CIC created both a loan pool and reserves for energy financing, using a combination of partnership, strategy, and capitalizing on opportunities as they arose.

The low-cost capital through the three PRIs gave CIC the ability to offer an attractive pilot loan product. CIC believes that these favorable loan terms assisted with demand for the retrofits. One staff member stated: “[Owners] liked the leverage. So if we would pay for 100 percent of the energy work up to 90 percent of the loan-to-value for them, that was key, if they did not have to put up the dollars for this. They were pretty convinced that the payback would be there, but that they didn’t have to come up with the money … was very significant.”

Because CIC’s board felt this loan product was too risky to offer out of the Multifamily Loan Program, CIC management used the loan loss reserve and loan capital described earlier to create a separate loan pool as a pilot program. After several years of operating the pilot loan pool, CIC studied the performance and financing patterns. The performance of the Energy Savers loans had proved strong, with delinquencies at 3.5 percent of the portfolio as of the third quarter of 2016. On the financing side, most customers were not requesting secondary financing but were using Energy Savers as part of an acquisition or recapitalization event, and customers preferred the 25-year amortization offered in the Multifamily Loan Program over the 10-year period offered in Energy Savers. Based on these performance and financing findings, CIC began to offer low-cost energy retrofit financing as first mortgage financing from its Multifamily Loan Program in 2017.

LEVERAGING OF PARTNERSHIPS
CIC’s partnership with Elevate Energy creates a one-stop shop for multifamily building owners to access loan funds for upgrades, free energy audits, project management services, and expertise on energy-efficient housing services. It helps that the two organizations provide services to the same population: multifamily rental building owners in Cook County. CIC and Elevate have a long history of working together and, historically, 30 percent of buildings that have worked with Elevate Energy have been CIC referrals. There is a strong working relationship with daily coordination between CIC and Elevate Energy staff. CIC program officers refer building owners that are going through acquisition or refinancing to Elevate Energy for energy upgrades. Once CIC underwrites the loan, Elevate Energy coordinates the energy upgrade process. The pilot loan pool also strategically leveraged government funds for loan loss reserves to attract private capital.

On the demand side, despite the Energy Savers Program’s positive track record, CIC staff note that energy costs have declined, and it takes a lot of work to incentivize owners to participate. As a CIC staff member stated: “We have thirty year relationships with owners. They trust CIC. [And] we have trouble
with demand. If you don't have a solid existing relationship I don't imagine how you would make this work.” CIC and Elevate Energy note that building owners are motivated to participate in this program because of this combination of low-cost financing and Elevate Energy’s wraparound services. Through Elevate, owners have access to free energy audits and energy assessments, identification of contractors, inspection of the work while in progress and at completion, and administration of the project including paying contractors. It can be difficult to motivate building owners, particularly those with tenant-paid utilities, to participate in energy-saving initiatives. Even so, owners without central metering are approximately 35 percent of Energy Savers customers.

STRATEGIC USE OF POLICY LEVERS
State legislation is also beneficial to the Energy Savers Loan Program. Energy Savers partners helped change legislation to create on-bill financing for multifamily properties that allows owners to pay for energy-saving improvements over time on their utility bills. New Illinois legislation, the Future Energy Jobs Act, expands these benefits. As of 2019, utilities must include some health and safety measures as part of their energy-efficiency investments. Despite this suite of incentives, CIC and Elevate state that most owners will not embark on an energy retrofit outside an acquisition, refinancing, or major rehab. CIC’s program managers and loan officers know to offer this program to their owners who are already investing in rehabilitation.
Increasing Affordable Housing in Strong Markets
Increasing Affordable Housing in Strong Markets

Incentivizing Private Developers to Use Public Subsidies to Create New Affordable Units

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While many of CIC’s programs focus on increasing unsubsidized, affordable housing through preservation efforts, the Opportunity Investment Fund creates new affordable housing in high-income neighborhoods where residents may have better access to quality education and jobs. Two years ago, The Preservation Compact identified the increasing affordability gap in higher cost markets and explored private-market financing models to encourage affordable units in these stronger neighborhoods. With guidance from The Preservation Compact partners, and the US Treasury Capital Magnet Fund’s initial support, CIC developed the Opportunity Investment Fund (the Fund) in coordination with private lending partners, the City of Chicago, the Illinois Housing Development Authority, and the Chicago Housing Authority (CHA).

THE OPPORTUNITY INVESTMENT FUND COMPONENTS

One of CIC’s newest programs, the Fund provides low-cost financing as an incentive for developers in strong markets to create and preserve affordable units. Developers are expected to use rental subsidy, such as housing choice vouchers, or participate in the Chicago Housing Authority’s project-based voucher program to support the affordable units. In 2016, a $3.1 million grant from the US Treasury’s Capital Magnet Fund to CIC seeded the loan fund. The fund also comprises first-loss investment from the city of Chicago and the Illinois Housing Development Authority, private investment from several Chicago-based banks and social impact investment from Benefit Chicago, for a total of $36.5 million, which will support approximately 300 affordable units in mixed-income developments. The Fund provides low-cost mezzanine debt to developers who purchase existing, functioning rental buildings in strong markets. Developers can access the Fund to cover up to half their equity requirement or up to 90 percent LTV ratio. For example, if the private debt requires 30 percent equity, the Fund will put in 15 percent, leaving an LTV of 85 percent. But if private debt requires only 20 percent equity, the Fund will
put in 10 percent, for a total of 90 percent LTV. The fund will be offered at 7.5 percent over a 10-year term. In exchange, developers must keep at least 20 percent of units affordable, at 50 percent AMI or lower, for at least 15 years.

This fund is meant to attract mid-sized market-rate developers, or subsidized developers, who want to access resources to cover their equity. This loan product, as one staff member stated, is “not [for] some gargantuan developer who has access to very low-cost equity … [but] for a regular [developer], this kind of money is [usually] 12–15% and we’re charging 7.5%.” CIC plans to build from its strength: its base of owners. CIC hopes that some of the multifamily owners will decide to use the Fund and build in a strong market since “These owners get it. They understand the paperwork, they understand working with lower-income households. This is what they’ve been doing.” CIC received $200,000 from JPMorgan Chase to pilot the fund. This grant supported seven pilot deals and, in the process, CIC refined its internal loan servicing procedures. CIC hopes this early work will build word-of-mouth knowledge of the program among developers.

STRATEGIC USE OF POLICY LEVERS
The policy context in Chicago makes it easier to implement a program like the Opportunity Investment Fund. First, the CHA is one of 39 housing authorities participating in the Department of Housing and Urban Development’s Moving to Work demonstration pilot. As such, CHA is able to develop policies consistent with local needs and may waive certain federal regulations. Several of these flexibilities may help with implementation of this fund. For example, the CHA pays market-rate rent to developers (under the Moving to Work demonstration, it can pay developers up to 150 percent of federally determined fair-market rent); however, vouchers are administratively burdensome to manage. By offering developers equity, a need that market-rate developers have identified in Cook County, CIC hopes to encourage the use of housing choice and project-based vouchers in new, market-rate rental buildings.

In addition to the Moving to Work demonstration, the City of Chicago has an inclusionary zoning policy in which developers with 10 or more units must provide at least 10 percent affordable units (at or below 60 percent AMI) if they receive city financial assistance, city-owned land, or a zoning change. Developments subject to inclusionary zoning may access the Opportunity Investment Fund if they increase the affordability to 20 percent of units at or below 50 percent AMI in suburban areas. Last, to implement the Fund, CIC will coordinate with the intergovernmental Regional Housing Initiative, which aims to more evenly spread HUD project-based housing vouchers throughout the Chicago region, especially in places of opportunity.
Conclusion
Conclusion

Unsubsidized affordable housing comprises 5.6 million units and provides the bulk of housing for eligible households who don’t receive federal assistance (Brennan et al. 2017). Despite its prevalence, very little data exist on where unsubsidized affordable housing is, whether it is at risk of losing affordability, and its inhabitants. And little research exists on effective tools and strategies for its preservation. This case study uses the programs of one CDFI in the Chicago region, CIC, to highlight potential approaches and strategies to preserve unsubsidized affordable housing.

CIC is more than a lender. It blends financing, partners strategically, and leads on policy. Four major components connect how CIC plans and operationalizes its lending strategies, and we believe that these components have use for many markets across the US:

1. **CIC develops its programs proactively.** Interviewees noted that CIC “puts their money where their mouth is.” This is undergirded by CIC’s market-driven approach. As CIC began new programs, the CDFI did not rely on the city or other organizations to provide financing for its loan pools; it brought private capital and resources to its programs, often creating products that revolved and become self-sustaining.

2. **CIC is responsive to local conditions.** CIC has a sharp mission, but it has adapted to changing local and regional conditions over time. It uses a deep knowledge of the Chicago region housing market and its owners to creatively meet needs as they arise.

3. **Partnerships are a key part of CIC’s success.** CIC’s partners—whether private lender investors, the City of Chicago, Preservation Compact partners, or building owners—all play important roles in CIC’s ability to launch and sustain new lending programs. In particular, The Preservation Compact helped CIC identify new opportunities, implement programs, adjust programs and approaches when the policy environment shifted, and facilitate ongoing cross-sector support of its efforts. In addition, CIC’s staff is rich in affordable housing experience, previously working as developers, city employees or lenders in traditional financial institutions before joining CIC.

4. **CIC strategically uses federal, state, and local policies to assist in its work.** Through collaboration, CIC supports and informs policy and legislation that promotes affordable housing development in the region. They also understand the policy landscape and design their programs to leverage these policies.
As highlighted in the case study, the approaches CIC uses are heavily influenced by the Chicago ecosystem, thus limiting their replicability. However, these overall strategies are relevant to any organization working in the affordable housing field: a CDFI or non-CDFI affordable housing developer or a local government, especially those institutions and cities with a large share of small- and medium-sized multifamily rental buildings.
Notes


11  CIC and Elevate Energy (then the Center for Neighborhood Technology) have worked in the same Cook County markets since the 1970s and coordinated on an energy efficiency program together in the 1990s.
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